

# **The Warehouse Group Limited Financial Statements**

**For the 52 week period ended 31 July 2016**

## Financial Statements

For the 52 week period ended 31 July 2016

The financial statements have been presented in a style which attempts to make them less complex and more relevant to shareholders. The note disclosures have been grouped into six sections: 'basis of preparation', 'financial performance', 'operating assets and liabilities', 'financing and capital structure', 'financial risk management' and 'other disclosures'. Each section sets out the significant accounting policies in grey text boxes applied in producing the relevant notes, along with details of any key judgements and estimates used. The purpose of this format is to provide readers with a clearer understanding of what drives financial performance of the Group.

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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 22 September 2016.

**Consolidated Income Statement**

For the 52 week period ended 31 July 2016

	Note	(52 weeks) 2016	(53 weeks) 2015
		\$ 000	\$ 000
Retail sales		2,924,682	2,770,421
Finance business revenue	3.1	20,352	5,617
<b>Total revenue</b>	2.1	2,945,034	2,776,038
Cost of retail goods sold	8.1	(1,966,510)	(1,854,669)
Other income	3.2	8,858	8,268
Lease and occupancy expense	3.3	(148,916)	(147,192)
Employee expense	3.4	(483,812)	(449,887)
Depreciation and amortisation expense	2.2	(59,660)	(58,634)
Other operating expenses	3.5	(187,209)	(182,491)
<b>Operating profit</b>	2.1	107,785	91,433
Unusual items	5.0	15,679	(6,746)
Equity earnings of associate	15.3	723	2,802
<b>Earnings before interest and tax</b>		124,187	87,489
Net interest expense (excluding finance business interest received)	10.2	(17,891)	(16,207)
<b>Profit before tax</b>		106,296	71,282
Income tax expense	4.1	(23,820)	(20,345)
<b>Net profit for the period</b>		82,476	50,937
<b>Attributable to:</b>			
Shareholders of the parent		78,338	52,433
Minority interests	11.4	4,138	(1,496)
		82,476	50,937
Basic earnings per share	6.0	22.7 cents	15.2 cents
Diluted earnings per share	6.0	22.6 cents	15.1 cents

**Consolidated Statement of Comprehensive Income**

For the 52 week period ended 31 July 2016

	Note	(52 weeks) 2016	(53 weeks) 2015
		\$ 000	\$ 000
<b>Net profit for the period</b>		82,476	50,937
<b>Items that may be reclassified subsequently to the Income Statement</b>			
Movement in derivative cash flow hedges		(64,480)	43,360
Movement in de-designated derivative hedges		605	(2,623)
Tax relating to movement in hedge reserve		17,885	(11,406)
<b>Other comprehensive income</b>		(45,990)	29,331
<b>Total comprehensive income</b>		36,486	80,268
<b>Attributable to:</b>			
Shareholders of the parent		32,348	81,764
Minority interest	11.4	4,138	(1,496)
<b>Total comprehensive income</b>		36,486	80,268

