thewarehouse
where everyone gets a bargain

# 'House of Bargains'

Bringing Kiwis great bargains since 1982

ANNUAL REPORT 2012 / THE WAREHOUSE GROUP

RT 2012 / THE WAREHOUSE GROUP LIMITED / AN

# ‘Home of Essentials’

## Giving Kiwis all their essentials

**For 30 years we’ve been committed to bringing Kiwis great bargains, and it’s that same level of commitment that continues to build our businesses then and now.**

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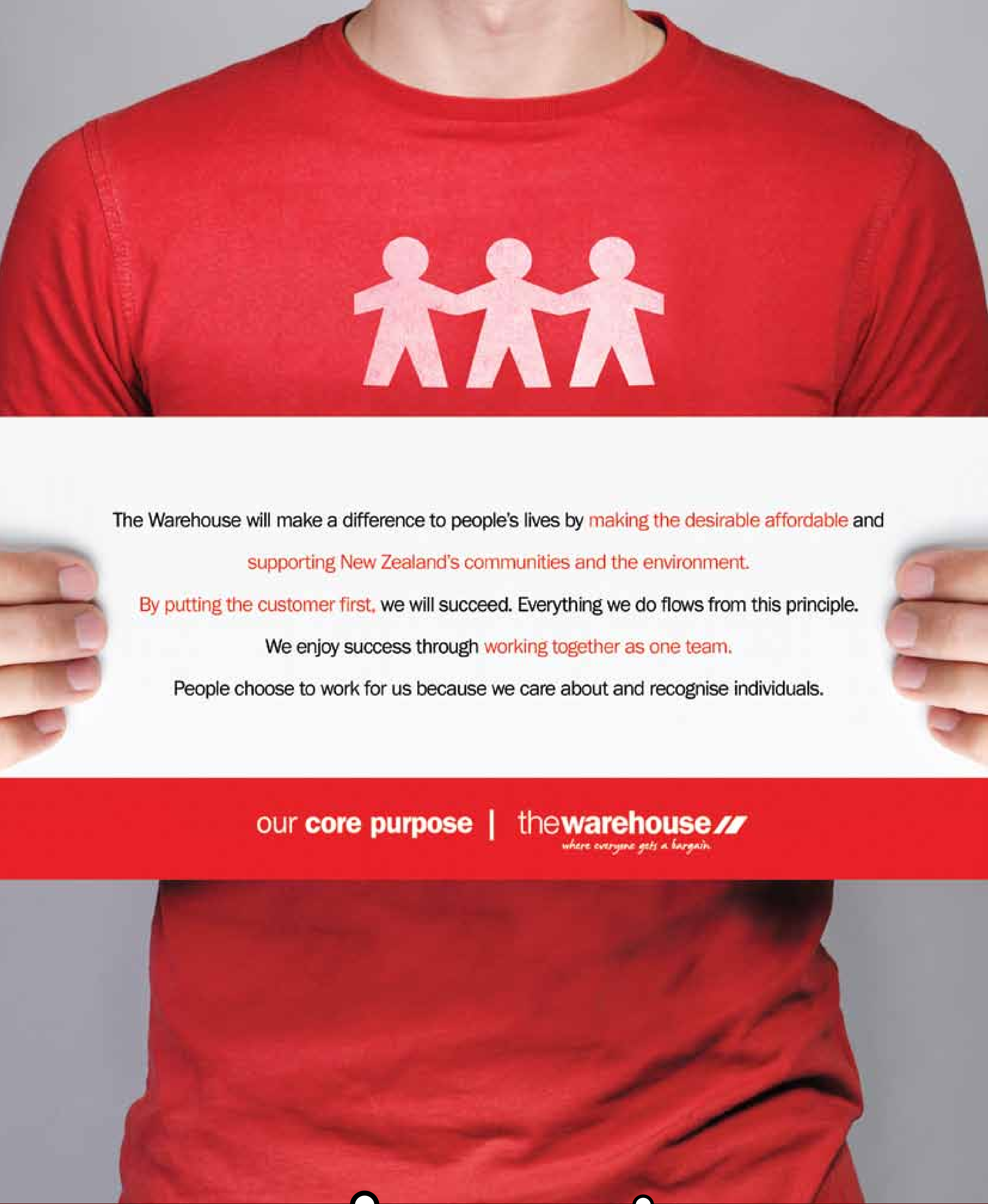




## 1982

The Warehouse opens its first store in Wairau Road, Takapuna, Auckland

## 1987

First store opens in Wellington, taking us to seven stores

# ANNUAL MEETING

# 23

# NOVEMBER

The Annual Meeting of Shareholders of the company will be held in the Guineas Ballroom, Ellerslie Event Centre, 80–100 Ascot Avenue, Greenlane East, Auckland, New Zealand, on Friday 23 November 2012 commencing at 10.00am.

This Annual Report is dated 10 October 2012 and is signed on behalf of the Board by:

Graham Evans
**Chairman**

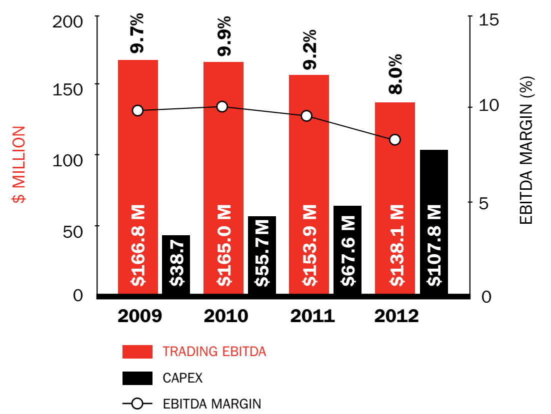
Keith Smith
**Deputy Chairman**

**1990**
First nationally distributed advertising 'mailer'

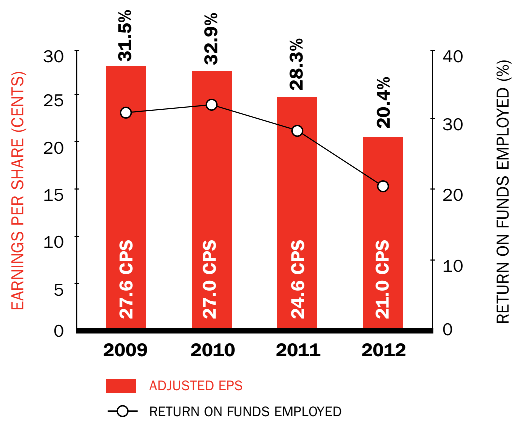

**1991**
First Warehouse Stationery store opens, and The Warehouse sales exceed $100 million

# OVERVIEW

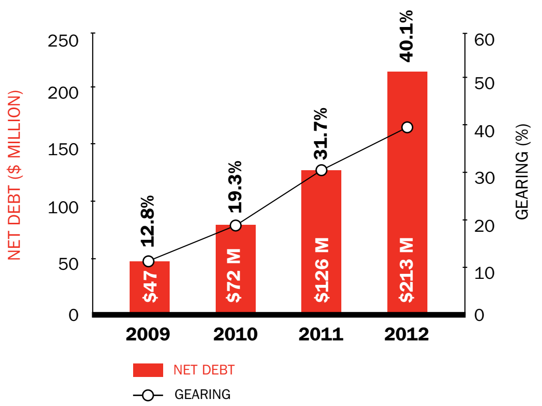
## OPERATING EARNINGS AND INVESTMENT



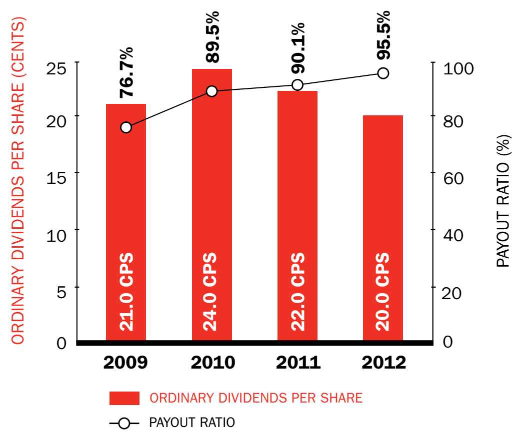

## ADJUSTED EARNINGS PER SHARE AND ROFE




## NET DEBT AND BOOK GEARING




## ORDINARY DIVIDENDS




**1994**

Public float of the company and listing on the New Zealand Stock Exchange

**1995**

The Warehouse added to the NZSE 40 index

# GROUP OPERATING PERFORMANCE

GROUP SALES UP
3.9%
$1,732 M

TAX-PAID PROFIT UP
15.4%
$89.8 M

GROUP OPERATING PROFIT
$96.5 MILLION

GROUP OPERATING MARGIN
5.6%

GROUP ADJUSTED NET PROFIT
$65.2 MILLION

## 1996

Store Support Office in Northcote, Auckland, and North Island Distribution Centre in Wiri, Auckland, open

# CHAIRMAN AND CEO'S REPORT

**The 2012 financial year was a critical one for The Warehouse Group, marking a turning point in our performance. The new strategy we have embarked upon focuses on retail basics, including a significant allocation of capital directed at getting these fundamentals right.**

We believe our strategy will result in sustainable sales and earnings growth over the long term, and it was pleasing to see, as anticipated, positive sales momentum return to the business.

Group sales for the year ended 29 July 2012 were $1.732 billion, up 3.9% on last year with sales in the year increasing by $64.4 million, our highest level of annual growth since 2004. Of particular note was the Group's improved performance in the second half of the year with sales up 4.5% to $794.2 million and gross profit up 5.5% on the previous year.

In line with our strategy, we expected a drop in adjusted net profit after tax as we made investments in the teams in our stores, in advertising and in stock which are key contributors to sustainable profitability. Adjusted net profit after tax for the year was $65.2 million compared to $76.0 million in the prior year. Adjusted net profit after tax in the second half of the year was $18.5 million compared to $23.0 million in the second half of last year. Reported net profit after tax for the year was $89.8 million, up 15.4% compared to $77.8 million last year.

**The Warehouse**
The Warehouse reported total sales for the year of $1.524 billion, an increase of 4.2% compared to $1.463 billion in F11. Total sales for the second half were $688.4 million, an increase of 5.1% compared to $654.9 million last year. Same store sales in the fourth quarter were up 3.8% completing the sixth consecutive quarter of same store sales growth. Same store sales increased in the second half of the year by 2.5% and by 2.6% for the full year.

The Warehouse delivered an operating profit of $80.9 million for the year compared to $98.8 million last year, down 18.1%.

Consistent with our strategy, our results for the year saw sales and profit growth driven by key categories such as Technology, Jewellery, Health & Beauty and Baby Care. The momentum we have seen in the second half of the year and the positive reaction from our customers to our refitted stores have been especially pleasing.

Our online business grew 63% in F12. We have taken important steps forward in our strategy to be the 'House of Bargains' and 'Home of Essentials', wherever our customers want to shop. Launching 'Red Alert', our one-day deal site, and getting our full range online allows us to follow our customers and position us well for strong growth online in 2013.

**Warehouse Stationery**
Warehouse Stationery reported sales for the year of $206.6 million, an increase of 2.6% compared to $201.5 million in F11. Sales for the second half were $106.5 million, up 3.0% compared to last year. Same store sales were up 3.0% for the year and up 3.7% for the second half.

Mark Powell & Graham Evans

The operating profit of Warehouse Stationery for the year was $9.8 million. This compares to operating profit for F11 of $10.1 million.

The continued roll-out of national footprint, together with additional sales from the 'Heart of the Office' proposition, primarily in Technology and strong sales from Stationery and Arts and Crafts, contributed to the 12th quarter of consecutive same store sales growth for Warehouse Stationery.

**"We have taken important steps forward in our strategy to be the 'House of Bargains' and 'Home of Essentials', wherever our customers want to shop."**

**Dividend**
The Directors have declared a final dividend of 6.5 cents per share bringing ordinary dividends for the year to 20.0 cents per share, down 2.0 cents compared to the previous year. Dividends will be fully imputed at 30.0%. Total dividends for the year represent a payout ratio of 95.5%, slightly above the company's stated policy.

The final dividend will be paid on 14 November 2012 with the entitlement date being 2 November 2012.

**Property and Capital Investment Strategy**
The company continued to progress its property and capital investment strategy. During the year we opened six new stores, one The Warehouse store in Whitianga and five Warehouse Stationery stores located in Te Awamutu, South Dunedin, Rangiora, New Plymouth and Te Rapa, which enables us to increase sales through our expanded store network. We made good progress in consolidation of our retail footprint by right sizing stores where appropriate to deliver a better shopping experience for customers and optimise our returns.

As part of our refurbishment programme 10 The Warehouse stores underwent internal refits, with five of these stores undergoing external modernisation as well. This programme of refitting and refreshing our stores has distinctly improved both our customers' experience and their impression of our store network.

In September 2012 the sale and leaseback of the North Island Distribution Centre and three The Warehouse stores was completed. The sales proceeds will be reinvested in the business in line with our strategic plan.

**Outlook**
We expect the retail sector to continue to experience mixed trading conditions in the coming year. Our earnings are significantly influenced by Christmas trading in the critical quarter ending in January, which means it is too early to provide specific earnings guidance at this stage. However, key elements of the Group's strategic plan, including investments in in-store experience and multichannel, together with category and margin dollar growth strategies, should ensure adjusted profit in F13 is above that recorded in F12.

We are encouraged by the positive sales growth and have confidence in our strategy. We have enthusiastic and dedicated Team Members throughout our business who are committed to delivering 'Bargains' and 'Essentials' online and in store to our customers every day.

As we go forward into our fourth decade, we would like to thank everyone who supports our businesses: our customers and suppliers, our shareholders and Team Members – we thank you all for your loyalty and ongoing support.

**Graham Evans**
Chairman

**Mark Powell**
Group Chief Executive Officer

*where everyone gets a bargain*

# THE BOA

## GRAHAM EVANS

## KEITH SMITH

## SIR STEPHEN TINDALL

**Chairman and Independent Non-Executive Director**

**TERM OF OFFICE:**
Appointed Director 1 July 1998, last re-elected 2010 Annual Meeting

**BOARD COMMITTEES:**
Member of the Audit Committee, Corporate Governance Committee, Disclosure Committee and Remuneration, Talent and Nomination Committee

Graham, 73, brings broad experience to the Board, particularly in the areas of business operations and development, strategic direction and performance improvement. He has more than 40 years' experience in the New Zealand retail sector. As a previous Managing Director of Woolworths NZ Limited for 16 years, he is able to share his considerable retailing knowledge and leadership capability. In addition to his role as Chairman of The Warehouse Group, he is Chairman of Multichem Group Limited and associated companies.

**BCom, FCA**

**Deputy Chairman and Independent Non-Executive Director**

**TERM OF OFFICE:**
Appointed Director 10 June 1994, last re-elected 2011 Annual Meeting

**BOARD COMMITTEES:**
Chairman of the Disclosure Committee and Member of the Audit Committee and Remuneration, Talent and Nomination Committee

Keith, 60, has been involved with The Warehouse since Sir Stephen opened his first store in 1982, providing accounting, tax and corporate advice and was Chairman from 1995 to May 2011. He has a long-standing record of leadership as a director and advisor to companies in a diverse range of industries, including the energy sector, rural services, printing, media, meat by-products, tannery processing and exporting. He brings considerable experience and governance expertise to his role as Deputy Chairman of the Board. He is Chairman of listed companies Goodman (NZ) Limited (the Manager of Goodman Property Trust) and Tourism Holdings Limited and is a director of Mighty River Power and several other private companies. Keith was previously a senior partner in the national accounting practice BDO. He is a past President of The New Zealand Institute of Chartered Accountants.

**KNZM, Dip. Mgt, FNZIM, HonD, DCom Honoris Causa**

**Founder and Non-Executive Director**

**TERM OF OFFICE:**
Appointed Director 10 June 1994, last re-elected 2010 Annual Meeting

**BOARD COMMITTEES:**
Member of the Disclosure Committee and Remuneration, Talent and Nomination Committee

Sir Stephen, 61, founded The Warehouse in 1982 and grew the company into a billion-dollar business before stepping down as Managing Director in 2001. His vision for creating an organisation to provide support for worthwhile initiatives benefiting New Zealand and New Zealanders resulted in the establishment of The Tindall Foundation promoting a 'hand up' rather than a 'hand out' philosophy. Sir Stephen has seen many personal honours and awards come his way. In August 2009 he was bestowed the accolade of knighthood in recognition of his work with New Zealand businesses and the community. He has helped ordinary Kiwis reach their potential and is a true leader across the spheres of business, community and the environment.

Sir Stephen appointed Robert Tindall to be his alternate director effective 1 July 2011.

# RD

## JAMES OGDEN

**BCA (Hons), FCA, FInstD**

**Independent Non-Executive Director**

**TERM OF OFFICE:**
Appointed Director 4 August 2009, last elected 2009 Annual Meeting

**BOARD COMMITTEES:**
Chairman of the Audit Committee and Member of the Disclosure Committee

James, 60, brings strong financial expertise to the Board and director experience across a broad range of industries. He has had a distinguished career as an investment banker for 11 years, six years as Country Manager for Macquarie Bank and five years as a director of Credit Suisse First Boston. James has also worked in the New Zealand dairy industry in chief executive and finance roles for eight years. In addition to his role as a director of The Warehouse Group, he is Chairman of Arria NLG Plc, a director of Vehicle Testing Group Limited, Summerset Group Limited and Seaworks Limited. Former directorships include NZ Post Limited, Kiwibank Limited, NZX-listed Powerco Limited and Capital Properties New Zealand Limited.

## JANINE SMITH

**BCom, MPhil (Hons 1st Class)**

**Independent Non-Executive Director**

**TERM OF OFFICE:**
Appointed Director 3 August 2006, last re-elected 2009 Annual Meeting

**BOARD COMMITTEES:**
Chair of the Corporate Governance Committee and Chair of the Remuneration, Talent and Nomination Committee

Janine, 57, brings to the Board wide-ranging knowledge and expertise as a result of her experience as a CEO and director with companies in the commercial, arts and education sectors, both in New Zealand and overseas. She has 15 years' experience in the food and manufacturing industries. She is currently Chair of AsureQuality Limited, a director of Steel & Tube Holdings Ltd and Kensington Swan Legal and a Principal of The Boardroom Practice Limited. Former directorships include Bank of New Zealand, Kordia Group, Airways Corporation, McLarens Young NZ Ltd, Venture Taranaki and Auckland Philharmonia Orchestra. She is also involved in advisory boards in the tertiary education sector and is an alumna of the London Business School and The University of Auckland and is a member of the New Zealand Institute of Directors.

## EDUARD (TED) VAN ARKEL

**FNZIM**

**Independent Non-Executive Director**

**TERM OF OFFICE:**
Appointed Director 1 July 2011, elected 2011 Annual Meeting

**BOARD COMMITTEES:**
Member of the Audit Committee and the Remuneration, Talent and Nomination Committee

Ted, 69, possesses a strong retail background and director experience across a broad range of industries. He is a professional director who has more than 40 years' experience in the retail and wholesale sectors and has been Chairman or a director of a large number of public and private companies. Currently Chairman of Restaurant Brands (NZ) Limited, Health Benefits Limited and Unitec Institute of Technology, Ted is also a director of Abano Healthcare Group Limited and several other private companies.

Prior to becoming a professional director he was Managing Director of Progressive Enterprises Limited.

# THE WAREHOUSE, 30 YEARS OF BARGAINS

**This year we celebrated 30 years of bringing bargains to Kiwis. We know we have a great heritage and strong foundations and our strategy will continue to lead the way in providing the bargains and everyday essentials that Kiwis want.**

As a company, we saw strong and sustained growth through the 1980s and 1990s as we rolled out our store network and broadened our merchandise. We are now in a period of substantial reinvestment and getting our mix of Product, Price, Promotion and Store Experience right in order to resume our growth as New Zealand's favourite retailer.

It's early days but we're making good progress, with six consecutive quarters of same store sales growth. However, there's still more to do as we continue our store reinvestment programme, build our multichannel capability and focus on category and gross profit dollar growth.

Customers are responding well to our revitalised stores, our refreshed brand and our improved store layouts and product range.

Perhaps, most importantly, we're rediscovering and reinventing our customer-led way of working that shone through the business in its entrepreneurial early days, and is truly evident once again from our aisles and checkouts to our management and support services.

## Trading environment

The past year saw the continuation of a tough trading environment. Economic challenges remain in the wake of the collapse of global financial markets. The resulting downturn in economic activity, combined with increasing competition and significant shifts in consumer sentiment and behaviour, means that market conditions remain difficult. Despite this, we have had positive sales growth while advancing a major reinvestment programme for the business, investing in our people, our stores and in our online channels.

Consumer confidence and spending remains subdued yet competition remains intense, particularly in the promotionally driven market. To once again be growing sales and revenues in this environment, with targeted investments as well as controlling costs in other areas, reflects the effectiveness of our strategy which has been refined during its first year of implementation and will be deepened and strengthened in the coming year.

## Where everyone gets a bargain and what Kiwis want

We keep finding new ways to bring to life this iconic commitment that we've delivered to Kiwis for 30 years. And we're finding new ways to rejuvenate it.
This year we've completed a refresh of our brand positioning and personality, and sharpened our letterbox mailers, our television advertising and our marketing to reflect this unique competitive positioning. As well as being the 'House of Bargains' and the 'Home of Essentials,' we're continually introducing new events to entice our customers into our stores. From our 30th birthday promotions to the recruitment of our Toy Testers, our product launches, our regular fashion events, and customer competitions, there's always a reason to shop at The Warehouse.

**66%**
**of Kiwis visit a store each month**

**1997**

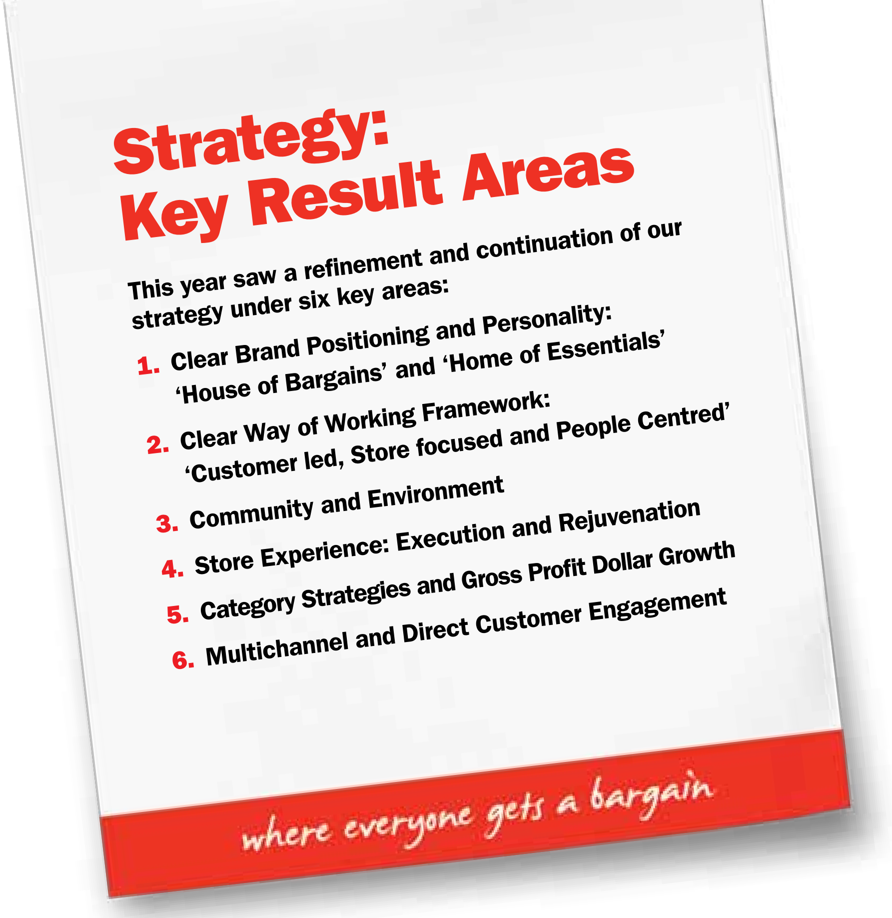
Opening of first 75,000 sq ft store (6,967 m²)

**1998**

Introduction of apparel as major category, and first shipment of parallel imported goods


## For more than a decade, our stores have been helping Kiwis dress up, or dress down.

We're both the home of essentials for everyday family clothing and footwear, and where you can find fashion at bargain prices.



# Strategy: Key Result Areas

**This year saw a refinement and continuation of our strategy under six key areas:**

1. **Clear Brand Positioning and Personality: 'House of Bargains' and 'Home of Essentials'**
2. **Clear Way of Working Framework: 'Customer led, Store focused and People Centred'**
3. **Community and Environment**
4. **Store Experience: Execution and Rejuvenation**
5. **Category Strategies and Gross Profit Dollar Growth**
6. **Multichannel and Direct Customer Engagement**

*where everyone gets a bargain*

## In-store experience

We truly deliver on our brand and commitments when we give our customers a great experience in our stores. This experience revolves around our product, price and promotions, all of which have been the subject of attention this year. We've worked hard to improve the layout, the attractiveness and the accessibility of our stores.

Not only are products better displayed and presented, but we're improving our service to customers. We've added the equivalent of 300 full time Team Members into our stores to serve customers and help them find what they're looking for. We've trained these Team Members to "see things through the customers' eyes" so that we put customers at the centre of everything we do. At the same time, we have increased stock levels to improve product availability, seasonal entry and exit, and support our category growth strategies. These investments are paying off with improved customer shopping experiences.

## Rejuvenating our stores

Our store rejuvenation continued to gain momentum this year. This investment covers the internal and external modernisation of all our stores over a three to five year period. It's an incremental $130 million investment that is at the heart of attracting and retaining customers, and delivering on our brand. This year saw 10 stores were given full internal refits while five had external modernisations. We are accelerating our refit programme as we go forward.

## Great value across our huge range of quality products

We're continually reviewing and improving the wide range of products we sell. Our framework of 'basic, better, best' allows us to offer a range of products at different price points. What we won't compromise on is quality, and our drive to improve quality was a significant feature of this year. We are scrutinising all products with a high rate of customer returns, discontinuing where necessary and replacing with new products with higher quality standards. Our money-back guarantee remains a core part of our promise to customers, and so does our commitment to provide quality products at our bargain prices.

## Category growth

We enjoyed a strong year for leisure products, with toys and entertainment lines trading well. A good example is our exclusive brand Veon which offers a range of consumer electronics. This year Veon televisions set new affordable price points in the market for the latest digital technology as Kiwis make the switch to digital TV. In just 12 months Veon has become one of the most popular technology brands in the country.

We continued to focus on our core categories, and our Apparel and Housewares offerings will be a focus for further improvement in the coming year. A much stronger second half performance in womenswear and menswear suggests our new approach in these areas is starting to improve outcomes.

While we drove sales growth across all categories the key performers were Jewellery, Consumer Electronics, Baby Care and Health & Beauty. Our continued drive to grow sales while maintaining margins saw us deliver most notably in Health & Beauty, Gaming, Books, Indoor Furniture, Housewares and Consumer Electronics.

## 'WOW' opportunities

A feature of the year was a lift in excitement in our stores around regular events and features as our promotional framework gains further traction. 'WOW' deals, Opportunity Buys and Managers' Specials attracted customer attention and provided focal points in stores throughout the year. We will continue to develop ways in which we can continually give customers compelling reasons to regularly come back to our stores, or visit us online.

**Nearly 70% of customers are women**

**70% of customers are under 55**

## 2000

Sales exceed $1 billion and The Warehouse is added to the NZSE 10 index and enters the Australian market through the purchase of the Clint's Crazy Bargains. Opening of first store of 100,000 sq ft (9,290 m²)

**SALES $1b**

## 2001

The Warehouse Financial Services is launched, and the company begins annual Triple Bottom Line reporting (now its Community and Environment Report)

# THEN

## Here's where you'll find technology for everyone.

From the first 'brick' mobile phone to the latest iPods and gaming, from top global brands to our exclusive brands like Veon launched this year, and where you can find all four of New Zealand's top mobile networks on sale.

## Parallel imports

Products sourced as parallel imports made a major impact this year as we underscored our reputation as a 'House of Bargains.' Parallel imports give customers 'the real thing at unreal prices' as we leverage our international sourcing strength to purchase global brands at prices well below the usual price in New Zealand. Throughout our stores and online, higher volumes of parallel imports made a strong contribution to the business and helped us fulfil our commitment to bringing customers leading brands at bargain prices.

## Zones in-store

This year saw us begin to put into practice our high level category strategy that allows us to be clear about our approach to products depending on where they sit within our business and within the market. This strategy is currently based around four category segments which has enabled us to be customer-led and move more quickly in areas where we can grow, like in health and beauty, jewellery, gardening and baby goods.

We've continued to bring together products in zones within our stores to make it easy for customers to find all the things they'll need for an activity or aspect of their lifestyle. We'll see our Party Zones, Pet Zones, Book Zones and Baby Zones come more to the fore in the coming year as our store refresh and refit programme accelerates.

We've been at the heart of the Kiwi lifestyle for 30 years, and we'll continue to find new ways of delivering what Kiwis want in easy and affordable ways.

## A clearer way of working

A big part of this year, and a key part of the improvements we've made, has been our re-energising of the customer-led and entrepreneurial spirit that has made The Warehouse an iconic Kiwi business. We've made progress towards a results-focused team culture that is customer-led, store-focused and people-centred.