## Consolidated Balance Sheets

As at 31 July 2016

	Note	CONSOLIDATED		RETAIL GROUP		FINANCIAL SERVICES	
		2016	2015	2016	2015	2016	2015
		\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
<b>ASSETS</b>							
<b>Current assets</b>							
Cash and cash equivalents	10.1	49,881	32,195	36,531	28,327	13,350	3,868
Finance business receivables	8.3	73,565	14,228	-	-	73,565	14,228
Trade and other receivables	8.2	77,059	72,133	72,434	71,550	4,625	583
Available for sale property	9.1	52,277	-	52,277	-	-	-
Inventories	8.1	501,713	510,461	501,713	510,461	-	-
Derivative financial instruments	12.2	621	39,127	621	39,127	-	-
Taxation receivable	4.2	-	2,250	-	803	3,352	1,447
<b>Total current assets</b>		<b>755,116</b>	<b>670,394</b>	<b>663,576</b>	<b>650,268</b>	<b>94,892</b>	<b>20,126</b>
<b>Non-current assets</b>							
Property, plant and equipment	9.1	271,043	355,095	269,791	353,879	1,252	1,216
Intangible assets	9.2	166,394	147,432	120,218	120,482	46,176	26,950
Investments	15.3	-	2,778	-	2,778	-	-
Investment in finance business		-	-	76,797	45,527	-	-
Derivative financial instruments	12.2	738	164	738	164	-	-
Deferred taxation	4.3	49,597	22,935	47,304	20,692	2,293	2,243
<b>Total non-current assets</b>		<b>487,772</b>	<b>528,404</b>	<b>514,848</b>	<b>543,522</b>	<b>49,721</b>	<b>30,409</b>
<b>Total assets</b>	2.3	<b>1,242,888</b>	<b>1,198,798</b>	<b>1,178,424</b>	<b>1,193,790</b>	<b>144,613</b>	<b>50,535</b>
<b>LIABILITIES</b>							
<b>Current liabilities</b>							
Borrowings	10.1	125,202	117,164	125,202	117,164	-	-
Trade and other payables	8.4	271,308	256,499	264,424	252,113	6,884	4,386
Derivative financial instruments	12.2	25,133	51	25,133	51	-	-
Taxation payable	4.2	2,068	-	5,420	-	-	-
Provisions	8.5	58,915	44,423	58,108	43,801	807	622
<b>Total current liabilities</b>		<b>482,626</b>	<b>418,137</b>	<b>478,287</b>	<b>413,129</b>	<b>7,691</b>	<b>5,008</b>
<b>Non-current liabilities</b>							
Borrowings	10.1	164,534	214,604	164,534	214,604	-	-
Securitised borrowings	10.1	60,125	-	-	-	60,125	-
Derivative financial instruments	12.2	4,845	3,882	4,845	3,882	-	-
Trade and other payables	8.4	-	1,000	-	1,000	-	-
Provisions	8.5	17,850	16,893	17,850	16,893	-	-
<b>Total non-current liabilities</b>		<b>247,354</b>	<b>236,379</b>	<b>187,229</b>	<b>236,379</b>	<b>60,125</b>	<b>-</b>
<b>Total liabilities</b>	2.3	<b>729,980</b>	<b>654,516</b>	<b>665,516</b>	<b>649,508</b>	<b>67,816</b>	<b>5,008</b>
<b>Net assets</b>		<b>512,908</b>	<b>544,282</b>	<b>512,908</b>	<b>544,282</b>	<b>76,797</b>	<b>45,527</b>
<b>EQUITY</b>							
Contributed equity	11.2	357,685	358,215	357,685	358,215	-	-
Reserves	11.3	(18,816)	26,488	(18,816)	26,488	-	-
Retained earnings		173,872	157,154	173,872	157,154	-	-
Investment in finance business		-	-	-	-	76,797	45,527
<b>Total equity attributable to shareholders</b>		<b>512,741</b>	<b>541,857</b>	<b>512,741</b>	<b>541,857</b>	<b>76,797</b>	<b>45,527</b>
Minority interest	11.4	167	2,425	167	2,425	-	-
<b>Total equity</b>		<b>512,908</b>	<b>544,282</b>	<b>512,908</b>	<b>544,282</b>	<b>76,797</b>	<b>45,527</b>

**Consolidated Statement of Cash Flows**

For the 52 week period ended 31 July 2016

	Note	(52 weeks) 2016 \$ 000	(53 weeks) 2015 \$ 000
<b>Cash flows from operating activities</b>			
Cash received from customers		2,944,555	2,774,126
Payments to suppliers and employees		(2,745,746)	(2,665,960)
Income tax paid		(28,037)	(22,398)
Interest paid		(16,495)	(18,524)
		154,277	67,244
Loans repaid by finance business customers		148,306	88,395
New loans to finance business customers		(140,123)	(79,170)
<b>Net cash flows from operating activities</b>		<b>162,460</b>	<b>76,469</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant & equipment and computer software		39,488	31,120
Proceeds from business disposal		6,382	-
Dividend received from associate	15.3	2,695	5,565
Purchase of property, plant & equipment and computer software		(75,180)	(109,345)
Contingent and deferred acquisition consideration		(1,575)	(20,043)
Acquisition of minority interest	11.4	(9,800)	-
Acquisition of subsidiaries, net of cash acquired	15.2	(4,363)	-
Other items		3	299
<b>Net cash flows from investing activities</b>		<b>(42,350)</b>	<b>(92,404)</b>
<b>Cash flows from financing activities</b>			
Proceeds from / (Repayment of) retail borrowings		(41,825)	62,395
Proceeds from / (Repayment of) securitised borrowings		1,496	-
Net proceeds received on senior bond reissuance		-	22,811
Repayment of finance leases		(1,402)	(1,440)
Purchase of treasury stock	11.2	(2,531)	(2,754)
Treasury stock dividends received		280	188
Dividends paid to parent shareholders		(55,920)	(59,432)
Dividends paid to minority shareholders		(2,522)	(396)
<b>Net cash flows from financing activities</b>		<b>(102,424)</b>	<b>21,372</b>
Net cash flow		17,686	5,437
Opening cash position		32,195	26,758
<b>Closing cash position</b>	10.1	<b>49,881</b>	<b>32,195</b>

**Reconciliation of Operating Cash Flows**

For the 52 week period ended 31 July 2016

	Note	(52 weeks) 2016 \$ 000	(53 weeks) 2015 \$ 000
<b>Net profit</b>		<b>82,476</b>	<b>50,937</b>
<b>Non-cash items</b>			
Depreciation and amortisation expense	2.2	59,660	58,634
Goodwill impairment	9.2	-	11,302
Share based payment expense	3.4	3,208	2,114
Interest capitalisation		621	235
Movement in deferred tax	4.3	(7,977)	(4,230)
Movement in de-designated derivative hedges		436	(1,889)
Share of profit from associate	15.3	(723)	(2,802)
<b>Total non-cash items</b>		<b>55,225</b>	<b>63,364</b>
<b>Items classified as investing or financing activities</b>			
Gain on sale of property, plant and equipment		(4,392)	(4,842)
Gain on business disposal	15.1	(9,950)	-
Direct costs relating to acquisitions	15.2	479	-
Contingent consideration		(675)	977
Supplementary dividend tax credit	4.2	425	468
<b>Total investing and financing adjustments</b>		<b>(14,113)</b>	<b>(3,397)</b>
<b>Changes in assets and liabilities</b>			
Trade and other receivables		(3,681)	(10,290)
Finance business receivables		(2,327)	4,808
Inventories		7,851	(18,352)
Trade and other payables		18,054	(8,176)
Provisions		15,471	(3,401)
Income tax		3,504	976
<b>Total changes in assets and liabilities</b>		<b>38,872</b>	<b>(34,435)</b>
<b>Net cash flows from operating activities</b>		<b>162,460</b>	<b>76,469</b>