We're strengthening our culture of retailing throughout the business, as well as focusing on Continuous Improvement, One Team and the development of Leadership Capability. More than 2,000 Team Members have been through our 'Thinking Smarter' training. And more than 1,000 'brainwaves' generated by Team Members have contributed to significant improvements in the way we do things. Our senior leadership group members each spend time in our stores on a regular basis to ensure they understand shop floor operations and the customer experience. As we roll out our clear way of working programmes, including 'Working Smarter' and 'Selling Smarter', it's pleasing to see that our team engagement ratings continue to improve in the Kenexa Best Workplaces survey.

**Over 900,000 transactions a week**

This year we became one of the first companies in New Zealand to commit to the United Nations Women's Empowerment Principles, which help empower women in the workplace, the market and the community. Launched in New Zealand by the Governor-General the Rt Hon Sir Jerry Mateparae in February 2012, The Warehouse was acknowledged as one of nine initial companies to sign up to the principles. Other milestones this year included the simplification of our health and safety system, and we continued to reduce, year on year, our Lost Time Injury Frequency Rate.

Within a clear framework, we want our people to have the freedom to make the right decisions for the customer, to innovate and to grow. Continuing to roll out our Clear Way of Working framework will be a focus for the year ahead.

## Our future success

The Warehouse has earned a special place in the hearts and minds of Kiwis and remains a vital part of the Kiwi lifestyle. It's a heritage that our team is proud of, but doesn't take for granted. In modernising our brand, our stores and our customer experience, including a strong focus on multichannel sales and service, we're continuing this 30-year tradition in new and exciting ways. The enormous talent in this business, combined with unique intellectual property and physical assets, will enable us to deliver sustainable sales and earnings growth over the medium to long term. By combining trading innovation and discipline, we know we can further lift the performance of this great business. My thanks to our passionate and dedicated team that reflect our values and principles every day to deliver all that The Warehouse has to offer its customers and community.

**Mark Powell**
Group Chief Executive Officer

## 2003

The Warehouse Australia brand is launched bringing a trans-Tasman total of 126 stores. Ended trans-Tasman operations in 2005

## 2004

Shanghai Regional Office opens, strengthening our view on the Chinese supply chain


## We’ve got your baby’s daily essentials covered.

Our Baby Zone provides a convenient one-stop shop for all your baby’s needs. We’ve got nappies, clothing, cots and a whole lot more at prices you can afford with quality you can trust.

# MULTICHANNEL AND DIRECT CUSTOMER ENGAGEMENT

**Our strategy to build on our multichannel offering will ensure that we are not just the largest bricks and mortar retailer in general merchandise and apparel in New Zealand – but that we offer the most convenient way for Kiwis to shop wherever they are and get the best bargains.**

As part of our strategy to improve our channel offering and the ways in which we communicate and engage with our customers, we've grown our online store and introduced a new business account card providing great rewards for our small business customers. Our weekly mailer continues to be distributed to almost 1.4 million homes directing Kiwis to buy in-store or online. There are more exciting developments rolling out as we head toward our important Christmas trading period.

## The Warehouse Online

We've focused on building our range online and now offer over 40,000 products available to view and purchase online. That's more than double what was available at this time last year. With an average of over a million visits to our online store each month and sales growing at a rate of 60% a year, we know our customers want the ease and convenience of being able to browse and purchase wherever they are. We are extending our range of products that are only available online – plus we are also bringing online hundreds of thousands of books – all conveniently delivered to the customer's desired location or residence.

## BizRewards

Not only do Kiwis love a bargain, they love to earn rewards when they shop. This year we extended and rebranded our successful Warehouse Stationery BizRewards programme to include The Warehouse. BizRewards has been popular with small businesses nationwide – now they can purchase a broader range of products from pot plants and coffee cups, to microwaves and rugs. Now our customers can earn rewards points at both stores and reach their rewards targets faster.

## Red Alert

In August 2012 we launched 'Red Alert', our new daily deal site, which is performing above our expectations. Many deals with huge discounts have sold out within minutes or hours – for example, 1.2ct diamond rings at $1,700 sold out within an hour.

thewarehouse //
where everyone gets a bargain

**Since we launched online in 2009 we have sold nearly half-a-million products and we welcomed more than 23 million visits to our website.**

## 2009

Launch of our online store, allowing customers to buy great bargains online and have them delivered to their homes – attracting six million visits in its first year


## 2010

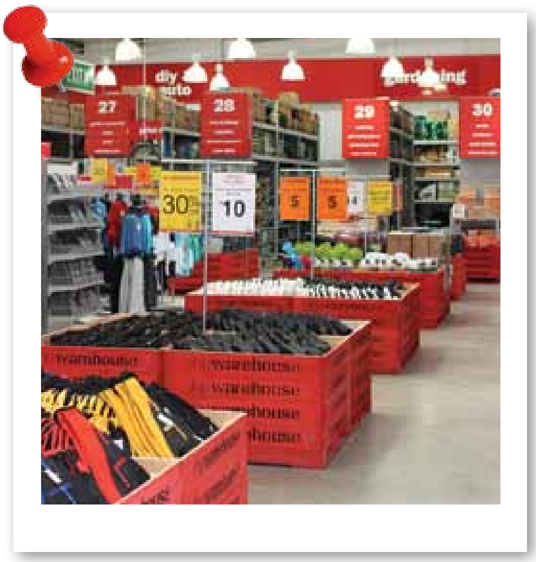
Rebranded 17 largest stores 'The Warehouse Extra' and completed brand facelift of all 47 Warehouse Stationery stores


**We sent our first nationwide mailer to customers 22 years ago and we've stayed in touch with Kiwi households ever since.**

Our mailer continues to bring Kiwis the bargains they want whilst we also offer the most convenient way for Kiwis to shop online and get the best bargains. Our huge online store continues to get bigger – we now offer over 40,000 products to view and purchase – with hundreds of thousands of books and DVDs coming online soon.

# PROPERTY AND STORE DEVELOPMENTS

**Last year we announced our intention to significantly invest in the internal and external presentation and layout of our stores over a three to five year time span.**



We have made good progress in the expansion of our retail footprint and right sizing stores where we need to in order to deliver a better experience for our customers and to optimise our returns.

The programme to refit and refresh our stores has distinctly improved both our customers' experience and their impression of our store network. At the same time, our in-store execution is improving. All these things are a critical part of putting us back on the right track. Our customers are taking notice – they are buying more while in-store, resulting in an overall increase in sales.

During the year, 10 The Warehouse stores underwent an internal refit (five of these also had external modernisation). For F13 an accelerated programme of delivery will result in 19 internal refits with 13 of these stores undergoing external modernisation as well.

In addition, our new store opened in Whitianga, we relocated to a larger store in Hastings, and extended our store in Timaru. In Te Rapa we completed a refit and took the opportunity to reconfigure and right size the store and opened a new Warehouse Stationery alongside.

The large-scale development at Pah Road in Royal Oak opened in October with the site fully tenanted. These new The Warehouse and Warehouse Stationery stores increase our footprint in a catchment where we had identified growth opportunities for both our brands.

Our Silverdale development will open in mid-October.


## 2011

Commenced significant investment programme to refresh and revitalise all stores over five years as well as construction of new stores at Auckland's Silverdale Retail Centre and Pah Road, Royal Oak


## 2012

Celebrated our 30th birthday, launched a refreshed The Warehouse brand, and online sales more than doubled


**During our 30 years, our store experience has been the physical embodiment of our brand and all it stands for.**

We've added more Team Members into our stores whilst continuing to rejuvenate the in-store shopping environment – our great contemporary stores, huge range of products, great service and everyday bargain prices are what Kiwis want.

# SILVERDALE DEVELOPMENT

**The largest development we have undertaken in a decade is due to open its doors mid-October in Silverdale.**

Just north of Auckland City, this 24,000 m² development set on a 7.2 ha site has brought together some of the country's leading national retailers and service suppliers along with specialty stores. The Warehouse has invested approximately $60 million into the area. During the two years of construction, around 150 people were employed and as the site prepares to open, 300 new permanent roles have been created – of which approximately 140 are for The Warehouse and Warehouse Stationery.

The catchment surrounding the development in Silverdale is experiencing some of the fastest growth in New Zealand. There are plans for the adjacent residential subdivisions to accommodate 3,500 new homes.

Local residents and visitors to the site can enjoy the best shopping, along with pleasing amenity features. There is wide use of timber and native plants, bringing the natural environment to the site including large sedimentary rocks known as 'concretions' – which are unique to the surrounding landscape.

Located alongside The Warehouse and Warehouse Stationery stores include the following: Countdown, Noel Leeming, BNZ, Postie Plus, Number One Shoes, Stirling Sports, Telecom, Supercheap Auto, KFC, Mozaik Café, Storage Box, ANZ, North Beach, Lighting Plus, OPSM, Beds R Us, T&T, Walker & Hall, Hollywood Bakery, Snap Fitness Gym, Dizzy Lizzy's, St Pierres, Jamaica Blue and Pita Pit.


36
new shops
7.2
hectare site
3,500
new homes to be built nearby

# COMMUNITIES AND THE ENVIRONMENT

**The Warehouse's Community and Environment strategy and programmes have been strengthened over the past year. Our company strategy has clearly identified Community and Environment as one of six key result areas.**

The year has seen additional management focus as well as a more structured approach to community support across the country via our network of stores and our Store Support Office.

Our plans and objectives fall into three main areas – Community, Environment and Ethical Sourcing.

## Community

The importance of our Community work has been recognised with the appointment of a full time community support manager overseeing the work of The Warehouse Charitable Trust, community giving associated with our 'Bags for Good' programme, in-store coin box donations, community BBQs and various team engagement projects such as the 'Living Legends' tree planting restoration programme.

This year saw continued support, by The Warehouse Charitable Trust, for members of our team impacted by the Canterbury earthquakes.

Our national fundraising programme continues to be an important source of income for some of New Zealand's most worthy causes. This year we have helped raise more than $2.5 million for such groups. In this our 30th birthday year, we celebrated a significant milestone – that of helping raise more than $20 million for our Kiwi communities during this time.

In the coming year we plan to significantly expand our long-running 'Red Shirts in Schools' programme, bringing valuable workplace experience and NCEA credits to many more New Zealand secondary school students.

A comprehensive Community plan, focused on families and young people partnering with community organisations at a national, regional and local level, forms the basis of our ongoing community support.
We are grateful for the support of our customers and suppliers in supporting fundraising and community projects.

## Environment

A highlight of our Environmental management efforts was The Warehouse's very successful 'TVTakeback' in September 2011. This 'Free TV Recycling' public offer, made in 20 of our stores with support from the Waste Minimisation Fund and the Ministry for the Environment, resulted in over 30,000 unwanted and obsolete televisions being returned for recycling.

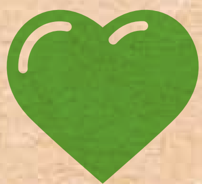
We have bought in additional expertise to help improve our energy efficiency, refining the continued roll-out of energy efficient T5 lighting via our store modernisation and refit programmes, and ensuring our new store designs incorporate the most contemporary and efficient lighting and air-conditioning solutions.

## Ethical Sourcing

The scope of our Ethical Sourcing programme[1] expanded to provide labour and environment standards assurance in more of our supplier factories than ever before and played a vital role in informing our decisions when sourcing products from new markets such as Bangladesh. We have widened access to our programme by recognising more third-party supplier assurance reports produced for other international customers while retaining our rights to verification inspections.

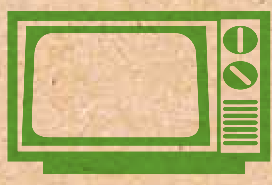
## Full Community and Environment reporting

We continue to monitor our performance with respect to Community and the Environment as we have done annually since 2001. Our next Community and Environment Report is due to be published in early 2013.



**$20m**

**RAISED FOR NEW ZEALAND CHARITIES OVER OUR 30-YEAR HISTORY**



**30,000**

**TV'S RETURNED FOR RECYCLING IN OUR 'TVTAKEBACK' PROMOTION**

[1] The Warehouse's Supplier Factory Workplace Standards Monitoring and Development programme.


**For 30 years we've put our customers, our people, our communities and the environment at the core of what we do – it's part of our DNA.**

In those 30 years we've led the way with Triple Bottom Line reporting, waste and energy use minimisation, and have helped raise more than $20 million for New Zealand charities and communities.

# warehouse stationery

## At Warehouse Stationery we have everything New Zealanders need to Work, Study, Create, Connect – Anywhere.

**Our huge range of technology, office furniture, arts and crafts, and stationery products allows our customers to achieve at work and at home. It's what we do well. We know we have a great customer value proposition.**

We've had another successful year by putting our customers first, having a clear way of working and being sales and execution focused. Our improved store network and greater footprint, combined with our highly engaged service-oriented teams, are delivering great results. Our solid growth in same store sales for 12 consecutive quarters is pleasing evidence.

The world is changing fast and we recognise the importance of evolving in our heritage categories like furniture and stationery – as well as being part of the revolution and delivering the latest and best technologies. To continue to strengthen our position in market share and sales growth we are focused on always having the right product, price, promotion and placement within our retail setting – along with introducing new on-trend products.

We're making sure we are keeping up with what's new whilst reinvigorating some of our traditional product lines.


## It's been more than 20 years since we first brought New Zealand businesses great stationery at our low prices.

Our nationwide network now brings you a huge range of technology, furniture, arts and crafts, and stationery, still at low prices. Whether it's the latest tablet or accounting package, a mobile phone or paints and brushes – we have your home and office covered.


## Stronger categories

In our furniture and stationery categories we have introduced new seasonal ranges as well as built fashion trends into some of our standard ranges. A success story has been the refresh and relaunch of our important stationery house brand, Impact.

Our new Create & Learn hubs were introduced to six stores during the year offering customers an extended range of art and craft products. This complements our increased marketing focus including regular crafts articles and the growth of our Art and Craft club.

We're moving fast to grow our technology offering and were the first retailer in New Zealand to offer all four telecommunications brands: Telecom, Vodafone, 2degrees and Skinny. We've introduced Samsung and Toshiba computers, a wide range of smartphones and the latest in Samsung and Apple tablets. Many of our customers value after-sales support and are purchasing our 'Need a Nerd' technical support package and our 'No Worries Warranty', ensuring both consumers and small businesses are well covered. Our attractive consumer finance and leasing options simply make it easier for our customers to have the latest and best technology when they need it. All of these improvements are resulting in an increase in customer satisfaction and enhancing our credibility as a technology provider.

## Growing our presence

Significant investment in our store network over the last two years has resulted in a nationwide network of stores of a standard and presentation we are proud of.

The addition of five new stores this year means we are reaching more New Zealanders and delivering a newer and more modern in-store experience. We opened new stores in Te Awamutu, south Dunedin, New Plymouth central, Rangiora and The Base in Te Rapa. In Tauranga we completed a refurbishment, finishing our extensive store refresh programme reported on last year. Increasing our reach through our expanded store network is an important part of our growth strategy. The new stores opened in F11, Kerikeri, Gisborne, Levin, and Riccarton, are now trading in line with and exceeding our business expectations.

Following the devastation of the Christchurch earthquakes, we have completed our rebuild of our South City store, demonstrating our long-standing commitment to the area.

During the year, we moved our Store Support Office to co-locate with The Warehouse's own Store Support Office in Northcote, Auckland. The move has allowed for closer alignment and leveraging of the Group's strength, particularly in the consistent ways of working. We anticipate further improvements and the ability to achieve additional benefits such as in our purchasing and product sourcing.


canTeen
Supporting young people living with cancer

The more you shop, the more your school benefits.
warehouse stationery
Support your School

## Working smarter – selling smarter

We continue to embed our team model that makes it clear what is important to us and how we work together. Our leadership framework builds our leadership capability and empowers our people at all levels to make good decisions which are key to improving our business and delivering to our customers. Our 'Working Smarter' model, which drives improvement in the rhythms and routines as well as processes in-store, was introduced in 2009 and is continuing to be embedded. This year we introduced the second and complementary model, 'Selling Smarter'. The results of our investment in our people are clear as we have more empowered and knowledgeable staff in-store. They are authentically engaging with customers, delivering better service and sales advice.

We are always pleased to earn external recognition and in particular when it acknowledges our people. For the second consecutive year we were finalists in the Kenexa Best Workplaces engagement survey. Engaged employees are more productive, more customer focused, safer and are less likely to leave. This year we again improved our survey result and achieved another outstanding response rate. This affirms that we have great leadership, strong capability and a highly engaged team – all crucial elements in delivering on our focus to be New Zealand's best retailer.

## Building and supporting New Zealand's communities

Building and supporting the communities within which we operate is not just about being a good corporate citizen. We know our people really value making a difference – it's important to them and to our business.

Our commitment to providing a 'hand up' to youth is well founded in the charities we proudly support. This year we strengthened our relationships with The Salvation Army and World Vision and added CanTeen into our family of charities we stand behind. Fundraising for CanTeen saw the sale of bandanas in-store. We continue our long-running association with First Foundation, a unique educational trust founded to give young New Zealanders, with plenty of talent but few financial resources, a hand up to tertiary education.

It is important that we also stand behind our schools as this is not only an important customer base for us, but it's a great way to ensure we are a part of educating and building strong New Zealanders. 'Support Your Schools' is a reward system for schools where customers earn reward points on their purchases – which they can then donate to schools of their choice. To complement this programme, in 2011 we launched New Zealand's 'Most Inspiring Teacher' annual awards to acknowledge and recognise the efforts of our teachers nationwide. We know they go the extra mile for the good of their students, offering their personal time and often even their own funds. Over 1,000 teachers were nominated throughout New Zealand, representing primary, intermediate and secondary schools.

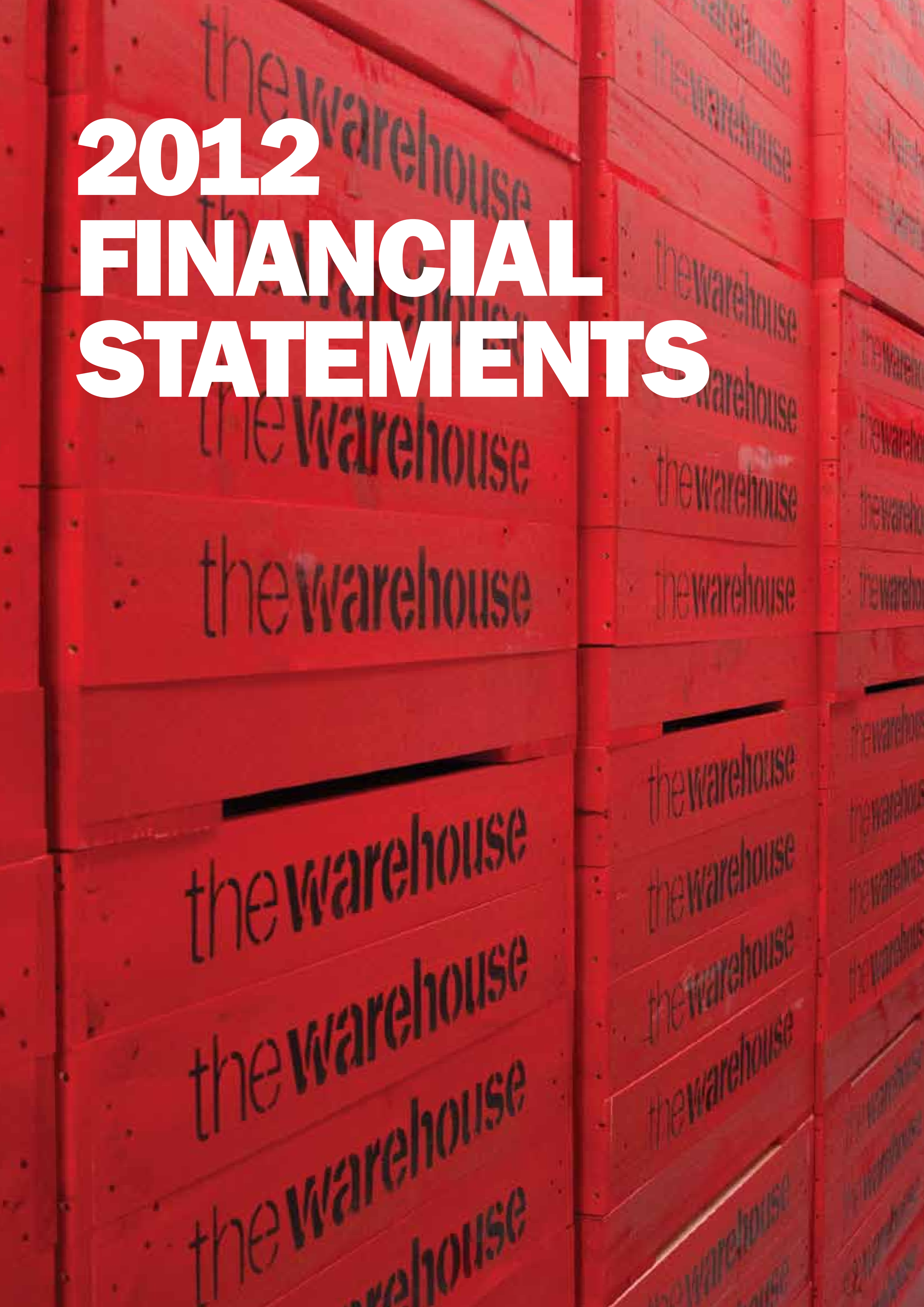
Support was provided to the Starship recycling scheme with customers and our people encouraged to return old mobile phones for refurbishing and supply to Third World countries.

## Our Team

Thanks to our team for the passion you bring to work each day and for your dedication to our customers. We have a great business and I'm proud of the way we are all delivering on our commitments every day.

**Des Flynn**
Chief Operating Officer
Warehouse Stationery

# 2012 FINANCIAL STATEMENTS



# Financial Statements

FOR THE 52 WEEK PERIOD ENDED 29 JULY 2012

The Warehouse Group Limited is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 8, 120 Albert Street, PO Box 2219, Auckland.

These financial statements have been approved for issue by the Board of Directors on 6 September 2012.

**Graham Evans**
Chairman

**Keith Smith**
Deputy Chairman

## CONTENTS

# Income Statements

FOR THE 52 WEEK PERIOD ENDED 29 JULY 2012

| | NOTE | (52 WEEKS) GROUP 2012 $000 | (52 WEEKS) GROUP 2011 $000 | (52 WEEKS) PARENT 2012 $000 | (52 WEEKS) PARENT 2011 $000 |
|---|---|---|---|---|---|
| Revenue | | 1,732,168 | 1,667,777 | – | – |
| Cost of sales | | (1,110,112) | (1,061,478) | – | – |
| **Gross profit** | | 622,056 | 606,299 | – | – |
| Other income | 6 | 6,618 | 6,485 | 62,239 | 90,246 |
| Employee expense | 7 | (288,331) | (267,799) | – | – |
| Lease and occupancy expense | 8 | (86,823) | (81,942) | – | – |
| Depreciation and amortisation expense | 9 | (41,630) | (39,772) | – | – |
| Other operating expenses | 10 | (115,428) | (109,135) | (7) | (3) |
| **Operating profit** | | 96,462 | 114,136 | 62,232 | 90,243 |
| Gain on disposal of property | 25 | 18,230 | 1,470 | – | – |
| Changes in fair value of financial instruments | 4 | – | 194 | – | – |
| Release of warranty provisions | 28 | 7,355 | – | – | – |
| Equity earnings of associate | 27 | 3,197 | 3,575 | – | – |
| **Earnings before interest and tax** | | 125,244 | 119,375 | 62,232 | 90,243 |
| Net interest expense | 11 | (10,308) | (9,845) | – | – |
| **Profit before tax** | | 114,936 | 109,530 | 62,232 | 90,243 |
| Income tax expense | 13 | (24,776) | (31,385) | 2 | 1 |
| **Net profit for the period** | | 90,160 | 78,145 | 62,234 | 90,244 |
| **Attributable to:** | | | | | |
| Shareholders of the Parent | | 89,848 | 77,829 | 62,234 | 90,244 |
| Minority interests | 32 | 312 | 316 | – | – |
| | | 90,160 | 78,145 | 62,234 | 90,244 |
| **Basic earnings per share** | 16 | 29.0 cents | 25.1 cents | | |
| **Diluted earnings per share** | 16 | 28.9 cents | 25.0 cents | | |
| **Net assets per share** | 17 | 102.4 cents | 87.7 cents | | |

# Statements of Comprehensive Income

FOR THE 52 WEEK PERIOD ENDED 29 JULY 2012

| | NOTE | (52 WEEKS) GROUP 2012 $000 | (52 WEEKS) GROUP 2011 $000 | (52 WEEKS) PARENT 2012 $000 | (52 WEEKS) PARENT 2011 $000 |
|---|---|---|---|---|---|
| **Net profit for the period** | | 90,160 | 78,145 | 62,234 | 90,244 |
| **Changes in cash flow hedge reserve** | | | | | |
| Movement in cash flow hedges | 22 | 23,456 | (27,786) | – | – |
| Income tax relating to movement in cash flow hedges | 24 | (6,567) | 7,689 | – | – |
| **Other comprehensive income** | | 16,889 | (20,097) | – | – |
| **Total comprehensive income** | | 107,049 | 58,048 | 62,234 | 90,244 |
| **Total comprehensive income for the period is attributable to:** | | | | | |
| Shareholders of the company | | 106,737 | 57,732 | 62,234 | 90,244 |
| Minority interest | | 312 | 316 | – | – |
| **Comprehensive income** | | 107,049 | 58,048 | 62,234 | 90,244 |

The accompanying statement of accounting policies and notes to the financial statements on pages 35 to 74 form an integral part of the financial statements.

# Balance Sheets

AS AT 29 JULY 2012

| | NOTE | GROUP 2012 $000 | GROUP 2011 $000 | PARENT 2012 $000 | PARENT 2011 $000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 18 | 16,286 | 23,016 | 2,520 | 2,526 |
| Trade and other receivables | 21 | 27,567 | 24,378 | – | – |
| Inventories | 19 | 309,421 | 262,663 | – | – |
| Available for sale land and buildings | 25 | – | 5,744 | – | – |
| Taxation receivable | 23 | – | – | 603 | 1,034 |
| **Total current assets** | | 353,274 | 315,801 | 3,123 | 3,560 |
| **Non-current assets** | | | | | |
| Trade and other receivables | 21 | 888 | 1,413 | – | – |
| Property, plant and equipment | 25 | 355,227 | 291,922 | – | – |
| Computer software | 26 | 13,379 | 18,432 | – | – |
| Investments | 27 | 6,372 | 7,585 | 42,000 | 42,000 |
| Derivative financial instruments | 22 | 2,489 | 1,138 | – | – |
| Intercompany advances | 39 | – | – | 317,211 | 316,508 |
| Deferred taxation | 24 | 2,425 | 3,832 | – | – |
| **Total non-current assets** | | 380,780 | 324,322 | 359,211 | 358,508 |
| **Total assets** | 5 | 734,054 | 640,123 | 362,334 | 362,068 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Borrowings | 29 | 78,203 | – | – | – |
| Trade and other payables | 20 | 126,857 | 128,913 | 909 | 949 |
| Derivative financial instruments | 22 | 6,158 | 25,903 | – | – |
| Taxation payable | 23 | 5,248 | 7,202 | – | – |
| Provisions | 28 | 32,502 | 38,773 | – | – |
| **Total current liabilities** | | 248,968 | 200,791 | 909 | 949 |
| **Non-current liabilities** | | | | | |
| Borrowings | 29 | 150,776 | 149,129 | 99,103 | 98,792 |
| Derivative financial instruments | 22 | 4,796 | 8,568 | – | – |
| Provisions | 28 | 12,147 | 10,095 | – | – |
| **Total non-current liabilities** | | 167,719 | 167,792 | 99,103 | 98,792 |
| **Total liabilities** | 5 | 416,687 | 368,583 | 100,012 | 99,741 |
| **Net assets** | | 317,367 | 271,540 | 262,322 | 262,327 |
| **EQUITY** | | | | | |
| Contributed equity | 30 | 245,706 | 244,060 | 251,445 | 251,445 |
| Reserves | 31 | (5,006) | (21,292) | – | – |
| Retained earnings | 33 | 76,434 | 48,447 | 10,877 | 10,882 |
| **Total equity attributable to shareholders** | | 317,134 | 271,215 | 262,322 | 262,327 |
| Minority interest | 32 | 233 | 325 | – | – |
| **Total equity** | | 317,367 | 271,540 | 262,322 | 262,327 |

The accompanying statement of accounting policies and notes to the financial statements on pages 35 to 74 form an integral part of the financial statements.

# Statements of Cash Flows

FOR THE 52 WEEK PERIOD ENDED 29 JULY 2012

| | NOTE | (52 WEEKS) GROUP 2012 $000 | (52 WEEKS) GROUP 2011 $000 | (52 WEEKS) PARENT 2012 $000 | (52 WEEKS) PARENT 2011 $000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash received from customers | | 1,738,102 | 1,668,968 | – | – |
| Dividends received from subsidiary companies | | – | – | 62,239 | 90,246 |
| Interest income | | 155 | 1,896 | 7,370 | 7,370 |
| Payments to suppliers and employees | | (1,650,613) | (1,525,886) | (6) | (4) |
| Income tax paid | | (31,291) | (36,235) | – | – |
| Interest paid | | (11,869) | (11,833) | (7,370) | (7,370) |
| **Net cash flows from operating activities** | | 44,484 | 96,910 | 62,233 | 90,242 |
| **Cash flows from investing activities** | | | | | |
| Proceeds from sale of property, plant & equipment and computer software | | 30,318 | 5,567 | – | – |
| Staff share purchase advances repaid | | 629 | 622 | – | – |
| Advances from subsidiary companies | | – | – | 601 | 1,033 |
| Dividend received from associate | 27 | 4,410 | 1,911 | – | – |
| Purchase of property, plant & equipment and computer software | | (101,392) | (65,896) | – | – |
| Refund of staff share purchase advances | | (132) | (29) | – | – |
| Warranty claims | 28 | – | (59) | – | – |
| **Net cash flows from investing activities** | | (66,167) | (57,884) | 601 | 1,033 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from short term borrowings | | 78,203 | – | – | – |
| Repayment of term bank borrowings | | – | (25,000) | – | – |
| Purchase of treasury stock | 30 | (261) | (1,042) | – | – |
| Treasury stock dividends received | 33 | 255 | 416 | – | – |
| Dividends paid to Parent shareholders | | (62,840) | (91,279) | (62,840) | (91,279) |
| Dividends paid to minority shareholders | 32 | (404) | (331) | – | – |
| **Net cash flows from financing activities** | | 14,953 | (117,236) | (62,840) | (91,279) |
| Net cash flow | | (6,730) | (78,210) | (6) | (4) |
| Opening cash position | | 23,016 | 101,226 | 2,526 | 2,530 |
| **Closing cash position** | 18 | 16,286 | 23,016 | 2,520 | 2,526 |

The accompanying statement of accounting policies and notes to the financial statements on pages 35 to 74 form an integral part of the financial statements.