## Consolidated Statement of Changes in Equity

For the 52 week period ended 31 July 2016

	Note	Share Capital \$ 000	Treasury Stock \$ 000	Hedge Reserves \$ 000	Employee Share Benefits Reserve \$ 000	Retained Earnings \$ 000	Minority Interest \$ 000	Total Equity \$ 000
<b>For the 52 week period ended 31 July 2016</b>								
Balance at the beginning of the period		365,517	(7,302)	23,551	2,937	157,154	2,425	544,282
Net profit for the period		-	-	-	-	78,338	4,138	82,476
Movement in derivative cash flow hedges		-	-	(64,480)	-	-	-	(64,480)
Movement in de-designated derivative hedges		-	-	605	-	-	-	605
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	17,885	-	-	-	17,885
Total comprehensive income		-	-	(45,990)	-	78,338	4,138	36,486
<b>Contributions by and distributions to owners</b>								
Share rights charged to the income statement		-	-	-	3,208	-	-	3,208
Share rights vested		-	2,001	-	(2,522)	521	-	-
Dividends paid	7.1, 11.4	-	-	-	-	(55,495)	(3,522)	(59,017)
Treasury stock dividends received		-	-	-	-	280	-	280
Purchase of treasury stock		-	(2,531)	-	-	-	-	(2,531)
Purchase of minority interest	11.4	-	-	-	-	(6,926)	(2,874)	(9,800)
Balance at the end of the period		365,517	(7,832)	(22,439)	3,623	173,872	167	512,908
		(note: 11.2)	(note: 11.2)	(note: 11.3)	(note: 11.3)		(note: 11.4)	
<b>For the 53 week period ended 2 August 2015</b>								
Balance at the beginning of the period		365,517	(8,707)	(5,780)	3,709	164,861	4,317	523,917
Profit for the period		-	-	-	-	52,433	(1,496)	50,937
Movement in derivative cash flow hedges		-	-	43,360	-	-	-	43,360
Movement in de-designated derivative hedges		-	-	(2,623)	-	-	-	(2,623)
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	(11,406)	-	-	-	(11,406)
Total comprehensive income		-	-	29,331	-	52,433	(1,496)	80,268
<b>Contributions by and distributions to owners</b>								
Share rights charged to the income statement		-	-	-	2,114	-	-	2,114
Share rights vested		-	4,250	-	(2,886)	(1,364)	-	-
Dividends paid	7.1, 11.4	-	-	-	-	(58,964)	(396)	(59,360)
Treasury stock dividends received		-	-	-	-	188	-	188
Purchase of treasury stock		-	(2,845)	-	-	-	-	(2,845)
Balance at the end of the period		365,517	(7,302)	23,551	2,937	157,154	2,425	544,282
		(note: 11.2)	(note: 11.2)	(note: 11.3)	(note: 11.3)		(note: 11.4)	

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

## Notes to and forming part of the Financial Statements

For the 52 week period ended 31 July 2016

### 1. BASIS OF PREPARATION

#### 1.1 REPORTING ENTITY

The Warehouse Group Limited (the Company) and its subsidiaries (together the Group) trade in the New Zealand retail and financial services sectors. The Company is a limited liability company incorporated and domiciled in New Zealand. The Group is registered under the Companies Act 1993 and is an FMC Reporting Entity under Part 7 of the Financial Markets Conduct Act (FMCA) 2013. The address of its registered office is Level 8, 120 Albert Street, PO Box 2219, Auckland. The Company is listed on the New Zealand Stock Exchange (NZX).

#### 1.2 COMPLIANCE STATEMENT

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), FMCA 2013 and NZX listing rules. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

#### 1.3 BASIS OF PREPARATION

The measurement basis adopted in the preparation of these financial statements is historic cost, as modified by the revaluation of certain assets and liabilities at fair value. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand, unless otherwise stated.

The principal accounting policies applied in the preparation of these financial statements are set out in the accompanying notes where an accounting choice is provided by NZ IFRS, is new or has changed, is specific to the Group's operations or is significant or material. Where NZ IFRS does not provide any accounting policy choice, the Group has applied the requirements of NZ IFRS but a detailed accounting policy has not been specifically included.

The Group has presented separate balance sheets for the finance and retail segments as part of the primary financial statements. This is a non GAAP financial measure however the Group has presented the information as it monitors the funding of the finance business separately from the retail operations and to aid in the understanding of how these business segments are structured. The consolidated balance sheet is the sum of each of the balance sheet line items for the retail group and financial services group adjusted for intergroup elimination entries.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. A list of material subsidiaries at year end are listed below.