# Reconciliation of Operating Cash Flows

FOR THE 52 WEEK PERIOD ENDED 29 JULY 2012

| | NOTE | (52 WEEKS) GROUP 2012 $000 | (52 WEEKS) GROUP 2011 $000 | (52 WEEKS) PARENT 2012 $000 | (52 WEEKS) PARENT 2011 $000 |
|---|---|---|---|---|---|
| **Profit after tax** | | 90,160 | 78,145 | 62,234 | 90,244 |
| **Non-cash items** | | | | | |
| Depreciation and amortisation expense | 5 | 41,630 | 39,772 | – | – |
| Share based payment expense | 31 | 1,616 | 1,640 | – | – |
| Interest capitalisation | | (1,375) | (61) | 311 | 312 |
| Movement in deferred tax | 24 | (5,160) | (1,740) | – | – |
| Changes in fair value of financial instruments | | – | (194) | – | – |
| Share of surplus retained by associate | 27 | (3,197) | (3,575) | – | – |
| **Total non-cash items** | | 33,514 | 35,842 | 311 | 312 |
| **Items classified as investing or financing activities** | | | | | |
| Gain on sale of property, plant and equipment | | (16,692) | (462) | – | – |
| Supplementary dividend tax credit | 23 | 601 | 1,033 | 601 | 1,033 |
| **Total investing and financing adjustments** | | (16,091) | 571 | 601 | 1,033 |
| **Changes in assets and liabilities** | | | | | |
| Trade and other receivables | | (3,253) | (7,432) | – | – |
| Inventories | | (46,758) | (8,057) | – | – |
| Intercompany advances | | – | – | (1,304) | (1,392) |
| Trade and other payables | | (6,916) | 7,348 | (40) | – |
| Provisions | | (4,218) | (5,359) | – | – |
| Income tax | | (1,954) | (4,148) | 431 | 45 |
| **Total changes in assets and liabilities** | | (63,099) | (17,648) | (913) | (1,347) |
| **Net cash flows from operating activities** | | 44,484 | 96,910 | 62,233 | 90,242 |

The accompanying statement of accounting policies and notes to the financial statements on pages 35 to 74 form an integral part of the financial statements.

# Statements of Changes in Equity

FOR THE 52 WEEK PERIOD ENDED 29 JULY 2012

| GROUP | SHARE CAPITAL | TREASURY STOCK | CASH FLOW HEDGE RESERVE | EMPLOYEE SHARE BENEFITS RESERVE | RETAINED EARNINGS | MINORITY INTEREST | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| **For the 52 week period ended 29 July 2012** | | | | | | | |
| Balance at the beginning of the period | 251,445 | (7,385) | (24,104) | 2,812 | 48,447 | 325 | 271,540 |
| Net profit for the period | – | – | – | – | 89,848 | 312 | 90,160 |
| Net change in fair value of cash flow hedges | – | – | 16,889 | – | – | – | 16,889 |
| Total comprehensive income | – | – | 16,889 | – | 89,848 | 312 | 107,049 |
| Share based payments charged to the income statement | – | – | – | 1,616 | – | – | 1,616 |
| Share rights exercised | – | 2,096 | – | (2,219) | 123 | – | – |
| Dividends paid | – | – | – | – | (62,239) | (404) | (62,643) |
| Treasury stock dividends received | – | – | – | – | 255 | – | 255 |
| Purchase of treasury stock | – | (450) | – | – | – | – | (450) |
| Balance at the end of the period | 251,445 | (5,739) | (7,215) | 2,209 | 76,434 | 233 | 317,367 |
| | (note: 30) | (note: 30) | (note: 31) | (note: 31) | (note: 33) | (note: 32) | |
| **For the 52 week period ended 31 July 2011** | | | | | | | |
| Balance at the beginning of the period | 251,445 | (8,262) | (4,007) | 3,422 | 60,308 | 340 | 303,246 |
| Profit for the period | – | – | – | – | 77,829 | 316 | 78,145 |
| Net change in fair value of cash flow hedges | – | – | (20,097) | – | – | – | (20,097) |
| Total comprehensive income | – | – | (20,097) | – | 77,829 | 316 | 58,048 |
| Share based payments charged to the income statement | – | – | – | 1,640 | – | – | 1,640 |
| Share rights exercised | – | 2,110 | – | (2,250) | 140 | – | – |
| Dividends paid | – | – | – | – | (90,246) | (331) | (90,577) |
| Treasury stock dividends received | – | – | – | – | 416 | – | 416 |
| Purchase of treasury stock | – | (1,233) | – | – | – | – | (1,233) |
| Balance at the end of the period | 251,445 | (7,385) | (24,104) | 2,812 | 48,447 | 325 | 271,540 |
| | (note: 30) | (note: 30) | (note: 31) | (note: 31) | (note: 33) | (note: 32) | |

| PARENT | SHARE CAPITAL | RETAINED EARNINGS | TOTAL EQUITY |
|---|---|---|---|
| | $000 | $000 | $000 |
| **For the 52 week period ended 29 July 2012** | | | |
| Balance at the beginning of the period | 251,445 | 10,882 | 262,327 |
| Total comprehensive income | – | 62,234 | 62,234 |
| Dividends paid | – | (62,239) | (62,239) |
| Balance at the end of the period | 251,445 | 10,877 | 262,322 |
| | (note: 30) | (note: 33) | |
| **For the 52 week period ended 31 July 2011** | | | |
| Balance at the beginning of the period | 251,445 | 10,884 | 262,329 |
| Total comprehensive income | – | 90,244 | 90,244 |
| Dividends paid | – | (90,246) | (90,246) |
| Balance at the end of the period | 251,445 | 10,882 | 262,327 |
| | (note: 30) | (note: 33) | |

The accompanying statement of accounting policies and notes to the financial statements on pages 35 to 74 form an integral part of the financial statements.

# Notes to and forming part of the Financial Statements

FOR THE 52 WEEK PERIOD ENDED 29 JULY 2012

## 1. SUMMARY OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements also comply with International Financial Reporting Standards (IFRS). The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for The Warehouse Group Limited (the "Parent") as an individual entity and the consolidated entity consisting of The Warehouse Group Limited and its subsidiaries (together the "Group").

**Reporting entity**

The Warehouse Group Limited is a company registered under the New Zealand Companies Act 1993 and is listed on the New Zealand stock exchange. The Group had formerly been listed on the Australian stock exchange ("ASX") but following an application to delist made by the Group it was removed from the ASX official list at the end of June 2012. The Warehouse Group Limited is an issuer for the purposes of the New Zealand Financial Reporting Act 1993. The Group is designated as a profit oriented entity for financial reporting purposes. The consolidated financial statements of The Warehouse Group Limited have been prepared in accordance with the New Zealand Companies Act 1993 and New Zealand Financial Reporting Act 1993.

**Functional and presentation currency**

Items included in the financial statements of each of the Group's operations are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in New Zealand dollars, which is the Parent's functional and the Group's presentation currency. The New Zealand dollar amounts presented in these financial statements are rounded to the nearest thousands, unless otherwise stated. Ordinary shares and share rights disclosures are also rounded to the nearest thousands.

**Reporting period**

The Group has reported its full year result on a 52 week basis. The current year represents the 52 week period commencing 1 August 2011 to 29 July 2012. The prior full year comparative represents the 52 week period commencing 2 August 2010 to 31 July 2011.

**Historical cost convention**

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the income statement.

**(a) Basis of consolidation**

The consolidated financial statements include the Parent company and its subsidiaries and associates.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies to obtain benefits generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are not consolidated from the date that control ceases.

The Group's financial statements consolidate the financial statements of subsidiaries, using the acquisition method. The acquisition method of accounting is used to account for the acquisition of subsidiaries and businesses by the Group. The consideration transferred in a business is measured at fair value, which is calculated as the sum of the acquisition-date fair value of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interest issued by the acquirer. It includes any asset or liability arising from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Each identifiable asset and liability is generally measured at its acquisition-date fair value except if an NZ IFRS requires another measurement basis. The excess of the consideration transferred over the Group's share of the net of the acquisition–date amounts of the identifiable assets acquired and the liabilities assumed is recognised as goodwill. If the consideration transferred is less than the acquisition-date fair value of identifiable assets acquired and liabilities assumed, a gain is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

**(b) Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Associates have been recorded in the consolidated financial statements on an equity accounting basis, which recognises the Group's share of retained surpluses in the income statement and its share of post acquisition increases or decreases in net assets in the balance sheet.

**(c) Statement of cash flows**

The following definitions are used in the statement of cash flows:

- Operating activities are principal revenue producing activities of the Group that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments.
- Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and borrowings not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- Cash comprises cash on hand and in transit, bank in funds and short term deposits offset by bank overdrafts.
- Cash flows relating to current and non-current borrowings are presented as net cash flows as gross cash inflows and outflows include day-to-day cash management.

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

**(d) Revenue recognition**
Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

- Retail sales – Revenue is recognised at the point of sale when delivery takes place and the associated risks of ownership have passed to the customer. Products sold to customers have a right of return and an estimate for such returns are provided for at the time of sale based on historical return rates.
- Vouchers – Revenue from the sale of vouchers (gift cards, refunds and Christmas club) are recognised when the voucher is redeemed and the customer purchases goods, or when the customer voucher is no longer expected to be redeemed, based on an analysis of historical redemption rates.
- Lay-by sales – Lay-by sales are recognised when legal title to the goods passes to the customer.
- Interest revenue – Interest revenue is recognised when it is earned, using the effective interest method.
- Dividend income – Dividend income is recognised when the dividend is declared.

**(e) Property, plant and equipment**
Cost
The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended use.

Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The cost of self-constructed assets includes the cost of all materials used in construction, direct labour on the project, financing costs, and costs of obtaining regulatory consents that are directly attributable to the project.

Costs incurred on repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation
Property, plant and equipment are depreciated on a straight line basis to allocate the cost, less any residual value, over their useful life.

Estimated useful life of property, plant and equipment:

| | |
|---|---|
| Freehold land | indefinite |
| Freehold buildings | 50 to 100 years |
| Store fittings and equipment | 4 to 12 years |
| Vehicles | 5 to 8 years |
| Work in progress | not depreciated |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

**(f) Income tax**
The income tax expense or revenue for the period is the tax payable on the current year's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries and associates where the Parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised in equity are similarly recognised in equity.

**(g) Goods and services tax ("GST")**
The income statement and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST with the exception of receivables and payables which include GST invoiced.

**(h) Cash and cash equivalents**
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

**(i) Inventories**
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct purchase cost and an appropriate proportion of supply chain variable expenditure. Cost also includes the transfer from equity of any gains or losses on qualifying hedges related to inventories. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**(j) Investments in subsidiaries**
Subsidiaries are accounted for at cost less any impairment within the Parent entity financial statements.

### 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

**(k) Trade receivables**
Trade receivables are recognised initially at fair value. Trade receivables arise from sales made to customers on credit or through the collection of rebates from suppliers not otherwise deducted from suppliers' payable accounts.

Trade receivables are usually due for settlement no more than 120 days from the date of recognition for intercompany debtors, and no more than 60 days for other debtors.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impaired receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the estimated recoverable amount. The amount of the provision is recognised in the income statement.

**(l) Leases**
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease. Lease income from operating leases is recognised in income on a straight line basis over the lease term.

**(m) Intangible assets**
Computer software – All costs directly incurred in the purchase or development of major computer software or subsequent upgrades and material enhancements, which can be reliably measured and are not integral to a related asset, are capitalised as intangible assets. Direct costs may include internal payroll and on-costs for employees directly associated with the project.

Costs incurred on computer software maintenance are expensed to the income statement as they are incurred.

Computer software is amortised over the period of time during which the benefits are expected to arise, being two to ten years. Amortisation commences once the computer software is available for use.

**(n) Impairment of non-financial assets**
Assets that are subject to amortisation or depreciation are reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

**(o) Employee benefits**
(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non–accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on New Zealand government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Performance incentive payments
The Group recognises a liability and an expense for performance incentive payments (bonuses) based on a formula that takes into consideration individual performance and company performance linked to the profit attributable to the company's shareholders. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Equity settled share-based compensation
Equity settled share-based compensation benefits are provided to employees in accordance with the Group's employee executive share rights plan. The fair value of share rights granted under the plan are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the share rights.

The fair value at grant date of the share right's are independently determined using an appropriate valuation model that takes into account the exercise price, the term of the share right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the share right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share right.

At each balance date, the Group revises its estimate of the number of share rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the vesting of share rights, the balance of the share based payments reserve relating to the share rights is netted against the cost of treasury stock purchased to satisfy the obligation of settling the share based payment and any residual balance transferred to retained earnings.

(v) Employee share purchase plan
The employee share purchase plan provides employees with the opportunity to acquire shares in the Group. The fair value of shares granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the vesting period. The fair value of the shares granted has been assessed as being equal to the discount provided to participants when the shares are granted.

Interest free loans are provided to plan participants to finance the share purchases. The fair value of the interest free component of the loan is included in determining the discount of shares provided to participants and forms part of the employee benefit expense. The fair value interest free component of the loan is measured at grant date, using a bank five year swap rate. When the discount on the loan unwinds an amount is recognised as finance income.

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

**(p) Derivatives**
The Group is party to the following financial derivatives:

- Forward foreign exchange rate contracts
- Interest rate swaps
- Electricity hedge contracts

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

For the purposes of hedge accounting, hedges are classified as:

- Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a highly probable forecast transaction; or
- Fair value hedges when they hedge the exposure to changes in fair value of a recognised asset or liability.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast interest payment that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(ii) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributed to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings and changes in the fair value of the fixed rate borrowings attributable to interest rate risk are recognised in the income statement within net interest expense.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item, for which the effective interest method is used, is amortised over the period to maturity.

(iii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

**(q) Fair value estimation**
The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of forward exchange contracts is determined using forward exchange market rates at the balance date.

The fair value of interest rate swaps were calculated as the present value of the estimated future cash flows based on the applicable market interest yield rates at balance date.

The fair value of electricity “contracts for difference” is calculated as the present value of the estimated future cash flows based on available market electricity pricing at balance date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

**(r) Trade and other payables**
These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are normally unsecured and are usually settled within 60 days of recognition.

**(s) Borrowings**
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is based on a weighted average of the interest expense incurred by the Group. Other borrowing costs are recognised as an expense when incurred.

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

**(t) Intercompany advances**
Except for a loan of $100.000 million (refer note 39 (e)) intercompany advances between the Parent company and its subsidiaries are non-interest bearing and repayable on demand. Management's expectation is that these advances will not be repaid within the next 12 months and have classified the advances as non-current assets.

**(u) Provisions**
Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

**(v) Segment reporting**
An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments. These segments form the basis of internal reporting used by Management and the Board of Directors to monitor and assess performance and assist with strategy decisions.

The Group operates solely within one geographical segment (New Zealand), and accordingly no geographical segment analysis is provided.

**(w) Contributed equity**
Ordinary shares are classified as equity. Incremental costs, directly attributable to the issue of new shares, are shown in equity as a deduction from the proceeds of the share issue.

Where the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the shareholders until the shares are cancelled or reissued. Where such shares are reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to shareholders.

**(x) Dividends**
Provision is made for the amount of any dividend declared, being appropriately authorised by the board of the Group, on or before the end of the financial year but not distributed at balance date.

**(y) Foreign currencies**
Transactions in foreign currencies are converted to New Zealand dollars at the exchange rate ruling at the date of the transaction. At balance date monetary assets and liabilities denominated in foreign currencies are retranslated to New Zealand dollars at the closing exchange rate, and exchange variations arising from these translations are recognised in the income statement.

**(z) Operating profit**
Operating profit represents earnings before taxation and interest adjusted for equity earnings from the Group's associate company and any unusual items. Unusual items includes profit and losses from the disposal of properties, the release of surplus warranty provisions and unrealised gains or losses from changes in the fair value of financial instruments.

**(aa) Adjusted net profit**
Adjusted net profit (refer note 38) represents net profit attributable to shareholders of the Parent adjusted for the after tax effect of unusual items and non-cash deferred tax adjustments arising from tax legislative changes enacted in May 2010.

**(ab) Changes to accounting policies that have been adopted for new accounting standards and new interpretations in the preparation and presentation of the financial statements:**
FRS 44 "New Zealand Additional Disclosures" – The application of the new standard resulted in a small change to the disclosure of imputation credits (refer note 35). The amount of imputation credits were increased by changing the calculation of imputation credits from a cash basis to an accrual basis.

There have been no significant changes in accounting policies during the year, however certain comparatives have been restated to conform with the current years presentation.

**(ac) New and proposed accounting standards, amendments and interpretations to existing standards that are relevant to the Group, but not yet effective, and have not been early adopted by the Group, are:**
NZ IFRS 13, "Fair Value Measurement", effective from 1 January 2013, establishes a single source of guidance for measuring fair value and expands the current disclosure requirements. NZ IFRS 13 does not change when an entity is required to use fair value, but provides guidance on how to determine fair vale when another IFRS requires or permits an item to be measured at fair value. This standard is not expected to significantly impact the Group.

NZ IFRS 9, "Financial Instruments", effective from 1 January 2015, replaces parts of IAS 39, 'Financial Instruments: Recognition and Measurement', that relates to the classification and measurement of financial instruments. All financial assets are required to be classified as being either measured at fair value or amortised cost. The determination is based on the entity's business model for managing the financial assets. For financial liabilities, the standard retains most of the current IAS 39 requirements. This standard is not expected to significantly impact the Group.

The IASB and U.S. Financial Accounting Standards Board are jointly working on a new Leases accounting standard, which will significantly change the current lease accounting requirements. The proposed new standard requires lessees to recognise all leases with a lease term of more than 12 months on balance sheet. After a lengthy period of deliberation following the release of the first exposure draft in August 2010 a revised exposure draft is expected to be published by end of November 2012.

The Group will evaluate the potential effects of the revised exposure draft when it is released, however it is expected that the new standard on lease accounting will significantly impact the Group's balance sheet. A new accounting standard is not expected to be released until at least 2013, with an effective date not expected to be earlier than 2016.

## 2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires the Group to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at balance date and the reported amounts of revenues and expenses during the year.

The Group has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made:

**(a) Derivative financial instruments (notes 4, 22)**
The Group holds significant amounts of derivatives which are hedge accounted. The calculation of the fair values is determined in accordance with the accounting policy stated in note 1 (p).

**(b) Taxation (notes 13, 23, 24)**
Transactions and calculations are undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The tax calculation also requires estimates about items that are not known at balance date or prior to the Group reporting its final result.

**(c) Employee benefits (notes 15, 28)**
The calculation of the annual performance incentive liability and long term incentive plan obligations require the group to estimate employee and company performance against specified performance hurdles before individual employee evaluations have been completed.

**(d) Inventories (note 19)**
Assessing provisions for inventory obsolescence, net realisable value and shrinkage involves making estimates and judgements in relation to future selling prices and expected shrinkage rates since the most recent stock count. Shrinkage is a reduction in inventory due to shoplifting, employee theft, paperwork errors and supplier fraud. Shrinkage is confirmed by performing cyclical stock counts to verify inventory quantities.

**(e) Available for sale assets (note 25)**
The Group uses judgement to determine whether an asset sale is highly probable at balance date to meet the threshold required to classify an asset as being 'available for sale'.

**(f) Property, plant and equipment and computer software (notes 25, 26)**
The Group annually assesses the useful lives and residual values of assets that are subject to amortisation or depreciation by evaluating environmental conditions specific to the Group and to the particular asset. The assessment involves reviewing store performance, technology, economic environments, lease terms and future trading expectations. If an impairment trigger exists, the recoverable amount of the asset is determined to quantify the value of the impairment.

**(g) Provision for onerous lease (note 28)**
The Group determines the value of onerous lease obligations based on expected future lease payments offset by any mitigating benefits available if the property can be subleased. Judgements and estimates are required to determine future benefits and the unavoidable lease costs.

## 3. CAPITAL MANAGEMENT

The Group's capital management objectives are to safeguard the Group's ability to continue as a going concern, to provide an appropriate rate of return to shareholders and to optimise the Group's cost of capital.

The Group has used adjusted gearing as a measure of financial leverage in previous years. Adjusted gearing is calculated with reference to the Group's market capitalisation and borrowings adjusted for operating lease obligations which recognise off-balance sheet financing. The Group's aim was to maintain adjusted gearing of between 25% to 40% consistent with historical retail sector benchmarks.

Last year the Group indicated it would review the appropriateness of the adjusted gearing benchmarks and of continuing to use adjusted gearing as a primary measure of financial leverage. Based on this review it was considered that adjusted gearing is no longer the most appropriate gauge for the Group to use to assess financial leverage. The review also demonstrated that the average adjusted gearing ratio of the Group's Australasian retail peers exceeded 50%. It was decided that the Group would use book gearing as its primary measure of leverage which is aligned to the limits imposed by the Group's external debt providers.

| GROUP | 2012 | 2011 |
|---|---|---|
| **Adjusted gearing ratio** | | |
| Number of shares on issue (000s) | 311,196 | 311,196 |
| Share price at balance date ($) | 2.58 | 3.54 |
| Market capitalisation ($000) | 802,886 | 1,101,634 |
| Net debt ($000) | 212,693 | 126,113 |
| Annual operating leases – multiplied by eight ($000) | 502,912 | 479,992 |
| Adjusted debt ($000) | 715,605 | 606,105 |
| Adjusted gearing ratio (%) | 47.1 | 35.5 |

The Group regularly reviews its capital structure and may make adjustments by means including changes to the Group's dividend payout ratio, return of surplus capital, issue of new shares, debt issuance, sale of assets or a combination of these. The Group reviewed its property holdings in June 2012 to determine whether it should continue to own or lease a number of its properties. Following this review the Group decided to market four properties on a sale and leaseback basis with the intention of selling these properties should the Group be able to find a suitable landlord and subject to acceptable price and lease terms. The sales process was substantially completed during the month following balance date and the Board agreed that all four properties would be sold. The sale of these properties is expected to generate sales proceeds of approximately $117.000 million which will be reinvested to fund growth in the business in line with the priorities identified in the Group's strategic plan.

The Group's dividend policy is to pay a dividend equal to 90% of adjusted net profit (refer note 34). The Group also has a stated policy of returning surplus cash to shareholders where it is not required to fund growth in the immediate future.

**(a) Externally imposed capital requirements**

Borrowings are subject to a negative pledge contained in two separate trust deeds held for the benefit of the Group's banking institutions and bondholders. The trust deeds provide a guarantee that the Parent and its guaranteeing Group companies (refer note 39) will comply with certain quarterly debt ratios and restrictive covenants. The principal covenants, which are the same for both trust deeds, are:

- the Group book gearing ratio will not exceed 60% in the first quarter ending October and will not exceed 50% in each of the remaining three quarters of the year;
- the interest cover ratio for the Group will not be less than 2 times operating profit;
- the total tangible assets of the guaranteeing Group will constitute at least 90% of the total tangible assets of the Group.

| GROUP | 2012 | 2011 |
|---|---|---|
| **Book gearing ratio** | | |
| Total borrowings ($000) | 228,979 | 149,129 |
| Total equity ($000) | 317,367 | 271,540 |
| Gearing ratio (%) | 41.9 | 35.5 |
| **Interest cover** | | |
| Net interest expense ($000) | 10,308 | 9,845 |
| Operating profit ($000) | 96,462 | 114,136 |
| Interest cover (times) | 9.4 | 11.6 |

The Group was in compliance with the negative pledge covenants throughout the current and previous financial year.

## 4. FINANCIAL RISK MANAGEMENT

### Financial risk factors

The Group's activities expose it to various financial risks including, liquidity risk, credit risk and market risk (including currency risk, interest rate risk and price risk). The Group's overall risk management programme focuses on the uncertainty of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group enters into derivative transactions, principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency fluctuation risks arising from the Group's operations and sources of finance.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess cash.

### (a) Liquidity risk

Liquidity risk arises from financial liabilities of the Group and the Group's subsequent ability to meet the obligation to repay these financial liabilities as and when they arise.

The Group's policy requires funding to be sourced from a minimum of four counterparties and committed credit facilities to be maintained at an amount that averages at least 115% of peak funding requirements projected for the next two years. The Group's policy also requires that at least 30% of the Group's debt facilities have a maturity of greater than three years.

The Group's liquidity position fluctuates throughout the year. The months leading up to the Christmas trading period typically put the greatest strain on cash flows due to the build up of inventory and payment of the final dividend, conversely the Group's liquidity position is at its strongest immediately after the Christmas trading period. The Group's gearing covenants increase from 50% to 60% for the first quarter of each financial year to allow for the effect of seasonal funding. (The Group's borrowing covenants are detailed in note 3). To accommodate the increased funding requirements during the peak funding period the Group has committed three month seasonal credit facilities commencing in mid September of $50.000 million (2011:$Nil) which are in addition to the committed credit facilities detailed below.

The Group had the following committed credit facilities at balance date:

| GROUP | 2012 | 2011 |
|---|---|---|
| | $000 | $000 |
| ANZ National Bank | 53,000 | 48,000 |
| Bank of New Zealand | 40,000 | 40,000 |
| Bank of Tokyo–Mitsubishi | 20,000 | – |
| Hong Kong and Shanghai Bank | 30,000 | 20,000 |
| Kiwibank | – | 20,000 |
| Westpac Banking Corporation | 85,000 | 75,000 |
| Fixed Rate Senior Bond | 100,000 | 100,000 |
| | 328,000 | 303,000 |

The remaining maturities of the committed credit facilities at balance date are:

| GROUP | | DEBT FACILITIES | | LETTERS OF CREDIT | | TOTAL FACILITIES | |
|---|---|---|---|---|---|---|---|
| | NOTE | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | | $000 | $000 | $000 | $000 | $000 | $000 |
| 6 months or less | | 20,000 | 65,000 | 10,000 | 28,000 | 30,000 | 93,000 |
| 6 to 12 months | | 90,000 | 20,000 | 18,000 | – | 108,000 | 20,000 |
| 1 to 3 years | | 100,000 | 90,000 | – | – | 100,000 | 90,000 |
| Over 3 years | | 90,000 | 100,000 | – | – | 90,000 | 100,000 |
| | | 300,000 | 275,000 | 28,000 | 28,000 | 328,000 | 303,000 |
| Facilities utilised | 29, 36 | 228,203 | 150,000 | 12,622 | 13,184 | 240,825 | 163,184 |
| Unused facilities available | | 71,797 | 125,000 | 15,378 | 14,816 | 87,175 | 139,816 |
| Percentage utilisation | | 76.1% | 54.5% | 45.1% | 47.1% | 73.4% | 53.9% |

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Contractual maturities

The table below analyses the Group's financial liabilities and derivatives into relevant maturity bands, based on the remaining period from balance date to the contractual maturity date. The cash flow amounts disclosed in the table represent undiscounted cash flows liable for payment by the Group.

| GROUP | NOTE | 0 TO 6 MONTHS | 7 TO 12 MONTHS | 1 TO 2 YEARS | 2 TO 3 YEARS | > 3 YEARS | TOTAL |
|---|---|---|---|---|---|---|---|
| **At 29 July 2012** | | $000 | $000 | $000 | $000 | $000 | $000 |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | 20 | **126,857** | **–** | **–** | **–** | **–** | **126,857** |
| Bank borrowings | 29 | **128,203** | **–** | **–** | **–** | **–** | **128,203** |
| Fixed rate senior bond | 29 | **2,776** | **3,685** | **7,370** | **107,370** | **–** | **121,201** |
| | | **257,836** | **3,685** | **7,370** | **107,370** | **–** | **376,261** |
| **Derivative net liabilities** | | | | | | | |
| Forward currency contracts | | | | | | | |
| – outflow | | **133,100** | **48,978** | **–** | **–** | **–** | **182,078** |
| – inflow | | **(128,260)** | **(46,908)** | **–** | **–** | **–** | **(175,168)** |
| Interest rate swaps | | **517** | **517** | **335** | **199** | **1,612** | **3,180** |
| | | **5,357** | **2,587** | **335** | **199** | **1,612** | **10,090** |
| **At 31 July 2011** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | 20 | 128,913 | – | – | – | – | 128,913 |
| Bank borrowings | 29 | 50,000 | – | – | – | – | 50,000 |
| Fixed rate senior bond | 29 | 2,736 | 3,685 | 7,370 | 7,370 | 107,370 | 128,531 |
| | | 181,649 | 3,685 | 7,370 | 7,370 | 107,370 | 307,444 |
| **Derivative net liabilities** | | | | | | | |
| Forward currency contracts | | | | | | | |
| – outflow | | 117,451 | 68,681 | 66,250 | – | – | 252,382 |
| – inflow | | (98,690) | (60,286) | (58,011) | – | – | (216,987) |
| Interest rate swaps | | 743 | 472 | 625 | 323 | 438 | 2,601 |
| | | 19,504 | 8,867 | 8,864 | 323 | 438 | 37,996 |

The forward currency contracts "outflow" amounts disclosed in the table represent the gross amount payable by the Group for the purchase of foreign currency, whereas the "inflow" amounts represent the corresponding receipt of foreign currency arising from settlement of the contracts, converted using the spot rate at balance date.

The interest rate swaps are net-settled derivatives and the amounts disclosed in the table represent the net amount receivable or payable calculated using the New Zealand interest yield curve effective at balance date. As the derivative amounts included in the table represent undiscounted cash flows, these amounts will not reconcile to the amounts disclosed on the balance sheet for derivatives.

To avoid duplication in the table above the amounts disclosed as due during the next six month period for the fixed rate senior bond is net of a $0.909 million (2011: $0.949 million) interest accrual which is included as part of trade and other payables.

(ii) Maturity analysis based on Management's expectation

The Group's expectation of the future cash flows relating to the Group's financial liabilities and derivatives at balance date are broadly in line with the contractual maturities set out in the table above, with the exception of bank borrowings.

Bank borrowings at balance date are drawn down by way of 90-day short-term bills. The bank borrowings include $50.000 million which is fully drawn against a term debt facility which expires in March 2017 (2011: March 2014). These borrowings and the Group's fixed rate senior bond are defined as the Group's "core" borrowings for treasury management purposes. It is the Group's expectation that the bank borrowings which form part of the Group's core borrowings will not be repaid until the expiry of the facility under which they have been drawn.

The Group's fixed rate senior bond is held by the Parent company and represents the only financial liabilities held by the Parent at balance date.

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Market risk

(i) Interest rate risk

The Group's exposure to market interest rates primarily relates to the Group's core borrowings. The Group's treasury policy is to manage its finance costs using a mix of fixed and floating rate debt. The Group's policy is to maintain between 50% to 90% of core borrowings (repricing after 12 months) at fixed rates. At balance date 73% (2011: 87%) of the Group's core borrowings were at fixed interest rates. The Group uses fixed rate debt and interest rate swaps to manage the fixed interest rate pricing and profile.

The following sensitivity table, based on interest rate risk exposures in existence at balance date, shows the effect of reasonably possible interest rate movements on after tax profit and equity, with all other variables held constant.

| | | | + 100 BASIS POINTS | | – 100 BASIS POINTS | |
|---|---|---|---|---|---|---|
| | | | HIGHER/(LOWER) | | HIGHER/(LOWER) | |
| GROUP ASSET/(LIABILITY) | NOTE | CARRYING AMOUNT | PROFIT | EQUITY | PROFIT | EQUITY |
| | | $000 | $000 | $000 | $000 | $000 |
| **At 29 July 2012** | | | | | | |
| Cash and cash equivalents | 18 | 16,286 | 117 | 117 | (117) | (117) |
| Bank borrowings | 29 | (128,203) | (923) | (923) | 923 | 923 |
| Fixed rate senior bond | 29 | (100,776) | 500 | 500 | (522) | (522) |
| **Derivative financial instruments** | | | | | | |
| Interest rate swaps – cash flow hedges | 22 | (4,796) | 216 | 1,675 | (216) | (1,760) |
| Interest rate swaps – fair value hedges | 22 | 1,689 | (500) | (500) | 522 | 522 |
| | | (215,800) | (590) | 869 | 590 | (954) |
| **At 31 July 2011** | | | | | | |
| Cash and cash equivalents | 18 | 23,016 | 166 | 166 | (166) | (166) |
| Bank borrowings | 29 | (50,000) | (360) | (360) | 360 | 360 |
| Fixed rate senior bond | 29 | (99,129) | 571 | 571 | (601) | (601) |
| **Derivative financial instruments** | | | | | | |
| Interest rate swaps – cash flow hedges | 22 | (2,820) | 360 | 1,641 | (360) | (1,716) |
| Interest rate swaps – fair value hedges | 22 | 354 | (571) | (571) | 601 | 601 |
| | | (128,579) | 166 | 1,447 | (166) | (1,522) |

The Parent has no exposure to interest rate risk, with the exception of its cash on hand at balance date.

(ii) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar, through the purchases of inventory directly from overseas suppliers. The Group uses forward foreign exchange contracts to reduce the currency risks associated with these purchases.

Management works to a Board approved Treasury Policy to manage foreign exchange risk. The policy parameters for hedging forecasted currency exposures are:

- to hedge 40% to 100% of forecast US dollar commitments expected in the next 0 to 6 months
- to hedge 0% to 85% of forecast US dollar commitments expected in the next 7 to 12 months
- where exposures to other currencies arise, the Group hedges these risks once a firm commitment is in place
- where foreign currency hedging extends beyond a 12 month time horizon, this requires the approval of the Group's Chief Executive Officer.

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

At balance date the Group had the following foreign currency risk exposures:

| GROUP ASSET/(LIABILITY) | NOTE | CARRYING AMOUNT 2012 | 2011 | NOTIONAL AMOUNT 2012 | 2011 |
|---|---|---|---|---|---|
| | | $000 | $000 | NZ$000 | NZ$000 |
| Forward currency contracts – cash flow hedges | | | | | |
| Buy US dollars/Sell New Zealand dollars | 22 | (5,358) | (30,867) | 182,078 | 252,382 |

The average exchange rate of US dollar forward contracts at balance date was $0.7794 (2011: $0.7558). The spot rate used to determine the mark-to-market carrying value of the US dollar forward contracts at balance date was $0.8101 (2011: $0.8792).

Throughout the year the Group's US dollar hedge cover levels typically range between 55% to 70% of the forecast annual direct US dollar exposure. At balance date the Group has US dollar hedges in place to cover 62% (2011: 73.0%) of the forecast annual direct US dollar exposure. In the comparative year the Group had placed additional cover extending beyond the usual 12 month time horizon, which covered 48.0% of the forecast 13 to 18 month direct US dollar exposure.

The following sensitivity table, based on foreign currency risk exposures in existence at balance date, shows the effect of reasonably possible exchange rate movements on after tax profit and equity, with all other variables held constant.

| GROUP FORWARD CURRENCY CONTRACTS – CASH FLOW HEDGES | AFTER TAX PROFIT HIGHER/(LOWER) 2012 | 2011 | EQUITY HIGHER/(LOWER) 2012 | 2011 |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| 10% appreciation in the New Zealand dollar | – | – | (11,448) | (14,162) |
| 10% depreciation in the New Zealand dollar | – | – | 13,992 | 17,309 |

There is no profit and loss sensitivity, as the forward currency contracts have been designated as cash flow hedges and assume they will be 100% hedge effective. The Parent company has no currency risk exposures.

(iii) Price risk

Management works to a Board approved Treasury Policy to manage electricity commodity price risk. The Group manages its exposure to electricity price fluctuations by negotiating fixed price supply contracts with its electricity suppliers and using electricity pricing contracts ("contracts for difference") to provide an economic hedge. The policy parameters for hedging forecast electricity price exposures are:

- to hedge 60% to 100% of forecast electricity usage in the next 0 to 12 months
- to hedge 0% to 75% of forecast electricity usage in the next 13 to 24 months
- to hedge 0% to 50% of forecast electricity usage in the next 25 to 60 months

The Group uses fixed price supply contracts to hedge the Group's electricity price exposure. The Group had previously also used "contracts for difference" to hedge the Group's electricity price exposure, however these derivatives did not qualify for hedge accounting and all movements in fair value were recognised as an expense/revenue in the income statement in the period in which they occurred. To reduce the fair value earnings volatility, the Group has not entered any new "contracts for difference" since 2008. In the comparative year the Group recognised a gain of $0.194 million on the fair value movement relating to electricity derivatives.

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Credit risk

Credit risk arises from the financial assets of the Group which are exposed to potential counter-party default, with a maximum exposure equal to the carrying amount of these assets. In the normal course of business the Group incurs credit risk from trade and other receivables, electricity derivatives and transactions with financial institutions.

| | NOTE | GROUP 2012 | GROUP 2011 | PARENT 2012 | PARENT 2011 |
|---|---|---|---|---|---|
| | | $000 | $000 | $000 | $000 |
| **Maximum exposures to credit risk at balance date are:** | | | | | |
| Cash and cash equivalents | 18 | **16,286** | 23,016 | **2,520** | 2,526 |
| Trade and other receivables | 21 | **28,455** | 25,791 | **–** | – |
| Derivative financial instruments | 22 | **2,489** | 1,138 | **–** | – |
| Intercompany advances | | **–** | – | **317,211** | 316,508 |
| Investment in associate company | 27 | **6,372** | 7,585 | **–** | – |
| | | **53,602** | 57,530 | **319,731** | 319,034 |

The Group places cash and short-term investments with high credit quality financial institutions. The Board reviews bank counter-parties and investment limits on an annual basis. The Group's treasury policy specifies maximum credit limits for each bank counter-party and requires bank counter-parties to have a minimum Standard & Poor's credit rating of at least A (2011: A+).

The Group performs credit evaluations on customers requiring credit, but generally does not require collateral. In addition, receivable balances are monitored on an ongoing basis to ensure the Group's bad debt exposure is not significant. Loans to team members to purchase shares in accordance with the Group's share purchase plan are effectively secured as team members are not given the shares until the advances are fully repaid. Concentrations of credit risk, with respect to trade and other receivables, are limited due to the minor nature and spread of such accounts.

The Group enters into foreign exchange derivatives and interest-rate derivatives within specified policy limits and only with counter-parties approved by Directors. There are no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions and electricity providers to minimise the risk of a counter-party default.

The Group's associate company, The Warehouse Financial Services Limited, offers consumer credit to customers, who potentially expose the Group to an indirect credit risk. Customers who request consumer credit finance are subject to credit verification procedures in accordance with Westpac Banking Corporation standards. The amount of capital invested by both the Group and its associate partner, and the level of bad debt provisions maintained, are also determined in accordance with Westpac Banking Corporation standards. The Directors are satisfied that these standards are appropriate for the nature and performance of the business.

### (d) Fair values

Except for the fixed rate senior bond (refer note 29), the carrying value of all balance sheet financial instruments approximate their fair value.

- Derivatives are carried at fair value (refer note 1 (p)).
- Receivables and payables are short term in nature and therefore approximate to fair value.
- Interest bearing bank borrowings and deposits reprice between every 1 to 90 days and therefore approximate to fair value.

The methods used to calculate fair value are as follows:

Derivatives
The Group's derivatives are over the counter derivatives and are classified as tier 2 financial instruments under NZ IFRS 7, meaning that the fair value is calculated using present value or other valuation techniques based on observable market rates.

Fixed rate senior bond
The fair value of the fixed rate senior bond is determined by reference to the quoted market price of debt securities quoted on the New Zealand stock exchange at balance date (refer note 29).

## 5. SEGMENT INFORMATION

| GROUP | REVENUE 2012 | REVENUE 2011 | OPERATING PROFIT 2012 | OPERATING PROFIT 2011 |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| The Warehouse | 1,524,102 | 1,462,912 | 80,874 | 98,777 |
| Warehouse Stationery | 206,639 | 201,453 | 9,844 | 10,103 |
| Other Group operations | 8,664 | 8,320 | 5,744 | 5,256 |
| Inter-segment eliminations | (7,237) | (4,908) | – | – |
| | 1,732,168 | 1,667,777 | 96,462 | 114,136 |
| **Unallocated (expenses)/revenue** | | | | |
| Gain on disposal of property | | | 18,230 | 1,470 |
| Changes in fair value of financial instruments | | | – | 194 |
| Release of warranty provisions | | | 7,355 | – |
| Equity earnings of associate | | | 3,197 | 3,575 |
| **Earnings before interest and tax** | | | 125,244 | 119,375 |
| Net interest expense | | | (10,308) | (9,845) |
| Income tax expense | | | (24,776) | (31,385) |
| **Net profit for the period** | | | 90,160 | 78,145 |
| **Operating margin** | | | | |
| The Warehouse | | | 5.3% | 6.8% |
| Warehouse Stationery | | | 4.8% | 5.0% |
| Total Group | | | 5.6% | 6.8% |

The operating margin is calculated by dividing operating profit by revenue. The “Other Group” operating profit for the current year includes an onerous lease expense ($2.099 million – refer note 28) and a reversal of previously accrued costs ($1.900 million) attributed to lease exposures.

**(a) Operating segments**

The Group has two primary operating segments operating in the New Zealand retail sector. The operating segments are managed separately with their own management, stores and infrastructure. These segments form the basis of internal reporting used by Management and the Board of Directors to monitor and assess performance and assist with strategy decisions.

**The Warehouse**

The Warehouse is predominantly a general merchandise and apparel retailer, with 89 (2011: 88) stores located throughout New Zealand.

**Warehouse Stationery**

Warehouse Stationery is a stationery retailer, with 56 (2011: 51) stores located throughout New Zealand.

**Other Group operations**

This segment includes the Group’s property operations, which owns a number of stores and distribution centres occupied by the other business segments. This segment also includes the Group’s corporate function and a chocolate factory, which supplies product to The Warehouse.

Transfer prices between business segments are set on an arm’s length basis in a manner similar to third parties. Segment revenues and expenses include transfers between segments, which are eliminated on consolidation.

**(b) Other segment information**

| GROUP | NOTE | DEPRECIATION & AMORTISATION 2012 | DEPRECIATION & AMORTISATION 2011 | CAPITAL EXPENDITURE 2012 | CAPITAL EXPENDITURE 2011 |
|---|---|---|---|---|---|
| | | $000 | $000 | $000 | $000 |
| The Warehouse | | 33,726 | 32,041 | 46,291 | 37,319 |
| Warehouse Stationery | | 5,435 | 4,902 | 5,262 | 6,161 |
| Other Group operations | | 2,469 | 2,829 | 56,211 | 24,109 |
| | | 41,630 | 39,772 | 107,764 | 67,589 |
| **Comprising:** | | | | | |
| Property, plant and equipment | 25 | 34,293 | 31,719 | 104,412 | 61,964 |
| Computer software | 26 | 7,337 | 8,053 | 3,352 | 5,625 |
| | | 41,630 | 39,772 | 107,764 | 67,589 |

### 5. SEGMENT INFORMATION (CONTINUED)

**(c) Balance sheet segment information**

| GROUP | TOTAL ASSETS 2012 $000 | TOTAL ASSETS 2011 $000 | TOTAL LIABILITIES 2012 $000 | TOTAL LIABILITIES 2011 $000 |
|---|---|---|---|---|
| The Warehouse | 393,898 | 340,777 | 135,013 | 139,639 |
| Warehouse Stationery | 64,747 | 59,379 | 23,867 | 24,688 |
| Other Group operations | 247,837 | 204,396 | 12,626 | 6,099 |
| **Operating assets/liabilities** | 706,482 | 604,552 | 171,506 | 170,426 |
| **Unallocated assets/liabilities** | | | | |
| Cash and borrowings | 16,286 | 23,016 | 228,979 | 149,129 |
| Derivative financial instruments | 2,489 | 1,138 | 10,954 | 34,471 |
| Taxation assets/liabilities | 2,425 | 3,832 | 5,248 | 7,202 |
| Investments | 6,372 | 7,585 | – | – |
| Warranty provision | – | – | – | 7,355 |
| **Total** | 734,054 | 640,123 | 416,687 | 368,583 |

Segment assets and liabilities are disclosed net of inter-company balances.

### 6. OTHER INCOME

| GROUP | NOTE | 2012 $000 | 2011 $000 |
|---|---|---|---|
| Tenancy rents received | | 2,564 | 3,075 |
| Business interruption insurance | 12 | 630 | 275 |
| **Other** | | 3,424 | 3,135 |
| | | 6,618 | 6,485 |

During the year, the Parent received dividends from subsidiaries of $62.239 million (2011: $90.246 million)

### 7. EMPLOYEE EXPENSES

| GROUP | NOTE | 2012 $000 | 2011 $000 |
|---|---|---|---|
| Wages and salaries | | 280,705 | 260,909 |
| Director's fees | 14 | 617 | 609 |
| Performance incentive payments | | 4,691 | 4,298 |
| Equity settled share based payments expense | 31 | 1,616 | 1,640 |
| Movement in long service and sick leave provisions | | 702 | 343 |
| | | 288,331 | 267,799 |

The Parent has no direct employees.

### 8. LEASE AND OCCUPANCY EXPENSES

| GROUP | 2012 $000 | 2011 $000 |
|---|---|---|
| Operating lease costs | 62,864 | 59,999 |
| Other occupancy costs | 23,959 | 21,943 |
| | 86,823 | 81,942 |

The Parent has no lease or occupancy expenses.

## 9. DEPRECIATION AND AMORTISATION EXPENSE

| GROUP | NOTE | 2012 | 2011 |
|---|---|---|---|
| | | $000 | $000 |
| Freehold buildings | | 2,284 | 2,618 |
| Store fittings and equipment | | 25,903 | 22,250 |
| Computer hardware | | 5,725 | 6,485 |
| Vehicles | | 381 | 366 |
| Property, plant and equipment | 25 | 34,293 | 31,719 |
| Computer software | 26 | 7,337 | 8,053 |
| **Depreciation and amortisation expense** | | 41,630 | 39,772 |

The Parent has no depreciable assets.

## 10. OTHER OPERATING EXPENSES

| GROUP | NOTE | 2012 | 2011 |
|---|---|---|---|
| | | $000 | $000 |
| **Other operating expenses include** | | | |
| Bad debts written off | 21 | 128 | 321 |
| Provision for doubtful debts | 21 | 28 | (61) |
| Loss on sale of plant and equipment | | 1,538 | 1,008 |
| Donations – Canterbury earthquakes | | – | 500 |
| Donations – other | | 240 | 224 |
| Net foreign currency exchange (gain)/loss | | (128) | 12 |
| **Auditors' fees** | | | |
| Auditing the Group financial statements | | 323 | 314 |
| Reviewing the half year financial statements | | 75 | 72 |
| Other audit services | | 16 | 30 |
| **Total fees paid to PricewaterhouseCoopers** | | 414 | 416 |
| **Total internal audit fees paid to Ernst & Young** | | 539 | 461 |

Fees paid to PricewaterhouseCoopers for other audit services related to limited assurance services provided on aspects of the Group's annual Sustainability Report. For information on the Group's policies regarding audit governance and independence refer to page 83 (Corporate Governance).

## 11. NET INTEREST EXPENSE

| GROUP | NOTE | 2012 | 2011 |
|---|---|---|---|
| | | $000 | $000 |
| Interest on bank overdrafts | | 38 | 32 |
| Interest on bank borrowings | | 1,702 | 2,146 |
| Interest on fixed rate senior bond | | 7,640 | 7,682 |
| Fair value interest rate swaps | | (127) | (128) |
| Interest rate swap cash flow hedges transfer from equity | 22 | 1,460 | 1,987 |
| Interest expense | | 10,713 | 11,719 |
| Interest received on bank deposits | | 155 | 1,734 |
| Use of money interest | | 152 | 16 |
| Discount on employee share plan loans | | 98 | 124 |
| Interest income | | 405 | 1,874 |
| **Net interest expense** | | 10,308 | 9,845 |

The Parent received intercompany interest of $7.640 million (2011: $7.682) fully offsetting interest of the same amount payable in respect of the fixed rate senior bond.

## 12. INSURANCE CLAIMS

**Store fires**

The Group suffered fire damage to the Rotorua Warehouse Stationery store in December 2011 and Hamilton Warehouse Stationery store in February 2012. The fires caused both stores to temporarily cease trading for one month and five months respectively. These stores have since resumed trading, however the Rotorua store is trading from a smaller temporary store until the new replacement store is rebuilt (expected completion December 2012).

**Canterbury earthquakes**

The September 2010 and February 2011 earthquakes caused property damage to the Group's Christchurch stores and Rolleston Distribution Centre and resulted in increased operating costs to enable the resumption of normal trading. With the exception of the stores at Eastgate and South City the impacted stores and the Distribution Centre returned to normal trading within two weeks of the earthquakes. The Warehouse stores in Eastgate and South City were closed for five and eight months respectively. The Warehouse Stationery South City store reopened in July 2012 after being closed for a period of 18 months.

The Group has material damage and business interruption insurance policies to compensate for financial loss caused by the fires and earthquakes. The Group has lodged insurance claims for these events and at balance date had recovered $8.547 million for property damage and clean up costs from the Group's insurers, and has an insurance debtor of $0.339 million (2011: $3.302 million) for unsettled claims. The Group also received business interruption insurance proceeds of $0.630 million (2011: $0.275 million). Plant and equipment is insured for replacement value, which meant a gain of $0.479 million (2011: $Nil) was recognised on asset disposals as the insurance proceeds received exceeded the carrying value of the damaged assets written off.

The process of assessing the Canterbury earthqauke insurance claim has been complex and some aspects of this insurance claim and the two fire insurance claims remain unresolved at balance date and may result in future insurance recoveries.

## 13. INCOME TAX

Numerical reconciliation between the tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate:

| | NOTE | GROUP 2012 | GROUP 2011 | PARENT 2012 | PARENT 2011 |
|---|---|---|---|---|---|
| | | $000 | $000 | $000 | $000 |
| **Profit before tax** | | 114,936 | 109,530 | 62,232 | 90,243 |
| Taxation calculated at 28% (2011: 30%) | | 32,182 | 32,859 | 17,425 | 27,073 |
| **Adjusted for the tax effect of:** | | | | | |
| Non-taxable dividends | | – | – | (17,427) | (27,074) |
| Entertainment | | 301 | 288 | – | – |
| Equity earnings of associate | | (895) | (1,073) | – | – |
| Release of non-taxable liabilities and provisions | | (2,551) | – | – | – |
| Capital gain on property disposal | | (3,370) | – | – | – |
| Other non-deductible expenditure | | 191 | 193 | – | – |
| Depreciation recovered on building disposal | 38 | (846) | (1,540) | – | – |
| Change in corporate tax rate | 38 | – | 903 | – | – |
| Income tax over provided in prior year | | (236) | (245) | – | – |
| **Income tax expense** | | 24,776 | 31,385 | (2) | (1) |
| Effective tax rate | | 21.6% | 28.7% | | |
| **Income tax expense comprises:** | | | | | |
| Current year income tax payable | 23 | 29,936 | 33,125 | (2) | (1) |
| Deferred taxation | 24 | (5,160) | (1,740) | – | – |
| | | 24,776 | 31,385 | (2) | (1) |

The Government announced a number of changes to the tax legislation in May 2010 which included a reduction of the corporate income tax rate from 30% to 28%, and the removal of the ability to depreciate buildings for tax purposes. Both of these changes in tax legislation were effective for the Group from August 2011. The lower tax rate of 28% was used to remeasure deferred tax in the comparative year and to calculate the current year's tax expense.

The removal of the ability to depreciate buildings for tax purposes reduced the tax base of the Group's buildings and caused the Group to recognise a significant non-cash deferred tax liability in 2010. This deferred tax liability is reversed each time a building acquired before May 2010 is sold. Property sales during the year resulted in the reversal of $0.846 million (2011: $1.540 million) of deferred taxation liabilities attached to buildings acquired before May 2010.

## 14. KEY MANAGEMENT PERSONNEL

Compensation made to Directors and other members of key management of the Group is set out in the two tables below:

| GROUP<br>NON-EXECUTIVE DIRECTORS | NOTE | DIRECTORS' FEES<br>2012 | <br>2011 |
|---|---|---|---|
| | | $000 | $000 |
| G F Evans (Chairman) | | **155** | 98 |
| H J M Callaghan (appointed September 2010 – resigned July 2011) | | **–** | 64 |
| R L Challinor (retired November 2011) | | **24** | 77 |
| J H Ogden | | **84** | 76 |
| J L Smith | | **81** | 73 |
| K R Smith (Deputy Chairman) | | **115** | 143 |
| Sir Stephen Tindall | | **77** | 72 |
| E K van Arkel (appointed July 2011) | | **81** | 6 |
| | 7 | **617** | 609 |

The composition of the Board changed in May 2011 when K R Smith stepped down as Chairman and was succeeded by G F Evans.

| GROUP | CHIEF EXECUTIVE OFFICER<br>2012 | <br>2011 | KEY EXECUTIVES<br>2012 | <br>2011 |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| Base salary | **1,016** | 1,748 | **4,468** | 3,425 |
| Annual performance based compensation | **–** | – | **69** | 308 |
| Equity settled share based compensation | **153** | 247 | **527** | 431 |
| Termination benefits | **–** | – | **1,188** | 1,195 |
| | **1,169** | 1,995 | **6,252** | 5,359 |

The remuneration for the Chief Executive Officer detailed in the table above represents the full year remuneration of M D Powell during the current year and the full year remuneration of I R Morrice in the comparative year. M D Powell succeeded I R Morrice as the Group Chief Executive Officer in May 2011. The remuneration of the Chief Executive Officer is not included in the remuneration disclosed for Key Executives.

Equity settled share based compensation represents the annual expense recognised in the income statement for share rights granted to executives based on the fair value of the share rights measured at grant date, which is likely to be different from the market value of the share rights at the date when and if the share rights vest to the executives.

| GROUP<br>REMUNERATION STRUCTURE BASED ON 'ON TARGET' PERFORMANCE | | EXECUTIVE REMUNERATION<br>2012 | <br>2011 |
|---|---|---|---|
| | | % | % |
| Fixed compensation | Base salary | **50** | 50 |
| Performance linked compensation | Annual performance based compensation | **25** | 25 |
| | Share based compensation | **25** | 25 |

Executive compensation includes both fixed and performance linked compensation. The weighting between fixed and performance linked compensation is detailed in the above table. The only exception to the composition of executive remuneration was in the comparative year when I R Morrice was both Chief Executive Officer and a Director and his remuneration package had lower weighting (46%) of fixed remuneration relative to that of other executives.

### 14. KEY MANAGEMENT PERSONNEL (CONTINUED)

Key management held the following share rights at balance date (refer note 15 for plan details).

| GROUP | PERFORMANCE SHARES | | AWARD SHARES | | TOTAL SHARE RIGHTS | |
|---|---|---|---|---|---|---|
| EXPECTED VESTING DATES | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | 000 | 000 | 000 | 000 | 000 | 000 |
| **Chief Executive Officer** | | | | | | |
| October 2011 | – | – | – | 93 | – | 93 |
| November 2011 | – | 126 | – | 48 | – | 174 |
| October 2012 | 35 | – | 68 | – | 103 | – |
| October 2013 | 40 | – | 53 | – | 93 | – |
| October 2014 | 91 | – | 43 | – | 134 | – |
| Outstanding at the end of the year | 166 | 126 | 164 | 141 | 330 | 267 |
| **Key Executives** | | | | | | |
| October 2011 | – | – | – | 168 | – | 168 |
| November 2011 | – | 142 | – | 46 | – | 188 |
| October 2012 | 75 | 198 | 210 | 168 | 285 | 366 |
| October 2013 | 119 | 234 | 187 | 109 | 306 | 343 |
| October 2014 | 324 | – | 151 | – | 475 | – |
| Outstanding at the end of the year | 518 | 574 | 548 | 491 | 1,066 | 1,065 |

During the year, the Group's Chief Executive Officer, M D Powell was granted 219,000 share rights, 39,000 share rights were forfeited and 31,000 share rights vested. In the comparative year, the Group's former Chief Executive Officer, I R Morrice, was granted 294,000 share rights, 512,000 share rights were forfeited and 105,000 share rights vested.

Key executives were granted 777,000 share rights (2011: 424,000 share rights), 509,000 share rights (2011: 512,000 share rights) were forfeited and 273,000 share rights (2011: 105,000 share rights) vested.

Key executives comprise the members of The Warehouse Leadership team and the Chief Operating Officer of Warehouse Stationery. At balance date this represented 12 (2011: 12) executives. During the comparative year, the number of key executives increased from 5 to 12 executives in May 2011.

## 15. EXECUTIVE LONG TERM INCENTIVE PLAN (LTIP)

Share rights are granted to senior executives, who are selected by the Group's Remuneration Committee and elect to participate in the Group's LTIP. The plan is designed to align participants' interests with those of shareholders by providing participants with an incentive for delivering results and growing the value of the Group, as measured by the Group's annual performance and share price performance. At balance date the plan had 45 (2011: 40) participants.

The plan is divided into medium term (Award shares) and long term (Performance shares) share plans.

**(a) Award shares**

Award shares provide participants with a conditional right to be allocated and transferred ordinary shares upon the satisfaction of certain company performance targets and individual performance targets, measured during the initial vesting period. The number of ordinary shares which are allocated is determined by reference to the percentage achievement of these targets, with one third of the allocated shares being transferred to the executive member at the end of the initial vesting period if minimum threshold performance targets have been achieved. The executive member is transferred a further third of the allocated shares at the end of each of the next two vesting dates, providing the executive member has maintained continuous employment with the Group.

**(b) Performance shares**

Performance shares provide participants with a conditional right to be transferred ordinary shares at the end of the vesting period if the Group's share price exceeds a specified target share price or a specified total shareholder return on the vesting date.

**Target share price**

The target share price for the plan is calculated by inflating the Group's share price at grant date using the Group's cost of equity over the period between the grant date and the vesting date and adjusting for dividend payments. The Group's share price at grant date is calculated using the weighted average market price of the Group's share price over the 10 share trading days prior to grant date. The target share prices for the performance shares vesting in October 2012 and October 2013 is $4.56 and $4.13 respectively.

**Total shareholder return**

The target total shareholder return is calculated in a similar manner to the target share price but represents only the increase in Group's share price over the period between the grant date and the vesting date, inflated from the grant date using the Group's cost of equity. The target shareholder return for the performance shares vesting in October 2014 is $0.75. The measurement of the actual total shareholder return will be calculated as the increase in the Group's share price over the vesting period plus the aggregate value of dividends paid during the period, reinvested at the Group's cost of equity.