Name of entity	Principal Activity	Change	Note	Percentage Ownership	
				2016	2015
The Warehouse Limited	Retail			100	100
Warehouse Stationery Limited	Retail			100	100
Noel Leeming Group Limited	Retail			100	100
Torpedo7 Limited	Retail	Minority purchase	11.4	100	80
RRS 2013 Limited	Retail	Minority purchase	11.4	100	80
Torpedo7 Fitness Limited	Retail	Minority purchase	11.4	100	80
Torpedo7 Supplements Limited	Retail	Minority purchase	11.4	100	80
TW Financial Services Operations Limited	Financial Services			100	100
The Warehouse Financial Services Limited	Financial Services	Acquisition	15.2	100	49
Diners Club (NZ) Limited	Financial Services			100	100
TW Money Limited	Financial Services			100	100
Eldamos Investments Limited	Property			100	100
The Warehouse Nominees Limited	Investment			100	100
TWP No.3 Limited	Retail / Wholesale			100	100

#### 1.4 REPORTING PERIOD

These financial statements are for the 52 week period 3 August 2015 to 31 July 2016. The comparative period is for the 53 week period 28 July 2014 to 2 August 2015. The Group operates on a weekly trading and reporting cycle which means most financial years represent a 52 week period. However a 53 week year will occur once every 5 to 6 years and this occurred in the comparative period.

#### 1.5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires the Group to make judgements, estimates and assumptions that effect the reported amounts of assets and liabilities at balance date and the reported amounts of revenues and expenses during the year. Judgements and estimates which are material to the financial statements are found in the following notes:

- (a) Inventories (note 8.1)
- (b) Derivative financial instruments (note 12.2)
- (c) Intangible assets (note 9.2)

## Notes to the Financial Statements - Financial Performance

For the 52 week period ended 31 July 2016

### 2.0 SEGMENT INFORMATION

#### 2.1 Operating performance

	Note	Revenue		Operating Profit		Retail Operating Margin	
		2016	2015	2016	2015	2016	2015
		\$ 000	\$ 000	\$ 000	\$ 000	%	%
The Warehouse		1,760,708	1,718,307	89,376	79,600	5.1 %	4.6 %
Warehouse Stationery		279,155	262,780	14,288	12,723	5.1 %	4.8 %
Noel Leeming		752,137	665,628	12,050	6,424	1.6 %	1.0 %
Torpedo7		148,660	131,231	3,380	34	2.3 %	0.0 %
Other Group operations		9,166	9,276	(7,929)	(5,555)		
Inter-segment eliminations		(25,144)	(16,801)	-	-		
<b>Retail Group</b>		<b>2,924,682</b>	<b>2,770,421</b>	<b>111,165</b>	<b>93,226</b>	<b>3.8 %</b>	<b>3.4 %</b>
Financial Services Group		20,352	5,617	(3,380)	(1,793)		
		2,945,034	2,776,038	107,785	91,433		
Unusual items	5.0			15,679	(6,746)		
Equity earnings of associate	15.3			723	2,802		
<b>Earnings before interest and tax</b>				<b>124,187</b>	<b>87,489</b>		
Net interest expense (excluding finance business interest received)	10.2			(17,891)	(16,207)		
<b>Net profit before taxation for the year</b>				<b>106,296</b>	<b>71,282</b>		
<b>Attributable to:</b>							
Retail Group				113,412	74,159		
Financial Services Group				(7,116)	(2,877)		
<b>Net profit before taxation for the year</b>				<b>106,296</b>	<b>71,282</b>		

#### Operating segments

The Group has four operating segments trading in the New Zealand retail sector and a financial services business. 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.

Each of the four retail segments represent a distinct retail chain, synonymous with its segment name. Customers can purchase product from the retail chains either on-line or through the Group's physical retail store network. The Group's store network currently has 92 (2015: 92) The Warehouse stores, 66 (2015: 65) Warehouse Stationery stores, 75 (2015: 78) Noel Leeming stores and 12 (2015: 12) Torpedo7 stores. The Warehouse predominantly sells general merchandise and apparel, Noel Leeming sell technology and appliance products, Torpedo7 sells sporting equipment and as the name indicates Warehouse Stationery sells stationery.

The Financial Services business is a credit card company which offers credit to its customers through both an in-house "Warehouse" branded credit card and a "Diners Club" credit card operated under a franchise agreement with Diners Club International. The Group monitors the funding of the finance business separately from the retail operations and to aid in the understanding of how these business segments are structured, the Group has presented separate balance sheets for these two segments as part of the primary financial statements.

#### 2.2 Capital expenditure and depreciation

	Note	Capital Expenditure		Depreciation & Amortisation	
		2016	2015	2016	2015
		\$ 000	\$ 000	\$ 000	\$ 000
The Warehouse		41,301	35,844	41,105	41,072
Warehouse Stationery		5,296	6,739	6,578	6,713
Noel Leeming		6,875	13,152	7,484	6,342
Torpedo7		781	3,866	1,240	1,286
Other Group operations		10,156	43,816	1,803	2,357
<b>Retail Group</b>		<b>64,409</b>	<b>103,417</b>	<b>58,210</b>	<b>57,770</b>
Finance business		9,017	14,827	1,450	864
<b>Total Group</b>		<b>73,426</b>	<b>118,244</b>	<b>59,660</b>	<b>58,634</b>
<b>Comprising</b>					
Property, plant and equipment	9.1	56,360	96,211	53,135	52,147
Computer software	9.2	17,066	22,033	6,525	6,487
<b>Total Group</b>		<b>73,426</b>	<b>118,244</b>	<b>59,660</b>	<b>58,634</b>

#### 2.3 Balance sheet information

		Total Assets		Total Liabilities	
		2016	2015	2016	2015
		\$ 000	\$ 000	\$ 000	\$ 000
The Warehouse		481,322	491,532	183,502	165,841
Warehouse Stationery		78,021	83,298	33,084	32,742
Noel Leeming		154,374	152,841	103,548	92,682
Torpedo7		49,504	50,804	10,870	14,843
Other Group operations		150,886	173,093	9,378	7,699
<b>Retail Group</b>		<b>914,107</b>	<b>951,568</b>	<b>340,382</b>	<b>313,807</b>
Finance business		102,903	31,963	7,691	5,008
<b>Operating assets / liabilities</b>		<b>1,017,010</b>	<b>983,531</b>	<b>348,073</b>	<b>318,815</b>
<b>Unallocated assets / liabilities</b>					
Cash and borrowings	10.1	49,881	32,195	349,861	331,768
Derivative financial instruments	12.2	1,359	39,291	29,978	3,933
Associate investment	15.3	-	2,778	-	-
Intangible goodwill and brands	9.2	125,041	115,818	-	-
Taxation assets / liabilities	4.2, 4.3	49,597	25,185	2,068	-
<b>Total Group</b>		<b>1,242,888</b>	<b>1,198,798</b>	<b>729,980</b>	<b>654,516</b>



## Notes to the Financial Statements - Financial Performance

For the 52 week period ended 31 July 2016

### 3.0 INCOME AND EXPENSES

#### Retail sales

Retail sales are recognised at the point of sale when the customer receives the goods or delivery takes place. Retail revenue from the sale of goods is recognised at the fair value of the consideration received or receivable, net of returns, discounts and excluding GST.

#### Finance business revenue

Revenue from card commissions is recognised at the point of transaction at services establishments. Membership fees are recognised on a time apportionment basis over the membership period.

#### Lease expense

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.

#### Employee expense

The employee entitlements expense includes wages and salaries, performance based compensation and share based compensation paid or accruing to team members. Details of how these entitlements are calculated are found in notes 8.5 and 14.0.