The estimated cost of equity is independently determined by external advisors and the target share price and target total shareholder return approved by the Remuneration Committee prior to granting the share rights.

**(c) Summary of share rights granted under LTIP arrangements**

| GROUP | | PERFORMANCE SHARES | | AWARD SHARES | | TOTAL SHARE RIGHTS | |
|---|---|---|---|---|---|---|---|
| | NOTE | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | | 000 | 000 | 000 | 000 | 000 | 000 |
| Outstanding at the beginning of the year | | **1,282** | 1,508 | **1,067** | 1,335 | **2,349** | 2,843 |
| Granted during the year | | **806** | 686 | **1,129** | 960 | **1,935** | 1,646 |
| Vested during the year | 30 | **–** | – | **(482)** | (440) | **(482)** | (440) |
| Forfeited during the year | | **(684)** | (912) | **(338)** | (788) | **(1,022)** | (1,700) |
| Outstanding at the end of the year | | **1,404** | 1,282 | **1,376** | 1,067 | **2,780** | 2,349 |
| **Expected vesting dates** | | | | | | | |
| October 2011 | | **–** | – | **–** | 393 | **–** | 393 |
| November 2011 | | **–** | 448 | **–** | 154 | **–** | 602 |
| October 2012 | | **264** | 386 | **531** | 301 | **795** | 687 |
| October 2013 | | **334** | 448 | **469** | 219 | **803** | 667 |
| October 2014 | | **806** | – | **376** | – | **1,182** | – |
| Outstanding at the end of the year | | **1,404** | 1,282 | **1,376** | 1,067 | **2,780** | 2,349 |

Award shares granted during the year represent the maximum potential number of conditional rights which can be allotted to each participant. The final allocation of these share rights is determined after balance date once the achievement of individual and company performance targets have been evaluated and the final allotment approved by the Group's Remuneration Committee. Any adjustment to the number of share rights granted is included as a forfeiture in the table above.

When a participant ceases employment prior to the vesting of their share rights, the share rights are forfeited unless there are extenuating circumstances and the Remuneration Committee approves the early vesting of the share rights. In the event of a change in control the Remuneration Committee has the discretion to bring forward the vesting dates of the share rights.

## 15. EXECUTIVE LONG TERM INCENTIVE PLAN (CONTINUED)

**(d) Fair values**

The fair value of performance shares at grant date has been independently estimated using a variant of the Binomial Options Pricing Model. The fair value of award shares has been calculated as the present value of the rights at grant date discounted using the Group's estimated cost of equity and allowing for expected future dividends.

The following table lists the key inputs used in the various pricing models:

**Performance shares**

| | | | |
|---|---|---|---|
| Date granted | April 2012 | October 2010 | October 2009 |
| Vesting date | October 2014 | October 2013 | October 2012 |
| Risk free interest rate (%) | 3.28 | 4.18 | 5.33 |
| Average expected volatility (%) | 22.50 | 25.00 | 27.50 |
| Average share price at measurement date ($) | 2.74 | 3.81 | 4.09 |
| Estimated fair value at grant date ($) | 0.76 | 1.30 | 1.61 |

**Award shares**

| | | | |
|---|---|---|---|
| Date granted | April 2012 | October 2010 | October 2009 |
| First vesting date (then annually on the next two anniversaries) | October 2012 | October 2011 | October 2010 |
| Weighted average cost of equity capital (%) | 10.10 | 9.60 | 9.80 |
| Average share price at measurement date ($) | 2.74 | 3.81 | 4.09 |
| Average estimated fair values at grant date ($) | 2.44 | 3.34 | 3.62 |

## 16. EARNINGS PER SHARE

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing Group net profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the year.

| GROUP | NOTE | 2012 | 2011 |
|---|---|---|---|
| Profit attributable to shareholders of the Parent ($000s) | | 89,848 | 77,829 |
| Adjusted profit attributable to shareholders of the Parent ($000s) | 38 | 65,151 | 76,027 |
| **Basic** | | | |
| Weighted average number of ordinary shares on issue (000s) | | 311,196 | 311,196 |
| Adjustment for treasury stock (000s) | | (1,496) | (1,591) |
| Weighted average number of ordinary shares outstanding (000s) | | 309,700 | 309,605 |
| Basic earnings per share (cents) | | 29.0 | 25.1 |
| Adjusted basic earnings per share (cents) | 38 | 21.0 | 24.6 |

### (b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has two types of dilutive potential ordinary share (performance share rights and award share rights – refer note 15).

**Share rights**

To calculate the weighted average effect of performance share right dilution it is assumed that the share rights have vested if the average market price of ordinary shares exceeds the target price vesting criteria.

To calculate the weighted average effect of award share right dilution it is again assumed that the share rights have vested but an adjustment is made for the number of rights which are expected to be forfeited based on the percentage achievement of individual and company vesting performance hurdles.

| GROUP | NOTE | 2012 | 2011 |
|---|---|---|---|
| Profit attributable to shareholders of the Parent ($000s) | | 89,848 | 77,829 |
| Adjusted profit attributable to shareholders of the Parent ($000s) | 38 | 65,151 | 76,027 |
| **Diluted** | | | |
| Weighted average number of ordinary shares outstanding (000s) | | 309,700 | 309,605 |
| Shares deemed to be issued for no consideration in respect of share rights (000s) | | 774 | 1,394 |
| Weighted average number of ordinary shares for diluted earnings per share (000s) | | 310,474 | 310,999 |
| Diluted earnings per share (cents) | | 28.9 | 25.0 |
| Adjusted diluted earnings per share (cents) | 38 | 21.0 | 24.4 |

## 17. NET ASSETS PER SHARE

Net asset backing per share is calculated by dividing Group net assets by the number of ordinary shares outstanding at balance date.

| GROUP | NOTE | 2012 | 2011 |
|---|---|---|---|
| Net assets ($000s) | | 317,367 | 271,540 |
| **Basic** | | | |
| Number of ordinary shares on issue (000s) | 30 | 311,196 | 311,196 |
| Adjustment for treasury stock (000s) | 30 | (1,400) | (1,719) |
| Number of ordinary shares outstanding (000s) | | 309,796 | 309,477 |
| Net assets per share (cents) | | 102.4 | 87.7 |

## 18. CASH AND CASH EQUIVALENTS

| | GROUP 2012 | GROUP 2011 | PARENT 2012 | PARENT 2011 |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| Cash on hand and at bank | 16,286 | 16,916 | 2,520 | 2,526 |
| Deposits at call – interest rate: 2.50% (2011: 2.50%) | – | 6,100 | – | – |
| | 16,286 | 23,016 | 2,520 | 2,526 |

Cash on hand and at bank includes EFTPOS (electronic funds transfer point of sale) transactions which have not been cleared by the bank. The Group's balance date is always a Sunday which means the three previous days' store sales, which have been paid by EFTPOS, remain uncleared at balance date.

## 19. INVENTORIES

| GROUP | 2012 | 2011 |
|---|---|---|
| | $000 | $000 |
| Finished goods | 286,691 | 243,395 |
| Inventory adjustments | (11,097) | (9,725) |
| Retail stock | 275,594 | 233,670 |
| Goods in transit from overseas | 33,827 | 28,993 |
| | 309,421 | 262,663 |

Inventory adjustments for stock obsolescence are provided at balance date and the movement in the adjustments recognised within cost of sales in the income statement.

**Goods in transit from overseas**

Goods in transit from overseas are recognised when title to the goods is passed to the Group. Title to the goods is passed when valid documents (which usually include a "bill of lading") are received, and terms, as set out in a supplier's letter of credit or in the supplier's terms of trade, are met.

The Parent has no inventories.

## 20. TRADE AND OTHER PAYABLES

| GROUP | 2012 | 2011 |
|---|---|---|
| | $000 | $000 |
| Trade creditors | 87,486 | 96,609 |
| Goods in transit creditors | 13,441 | 12,130 |
| Capital expenditure creditors | 6,230 | 1,444 |
| Unearned income (includes lay-bys, gift vouchers, BizReward points and Christmas club deposits) | 9,125 | 8,457 |
| Interest accruals | 1,317 | 1,349 |
| Payroll accruals | 9,258 | 8,924 |
| | 126,857 | 128,913 |

Trade payables are normally unsecured and non-interest bearing and are usually settled within 60 days of recognition. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value. With the exception of an accrual for $0.909 million (2011: $0.949 million) relating to interest payable on the fixed rate senior bond, the Parent has no other payables.

## 21. TRADE AND OTHER RECEIVABLES

| GROUP | 2012 | 2011 |
|---|---|---|
| | $000 | $000 |
| Trade receivables | 17,781 | 14,336 |
| Allowance for impairment | (709) | (681) |
| | 17,072 | 13,655 |
| Other debtors and prepayments | 9,996 | 10,160 |
| Employee share purchase plan loans | 1,387 | 1,976 |
| | 28,455 | 25,791 |
| Less: Non-current employee share purchase plan loans | (888) | (1,413) |
| Current trade and other receivables | 27,567 | 24,378 |

Other debtors includes an insurance receivable of $0.339 million (2011: $3.302 million) for insured losses sustained as a result of two store fires and the Canterbury earthquakes (refer note 12).

**(a) Trade receivables**

Trade receivables arise from sales made to customers on credit or through the collection of rebates from suppliers not otherwise deducted from suppliers' payable accounts. Trade receivables are non-interest bearing and are generally on 30 to 60 day terms. Due to the short term nature of trade and other receivables, their carrying value is assumed to approximate their fair value. Collateral is not held as security, nor is it the Group's practice to transfer (on-sell) receivables to special purpose entities.

An ageing analysis of trade receivables at balance date is set out below:

| GROUP | TOTAL | 0 TO 30 DAYS | 31 TO 60 DAYS | 61 TO 90 DAYS | > 90 DAYS |
|---|---|---|---|---|---|
| **At 29 July 2012** | $000 | $000 | $000 | $000 | $000 |
| Trade receivables | 17,781 | 13,745 | 2,586 | 793 | 657 |
| Allowance for impairment | (709) | (15) | (8) | (147) | (539) |
| | 17,072 | 13,730 | 2,578 | 646 | 118 |
| **At 31 July 2011** | | | | | |
| Trade receivables | 14,336 | 10,457 | 2,278 | 643 | 958 |
| Allowance for impairment | (681) | (11) | (7) | (95) | (568) |
| | 13,655 | 10,446 | 2,271 | 548 | 390 |

Trade receivables greater than 60 days are considered to be past their due date. Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectable are written off when they are identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable.

Financial difficulties of the debtor or debts more than 60 days overdue are considered objective evidence of possible impairment. The amount of the provision represents the difference between the asset's carrying amount and the estimated recoverable amount.

Movements in the provision for impairment loss were as follows:

| GROUP | 2012 | 2011 |
|---|---|---|
| | $000 | $000 |
| Opening balance | 681 | 742 |
| Charge to the income statement | 156 | 260 |
| Trade receivables written off | (128) | (321) |
| Closing balance | 709 | 681 |

## 21. TRADE AND OTHER RECEIVABLES (CONTINUED)

### (b) Employee share purchase plan

| GROUP | NOTE | ORDINARY SHARES 2012 000 | 2011 000 |
|---|---|---|---|
| Opening balance | | **929** | 1,003 |
| Shares redeemed | | **(7)** | (12) |
| Shares forfeited | 30 | **(63)** | (62) |
| Closing balance | | **859** | 929 |

The Group reinstated its employee share purchase plan in May 2010. Shares were offered at that time to all team members of The Warehouse Limited and Warehouse Stationery Limited who had been employed for more than three months prior to the offer and worked more than 15 hours per week. The offer ($3.06) was priced at a 20% discount to the market share price with a maximum consideration set at $2,340 per team member. The share purchase plan has been approved by the Inland Revenue in accordance with section DC12 of the Income Tax Act 2007.

Team members accepting the share offer are provided financial assistance on an interest free basis, payable over five years in regular instalments. The qualifying period between grant date and vesting date is a minimum of three years to a maximum of five years. The vesting period for the current plan commences from May 2013 through to May 2015.

Shares are allocated to team members from treasury stock, on condition that should the participant leave the group before the vesting date, their shares will be repurchased by the Trustee at the lesser of the market price and the price at which the shares were originally allocated to the employee, subject to repayment of the original loan.

The Warehouse Management Trustee Company acts as trustee for the share purchase plan. Any repurchased shares are held by the Trustee for any future allocations under the employee share purchase plan. Dividends paid on the allocated shares during the qualifying period are paid to team members. Voting rights on the shares are exercisable by the trustee. Trustees for the plan are appointed by the Group (the current trustees are detailed in note 39).

At balance date the Trustees of the share purchase plan and LTIP (refer note 15) held the following shares:

| GROUP | NOTE | ORDINARY SHARES 2012 000 | 2011 000 |
|---|---|---|---|
| Allocated to employee share purchase plan | | **859** | 929 |
| Unallocated treasury stock | 30 | **1,400** | 1,719 |
| Total ordinary shares held by the Group's Trustees | | **2,259** | 2,648 |
| Percentage of share capital | | **0.73%** | 0.85% |

The Parent has no trade or other receivables.

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

| GROUP ASSET/(LIABILITY) | CURRENCY CONTRACTS | INTEREST RATE SWAPS | TOTAL DERIVATIVES |
|---|---|---|---|
| **At 29 July 2012** | $000 | $000 | $000 |
| Non-current assets | – | 2,489 | 2,489 |
| Current liabilities | (5,358) | (800) | (6,158) |
| Non-current liabilities | – | (4,796) | (4,796) |
| | (5,358) | (3,107) | (8,465) |
| **At 31 July 2011** | | | |
| Non-current assets | – | 1,138 | 1,138 |
| Current liabilities | (25,024) | (879) | (25,903) |
| Non-current liabilities | (5,843) | (2,725) | (8,568) |
| | (30,867) | (2,466) | (33,333) |

Derivative financial instruments are used by the Group to hedge financial risks (refer note 4). The fair value of a derivative financial instrument is classified as a non-current asset or liability if the maturity of the derivative is more than 12 months and, as a current asset or liability, if the maturity is less than 12 months.

**(a) Forward currency contracts – cash flow hedges**

The Group purchases inventory directly from overseas suppliers, primarily priced in US dollars. In order to protect against exchange rate movements and to manage the inventory costing process, the Group has entered into forward currency contracts to purchase foreign currencies. These contracts are hedging highly probable forecasted purchases timed to mature when the payments are scheduled to be made. The cash flows are expected to occur during the next 12 months and the gain/loss within cost of sales will be effected over the following year as the inventory is sold.

At balance date the details of the outstanding contracts are:

| GROUP | NOTIONAL AMOUNT | | AVERAGE EXCHANGE RATE | |
|---|---|---|---|---|
| FORWARD CURRENCY CONTRACTS – CASH FLOW HEDGES | 2012 | 2011 | 2012 | 2011 |
| **Buy US dollars/Sell New Zealand dollars** | NZ$000 | NZ$000 | $ | $ |
| Maturity 0 to 6 months | 133,100 | 117,451 | 0.7806 | 0.7387 |
| Maturity 7 to 12 months | 48,978 | 68,681 | 0.7759 | 0.7717 |
| Maturity 13 to 18 months | – | 66,250 | – | 0.7698 |

The forward currency contracts are considered to be highly effective as they are matched against forecast inventory purchases with any gain/loss on the contracts attributable to the hedged risk taken directly to equity. When inventory is purchased the amount recognised in equity is adjusted to the inventory account in the balance sheet.

**(b) Interest rate swaps**

| GROUP | 2012 | 2011 |
|---|---|---|
| | $000 | $000 |
| Cash flow hedges | (4,796) | (2,820) |
| Fair value hedges | 1,689 | 354 |
| | (3,107) | (2,466) |

(i) Interest rate swaps – cash flow hedges

The Group's core bank borrowings bear an interest rate priced 1.00% (2011: 0.70%) above the bank bill mid rate (BKBM). In order to protect against rising interest rates the Group has entered interest rate swap contracts for which it has a right to receive interest at variable rates and to pay interest at fixed rates.

At balance date the notional principal amounts and expiry of the interest rate swap contracts are as follows:

| GROUP | NOTIONAL AMOUNT | | AVERAGE FIXED RATE | |
|---|---|---|---|---|
| INTEREST RATE SWAPS – CASH FLOW HEDGES | 2012 | 2011 | 2012 | 2011 |
| **Maturity** | $000 | $000 | % | % |
| 0 to 1 years | – | 20,000 | – | 4.92 |
| 4 to 5 years | 30,000 | – | 5.09 | – |
| 5 to 6 years | 20,000 | 10,000 | 6.04 | 6.40 |
| 6 to 7 years | – | 20,000 | – | 6.12 |
| | 50,000 | 50,000 | 5.46 | 6.07 |

## 22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

In the previous table, where the Group has entered into a second interest rate swap commencing from the end of an earlier maturing contract, the notional principal has been disclosed as if they were a single contract and the interest rate represents an average of the two contracts.

These interest rate swaps are settled on a net basis every 90 days matched to the same dates which interest is payable on bank borrowings. The interest rate swaps and bank borrowings reprice based on BKBM. All swaps are matched directly against an appropriate proportion of bank borrowings and interest expense and, as such, are considered highly effective. The interest rate swaps are measured at fair value and all gains and losses attributable to the hedged risk are taken directly to equity and reclassified to the income statement when the interest expense is recognised.

(ii) Interest rate swaps – fair value hedges
At balance date the Group held interest rate swaps where it receives a fixed rate of interest and pays a variable rate on a notional amount of $40.000 million (2011: $40.000 million). These interest rate swaps are designated as fair value hedges and transform a series of known future fixed interest cash flows on the fixed rate senior bond to variable interest cash flows, with effect from June 2013, so as to mitigate exposure to fair value changes in the fixed rate senior bond resulting from movements in interest rates. These interest rate swaps also spread the exposure to fixed rate repricing risk at the maturity of the Group's fixed rate senior bond.

Gains or losses on the derivatives and the change in fair value of the hedged risk on the fixed rate senior bond recognised in the income statement during the period were:

| GROUP | 2012 | 2011 |
|---|---|---|
| | $000 | $000 |
| Gains/(losses) on fixed rate senior bond | (1,336) | (175) |
| Gains/(losses) on interest rate swaps | 1,336 | 175 |

**(c) Cash flow hedge reserve**
Movements in the cash flow hedge reserve are set out below:

| GROUP | NOTE | CURRENCY CONTRACTS | INTEREST RATE SWAPS | DEFERRED TAXATION | HEDGE RESERVE |
|---|---|---|---|---|---|
| **For the 52 week period ended 29 July 2012** | | $000 | $000 | $000 | $000 |
| Opening balance | | (30,867) | (2,609) | 9,372 | (24,104) |
| Transferred to inventory | | 13,161 | – | (3,685) | 9,476 |
| Transferred to interest expense | 11 | – | 1,460 | (409) | 1,051 |
| Transferred to equity | | 12,348 | (3,513) | (2,473) | 6,362 |
| Closing balance | | (5,358) | (4,662) | 2,805 | (7,215) |
| | | | | (note: 24) | (note: 31) |
| **For the 52 week period ended 31 July 2011** | | | | | |
| Opening balance | | (2,757) | (2,933) | 1,683 | (4,007) |
| Transferred to inventory | | 16,346 | – | (4,904) | 11,442 |
| Transferred to interest expense | 11 | – | 1,987 | (596) | 1,391 |
| Transferred to equity | | (44,456) | (1,663) | 13,189 | (32,930) |
| Closing balance | | (30,867) | (2,609) | 9,372 | (24,104) |
| | | | | (note: 24) | (note: 31) |

The difference between the fair value of interest rate swaps at balance date and the gross amount recognised in the cash flow hedge reserve represents the amount of unsettled interest payable/receivable (which has been transferred to the interest expense).

The Parent does not have any derivative financial instruments.

## 23. CURRENT TAXATION

The movement in income tax receivable is set out below:

| ASSET/(LIABILITY) | NOTE | GROUP 2012 | GROUP 2011 | PARENT 2012 | PARENT 2011 |
|---|---|---|---|---|---|
| | | $000 | $000 | $000 | $000 |
| Opening balance | | (7,202) | (11,350) | 1,034 | 1,079 |
| Current year income tax payable | 13 | (29,936) | (33,125) | 2 | 1 |
| Net taxation paid | | 31,291 | 36,235 | – | – |
| Supplementary dividend tax credit | | 601 | 1,033 | 601 | 1,033 |
| Use of money interest and other adjustments | | (2) | 5 | (1,034) | (1,079) |
| Closing balance | | (5,248) | (7,202) | 603 | 1,034 |

## 24. DEFERRED TAXATION

Movement in deferred income tax relates to the following temporary differences:

| GROUP ASSET/(LIABILITY) | NOTE | OPENING BALANCE | CHARGED TO PROFIT | CHARGED TO EQUITY | CLOSING BALANCE |
|---|---|---|---|---|---|
| **For the 52 week period ended 29 July 2012** | | $000 | $000 | $000 | $000 |
| **Gross deferred tax assets** | | | | | |
| Inventory | | 5,946 | 1,341 | – | 7,287 |
| Deferred income | | 341 | 262 | | 603 |
| Doubtful debts | | 191 | 8 | – | 199 |
| Employee benefit provisions | | 8,788 | 208 | – | 8,996 |
| Other provisions | | 1,540 | 714 | – | 2,254 |
| Plant and equipment depreciation and software amortisation | | 3,300 | 1,225 | – | 4,525 |
| Derivatives – cash flow hedges | 22 | 9,372 | – | (6,567) | 2,805 |
| Other | | 101 | (87) | – | 14 |
| | | 29,579 | 3,671 | (6,567) | 26,683 |
| **Gross deferred tax liabilities** | | | | | |
| Building depreciation | | (25,668) | 1,537 | – | (24,131) |
| Other | | (79) | (48) | – | (127) |
| | | (25,747) | 1,489 | – | (24,258) |
| **Net deferred tax assets/(liabilities)** | | 3,832 | 5,160 | (6,567) | 2,425 |
| | | | (note: 13) | | |
| **For the 52 week period ended 31 July 2011** | | | | | |
| **Gross deferred tax assets** | | | | | |
| Inventory | | 5,800 | 146 | – | 5,946 |
| Deferred income | | 139 | 202 | | 341 |
| Doubtful debts | | 223 | (32) | – | 191 |
| Employee benefit provisions | | 8,834 | (46) | – | 8,788 |
| Other provisions | | 1,526 | 14 | – | 1,540 |
| Plant and equipment depreciation and software amortisation | | 3,849 | (549) | – | 3,300 |
| Derivatives – cash flow hedges | 22 | 1,683 | – | 7,689 | 9,372 |
| Derivatives – economic hedges | | 58 | (58) | – | – |
| Other | | 103 | (2) | – | 101 |
| | | 22,215 | (325) | 7,689 | 29,579 |
| **Gross deferred tax liabilities** | | | | | |
| Building depreciation | | (27,721) | 2,053 | – | (25,668) |
| Other | | (91) | 12 | – | (79) |
| | | (27,812) | 2,065 | – | (25,747) |
| **Net deferred tax assets/(liabilities)** | | (5,597) | 1,740 | 7,689 | 3,832 |
| | | | (note: 13) | | |

The Parent has no deferred income tax assets/liabilities.

## 25. PROPERTY, PLANT AND EQUIPMENT

| GROUP | 2012 | 2011 |
|---|---|---|
| | $000 | $000 |
| Available for sale land and buildings | – | 5,744 |
| Property, plant and equipment | 355,227 | 291,922 |
| Net carrying amount | 355,227 | 297,666 |

**(a) Available for sale land and buildings**

At balance date in 2011 the Group was negotiating the sale of the Group's Distribution Centre at Puhinui Road, Auckland (carrying value $5.744 million) following an unsolicited purchase offer. The sale of the Puhinui Road Distribution Centre was completed and settled in July 2012 for a net consideration of $18.249 million realising a pre-tax gain on sale of $12.545 million.

**(b) Movement in property, plant and equipment**

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the year are set out below:

| GROUP | NOTE | FREEHOLD LAND | FREEHOLD BUILDINGS | STORE FITTINGS AND EQUIPMENT | COMPUTER HARDWARE | VEHICLES | WORK IN PROGRESS | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **For the 52 week period ended 29 July 2012** | | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| Opening carrying amount | | 87,034 | 110,358 | 76,848 | 13,247 | 987 | 9,192 | 297,666 |
| Additions | 5 | – | 155 | 45,301 | 4,437 | 1,056 | 53,463 | 104,412 |
| Disposals | | (3,118) | (7,845) | (1,178) | (134) | (283) | – | (12,558) |
| Depreciation | 5,9 | – | (2,284) | (25,903) | (5,725) | (381) | – | (34,293) |
| Closing carrying amount | | 83,916 | 100,384 | 95,068 | 11,825 | 1,379 | 62,655 | 355,227 |
| **At 29 July 2012** | | | | | | | | |
| Cost | | 83,916 | 125,959 | 354,166 | 86,358 | 2,653 | 62,655 | 715,707 |
| Accumulated depreciation | | – | (25,575) | (259,098) | (74,533) | (1,274) | – | (360,480) |
| Net carrying amount | | 83,916 | 100,384 | 95,068 | 11,825 | 1,379 | 62,655 | 355,227 |
| **For the 52 week period ended 31 July 2011** | | | | | | | | |
| Opening carrying amount | | 76,331 | 103,687 | 69,230 | 15,736 | 1,118 | 6,244 | 272,346 |
| Additions | 5 | 12,045 | 11,797 | 30,754 | 4,129 | 291 | 2,948 | 61,964 |
| Disposals | | (1,342) | (2,508) | (773) | (133) | (56) | – | (4,812) |
| Depreciation | 5,9 | – | (2,618) | (22,250) | (6,485) | (366) | – | (31,719) |
| Earthquake impairment | | – | – | (113) | – | – | – | (113) |
| Closing carrying amount | | 87,034 | 110,358 | 76,848 | 13,247 | 987 | 9,192 | 297,666 |
| **At 31 July 2011** | | | | | | | | |
| Cost | | 87,034 | 134,930 | 312,990 | 82,292 | 2,511 | 9,192 | 628,949 |
| Accumulated depreciation | | – | (24,572) | (236,142) | (69,045) | (1,524) | – | (331,283) |
| Net carrying amount | | 87,034 | 110,358 | 76,848 | 13,247 | 987 | 9,192 | 297,666 |
| **At 1 August 2010** | | | | | | | | |
| Cost | | 76,331 | 125,939 | 288,625 | 82,680 | 2,474 | 6,244 | 582,293 |
| Accumulated depreciation | | – | (22,252) | (219,395) | (66,944) | (1,356) | – | (309,947) |
| Net carrying amount | | 76,331 | 103,687 | 69,230 | 15,736 | 1,118 | 6,244 | 272,346 |

## 25. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

**(c) Property valuations**

The Directors, having taken into consideration purchase offers, independent and government valuations and other known factors, have assessed the fair value of freehold land and buildings to be $284.812 million (2011: $296.465 million). The Directors' valuation was approved by the Board on 6 September 2012. Independent property valuations are sought at least every three years, unless other factors indicate there may have been a significant change in fair value which would necessitate a revaluation being undertaken earlier.

| GROUP | CARRYING AMOUNT | | DIRECTORS' VALUATION | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Freehold land and buildings** | $000 | $000 | $000 | $000 |
| Support offices | 10,322 | 10,718 | 23,000 | 23,000 |
| Distribution centres | 34,370 | 40,809 | 89,080 | 97,000 |
| Stores | 103,357 | 109,276 | 125,654 | 129,387 |
| Development assets | 36,251 | 36,589 | 47,078 | 47,078 |
| Total freehold land and buildings | 184,300 | 197,392 | 284,812 | 296,465 |

Stores comprise 10 (2011: 11) store sites located throughout New Zealand. Development assets include four (2011: four) Auckland properties and properties at Silverdale and Timaru.

**(d) Property disposals**

During the year, the Group sold a Distribution Centre at Puhinui Road, Auckland, and a Warehouse store located in Invercargill; together these two properties realised a pre-tax profit of $18.230 million. In the comparative year, the Group sold a Warehouse Stationery store (and adjacent tenancy) located in Invercargill and two small parcels of surplus land, realising a combined pre-tax profit of $1.470 million.

**(e) Work in progress**

Work in progress at balance date includes accumulated directly attributable costs incurred of $46.976 million (2011: $4.061 million) to construct a retail development in Silverdale and $12.833 million to construct a new store at Royal Oak, Auckland. Both projects are planned to be completed in October 2012.

**(f) Impairment review**

The Group annually reviews the carrying amounts of property, plant and equipment for impairment. For the purposes of this review assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units), which in most instances is a store. In assessing whether an asset is impaired, reference is made to individual store profitability and any other known events or circumstances which may indicate that the carrying amount of the asset may not be recoverable. The Group's impairment review did not identify any asset impairment (2011: nil) except for those assets damaged in the Canterbury earthquakes (refer note 12) which were impaired in the comparative year and formed part of asset disposals in the current year when the assets were replaced. The reviews identified some assets where the expected future useful life was shorter than originally assessed, which caused the depreciation of these assets to be accelerated.

**(g) Subsequent events**

The Group reviewed its property holdings in June 2012 to determine whether it should continue to own or lease a number of its properties. Following this review the Group decided to market four properties on a sale and leaseback basis with the intention of selling these properties should the Group be able to find a suitable landlord and subject to acceptable price and lease terms. At balance date these had yet to be determined. The sales process was substantially completed during the month following balance date and the Board agreed that all four properties would be sold. The sale of these properties is expected to generate sales proceeds of approximately $117.000 million and to generate a pre-tax gain of between $62.000 million to $64.000 million.

At balance date the threshold required under NZ IFRS to classify the four property holdings which were subsequently sold to "available for sale" assets had not been met. The tax treatment of the property sales is currently uncertain and is being worked through with the Group's tax advisors and the Inland Revenue. A deferred tax liability of $9.992 million attributed to these properties will be reversed in the 2013 financial year when the sales transactions are completed.

The Parent has no property, plant and equipment.

## 26. COMPUTER SOFTWARE

Reconciliation of the carrying amounts of computer software at the beginning and end of the year are set about below:

| GROUP | NOTE | COMPUTER SOFTWARE | WORK IN PROGRESS | TOTAL |
|---|---|---|---|---|
| **For the 52 week period ended 29 July 2012** | | $000 | $000 | $000 |
| Opening carrying amount | | 18,432 | – | 18,432 |
| Additions | 5 | 3,196 | 156 | 3,352 |
| Disposals | | (1,068) | – | (1,068) |
| Amortisation | 5, 9 | (7,337) | – | (7,337) |
| Closing carrying amount | | 13,223 | 156 | 13,379 |
| **At 29 July 2012** | | | | |
| Cost | | 74,038 | 156 | 74,194 |
| Accumulated amortisation | | (60,815) | – | (60,815) |
| Net carrying amount | | 13,223 | 156 | 13,379 |
| **For the 52 week period ended 31 July 2011** | | | | |
| Opening carrying amount | | 20,733 | 307 | 21,040 |
| Additions | 5 | 5,932 | (307) | 5,625 |
| Disposals | | (180) | – | (180) |
| Amortisation | 5, 9 | (8,053) | – | (8,053) |
| Closing carrying amount | | 18,432 | – | 18,432 |
| **At 31 July 2011** | | | | |
| Cost | | 72,882 | – | 72,882 |
| Accumulated amortisation | | (54,450) | – | (54,450) |
| Net carrying amount | | 18,432 | – | 18,432 |
| **At 1 August 2010** | | | | |
| Cost | | 67,411 | 307 | 67,718 |
| Accumulated amortisation | | (46,678) | – | (46,678) |
| Net carrying amount | | 20,733 | 307 | 21,040 |

The Group's annual impairment review of computer software did not identify any assets which require impairment (2011: nil). Where the review identified the useful life of an asset was shorter than originally assessed, the amortisation of these assets has been accelerated.

The Parent has no computer software.

## 27. INVESTMENTS

Movements in the carrying amount of the Group's investment in associates are as follows:

| GROUP | 2012 | 2011 |
|---|---|---|
| | $000 | $000 |
| Opening balance | 7,585 | 5,921 |
| Share of associate's profit before taxation | 4,471 | 5,124 |
| Less taxation | (1,274) | (1,549) |
| Equity earnings of associate | 3,197 | 3,575 |
| Distributions received | (4,410) | (1,911) |
| Closing balance | 6,372 | 7,585 |

**(a) Investment details**

The Group has a 49% interest, and Westpac Banking Corporation a 51% interest in The Warehouse Financial Services Limited. The Warehouse Financial Services Limited offers consumer credit and risk related products that include credit cards and insurance cover. The products and services are sold through The Warehouse stores as well as by direct mail and over the telephone.

The balance date of The Warehouse Financial Services Limited is 30 September. The share of associate earnings is based on both audited financial statements for the year ended 30 September 2011 and unaudited Management accounts for the 10 month period ended 31 July 2012.

**(b) Summarised financial information**

Details of the summarised financial information relating to the Group's associate is set out below:

| | 2012 | 2011 |
|---|---|---|
| **Extract from the associate's balance sheet** | $000 | $000 |
| Loans | 69,042 | 70,631 |
| Other assets | 17,544 | 20,396 |
| | 86,586 | 91,027 |
| Liabilities | (73,582) | (75,548) |
| Net assets | 13,004 | 15,479 |
| Share of associate's net assets | 6,372 | 7,585 |
| **Extract from associate's income statement** | | |
| Operating income | 15,880 | 15,591 |
| Net profit after tax | 6,527 | 7,295 |

The Parent has an investment in subsidiaries at cost of $42.000 million (2011: $42.000 million). The value of the Parent's investment represents a 100% (2011: 100%) shareholding in The Warehouse Limited.

A list of Group companies is detailed in note 39.

## 28. PROVISIONS

| GROUP | NOTE | CURRENT 2012 | CURRENT 2011 | NON–CURRENT 2012 | NON–CURRENT 2011 | TOTAL 2012 | TOTAL 2011 |
|---|---|---|---|---|---|---|---|
| | | $000 | $000 | $000 | $000 | $000 | $000 |
| Annual performance incentive payment | | 4,366 | 3,871 | – | – | 4,366 | 3,871 |
| Annual leave | | 19,025 | 17,987 | – | – | 19,025 | 17,987 |
| Long service leave | | – | – | 6,890 | 6,402 | 6,890 | 6,402 |
| Other employee benefits | | 4,899 | 5,844 | 1,418 | 1,205 | 6,317 | 7,049 |
| **Employee benefits** | | 28,290 | 27,702 | 8,308 | 7,607 | 36,598 | 35,309 |
| Make good provision | | 670 | 775 | 2,320 | 2,117 | 2,990 | 2,892 |
| Sales returns provision | | 2,554 | 2,607 | – | – | 2,554 | 2,607 |
| Onerous lease | | 988 | 334 | 1,519 | 371 | 2,507 | 705 |
| Warranty provision | | – | 7,355 | – | – | – | 7,355 |
| | | 32,502 | 38,773 | 12,147 | 10,095 | 44,649 | 48,868 |

**(a) Movements in provisions**

Movements in each class of provision during the year, other than provisions relating to employee benefits, are set out below:

| GROUP | MAKE GOOD 2012 | MAKE GOOD 2011 | SALES RETURN 2012 | SALES RETURN 2011 | ONEROUS LEASE 2012 | ONEROUS LEASE 2011 |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| Opening balance | 2,892 | 2,730 | 2,607 | 2,488 | 705 | – |
| Arising during the year | 946 | 897 | 2,554 | 2,607 | 2,163 | 705 |
| Net settlements | (848) | (735) | (2,607) | (2,488) | (361) | – |
| Closing balance | 2,990 | 2,892 | 2,554 | 2,607 | 2,507 | 705 |

**Nature and timing of provisions**

**(b) Employee benefit provisions**

Refer to note 1(o) for the relevant accounting policy and discussion of the significant estimations and assumptions applied in the measurement of these provisions.

(i) Annual performance incentive payment

The annual performance incentive payment is payable within two months of balance date when individual and company performance against specified targets have been evaluated and the financial statements have been finalised and audited.

(ii) Annual leave

This provision represents employee entitlements to untaken annual and long service leave vested at balance date.

(iii) Long service leave

Employees are entitled to four weeks' additional paid leave after 10 years of continuous employment with the Group. This provision represents the present value of expected future payments to be made in respect of services provided by employees at balance date.

(iv) Other employee benefits

Employees are entitled to a minimum of five days' annual sick leave with any unused days up to a maximum of 15 days carried over to the next year and added to the annual entitlement. A provision for sick leave has been recognised for employees with entitlements in excess of one year, where it is likely that the entitlement will be taken. This provision also includes an estimate of the Group's outstanding ACC (Accident Compensation Corporation) liabilities.

**(c) Make good provision**

The Group has an obligation to restore certain leasehold sites to their original condition when the lease expires. This provision represents the present value of the expected future make good commitment. Amounts charged to the provision represent both the cost of make good costs incurred and costs incurred which mitigate the final liability prior to the lease expiry.

**(d) Sales return**

The Group offers a 12 month money back guarantee on most customer sales. This provision represents the estimated sales return obligation at balance date based on historical sale return rates.

## 28. PROVISIONS (CONTINUED)

**(e) Onerous lease**

A provision for an onerous lease is recognised when the Group retains a lease obligation after vacating a property before the expiry of the lease term. During the year, the Group integrated the support office functions of The Warehouse and Warehouse Stationery and located both support functions within the one office building. This resulted in the former Warehouse Stationery support office building being vacant from July 2012. The lease for this property expires in July 2019, however the Group anticipates that it will be able to mitigate the full rental cost by subleasing the property.

The Group recognised a 13 month lease liability during the comparative year for a former store site which was vacated in January 2012 when the store was relocated. The Group expects to continue to pay rent on this property until the store lease expires in February 2013.

**(f) Warranty**

In November 2005 the Group sold the business assets of The Warehouse Australia to Australian Discount Retail. At the time of the sale, the Group provided for the settlement of potential claims where it was deemed probable that a liability could arise from warranties and indemnities made to the purchaser as part of the sale agreement. The last of the warranties relating to the sale of the business expired in December 2011. The Group was not notified of any unsettled claims and released all the remaining warranty provisions ($7.355 million) when the warranty period expired. During the comparative period, the Group settled a small claim of $0.059 million.

The Parent has no provisions.

## 29. BORROWINGS

| | NOTE | GROUP 2012 $000 | GROUP 2011 $000 | PARENT 2012 $000 | PARENT 2011 $000 |
|---|---|---|---|---|---|
| Bank borrowings at call – interest rate: 3.45% | | 78,203 | – | – | – |
| Current borrowings | | 78,203 | – | – | – |
| Bank borrowings – interest rate: 3.65% (2011: 3.37%) | | 50,000 | 50,000 | – | – |
| Fixed rate senior bond (coupon: 7.37%) | | 100,000 | 100,000 | 100,000 | 100,000 |
| Fair value adjustment relating to senior bond effective interest | | 1,673 | 337 | – | – |
| Unamortised capitalised costs on senior bond | | (897) | (1,208) | (897) | (1,208) |
| Non-current borrowings | | 150,776 | 149,129 | 99,103 | 98,792 |
| | 4 | 228,979 | 149,129 | 99,103 | 98,792 |

Cash balances have been netted off against bank overdrafts where the Group has a ‘set off’ arrangement with a bank counter-party. The average bank overdraft interest rate incurred for the year was 8.79% (2011: 8.93%).

**(a) Fair values**

The fair value of the fixed rate senior bond at balance date was $105.319 million (2011: $103.926 million) based on the last price traded on the New Zealand stock exchange and a market yield of 5.70% (2011: 6.50%).

The carrying amount of the Group’s bank borrowings approximate their fair values.

**(b) Borrowing covenants**

Bank borrowings and the fixed rate senior bond are subject to a negative pledge. Details regarding the negative pledge and restrictive covenants is disclosed in note 3.

**(c) Interest rate and liquidity risk**

Details regarding interest rate and liquidity risk are disclosed in note 4.

**(d) Fixed rate senior bond**

The Group issued a $100.000 million fixed rate senior bond in April 2010 bearing a fixed interest rate of 7.37% per annum. Interest is payable every six months on 15 June and 15 December and the bond has a final maturity in June 2015. The Group incurred costs of $1.600 million in connection with the issuance of the bond which were capitalised. These costs are being amortised equally over the term of the bond. An amortisation expense of $0.311 million (2011: $0.312 million) has been recognised as part of the interest expense during the year.

## 30. CONTRIBUTED EQUITY

| | GROUP 2012 | GROUP 2011 | PARENT 2012 | PARENT 2011 |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| Share capital | 251,445 | 251,445 | 251,445 | 251,445 |
| Treasury stock | (5,739) | (7,385) | – | – |
| | 245,706 | 244,060 | 251,445 | 251,445 |

### (a) Share capital

| GROUP AND PARENT | SHARE CAPITAL | | ORDINARY SHARES | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $000 | $000 | 000 | 000 |
| Opening balance | 251,445 | 251,445 | 311,196 | 311,196 |
| Closing balance | 251,445 | 251,445 | 311,196 | 311,196 |

Fully paid ordinary shares carry one vote per share and participate equally in dividends, other distributions from equity and any surplus on a winding up of the Group. No shares were issued during the current financial year (2011: Nil).

### (b) Treasury stock

| GROUP | | TREASURY STOCK | | ORDINARY SHARES | |
|---|---|---|---|---|---|
| | NOTE | 2012 | 2011 | 2012 | 2011 |
| | | $000 | $000 | 000 | 000 |
| Opening balance | | 7,385 | 8,262 | 1,719 | 1,797 |
| Ordinary shares issued to settle share plan obligations | 31, 15 | (2,096) | (2,110) | (482) | (440) |
| Ordinary shares purchased on market | | 261 | 1,042 | 100 | 300 |
| Ordinary shares forfeited under the employee share purchase plan | 21 | 189 | 191 | 63 | 62 |
| Closing balance | | 5,739 | 7,385 | 1,400 | 1,719 |
| Percentage of share capital | | | | 0.45% | 0.55% |

The Group retains its own ordinary shares for later use in employee share based payment arrangements and are deducted from equity. These shares carry the same voting rights as other issued ordinary shares. Voting rights attached to the shares are held by the trustees of the employee share schemes, and dividends paid on the shares are retained by the trustee for the benefit of the Group. The Directors may appoint or remove any trustee by Directors' resolution. The current trustees of the share plans are detailed in note 39.

## 31. RESERVES

| GROUP | NOTE | 2012 | 2011 |
|---|---|---|---|
| | | $000 | $000 |
| Cash flow hedge reserve | 22 | (7,215) | (24,104) |
| Share based payments reserve | | 2,209 | 2,812 |
| | | (5,006) | (21,292) |

**(a) Cash flow hedge reserve**

This reserve records the portion of the gain or loss on a hedging derivative in a cash flow hedge that is determined to be an effective hedge. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement, or depending on the nature of the hedge, is included in a non-financial hedged item when the hedged event occurs.

**(b) Share based payments reserve**

The Group currently has an employee share right plan (refer note 15) and an employee share purchase plan (refer note 21). This reserve is used to record the accumulated value of unvested shares rights and employee share purchase plan discount (net of the fair value adjustment on the employee loans), which have been recognised in the income statement.

Upon the vesting of share rights, the balance of the reserve relating to the share rights is offset against the cost of treasury stock allotted to settle the obligation, with any difference in the cost of settling the commitment transferred to retained earnings.

When an employee share loan is fully repaid and the associated shares vest to the employee the balance of the reserve relating to the employee share purchase plan is transferred to retained earnings.

| GROUP | NOTE | 2012 | 2011 |
|---|---|---|---|
| | | $000 | $000 |
| Opening balance | | 2,812 | 3,422 |
| Share based payments expense | 7 | 1,616 | 1,640 |
| Transfer from treasury stock | 30 | (2,096) | (2,110) |
| Transferred to retained earnings | 33 | (123) | (140) |
| Closing balance | | 2,209 | 2,812 |

The Parent has no reserves.

## 32. MINORITY INTEREST

| GROUP | 2012 | 2011 |
|---|---|---|
| | $000 | $000 |
| Opening balance | 325 | 340 |
| Net profit attributable to minority interest | 312 | 316 |
| Dividends paid to minority shareholders | (404) | (331) |
| Closing balance | 233 | 325 |

Minority interests predominantly relate to the 50% minority shareholding held in Waikato Valley Chocolates Limited.

## 33. RETAINED EARNINGS

| | NOTE | GROUP 2012 $000 | GROUP 2011 $000 | PARENT 2012 $000 | PARENT 2011 $000 |
|---|---|---|---|---|---|
| Opening balance | | **48,447** | 60,308 | **10,882** | 10,884 |
| Net profit attributable to shareholders | | **89,848** | 77,829 | **62,234** | 90,244 |
| Dividends paid to shareholders | 34 | **(62,239)** | (90,246) | **(62,239)** | (90,246) |
| Treasury stock dividends received | | **255** | 416 | **–** | – |
| Transferred from share based payments reserve | 31 | **123** | 140 | **–** | – |
| Closing balance | | **76,434** | 48,447 | **10,877** | 10,882 |

## 34. DIVIDENDS

| GROUP AND PARENT | NOTE | DIVIDENDS PAID 2012 $000 | DIVIDENDS PAID 2011 $000 | CENTS PER SHARE 2012 | CENTS PER SHARE 2011 |
|---|---|---|---|---|---|
| Prior year final dividend | | **20,228** | 26,451 | **6.5** | 8.5 |
| Interim dividend | | **42,011** | 48,235 | **13.5** | 15.5 |
| | | **62,239** | 74,686 | **20.0** | 24.0 |
| Special final dividend | 3 | **–** | 15,560 | **–** | 5.0 |
| Total dividends paid | 33 | **62,239** | 90,246 | **20.0** | 29.0 |

All dividends paid were fully imputed. Supplementary dividends of $0.601 million (2011: $1.033 million) were paid.

**Dividend policy**

The Group's dividend policy is to pay a dividend equal to 90% of adjusted net profit (refer note 38). Adjusted net profit makes allowance for unusual items, which include profits from the disposal of properties, release of warranty provisions, unrealised gains or losses from changes in the fair value of financial instruments and non-cash deferred tax adjustments arising from tax legislative changes enacted in May 2010.

The Board declares two dividends annually in respect of the half year (interim dividend) and full year results (final dividend). The final dividend is accounted for in the year it is paid.

Details of the final dividend declared by the Board after balance date and the dividend payout ratio are set out below:

| GROUP AND PARENT | NOTE | DIVIDENDS PAID AND DECLARED 2012 $000 | DIVIDENDS PAID AND DECLARED 2011 $000 | CENTS PER SHARE 2012 | CENTS PER SHARE 2011 |
|---|---|---|---|---|---|
| Interim dividend | | **42,011** | 48,235 | **13.5** | 15.5 |
| Final dividend (declared after balance date) | | **20,228** | 20,228 | **6.5** | 6.5 |
| Total dividends paid and declared | | **62,239** | 68,463 | **20.0** | 22.0 |
| Adjusted net profit | 38 | **65,151** | 76,027 | | |
| Payout ratio (%) – excluding special dividend | | **95.5%** | 90.1% | | |

On 6 September 2012 the Board declared a final fully imputed ordinary dividend of 6.5 cents per share to be paid on 14 November 2012 to all shareholders on the Group's share register at the close of business on 2 November 2012.

## 35. IMPUTATION CREDIT ACCOUNT

The amount of imputation credits at balance date available for future distributions are set out below:

| IMPUTATION CREDIT ACCOUNT | GROUP 2012 | GROUP 2011 | PARENT 2012 | PARENT 2011 |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| Closing balance | 69,886 | 64,900 | 20,639 | 20,038 |

Certain Group subsidiary companies form a consolidated group for income tax purposes. The Group imputation credit account reported above, are for the tax group and Parent, and are available to shareholders either directly or indirectly through their shareholding in the Parent company.

## 36. CONTINGENT LIABILITIES

| GROUP | 2012 | 2011 |
|---|---|---|
| | $000 | $000 |
| Bank letters of credit issued to secure future purchasing requirements | 12,622 | 13,184 |
| Less included as a goods in transit creditor | (783) | (769) |
| | 11,839 | 12,415 |
| Bank guarantees provided to landlords and the New Zealand Stock Exchange Limited | 315 | 315 |
| Lease disputes | – | 300 |
| Workers' compensation claims | – | 1,000 |
| Total contingent liabilities | 12,154 | 14,030 |

**Letter of credit**

Bank letters of credit issued to secure future purchasing requirements are matched to a contingent asset of the same value representing the inventories purchased.

**Bank guarantees**

No settlement relating to bank guarantees has occurred since their inception and any future outflow appears unlikely.

**The Warehouse Australia**

In November 2005 the Group sold the business assets of The Warehouse Australia to Australian Discount Retail ("ADR"). At the time of the sale, the Group provided for the settlement of potential claims where it was deemed probable that a liability could arise from warranties and indemnities made to the purchaser as part of the sale agreement. The last of the warranties relating to the sale of the business assets expired in December 2011. The Group was not notified of any unsettled claims and released all the remaining warranty provisions when the warranty period expired (refer note 28).

There are still, however, potential residual exposures for unknown claims arising from the Group's ownership of The Warehouse Australia business prior to November 2005 that cannot be quantified. Under commercial arrangements associated with the sale process in November 2005, the Group retained guarantees to certain landlords in respect of rental payments by ADR after November 2005. It remains uncertain whether the Group still retains contingent liabilities in respect of these leases.

The Parent had no contingent liabilities.

## 37. COMMITMENTS

### (a) Capital commitments

Capital expenditure contracted for at balance date, but not recognised as liabilities, is set out below:

| GROUP | 2012 | 2011 |
|---|---|---|
| | $000 | $000 |
| Within one year | 18,963 | 46,224 |

The capital commitments at balance date include costs to complete a retail development in Silverdale of $10.153 million (2011: $38.301 million) and a new store at Royal Oak, Auckland, of $2.253 million. Both projects are planned to be completed in October 2012.

### (b) Operating leases

The Groups non-cancellable operating leases mainly relate to building occupancy leases and typically expire within 10 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Commitments for minimum lease payments in relation to non-cancellable operating leases at balance date are as follows:

| GROUP | 2012 | 2011 |
|---|---|---|
| **Future minimum rentals payable** | $000 | $000 |
| 0 to 1 years | 61,573 | 56,483 |
| 1 to 2 years | 50,283 | 46,011 |
| 2 to 5 years | 75,404 | 66,607 |
| 5+ years | 64,579 | 20,486 |
| | 251,839 | 189,587 |

The Parent has no capital or lease commitments.

## 38. ADJUSTED NET PROFIT RECONCILIATION

| GROUP | NOTE | 2012 | 2011 |
|---|---|---|---|
| | | $000 | $000 |
| **Adjusted net profit** | 34 | 65,151 | 76,027 |
| **Unusual items** | | | |
| Gain on disposal of property | 25 | 18,230 | 1,470 |
| Release of warranty provisions | 28 | 7,355 | – |
| Changes in fair value of financial instruments | 4 | – | 194 |
| | | 25,585 | 1,664 |
| Income tax relating to unusual items | | (1,734) | (499) |
| Income tax expense relating to tax legislative changes made in May 2010 | 13 | 846 | 637 |
| **Net profit attributable to shareholders of the Parent** | | 89,848 | 77,829 |
| **Earnings per share based on adjusted net profit** | | | |
| Basic earnings per share | 16 | 21.0 cents | 24.6 cents |
| Diluted earnings per share | 16 | 21.0 cents | 24.4 cents |

Certain transactions can make the comparisons of profits between years difficult. The Group monitors adjusted net profit as a key indicator of performance and uses it as the basis for determining dividends and believes it helps improve investor understanding of business performance. The Group's dividend policy is to pay a dividend equal to 90% of adjusted net profit (refer note 34).

Adjusted net profit makes allowance for unusual items, which include profits from the disposal of properties, release of warranty provisions, unrealised gains or losses from changes in the fair value of financial instruments and non-cash deferred tax adjustments arising from tax legislative changes enacted in May 2010.

## 39. RELATED PARTIES

During the period, the Group has not entered into any material contracts involving related parties or Directors' interests which are not disclosed. No amounts owed by related parties have been written off or forgiven during the period.

**(a) Shareholdings**

At balance date Directors and other key executives held ordinary shares in the Group and received fully imputed dividends during the year, as set out below.

| | SHAREHOLDING | | DIVIDENDS RECEIVED | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Beneficial interest** | 000 | 000 | $000 | $000 |
| G F Evans | 11 | 11 | 2 | 3 |
| J H Ogden | 11 | 11 | 2 | 3 |
| J L Smith | 10 | 10 | 2 | 2 |
| K R Smith | 12 | 12 | 2 | 3 |
| R J Tindall (alternate Director – effective from July 2011) | 5 | 5 | 1 | 1 |
| Sir Stephen Tindall (refer sub-notes (b) and (c)) | 84,058 | 84,058 | 16,812 | 24,377 |
| **Non-beneficial interest as trustees of the Group's employee share plans** | | | | |
| K R Smith and M D Powell as trustees of The Warehouse Management Trustee Company Limited | 1,750 | 1,757 | 164 | 219 |
| G F Evans and K R Smith as trustees of The Warehouse Management Trustee Company No.2 Limited | 509 | 891 | 91 | 197 |

Other key executives (as detailed in note 14) collectively held 192,000 shares (2011: 222,000 shares) at balance date which carry the normal entitlement to dividends. The Group's Chief Executive Officer, M D Powell, held 68,000 shares at balance date. Non-beneficial Director shareholdings are separately disclosed in the "Statutory disclosures" section of the annual report.

**(b) Share deed**

Sir Stephen Tindall (Director) maintains an interest in 1,000,000 shares sold to I R Morrice (former Director) as a holder of a mortgage over the shares to secure the debt. Under this arrangement dividends received on these shares are paid to Sir Stephen Tindall as mortgage interest. The dividends of $200,000 (2011: $290,000), which were received on these shares, are only included in the table above as dividends received by Sir Stephen Tindall. The shareholding disclosed above for Sir Stephen Tindall includes the beneficial interest in this 1,000,000 share parcel.

**(c) The Tindall Foundation**

Sir Stephen Tindall (Director) is a trustee of The Tindall Foundation. The Tindall Foundation is an incorporated charitable trust and as such it is recognised as having a separate legal existence. This differs from unincorporated trusts, which have no separate legal existence apart from their trustees. For the purposes of stock exchange disclosures, the trustees of The Tindall Foundation do not have a disclosable interest in the shares held by The Tindall Foundation. At balance date The Tindall Foundation held and received dividends on 66,323,220 shares (2011: 66,323,220 shares) in the Group. Dividends of $13.265 million (2011: $19.234 million) were received on these shares during the year.

**(d) Share transactions by Directors**

Share transactions undertaken by the Directors during the year are required to be disclosed in respect of section 148(2) of the Companies Act 1993. Details of these transactions can be found as part of the statutory disclosures in the Annual Report.

## 39. RELATED PARTIES (CONTINUED)

**(e) Parent**

During the period, the Parent advanced and repaid loans to its subsidiaries by way of internal current accounts. In presenting the financial statements of the Group, the effect of transactions and balances between fellow subsidiaries and those with the Parent have been eliminated. All transactions with related parties were in the normal course of business and provided on commercial terms.

The Parent entered into certain transactions with its subsidiaries as follows:

Material amounts outstanding between the Parent and its subsidiaries at year end were:

(i) Loans from the Parent to subsidiaries $317.211 million (2011 $316.508 million).

Material transactions between the Parent and its subsidiaries were:

(ii) The Parent entered a $100.000 million loan agreement in April 2010 with a subsidiary on terms aligned to finance the interest and principal commitments of the Group's fixed rate senior bond (refer note 29)

(iii) Interest received by the Parent from its subsidiaries $7.640 million (2011: $7.682 million)

(iv) Dividends received by the Parent from its subsidiaries $62.239 million (2011: $90.246 million).

**(f) Subsidiaries**

The following subsidiaries have been included in the consolidated financial statements:

| | PRINCIPAL ACTIVITY | EQUITY HOLDING 2012 | 2011 |
|---|---|---|---|
| | | % | % |
| **Guaranteeing Subsidiaries** | | | |
| New Zealand subsidiaries | | | |
| The Warehouse Limited | Retail | **100** | 100 |
| Boye Developments Limited | Investment | **100** | 100 |
| Eldamos Investments Limited | Property owner | **100** | 100 |
| The Warehouse Nominees Limited | Investment | **100** | 100 |
| Waikato Valley Chocolates Limited [1] | Chocolate factory | **50** | 50 |
| Warehouse Stationery Limited | Retail | **100** | 100 |
| New Zealand employee share plan trustees | | | |
| The Warehouse Management Trustee Company Limited [1] | Share plan trustee | **100** | 100 |
| The Warehouse Management Trustee Company No 2. Limited [1] | Share plan trustee | **100** | 100 |
| New Zealand non-trading subsidiaries | | | |
| The Warehouse Card Limited | | **100** | 100 |
| The Warehouse Cellars Limited | | **100** | 100 |
| Eldamos Nominees Limited[1] | | **100** | 100 |
| Non-trading Australian subsidiaries | | | |
| TWGA Pty Limited [1] | | **100** | 100 |
| TWL Australia Pty Limited [1] | | **100** | 100 |
| **Non-Guaranteeing Subsidiaries** | | | |
| New Zealand subsidiaries | | | |
| TWNL Projects Limited | Store development | **50** | 50 |
| New Zealand non-trading subsidiaries and joint ventures | | | |
| Farran Nine Limited | | **50** | 50 |
| Lincoln West Limited | | **50** | 50 |
| TWP No.1 Limited | Ceased trading July 2012 | **49** | 49 |
| TWP No.2 Limited | Ceased trading July 2012 | **49** | 49 |
| The Warehouse Investments Limited | | **100** | 100 |

[1] *For the purposes of the fixed rate senior bond trust deed, these subsidiaries are designated as non-guaranteeing subsidiaries which differs from the negative pledge deed held by the Group's banks where they are designated as guaranteeing subsidiaries.*

# Auditors' Report

THE WAREHOUSE GROUP LIMITED

**Independent Auditors' Report**

To the shareholders of The Warehouse Group Limited

**Report on the Financial Statements**

We have audited the financial statements of The Warehouse Group Limited ("the Company") on pages 29 to 74, which comprise the balance sheets as at 29 July 2012, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the 52 week period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 29 July 2012 or from time to time during the financial year.

**Directors' Responsibility for the Financial Statements**

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, The Warehouse Group Limited or any of its subsidiaries other than in our capacities as auditors of the financial statements and providers of other assurance services. These services have not impaired our independence as auditors of the Company and the Group.

**Opinion**

In our opinion, the financial statements on pages 29 to 74:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 29 July 2012, and their financial performance and cash flows for the 52 week period then ended.