3.1 Finance business revenue	2016	2015
	\$ 000	\$ 000
Commission	5,532	1,975
Interest received	10,346	2,241
Other	4,474	1,401
<b>Finance business revenue</b>	<b>20,352</b>	<b>5,617</b>
3.2 Other income	2016	2015
	\$ 000	\$ 000
Tenancy rents received	5,621	5,328
Other	3,237	2,940
<b>Other income</b>	<b>8,858</b>	<b>8,268</b>
3.3 Lease and occupancy expense	2016	2015
	\$ 000	\$ 000
Operating lease costs	115,976	113,886
Other occupancy costs	32,940	33,306
<b>Lease and occupancy expense</b>	<b>148,916</b>	<b>147,192</b>
3.4 Employee expense	2016	2015
	\$ 000	\$ 000
Wages and salaries	456,723	438,995
Directors' fees	754	734
Performance based compensation	23,127	8,044
Equity settled share based payments expense	3,208	2,114
<b>Employee expense</b>	<b>483,812</b>	<b>449,887</b>
3.5 Other operating expenses	2016	2015
	\$ 000	\$ 000
<b>Other operating expenses include</b>		
Provision / (Recovery) for bad and doubtful debts	2,484	(736)
Loss on disposal of plant and equipment	1,141	691
Donations	747	632
Net foreign currency exchange (gain) / loss	117	(77)
<b>Auditors' fees</b>		
Auditing the Group financial statements	562	535
Reviewing the half year financial statements	90	89
Other services	274	55
<b>Total fees paid to PricewaterhouseCoopers</b>	<b>926</b>	<b>679</b>

#### Audit Fees - Corporate Governance

Fees paid to PricewaterhouseCoopers for other services related to treasury policy advice and digital services advice. In accordance with the Group's policies regarding audit governance and independence this work was approved by the Group's Audit Committee. The Group's policy permits the audit firm to provide non-audit services that are considered to be not in conflict with the preservation of the independence of the auditor subject to Audit Committee approval.

## Notes to the Financial Statements - Financial Performance

For the 52 week period ended 31 July 2016

### 4.0 TAXATION

A reconciliation between the tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate is detailed below.

4.1 Taxation - Income statement	Note	2016 \$ 000	2015 \$ 000
<b>Profit before tax</b>		106,296	71,282
Taxation calculated at 28%		29,763	19,959
<b>Adjusted for the tax effect of:</b>			
Goodwill impairment		-	3,165
Capital gain on business disposals		(2,652)	-
Contingent consideration		(189)	274
Equity earnings of associate		(202)	(785)
Share based payments		339	(598)
Non deductible expenditure		1,039	1,236
Depreciation adjustment on building disposals		(3,708)	(2,490)
Income tax over provided in prior year		(570)	(416)
<b>Income tax expense</b>		<b>23,820</b>	<b>20,345</b>
<b>Income tax expense comprises:</b>			
Current year income tax payable	4.2	31,797	24,575
Deferred taxation	4.3	(7,977)	(4,230)
<b>Income tax expense</b>		<b>23,820</b>	<b>20,345</b>

#### Income taxation

The income tax expense 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.

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.

#### 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.

The following table details the movement in income tax receivable during the current and prior year.

4.2 Taxation - Balance sheet current taxation	Note	2016 \$ 000	2015 \$ 000
Opening balance		2,250	3,226
Current year income tax payable	4.1	(31,797)	(24,575)
Acquisition of subsidiary		(814)	-
Net taxation paid		28,037	22,398
Transfer from cash flow hedge reserve		(169)	733
Supplementary dividend tax credit		425	468
Closing balance		<b>(2,068)</b>	<b>2,250</b>

The following table details the major deferred income tax liabilities and assets recognised by the Group and the movements during the current and prior year.