**Report on Other Legal and Regulatory Requirements**

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the 52 week period ended 29 July 2012:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

**Restriction on Distribution or Use**

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

**Chartered Accountants, Auckland**

6 September 2012

# Annual 5 Year Summary

| | (52 WEEKS) 2012 $000 | (52 WEEKS) 2011 $000 | (53 WEEKS) 2010 $000 | (52 WEEKS) 2009 $000 | (52 WEEKS) 2008 $000 |
|---|---|---|---|---|---|
| **SUMMARY INCOME STATEMENTS** | | | | | |
| The Warehouse | **1,524,102** | 1,462,912 | 1,476,219 | 1,531,114 | 1,533,625 |
| Warehouse Stationery | **206,639** | 201,453 | 193,599 | 187,167 | 199,471 |
| Other Group operations | **8,664** | 8,320 | 8,107 | 8,419 | 7,611 |
| Inter-segment eliminations | **(7,237)** | (4,908) | (5,230) | (5,945) | (5,677) |
| **Revenue** | **1,732,168** | 1,667,777 | 1,672,695 | 1,720,755 | 1,735,030 |
| The Warehouse | **80,874** | 98,777 | 112,664 | 120,238 | 112,744 |
| Warehouse Stationery | **9,844** | 10,103 | 8,044 | 1,596 | 5,070 |
| Other Group operations | **5,744** | 5,256 | 3,341 | 3,118 | 3,326 |
| **Operating profit** | **96,462** | 114,136 | 124,049 | 124,952 | 121,140 |
| Equity earnings of associate | **3,197** | 3,575 | 2,808 | 3,220 | 3,037 |
| Gain on disposal of property | **18,230** | 1,470 | – | 315 | 1,176 |
| Release of warranty provisions | **7,355** | – | – | – | 7,208 |
| Changes in fair value of financial instruments | **–** | 194 | (282) | (1,698) | 2,126 |
| Loss on disposal of business operations | **–** | – | – | (10,661) | – |
| **Earnings before interest and tax** | **125,244** | 119,375 | 126,575 | 116,128 | 134,687 |
| Net interest expense | **(10,308)** | (9,845) | (7,409) | (6,837) | (6,394) |
| **Profit before tax** | **114,936** | 109,530 | 119,166 | 109,291 | 128,293 |
| Income tax expense | **(24,776)** | (31,385) | (58,626) | (32,295) | (37,350) |
| **Profit after tax** | **90,160** | 78,145 | 60,540 | 76,996 | 90,943 |
| Minority interests | **(312)** | (316) | (355) | (214) | (174) |
| **Profit attributable to shareholders** | **89,848** | 77,829 | 60,185 | 76,782 | 90,769 |
| **ADJUSTED PROFIT RECONCILIATION** | | | | | |
| Unusual items (detailed above) | **(25,585)** | (1,664) | 282 | 12,044 | (10,510) |
| Income tax relating to unusual items | **888** | (138) | 22,951 | (3,613) | 638 |
| **Adjusted net profit** | **65,151** | 76,027 | 83,418 | 85,213 | 80,897 |
| **THE WAREHOUSE** | | | | | |
| Operating margin (%) | **5.3** | 6.8 | 7.6 | 7.9 | 7.4 |
| Same store sales growth (%) | **2.6** | (0.9) | (2.2) | (0.4) | (1.2) |
| Number of stores | **89** | 88 | 87 | 86 | 85 |
| Store footprint (square metres) | **482,802** | 476,115 | 470,156 | 467,596 | 465,530 |
| **WAREHOUSE STATIONERY** | | | | | |
| Operating margin (%) | **4.8** | 5.0 | 4.2 | 0.9 | 2.5 |
| Same store sales growth (%) | **3.0** | 4.6 | 7.8 | (7.1) | (4.5) |
| Number of stores | **56** | 51 | 47 | 46 | 43 |
| Store footprint (square metres) | **64,616** | 58,307 | 56,101 | 56,388 | 56,532 |
| **DIVIDEND DISTRIBUTIONS** | | | | | |
| Interim (cents per share) | **13.5** | 15.5 | 15.5 | 15.5 | 15.5 |
| Final (cents per share) | **6.5** | 6.5 | 8.5 | 5.5 | 5.5 |
| Ordinary dividends declared (cents per share) | **20.0** | 22.0 | 24.0 | 21.0 | 21.0 |
| Special dividends declared (cents per share) | **–** | – | 6.5 | 10.0 | – |
| Ordinary dividend payout ratio (%) | **95.5** | 90.1 | 89.5 | 76.7 | 80.8 |
| Basic earnings per share (cents) | **29.0** | 25.1 | 19.5 | 24.9 | 29.4 |
| Basic adjusted earnings per share (cents) | **21.0** | 24.6 | 27.0 | 27.6 | 26.2 |

# Annual 5 Year Summary – continued

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 |
| **SUMMARY BALANCE SHEETS** | | | | | |
| Inventories | **309,421** | 262,663 | 254,606 | 257,943 | 275,581 |
| Trade and other receivables | **28,455** | 25,791 | 19,021 | 24,466 | 26,599 |
| Creditors and provisions | **(171,506)** | (177,781) | (174,341) | (197,519) | (163,281) |
| Working capital | **166,370** | 110,673 | 99,286 | 84,890 | 138,899 |
| Fixed assets | **368,606** | 316,098 | 293,385 | 280,680 | 294,507 |
| Investments | **6,372** | 7,585 | 5,921 | 7,376 | 7,191 |
| Funds employed | **541,348** | 434,356 | 398,592 | 372,946 | 440,597 |
| Taxation (liabilities)/assets | **(2,823)** | (3,370) | (16,947) | 25,401 | 26,550 |
| Derivative financial instruments | **(8,465)** | (33,333) | (5,982) | (29,955) | 7,117 |
| **Capital employed** | **530,060** | 397,653 | 375,663 | 368,392 | 474,264 |
| Net debt | **212,693** | 126,113 | 72,417 | 47,248 | 139,608 |
| Equity attributable to shareholders | **317,134** | 271,215 | 302,906 | 320,893 | 334,465 |
| Minority interest | **233** | 325 | 340 | 251 | 191 |
| **Sources of funds** | **530,060** | 397,653 | 375,663 | 368,392 | 474,264 |
| **SUMMARY CASH FLOW** | | | | | |
| Operating profit | **96,462** | 114,136 | 124,049 | 124,952 | 121,140 |
| Depreciation and amortisation | **41,630** | 39,772 | 40,937 | 41,840 | 39,634 |
| **Operating EBITDA** | **138,092** | 153,908 | 164,986 | 166,792 | 160,774 |
| Change in trade working capital | **(53,757)** | (13,474) | (10,864) | 50,329 | (11,658) |
| Income tax paid | **(31,291)** | (36,235) | (22,181) | (19,108) | (40,427) |
| Net interest paid | **(11,714)** | (9,937) | (7,023) | (7,743) | (9,273) |
| Share based payment expense | **1,616** | 1,640 | 2,609 | 2,600 | 2,720 |
| Loss on sale of plant and equipment | **1,538** | 1,008 | 1,624 | 1,589 | 422 |
| **Operating cash flow** | **44,484** | 96,910 | 129,151 | 194,459 | 102,558 |
| Capital expenditure | **(101,392)** | (65,896) | (57,280) | (37,103) | (45,694) |
| Proceeds from divestments | **30,318** | 5,567 | 401 | 1,489 | 17,179 |
| Dividend from associate | **4,410** | 1,911 | 4,263 | 3,035 | 4,754 |
| Dividends paid | **(62,989)** | (91,194) | (101,543) | (65,580) | (176,327) |
| Employee share schemes | **236** | (449) | 82 | (3,940) | 963 |
| Other items | **(1,647)** | (545) | (243) | – | (45) |
| **Net cash flow** | **(86,580)** | (53,696) | (25,169) | 92,360 | (96,612) |
| Opening debt | **(126,113)** | (72,417) | (47,248) | (139,608) | (42,996) |
| **Closing debt** | **(212,693)** | (126,113) | (72,417) | (47,248) | (139,608) |
| **FINANCIAL RATIOS** | | | | | |
| Operating margin (%) | **5.6** | 6.8 | 7.4 | 7.3 | 7.0 |
| Interest cover (times) | **12.2** | 12.1 | 17.1 | 17.0 | 21.1 |
| Fixed charge cover (times) | **3.1** | 3.1 | 3.4 | 3.2 | 3.6 |
| Net debt/EBITDA (times) | **1.3** | 0.8 | 0.4 | 0.3 | 0.8 |
| Net debt/net debt plus equity (%) | **40.1** | 31.7 | 19.3 | 12.8 | 29.4 |
| Return on funds employed (%) | **20.4** | 28.3 | 32.9 | 31.5 | 28.4 |
| Capex/depreciation (times) | **2.4** | 1.7 | 1.4 | 0.9 | 1.2 |
| Cash conversion ratio (%) | **45.8** | 85.3 | 107.3 | 155.4 | 89.0 |

# Corporate Governance

## At The Warehouse, we believe that success requires the highest standard of corporate behaviour towards everyone with whom we work, the communities we touch, and the environment on which we have an impact. This is our road to creating sustainable long-term value for our shareholders.

The Board is committed to conducting the company's business ethically and in accordance with high standards of corporate governance. The primary objective of the Board is to build long-term shareholder value with due regard to other stakeholder interests. It does this by guiding strategic direction and focusing on issues critical for its successful execution.

This governance statement outlines the company's main corporate governance practices as at 7 September 2012. During the year, the Board reviewed and assessed the company's governance structure to ensure that it is consistent, both in form and substance, with best practice.

### Compliance

The ordinary shares of company are listed on the New Zealand stock exchange (NZX). The company was listed on the Australian stock exchange (ASX) but, following an application to delist made by the company, it was removed from the ASX official list on 29 June 2012.

The company seeks to follow the best-practice recommendations for listed companies to the extent that it is appropriate to the size and nature of The Warehouse's operations.

The company considers its governance practices complied with the NZX Corporate Governance (NZXCG) Best Practice Code in its entirety for the year ended 29 July 2012. The structure of this section of the Annual Report reflects the requirements of the New Zealand Securities Commission's Governance Principles and Guidelines.

The company's constitution, the Board and committee charters, codes and policies referred to in this section are available to view at www.thewarehouse.co.nz.

### Principle 1 – Ethical Standards

***Directors observe and foster high ethical standards.***

**Code of Ethics and Code of General Business Principles**

The Warehouse expects its Directors, officers, employees and contractors (Team Members) to act legally, ethically and with integrity in a manner consistent with The Warehouse's policies, guiding principles and values.

The Warehouse's Code of Ethics and Code of General Business Principles set out clear expectations of ethical decision-making and personal behaviour by Team Members in relation to situations where their or The Warehouse's integrity could be compromised.

The Codes have been adopted by all companies of The Warehouse Group Limited. Both Codes address, amongst other things:

- confidentiality;
- trading in company securities;
- receipt of gifts and entertainment;
- transparency and avoiding conflicts;
- use of company information and assets;
- delegations of authority;
- processes for reporting and resolving ethical issues;
- workplace responsibilities (diversity, employment practices, health and safety);
- doing business in an environmentally responsible manner;
- interaction with customers and suppliers; and
- fair competition in all the markets in which the company operates.

Team Members are encouraged to anonymously disclose inappropriate, unethical or unsafe activities within the company through a confidential freephone line.

**Trading in The Warehouse's Securities**

The Warehouse is committed to transparency and fairness in dealing with all of its stakeholders and to ensuring adherence to all applicable laws and regulations.

The company has a detailed securities trading policy governing trading in The Warehouse's ordinary shares or any other listed or unlisted securities or derivatives (together, Restricted Securities).

No Team Member may use his or her position of confidential knowledge of the company or its business to engage in securities trading for personal benefit or to provide benefit to any third party.

Specific and stringent rules apply to trading in Restricted Securities by Directors and senior management. All Team Members must notify the Company Secretary (or in the case of Directors, the Chairman of the Board, and in the Chairman's case, the Chairman of the Corporate Governance Committee) of their intention to trade in securities, and seek prior consent confirming that they do not hold material information.

Short-term trading in The Warehouse's shares and buying or selling while in possession of unpublished, price-sensitive information are strictly prohibited. The company monitors trading by Directors and senior Team Members of the company and reports any share movements to the Board each month.

### Principle 2 – Board Composition and Performance

***There is a balance of independence, skills, knowledge, experience and perspective among Directors that allows the Board to work effectively.***

**Board Size and Composition**

The current Board comprises of Directors with a mix of qualifications, skills and experience appropriate to the company's existing operations and strategic directions.

The Board has a majority of independent Directors and the roles of Chairman and Group Chief Executive Officer (CEO) are not exercised by the same person. The Chairman is an independent Director, as is the Deputy Chairman. The Board consists of six Directors, five of whom are independent non-executive Directors and one non-executive Director who is not deemed to be independent by virtue of his shareholding in the company.

# Corporate Governance – continued

**Director Independence**
A non-executive Director is considered to be 'independent', providing that Director:

- is not a substantial shareholder of the company holding more than 5% of the company's class of listed voting securities;
- has not within the last three years been employed in an executive capacity by the company or been a Director after leaving to hold any such employment;
- is not a principal or employee of a professional advisor to the company and its entities whose billings exceed 10% of the advisor's total revenues;
- is not a significant supplier or customer of the company – a significant supplier is defined as one whose revenues from the company exceed 10% of the supplier's total revenue;
- has no material contractual relationship with the company;
- has no other interest or relationship that could interfere with the Director's ability to act in the best interests of the company and independently of Management;
- is not a member of the Management of The Warehouse Group Limited or its subsidiaries; and
- the Corporate Governance Committee and Board determines the Director is independent in character and judgement.

On appointment, each Director is required to provide information to the Board to assess and confirm their independence as part of their consent to act as a Director. Directors have undertaken to inform the Board as soon as practicable if they think their status as an independent Director has or may have changed.

The Board does not believe that any Director has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the company. The Board considers that Directors retain independence of character and judgement regardless of length of service. Qualifications and experience of individual Directors are detailed on pages 8 and 9.

**Board Role and Responsibility**
The Board charter regulates Board procedures and describes its role and responsibilities. The Board of the company is elected by the shareholders to supervise the management of the company and is accountable to shareholders for the company's performance. The Board's responsibilities include:

- strategy – providing strategic direction and approving corporate strategic initiatives;
- leadership selection – evaluating the performance of and selecting the CEO and Group Chief Financial Officer (CFO);
- Board performance and composition – evaluating the performance of non-executive Directors, determining the size and composition of the Board as well as making recommendations for the appointment and removal of Directors;
- remuneration – setting CEO and senior executive remuneration and setting non-executive Director remuneration within shareholder-approved limits;
- succession planning – planning Board and executive succession;
- financial performance – approving the annual budget, monitoring management and financial performance as well as the achievement of company strategic goals and objectives;
- financial reporting – considering and approving the half-year and annual financial reports;
- audit – selecting and recommending to shareholders the appointment of the external auditors. Maintaining a direct and ongoing dialogue with the external auditors;
- risk management – approving the company's risk management strategy and monitoring its effectiveness;
- social responsibility – setting business standards and promoting ethical and responsible decision-making by the company; and
- relationship with regulators, exchanges and continuous disclosure – maintaining direct and ongoing dialogue with the NZX and ensuring that the market and shareholders are continually informed of material developments.

**Delegation**
The Board is responsible for guiding the corporate strategy and direction of The Warehouse and has overall responsibility for decision-making. The Board delegates to the CEO responsibility for implementing the agreed strategy and for managing operations.

While the day-to-day responsibility for the operation of the business is delegated to the executive management, there are a number of matters which are required to be, or that in the interests of the company should be, decided only by the Board of Directors as a whole. The Board has therefore formally adopted a list of "Matters Reserved for the Board" for which no delegation is permitted. The delegation to the CEO is reviewed annually.

**Avoiding Conflicts of Interest**
The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest between their duty to The Warehouse and their own interests. Where conflicts of interest do exist at law then the Director must disclose their interest. Directors and Team Members are required to minimise any potential conflicts in line with the company's Code of Ethics and Code of General Business Principles.

**Board Access to Information and Advice**
The Board has established a procedure whereby Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense.

Independent professional advice includes legal advice and the advice of accountants and other professional advisors on matters of law, accounting and other regulatory matters but excludes advice concerning the personal interests of the Director concerned (such as service contracts with the company or dealings in the company's securities or disputes with the company). Any advice obtained under this procedure will be made available to the other members of the Board.

The Board has complete access to company Team Members via the CEO. The Board encourages Management to schedule presentations at Board meetings by managers who can provide additional insight into the items being discussed, because of their personal involvement, or have future potential that Management believes should be demonstrated to the Board.

**Nomination and Appointment of Directors**
Procedures for the appointment and removal of Directors are governed by the company's constitution. The Remuneration, Talent and Nomination Committee is delegated with the responsibility of identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Board's procedure when selecting and appointing Directors varies depending upon the circumstances of the company at the particular time. The Board believes that its membership should comprise Directors with an appropriate mix of skills, experience and personal attributes that allow the Directors individually, and the Board collectively, to:

- discharge their responsibilities and duties under the law effectively and efficiently;
- understand the business of the company and the environment in which the company operates so as to be able to agree with Management on the objectives, goals and strategic direction which will maximise shareholder value; and
- assess the performance of Management in meeting those objectives and goals.

While recognising that each Director will not necessarily fulfil all criteria, the Remuneration, Talent and Nomination Committee has identified the existence of certain personal characteristics as relevant to the selection and appointment of Directors.

The committee believes that a potential Director should:

- be outstanding in capability and have extensive and senior commercial experience;
- be a cultural 'fit' with existing Board members and have empathy with the company's culture;
- have a high level of personal integrity;
- be a team player;
- have an independent state of mind;
- be free of conflicts as identified by the company; and
- have the time available to meeting the commitment required.

In addition, specific functional skills will be identified from time to time to complement the overall mix of functional skills of Board members and to continue the implementation of the Board succession plan.

**Letter of Appointment**
The terms and conditions of appointment are set out in a letter of appointment which details the Director's duties, term of appointment (subject to shareholder approval), expectations of the role and remuneration.

**Directors' Induction and Education**
When appointed to the Board, all new Directors undergo an induction programme appropriate to their experience to familiarise them with The Warehouse's business and strategy. A detailed induction programme, including a familiarisation programme for non-executive Directors, has been developed and approved by the Board.

As part of each strategic planning review, Directors are formally briefed by senior management on relevant industry and competitive issues.

**Retirement and Re-election of Directors**
In each year, one third of the Directors, or if their number is not a multiple of three then the nearest number to one third, shall retire from office and may offer themselves for re-election at the annual meeting of shareholders. Directors to retire are those who have been longest in office since they were last elected or deemed elected.

While the constitution provides for the payment of retirement benefits to Directors, the company has not paid retirement benefit to any Directors since listing in 1994.

**Board Performance Review**
The Chairman, with the assistance of appropriate internal and external advisors, assesses the performance of individual Directors whilst Directors also assess the collective performance of the Board and the performance of the Chairman. A formal evaluation was conducted in September 2012 with assistance from an outside facilitator.

## Principle 3 – Board Committees

***The Board uses committees where this enhances effectiveness in key areas while retaining Board responsibility.***

Committees established by the Board review and analyse policies and strategies, usually developed by Management, and operate under specific charters. The Warehouse's committees assist the Board in the conduct of its responsibilities and report to the full Board on all material matters and issues requiring Board decisions.

The current committees of the Board are:

- Audit Committee;
- Remuneration, Talent and Nomination Committee;
- Corporate Governance Committee; and
- Disclosure Committee.

From time to time, the Board may create ad hoc committees to examine specific issues on its behalf. Each year, the committee charters are reviewed and where appropriate updated to take account of changes and other developments in the committee's area of responsibility.

**Audit Committee**
Membership is restricted to non-executive Directors, and the majority must be independent. The Chairman of the committee must also be independent and must not be the Chairman of the Board. The committee includes members who have appropriate financial experience and an understanding of the industry in which The Warehouse operates.

The members of the Audit Committee are:

James Ogden (Chairman)

Graham Evans

Keith Smith

Ted van Arkel

James Ogden and Keith Smith are Fellows of the New Zealand Institute of Chartered Accountants.

## Corporate Governance – continued

This committee meets a minimum of four times each year. Its main responsibilities are to:

- exercise oversight of the integrity and completeness of the financial statements (annual report and the half-year financial report);
- assist the Board to review the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations;
  - reliability of financial reporting; and
  - compliance will applicable laws and regulations;
- determine the scope of the internal audit function, its authority, resources and scope of work including co-ordination with external auditors;
- oversee the effective operation of the risk management framework;
- review the company's tax position, compliance and any exposures;
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement and the scope and quality of the audit; and
- review and approve, within established procedures and before commencement, the nature and scope of non-audit services being provided by the external auditors.

In fulfilling its responsibilities, the Audit Committee receives regular reports from Management and the internal and external auditors.

During the year, the committee also held private sessions with the internal and external auditors. The internal and external auditors have a clear line of direct communication at any time with either the Chairman of the Audit Committee or the Chairman of the Board, both of whom are independent non-executive Directors.

The Audit Committee relies on information provided by Management and the external auditor. Management determines and makes representations to the Board that The Warehouse's financial statements and disclosures are complete and accurate.

The external auditor has the duty to plan and conduct audits.

**Remuneration, Talent and Nomination Committee**
Remuneration, Talent and Nomination Committee Membership is restricted to non-executive Directors and the majority on the committee must be independent. The Chair of the committee is an independent Director.

The members of the Remuneration, Talent and Nomination Committee are:

Janine Smith (Chair)

Graham Evans

Keith Smith

Sir Stephen Tindall

Ted van Arkel

The committee is responsible for determining and reviewing compensation arrangements for the Directors, CEO and the executive management team, ensuring appropriate performance management, talent identification and succession planning frameworks are in place. The committee is also responsible for reviewing the structure, size and composition of the Board, and identifying and nominating candidates for the approval of the Board.

**Corporate Governance Committee**
Membership of the committee is restricted to independent Directors.

The members of the Corporate Governance Committee are:

Janine Smith (Chair)

Graham Evans

The committee was established to ensure that the company maintains a high level of corporate governance through continuous monitoring of international corporate governance best practice as promulgated by the relevant authoritative bodies.

The committee is responsible for developing recommendations to the Board on corporate governance matters, undertaking an annual review of the alignment of the Board's governance systems with best practice, determining and monitoring independence of Directors, reviewing ethical guidelines, and reviewing the company's disclosure policy.

**Disclosure Committee**
The Disclosure Committee is a committee of the Board of Directors and Management and comprises the following members:

Keith Smith (Chairman)

Graham Evans

James Ogden

Sir Stephen Tindall

CEO, CFO and Company Secretary

The committee is responsible for ensuring the company meets its disclosure obligations under the NZX listing rules. To achieve and maintain high standards of disclosure, the Board has approved a Market Disclosure Policy which is designed to ensure compliance with continuous disclosure requirements.

# Corporate Governance – continued

**Board and Committee Meetings**
The Board normally meets at least nine times a year and whenever necessary to deal with specific matters. The Board committees meet either quarterly or are convened as necessary. Each committee is entitled to the resources and information it requires to operate effectively.

All Directors can attend any committee meeting at the invitation of the relevant committee, with the CEO and the CFO attending the Audit Committee by standing invitation. Senior management is also available to address queries, and to assist in the understanding of issues facing the company.

The Board formally met nine times during the year. In addition, Directors met throughout the year on matters of strategy, planning, committee business, and to attend to business between meetings. The table below shows Director attendance at the formal Board meetings and committee member attendance at committee meetings during the year ended 29 July 2012.

| | BOARD | AUDIT | REMUNERATION, TALENT AND NOMINATION COMMITTEE | CORPORATE GOVERNANCE | DISCLOSURE COMMITTEE |
|---|---|---|---|---|---|
| **Number of Meetings** | 9 | 4 | 4 | 1 | 1 |
| Robert Challinor [1] | 4 | 2 | | | |
| Graham Evans | 9 | 4 | 4 | 1 | 1 |
| James Ogden | 9 | 4 | 1[2] | | 1 |
| Janine Smith | 8 | | 4 | 1 | |
| Keith Smith | 9 | 4 | 4 | | 1 |
| Sir Stephen Tindall | 9 | | 3 | | |
| Ted van Arkel | 9 | 3 | 3 | | |

[1] Retired as a Director 25 November 2011

[2] Non-committee member in attendance

## Principle 4 – Reporting and Disclosure

***The Board demands integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs.***

**Financial Reporting**
The Audit Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements.

It reviews half-yearly and annual financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external and internal audit.

Management accountability for the integrity of the company's financial reporting is reinforced by certification from the CEO and CFO. The CEO and CFO provided the Board with written confirmation that the company's financial report presents a true and fair view, in all material respects, of the company's financial position for the year ended 29 July 2012, and that operational results are in accordance with relevant accounting standards.

**Timely and Balanced Disclosure**
The Warehouse considers that shareholders and the investment market generally should be promptly informed of all major business events that influence the company. To achieve and maintain high standards of disclosure, the Board has approved a Market Disclosure Policy which is designed to ensure compliance with NZX continuous disclosure requirements.

To assist the company with its Market Disclosure Policy, the Board has appointed a Disclosure Committee. The committee is responsible for making decisions on what should be disclosed publicly under the Market Disclosure Policy.

The Company Secretary is the Disclosure Officer of the company and has responsibility for ensuring compliance with the continuous disclosure requirements, and overseeing and co-ordinating disclosure to the market.

## Principle 5 – Remuneration

***The remuneration of Directors and executives is transparent, fair and reasonable.***

Making sure Team Members receive the rewards they deserve is the responsibility of the Remuneration, Talent and Nomination Committee, a committee of the Board. The committee makes recommendations to the Board on salaries and incentive programmes and more generally on Group issues, plans and policies relating to people management. The committee is assisted by the General Manager People Support, and by external remuneration advisors.

**Non-Executive Directors' Remuneration**
The fees payable to non-executive Directors are determined by the Board within the aggregate amount approved by shareholders.

The Board considers the advice of independent remuneration consultants when setting remuneration levels. The current Directors' fee pool limit is $750,000 which was approved by the shareholders at the 25 November 2011 annual meeting of shareholders.

Details of the remuneration paid to Directors and other benefits provided by way of salaries, bonuses and exercising share rights are disclosed in note 14 to the financial statements.

**Senior Executive Remuneration**
The objective of the senior managerial remuneration strategy is to provide competitive remuneration aimed at:

- aligning managers' rewards with shareholders' value;
- achieving business plans and corporate strategies;
- rewarding performance improvement; and
- retaining key skills and competencies.

The composition of senior executive remuneration is made up as follows:

- **Base or fixed remuneration** – determined by the scope of the role and the level of knowledge, skill and experience required by the individual. The main reference point is the salary at the median of this group although the company is prepared to pay more to secure and retain the right people to deliver what the business needs.
- **Short-term incentive plan** – this comprises an annual incentive, based on percentage of the fixed remuneration, dependent on the achievement of key performance and operating result objectives. For the Executive Team the bonus is generally up to 50% of base salary for 'On Target' performance and is based on a combination of the Group reported earnings and each executive's specific objectives.
- **Long-term incentive plan** – a reward for the achievement of long-term shareholder return. Under the share rights plan that has been approved by shareholders, participants may be entitled to ordinary shares in the company if certain targets are met. Details of the plan, and the targets, are contained in note 15 to the financial statements.

Senior executives' objectives are set annually, with formal reviews in March and August each year. The CEO's objectives are set with the Chairman and tabled to the Board annually.

Senior management remuneration is detailed in the wider disclosure made by the company in the Team Members' remuneration section of the statutory disclosures. Collective disclosure of remuneration paid to key executives is disclosed in note 14 to the financial statements.

## Principle 6 – Risk Management

***The Board regularly verifies that the entity has appropriate processes that identify and manage potential and relevant risks.***

**Approach to Managing Risk**

Risk is the chance of something happening that will have an impact on business objectives. Having established an acceptable risk tolerance, The Warehouse's approach is to identify, analyse, evaluate and appropriately treat risk in the business.

The company recognises three main types of risk:

- **Operational risk** – risk to earnings and reputation arising from inadequate or failed internal processes, people and systems or from external events;
- **Business risk** – risk to earnings and reputation from business event risk, legal, compliance or regulatory risk; and
- **Market risk** – risk to earnings and reputation arising from competitor activity, product risk and risk associated with changes in financial markets (such as interest rate, foreign exchange and liquidity risk).

**Risk Management Roles and Responsibilities**

The Board is responsible for reviewing and approving The Warehouse's risk management strategy. The Board delegates day-to-day management of risk to the CEO who may further delegate such responsibilities to executive and other officers. Inherent in this delegation is the belief that responsibility for managing risks in the business is the domain of the business unit.

**CEO and CFO Assurance**

The CEO and CFO have provided the Board with written confirmation that the company's 2012 Financial Statements are founded on a sound system of risk management and internal compliance and control, and that such systems are operating efficiently and effectively in all material respects.

**Risk Monitoring and Evaluation**

The Audit Committee reviews the reports of Management and the external and internal auditors on the effectiveness of systems for internal control, financial reporting and risk management. To assist in discharging this responsibility, the Board has in place a number of strategies designed to safeguard the company's assets and interests and ensure the integrity of reporting. These reports included quarterly reviews of store audit results and quarterly reports from Ernst & Young on internal audit findings.

The Board of Directors is ultimately responsible for the risk management of the company. The Business Continuity Management (BCM) Policy spans the four phases of crisis risk management comprising risk treatment (i.e. mitigation) together with crisis preparedness, response and recovery. Key aspects of the BCM Policy are audited. A Strategic Risk Assessment review has identified significant potential risk to shareholder value and appropriate mitigations are in place and monitored.

**Insurance**

The company maintains insurance coverage with reputable insurers for relevant insurable risks on terms which are appropriate having regard to the company's recent claims history and the current insurance market.

The Warehouse Limited and Warehouse Stationery Limited are accredited employers under the ACC Partnership Programme for workers' compensation insurance. This programme encourages eligible employers to take responsibility for their own workplace health and safety, and injury management. This includes rehabilitation and claims management of employees' work injuries.

As a partnership employer the company self-insures the costs and compensation arising from workplace injuries.

The Warehouse's partnership programme continues to have tertiary accreditation status, the highest level available. This status clearly recognises our commitment to workplace safety.

## Principle 7 – Auditors

***The Board ensures the quality and independence of the external audit process.***

**Approach to Audit Governance**

The independence of the external auditor is of particular importance to shareholders and the Board. The Audit Committee is responsible for overseeing the external audit of the company. Accordingly, it monitors developments in the areas of audit, and threats to audit independence, to ensure its policies and practices are consistent with emerging best practice in these areas.

The Board has adopted a policy on audit independence, the key elements of which are:

- the external auditor must remain independent of the company at all times and comply with the New Zealand Institute of Chartered Accountants' (NZICA) Code of Ethics;
- the external auditor must monitor its independence and report to the Board that it has remained independent;
- guidelines in relation to the provision of non-audit services by the external auditor in order that the provision of such services does not impair the external auditor's independence or objectivity;

- the audit firm may be permitted to provide non-audit services that are not considered to be in conflict with the preservation of the independence of the auditor subject to the approval of the company's Audit Committee; and
- the Audit Committee must approve significant permissible non-audit work assignments that are awarded to an external auditor, and the value of non-audit work must be reported at every Board meeting.

**Engagement of the External Auditor**
The Warehouse's external auditor is PricewaterhouseCoopers (PwC). PwC was appointed by shareholders at the 2004 Annual Meeting in accordance with the provisions of the Companies Act 1993 (Act). PwC is automatically reappointed as auditor under Section 200 of the Act.

**Attendance at the Annual Meeting**
PwC, as auditor of the 2012 Financial Statements, has been invited to attend this year's annual meeting and will be available to answer questions about the conduct of the audit, preparation and content of the auditors' report, accounting policies adopted by The Warehouse and the independence of the auditor in relation to the conduct of the audit.

**Internal Audit**
The company has an internal audit function, which is independent of the company's external auditors. The internal audit function of the company is undertaken in conjunction with Ernst & Young. The respective internal audit teams report to and are directed by the Audit Committee.

Each year, the internal audit programme is approved by the Audit Committee. The programme of audit work considers the most significant areas of business risk in the company and is developed following discussions with senior management, review of the business process model of the company and consideration of the findings of the strategic risk assessment. The programme considers risks also in relation to major projects that are planned or currently under way.

The role of internal audit is to:

- assess the design and operating effectiveness of controls governing key operations, processes and business risks;
- provide the Board with an assessment, independent of management, as to the adequacy of the company's internal operating and financial controls, systems and practices; and
- assist the Board in meeting its corporate governance and regulatory responsibilities.

Store audits are conducted by the company's internal auditors. For the year ended 29 July 2012, 306 store audits were conducted by the company's internal auditor (2011: 306 audits). Internal business processes are audited by Ernst & Young also.

## Principle 8 – Shareholder Relations

***The Board fosters constructive relationships with shareholders that encourage them to engage with the company.***

The company values its dialogue with institutional and private investors and is committed to giving all shareholders comprehensive, timely and equal access to information about its activities.

The Board aims to ensure that shareholders are informed of all information necessary to assess the Board's performance. They do so through a communication strategy which includes:

- periodic and continuous disclosure to NZX;
- information provided to analysts and media;
- half-yearly and annual reports;
- the annual shareholders' meeting and any other meetings called to obtain approval for Board actions as appropriate; and
- the company's website.

In accordance with the New Zealand Companies Act and NZX Listing Rules, the company is no longer required to automatically mail a hard copy of its half-yearly or annual reports to shareholders.

The Board has moved to electronic reporting. Even though interim and Annual Reports are available electronically, shareholders can request a hard copy of the report to be mailed to them free of charge.

The notice of meeting is circulated at least 10 days before the meeting and is also posted on the company's website.

Shareholders are provided with notes on all the resolutions proposed through the notice of meeting each year. Directors and the company's external auditor are available to answer shareholder questions. The Board encourages full participation of shareholders to ensure a high level of accountability and identification with the company's strategies and goals.

In addition, web–casting and teleconferencing facilities are provided for market briefings to encourage participation from all stakeholders, regardless of their location.

## Principle 9 – Stakeholder Interests

***The Board respects the interests of stakeholders within the context of the company's ownership type and its fundamental purpose.***

The Warehouse aims to manage its business in a way that will produce positive outcomes for all stakeholders including the public, customers, Team Members, suppliers and shareholders.

We monitor progress in business sustainability as we seek to actively improve the social and environmental characteristics of the business. This is a goal to which The Warehouse is strategically committed and which it incorporates in its day-to-day operations.

The Warehouse is listed on the FTSE4Good Index which identifies companies that meet globally recognised corporate responsibility standards.

The Warehouse is committed to providing a work environment where we recognise and value different skills, abilities and experiences and where people are treated fairly in order to attract and retain talented people who will contribute to the achievement of the company's corporate objectives.

We encourage a working environment in which individual diversity is recognised and where equal employment opportunities are offered to all potential and existing Team Members on the basis of relevant merit. As part of our ongoing commitment to our Diversity Policy, in February 2012 we became one of the first companies in New Zealand to commit to the United Nations Women's Empowerment Principles, which help empower women in the workplace, the market and in the community. We continue to work on the establishment of measurable objectives on achieving diversity for disclosure in future Annual Reports, in addition to the diversity disclosures which been included for many years in The Warehouse Communities and Environment Report.

The Warehouse's commitment to Communities and Environment is further demonstrated on pages 22 and 23.

# Statutory Disclosures

## Disclosures of Interests by Directors

**General Disclosures**

The following are particulars of general disclosures of interest given by the Directors of the company pursuant to section 140(2) of the Companies Act 1993:

### Graham Evans

Chairman, Multichem Group Limited and associated companies

### James Ogden

Chairman, Arria NLG Plc

Director, MTA Group Investments Limited and associated companies

Director, Ogden Consulting Limited

Director, Petone Investments Limited

Director, Seaworks Limited and associated companies

Director, Summerset Group Holdings Limited and associated companies

Director, Upstart Capital Limited

Director, Vehicle Testing Group Limited

Independent Member, AMP Capital Property Portfolio Fund (Governance Committee)

Chair, Audit Committee of the Ministry of Social Development

Chair, Value for Money Advisory Board of the Ministry of Social Development

Member, Audit and Risk Committee of the Ministry of Foreign Affairs and Trade

Member, Finance and Risk Committee of Crown Forestry Rental Trust

Member, Investment Committee of Pencarrow Private Equity Fund

Member, Nominating Committee for the Guardians of New Zealand Superannuation

### Janine Smith

Chair, AsureQuality Limited

Director, Steel & Tube Holdings Limited

Principal, The Boardroom Practice Limited

Member, University of Auckland New Zealand Governance Centre Advisory Board

Member, Massey University College of Business Advisory Board

Director of other privately owned companies

### Keith Smith

Chairman, Goodman (NZ) Limited

Chairman, Healthcare Holdings Limited and subsidiaries

Chairman, Mobile Surgical Services Limited

Chairman, Tourism Holdings Limited

Director, Electronic Navigation Limited

Director, Enterprise Motor Group Limited and subsidiaries

Director, Gwendoline Holdings Limited (non-trading)

Director, James Raymond Holdings Limited (non-trading)

Director, Mighty River Power Limited

Director, Sheppard Industries Limited and subsidiary

Member, Advisory Board NZ Tax Trading Company Limited

Trustee, Cornwall Park Trust Board

### Sir Stephen Tindall

Founding Director, KEA New Zealand

Director, Branches Station Limited

Director, Byron Corporation Limited

Director, Foundation Services Limited

Director, Highland Resorts Limited

Director, K One W One Limited

Director, K One W One (No 2) Limited

Director, Norwood Investments Limited

Member, New Zealand Initiative

Member, Sustainable Business Council

Trustee, The Tindall Foundation

### Eduard (Ted) van Arkel

Chairman, Health Benefits Limited

Chairman, Restaurant Brands NZ Limited

Chairman, UNITEC NZ Limited

Director, Abano Healthcare Group Limited

Director, Auckland Regional Chamber of Commerce & Industry Limited

Director, AWF Group Limited

Director, Danske Mobler Limited

Director, Lang Properties Limited

Director, Nestle NZ Limited

Director, Van Arkel & Co Limited

### Robert Challinor *

Director, CDL Investments New Zealand Limited

Director, Challinor and Associates Limited

JV Committee Member, Copthorne Bay of Islands Resort

* Resigned 25 November 2011

### Robert Tindall (Alternate Director) **

Trustee, The Tindall Foundation

** Alternate to Sir Stephen Tindall

## Indemnity and Insurance

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, the company has provided insurance for, and indemnities to, Directors and employees of the Group and its subsidiaries for losses from actions undertaken in the course of their legitimate duties. The insurance includes indemnity costs and expenses incurred to defend an action that falls outside the scope of the indemnity.

## Statutory Disclosures – continued

### Directors' Security Participation

**Directors' Shareholdings as at 29 July 2012**

At 29 July 2012 the following Directors, or entities related to them, held interests in the company shares:

| | BENEFICIAL INTEREST 2012 | BENEFICIAL INTEREST 2011 | NON-BENEFICIAL INTEREST 2012 | NON-BENEFICIAL INTEREST 2011 | RELATED PARTY 2012 | RELATED PARTY 2011 |
|---|---|---|---|---|---|---|
| G F Evans | **11,202** | 11,202 | **508,767** | 890,730 | **–** | – |
| J H Ogden | **11,400** | 11,400 | **–** | – | **39,083** | 18,083 |
| J L Smith | **10,000** | 10,000 | **–** | – | **–** | – |
| K R Smith | **12,000** | 12,000 | **7,540,034** | 7,930,405 | **32,800** | 32,800 |
| R J Tindall [1] | **4,800** | 4,800 | **6,489,844** | 6,489,844 | **84,738,511** | 84,738,511 |
| Sir Stephen Tindall | **84,058,283** | 84,058,283 | **7,165,272** | 7,165,272 | **9,600** | 9,600 |
| E K van Arkel | **240** | 240 | **–** | – | **750** | 750 |

[1] *Alternate Director*

Major shareholdings in which more than one Director has an interest in the same parcel of shares are as follows:

- Graham Evans and Keith Smith held non-beneficially the same parcels of shares 508,767 (July 2011: 890,730 shares) as trustees of The Warehouse Management Trustee Company No.2 Limited.
- Sir Stephen Tindall and Robert Tindall both hold an interest in 84,058,283 shares and other smaller parcels by virtue of their family relationship.

**Share Dealings by Directors**

During the year, the Directors disclosed in respect of section 148(2) of the Companies Act 1993 that they acquired or disposed of a relevant interest in shares as follows:

| SHARE TRANSACTION | DATE OF TRANSACTION | NUMBER OF ORDINARY SHARES ACQUIRED/(DISPOSED) | CONSIDERATION |
|---|---|---|---|
| K R Smith as a trustee of The Warehouse Management Trustee Company Limited | various dates | (9,168) | to Team Members under the staff share schemes |
| G F Evans and K R Smith as trustees of The Warehouse Management Trustee Company No.2 Limited | various dates | (481,963) | settlement of obligations under the executive share scheme |
| G F Evans and K R Smith as trustees of The Warehouse Management Trustee Company No.2 Limited | April 2012 | 100,000 | on-market purchase of shares for the executive share scheme at an average price of $2.60 per share |
| J H Ogden | September 2011 | 10,500 | on-market purchase by related party of shares at an average price of $3.26 per share |
| | October 2011 | 4,500 | on-market purchase by related party of shares at $3.16 per share |
| | March 2012 | 6,000 | on-market purchase by related party of shares at $2.80 per share |

## Remuneration of Directors

On 25 November 2011 the shareholders approved the Director fee pool limit of $750,000 per annum (2011: $650,000).

The fees paid to non-executive Directors for services in their capacity as Directors during the year ended 29 July 2012 was as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| HJM Callaghan – *appointed 10 September 2010, resigned 31 July 2011* | – | 64,000 |
| R L Challinor – *retired 25 November 2011* | **24,000** | 77,000 |
| G F Evans (Chairman) | **155,000** | 98,000 |
| J H Ogden | **84,000** | 76,000 |
| J L Smith | **81,000** | 73,000 |
| K R Smith (Deputy Chairman) | **115,000** | 143,000 |
| Sir Stephen Tindall | **77,000** | 72,000 |
| E K van Arkel – *appointed 1 July 2011* | **81,000** | 6,000 |
| **Total** | **617,000** | 609,000 |

## Subsidiary Company Directors

The following people held office as directors of subsidiary companies at 29 July 2012. Those who retired during the year are indicated with an (R).

| **Company** | |
|---|---|
| Boye Developments Limited | L Bunt (R), I Morrice (R), M Powell, S Small |
| Eldamos Investments Limited | L Bunt (R), I Morrice (R), P Judd, M Powell, P Okhovat |
| Eldamos Nominees Limited | L Bunt (R), I Morrice (R), P Judd, M Powell |
| The Warehouse Card Limited | L Bunt (R), I Morrice (R), M Powell |
| The Warehouse Cellars Limited | P Judd |
| The Warehouse Investments Limited | L Bunt (R), I Morrice (R), M Powell |
| The Warehouse Limited | L Bunt (R), I Morrice (R), P Judd, K Smith, M Powell, S Small |
| The Warehouse Nominees Limited | L Bunt (R), I Morrice (R), M Powell |
| TWGA Pty Ltd | L Bunt (R), I McGill, B Moors, K Smith, Sir Stephen Tindall |
| TWL Australia Pty Limited | L Bunt (R), I McGill, B Moors, K Smith, Sir Stephen Tindall |
| TWL Products Limited | L Bunt (R), I Morrice (R), M Powell |
| TWP No.3 Limited | P Judd, N Tuck |
| Waikato Valley Chocolates Limited | N Craig, P Judd, M Razey, N Tuck, H Vetsch |
| Warehouse Stationery Limited | L Bunt (R), M Powell, P Judd, S Small |

## Team Members' Remuneration

Grouped below, in accordance with section 211(1)(g) of the Companies Act 1993, are the number of Team Members or former Team Members, not being Directors or former Directors, who received remuneration and other benefits valued at or exceeding $100,000 during the year under review.

Remuneration includes redundancy payments and termination payments made during the year to Team Members whose remuneration would not otherwise have been included in the table reported below.

Team Members also received share based remuneration during the year as part of the Group's long term incentive plans (refer note 15 to the financial statements). The amount attributed to share based remuneration presented in the table below represents the value to the employee of the compensation determined using the share price on the date when share options were exercised by the Team Member and/or the share price on the date when share rights vested.

| REMUNERATION ($000) | NUMBER OF TEAM MEMBERS EXCLUDING SHARE BASED REMUNERATION | NUMBER OF TEAM MEMBERS INCLUDING SHARE BASED REMUNERATION |
|---|---|---|
| 100 – 110 | 54 | 54 |
| 110 – 120 | 23 | 23 |
| 120 – 130 | 27 | 27 |
| 130 – 140 | 27 | 27 |
| 140 – 150 | 17 | 17 |
| 150 – 160 | 9 | 9 |
| 160 – 170 | 9 | 8 |
| 170 – 180 | 5 | 4 |
| 180 – 190 | 6 | 5 |
| 190 – 200 | 7 | 7 |
| 200 – 210 | 4 | 4 |
| 210 – 220 | 3 | 3 |
| 220 – 230 | 1 | 2 |
| 230 – 240 | 2 | 2 |
| 240 – 250 | 1 | 1 |
| 250 – 260 | 3 | 3 |
| 260 – 270 | 3 | 2 |
| 270 – 280 | 4 | 1 |
| 280 – 290 | 2 | 2 |
| 290 – 300 | – | 2 |
| 300 – 310 | – | 4 |
| 340 – 350 | 2 | 1 |
| 350 – 360 | 1 | 1 |
| 360 – 370 | 1 | – |
| 370 – 380 | – | 1 |
| 380 – 390 | 1 | – |
| 400 – 410 | 2 | – |
| 410 – 420 | 1 | 2 |
| 420 – 430 | – | 1 |
| 430 – 440 | – | 2 |
| 450 – 460 | 1 | – |
| 500 – 510 | 1 | – |
| 510 – 520 | 1 | – |
| 530 – 540 | – | 2 |
| 580 – 590 | 1 | – |
| 610 – 620 | – | 1 |
| 870 – 880 | – | 1 |
| 1,130 – 1,140 | 1 | – |
| 1,210 – 1,220 | 1 | – |
| 1,230 – 1,240 | – | 1 |
| 1,440 – 1,450 | – | 1 |

## Substantial Security Holders

According to notices given to the company under the Securities Markets Act 1988, as at 7 September 2012, the substantial security holders in the company and their relevant interests are noted below:

| | RELEVANT INTEREST | DATE OF NOTICE |
|---|---|---|
| General Distributors Limited (an indirect, wholly-owned subsidiary of Woolworths Limited) | 30,548,887 | 29 May 2007 |
| Wardell Bros & Coy Limited, Cash Wholesalers Limited and Foodstuffs (Auckland) Nominees Limited | 31,120,089 | 23 March 2007 |
| Sir Stephen Tindall | 84,141,524 | 19 March 2004 |
| The Tindall Foundation | 66,323,220 | 19 March 2004 |

## Twenty Largest Registered Shareholders as at 7 September 2012

| | NUMBER OF ORDINARY SHARES | PERCENTAGE OF ORDINARY SHARES |
|---|---|---|
| Sir Stephen Tindall | 83,058,283 | 26.69% |
| The Tindall Foundation | 66,323,220 | 21.31% |
| General Distributors Limited | 30,548,887 | 9.82% |
| Cash Wholesalers Limited | 10,373,363 | 3.33% |
| Foodstuffs (Auckland) Nominees Limited | 10,373,363 | 3.33% |
| Wardell Bros & Coy Limited | 10,373,363 | 3.33% |
| J B Were (NZ) Nominees Limited | 5,640,282 | 1.81% |
| J B Were (NZ) Nominees Limited | 5,210,241 | 1.67% |
| J B Were (NZ) Nominees Limited | 4,653,150 | 1.50% |
| Citibank Nominees (New Zealand) Limited – NZCSD A/c [1] | 4,580,320 | 1.47% |
| Sir Stephen Tindall, K R Smith & J R Avery (as trustees) | 3,389,844 | 1.09% |
| R G Tindall, G M Tindall, Sir Stephen Tindall & S A Kerr (as trustees) | 3,100,000 | 1.00% |
| JPMorgan Chase Bank NA NZCSD A/c [1] | 3,059,707 | 0.98% |
| HSBC Nominees (New Zealand) Limited – NZCSD A/c [1] | 2,426,629 | 0.78% |
| FNZ Custodians Limited | 1,822,197 | 0.59% |
| Accident Compensation Corporation – NZCSD A/c [1] | 1,798,171 | 0.58% |
| Custodial Services Limited | 1,547,250 | 0.50% |
| NZPT Custodians (Grosvenor) Limited | 1,053,052 | 0.34% |
| National Nominees New Zealand Limited – NZCSD A/c [1] | 1,050,682 | 0.34% |
| Ian Rognvald Morrice | 1,000,000 | 0.32% |
| | 251,382,004 | 80.78% |

[1] *New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 7 September 2012, total holdings in NZCSD were 15,733,425 or 5.06% of shares on issue.*

## Distribution of Shareholders and Holdings as at 7 September 2012

| SIZE OF SHAREHOLDING | NUMBER OF SHAREHOLDERS | PERCENTAGE | NUMBER OF SHARES | PERCENTAGE |
|---|---|---|---|---|
| 1 – 1,000 | 4,675 | 42.22% | 2,548,782 | 0.82% |
| 1,001 – 5,000 | 4,621 | 41.74% | 11,943,539 | 3.84% |
| 5,001 – 10,000 | 971 | 8.77% | 7,458,104 | 2.40% |
| 10,001 – 100,000 | 729 | 6.58% | 18,102,267 | 5.81% |
| 100,000 and over | 76 | 0.69% | 271,143,176 | 87.13% |
| | 11,072 | 100.00% | 311,195,868 | 100.00% |
| **Geographic Distribution** | | | | |
| Auckland and Northland | 4,201 | 37.94% | 245,643,508 | 78.94% |
| Waikato and Central North Island | 1,959 | 17.69% | 9,630,617 | 3.09% |
| Lower North Island and Wellington | 2,016 | 18.21% | 27,819,584 | 8.94% |
| Canterbury, Marlborough and Westland | 1,096 | 9.90% | 16,370,586 | 5.26% |
| Otago and Southland | 795 | 7.18% | 4,072,127 | 1.31% |
| Australia | 846 | 7.64% | 6,713,558 | 2.16% |
| Other Overseas | 159 | 1.44% | 945,888 | 0.30% |
| | 11,072 | 100.00% | 311,195,868 | 100.00% |

## Distribution of Bondholders and Holdings as at 7 September 2012

| SIZE OF SHAREHOLDING | NUMBER OF BONDHOLDERS | PERCENTAGE | NUMBER OF BONDS | PERCENTAGE |
|---|---|---|---|---|
| 5,000 – 9,999 | **289** | 15.39% | **1,548,000** | 1.55% |
| 10,000 – 49,999 | **1,311** | 69.81% | **23,506,000** | 23.51% |
| 50,000 – 99,999 | **164** | 8.73% | **9,142,000** | 9.14% |
| 100,000 – 499,999 | **93** | 4.95% | **13,524,000** | 13.52% |
| 500,000 – 999,999 | **9** | 0.48% | **6,019,000** | 6.02% |
| 1,000,000 and over | **12** | 0.64% | **46,261,000** | 46.26% |
| | **1,878** | 100.00% | **100,000,000** | 100.00% |
| **Geographic Distribution** | | | | |
| Auckland and Northland | **617** | 32.86% | **23,187,000** | 23.18% |
| Waikato and Central North Island | **324** | 17.25% | **24,577,000** | 24.58% |
| Lower North Island and Wellington | **431** | 22.95% | **24,777,000** | 24.78% |
| Canterbury, Marlborough and Westland | **269** | 14.32% | **7,205,000** | 7.20% |
| Otago and Southland | **219** | 11.66% | **17,306,000** | 17.31% |
| Australia | **7** | 0.37% | **2,236,000** | 2.24% |
| Other Overseas | **11** | 0.59% | **712,000** | 0.71% |
| | **1,878** | 100.00% | **100,000,000** | 100.00% |

## Stock Exchange Listing

The ordinary shares of The Warehouse Group Limited are listed on the New Zealand stock exchange (NZX). The Group was listed on the Australian stock exchange (ASX) but, following an application to delist made by the Group, it was removed from the ASX official list on 29 June 2012.

## Ordinary Shares

The total number of voting securities of the company on issue on 7 September 2012 was 311,195,868 fully paid ordinary shares.

## Holders of each class of equity security as at 7 September 2012

| CLASS OF EQUITY SECURITY | NUMBER OF HOLDERS | NUMBER OF SHARES OR RIGHTS |
|---|---|---|
| Ordinary Shares | 11,072 | 311,195,868 |
| Share Rights | | |
| – Executive share scheme | 45 | 2,780,000 |

## Rights Attaching to Shares

Clauses 20 to 22 of the company's constitution set out the voting rights of shareholders. Ordinary shares in the company each carry a right to vote on a poll at any general meeting of shareholders on any resolution. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney. Voting may be conducted by voice, a show of hands or a poll. Each of the company's ordinary shares entitles the holder to one vote.

## On-market Share Buy-backs

The company is not, at the date of this annual report, undertaking any on-market share buy-backs.

## Share Price History

The following tables show the high and low sale prices for the ordinary shares during the periods, indicated, based on mid-market prices at the close of business on the NZSX for the following periods:

(i) the five most recent financial years; and

(ii) each of the six most recent months

**(i) Five most recent financial years**

| | SHARE PRICE HIGH | SHARE PRICE LOW |
|---|---|---|
| | $ | $ |
| 2012 | 3.57 | 2.49 |
| 2011 | 4.05 | 3.35 |
| 2010 | 4.55 | 3.30 |
| 2009 | 4.05 | 3.02 |
| 2008 | 6.64 | 3.77 |

**(ii) The six most recent months**

| | SHARE PRICE HIGH | SHARE PRICE LOW |
|---|---|---|
| | $ | $ |
| September 2012 | 3.02 | 2.82 |
| August 2012 | 2.89 | 2.64 |
| July 2012 | 2.65 | 2.51 |
| June 2012 | 2.51 | 2.49 |
| May 2012 | 2.75 | 2.52 |
| April 2012 | 2.75 | 2.57 |

## Escrow

Apart from the shares held under the Staff Purchase Plan, the company has no securities subject to an escrow agreement.

## Dividends on Ordinary Shares

The Warehouse Group Limited has paid dividends on its ordinary shares every year without interruption since listing on the New Zealand Exchange in 1994. The Group's current dividend policy was approved by the Board in September 2010. The Group's dividend policy is to distribute 90% of adjusted net profit to shareholders.

On 6 September 2012 the Directors declared a fully imputed final dividend of 6.5 cents per share bringing the total dividend for the year to 20.0 cents per share. The dividends will be fully imputed at a rate of 30% and will be paid on 14 November 2012 to all shareholders on the share register at the close of business on 2 November 2012.

The dividends declared for each of the last five financial years were as follows:

**Cents per share**

| DIVIDENDS | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Interim | **13.5** | 15.5 | 15.5 | 15.5 | 15.5 |
| Final | **6.5** | 6.5 | 8.5 | 5.5 | 5.5 |
| Subtotal | **20.0** | 22.0 | 24.0 | 21.0 | 21.0 |
| Special | **–** | – | 6.5 | 10.0 | – |
| Total | **20.0** | 22.0 | 30.5 | 31.0 | 21.0 |

### Auditor
PricewaterhouseCoopers have continued to act as auditors of the company, and have undertaken the audit of the financial statements for the 29 July 2012 year.

### Disciplinary Action
There was no disciplinary action taken against the company by NZX during the period under review.

### Donations
In accordance with section 211(1)(h) of the Companies Act 1993, the company records that it donated $240,000 (2011: $724,000) to various charities during the year. In line with Board policy, no political contributions were made during the year.

### NZX Waivers
Details of all waivers granted and published by NZX within or relied upon by The Warehouse in the 12 months immediately preceding the date two months before the date of publication of this Annual Report are available on the company's website www.thewarehouse.co.nz.

### Material Differences
There are no material differences between the NZX Appendix 1 issued by the company on 7 September 2012 for the year ended 29 July 2012 and this Annual Report.

# Financial Calendar

| | HALF YEAR | FULL YEAR |
|---|---|---|
| Balance date | 27 January 2013 | 28 July 2013 |
| Results announced | March 2013 | September 2013 |
| Dividends paid | April 2013 | November 2013 |
| Quarterly sales announced | November 2012 | May 2013 |
| | March 2013 | September 2013 |

# Directory

## Board of Directors
Graham Evans (Chairman)
Keith Smith (Deputy Chairman)
James Ogden
Janine Smith
Sir Stephen Tindall
Eduard (Ted) van Arkel

**Group Chief Executive Officer**
Mark Powell

**Chief Financial Officer**
Stephen Small

**Company Secretary**
Kerry Nickels

## Place of Business
26 The Warehouse Way
Northcote, Auckland 0627
PO Box 33470, Takapuna
Auckland 0740, New Zealand

Telephone: +64 9 489 7000
Facsimile: +64 9 489 7444

## Registered Office
C/– BDO
Level 8, 120 Albert Street
PO Box 2219
Auckland 1140, New Zealand

## Auditor
**PricewaterhouseCoopers**
Private Bag 92162
Auckland 1142, New Zealand

## Shareholder Enquiries
Shareholders with enquiries regarding share transactions, changes of address or dividend payments should contact the Share Registrar.

You can also manage your shareholding electronically by using Computershare's secure website, www.computershare.co.nz/investorcentre, whereby you can view your share balance, change your address, view payment and tax information, update your payment instructions and update your report options.

**Share Registrar**
Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Private Bag 92119, Auckland 1142
New Zealand
Telephone: +64 9 488 8777
Facsimile: +64 9 488 8787
Email: enquiry@computershare.co.nz
Website: www.computershare.co.nz/investorcentre

## Direct Crediting of Dividends
To minimise the risk of fraud and misplacement of dividend cheques, shareholders are strongly recommended to have all payments made by way of direct credit to their nominated bank account in New Zealand or Australia.

## Investor Relations
For investor relations enquiries email investor@twl.co.nz

## Stock Exchange Listing
NZSX trading code: WHS

## Company Numbers
NZ Incorporation: AK/611207

## Website
www.thewarehouse.co.nz

The company is a member of the Sustainable Business Council (SBC).

The SBC is a coalition of leading businesses united by a shared commitment to sustainable development via the three pillars of: economic growth, ecological balance and social progress.
Its mission is to provide business leadership as a catalyst for change toward sustainable development and to promote eco-efficiency, innovation and responsible entrepreneurship.

World Business Council for Sustainable Development

The company is a member of the World Business Council for Sustainable Development (WBCSD).

The WBCSD is a CEO-led, global association of some 200 companies dealing exclusively with business and sustainable development. The Council provides a platform for companies to explore sustainable development, share knowledge, experiences and best practices, and to advocate business positions on these issues in a variety of forums, working with governments, non-governmental and inter-governmental organisations.

Printed on paper from sustainable forests.

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www.thewarehouse.co.nz