4.3 Taxation - Balance sheet deferred taxation	Note	Inventory \$ 000	Receivables \$ 000	Property, Plant Software and Equipment \$ 000	Employee Provisions \$ 000	Derivatives \$ 000	Other \$ 000	Total \$ 000
<b>For the 52 week period ended 31 July 2016</b>								
Opening balance		11,118	1,988	2,809	12,295	(9,893)	4,618	22,935
Charged / (credited) to the income statement	4.1	1,486	(1,031)	6,192	549	-	781	7,977
Net charged to other comprehensive income		-	-	-	-	18,054	-	18,054
Acquisition of subsidiary		-	561	-	-	-	70	631
Closing balance		<b>12,604</b>	<b>1,518</b>	<b>9,001</b>	<b>12,844</b>	<b>8,161</b>	<b>5,469</b>	<b>49,597</b>
<b>For the 53 week period ended 2 August 2015</b>								
Opening balance		10,286	2,365	(1,753)	11,792	2,247	5,908	30,845
Charged / (credited) to the income statement	4.1	832	(377)	4,562	503	-	(1,290)	4,230
Net charged to other comprehensive income		-	-	-	-	(12,140)	-	(12,140)
Closing balance		<b>11,118</b>	<b>1,988</b>	<b>2,809</b>	<b>12,295</b>	<b>(9,893)</b>	<b>4,618</b>	<b>22,935</b>

## Notes to the Financial Statements - Financial Performance

For the 52 week period ended 31 July 2016

### 5.0 ADJUSTED NET PROFIT

Adjusted net profit reconciliation	Note	2016 \$ 000	2015 \$ 000
<b>Adjusted net profit</b>		64,110	57,134
<b>Add back: Unusual items</b>			
Gain on business disposals	15.1	9,950	-
Direct costs relating to acquisitions	15.2	(479)	-
Gain on property disposals		5,533	5,533
Goodwill impairment	9.2	-	(11,302)
Contingent consideration		675	(977)
<b>Unusual items before taxation</b>		15,679	(6,746)
Income tax relating to unusual items		(1,545)	(1,549)
Income tax expense related to depreciation adjustment on building disposals		3,708	2,490
<b>Unusual items after taxation</b>		17,842	(5,805)
Minority interest		(3,614)	1,104
<b>Net profit attributable to shareholders of the parent</b>		78,338	52,433

Certain transactions can make the comparison of profits between years difficult. The Group uses adjusted net profit as a key indicator of performance and consider it provides a better understanding of underlying business performance and the Group also uses it as the basis for determining dividend payments. Adjusted net profit makes allowance for the after tax effect of unusual items which are not directly connected with the Group's normal trading activities. The Group defines unusual items as any profits from the disposal of properties or investments, goodwill impairment, direct costs and contingent consideration adjustments relating to the acquisition of subsidiaries.

#### Unusual Items

(a) The gain on business disposals represents a gain on the notional sale of The Warehouse Financial Services Limited in September 2015 (\$5.200 million) and secondly, the gain on the sale of the business assets of Pet.co.nz (\$4.750 million). The details of these two transactions and associated acquisition costs are found in note 15.0.

(b) Property disposals during the year related to 3 store (2015: 2) properties and surplus land (2015: nil), sold for a combined consideration of \$37.426 million (2015: \$30.350 million) and realising a pre-tax profit of \$5.533 million (2015: \$5.533 million)

(c) A goodwill impairment expense was recognised last year for Torpedo7. Difficult trading conditions and below expectation financial performance from the business unit resulted in the Group reassessing the value of its investment in Torpedo7 and revising the carrying value to a lower reassessment of recoverable value.

(d) Adjustments to the amount of contingent consideration payable or paid are treated as gains and losses in the income statement. The current year gain represents the lower than estimated final settlement of amounts payable for the Insight acquisition (acquired September 2012). In the previous year the expense related to an upward revision in the amount payable for the R&R Sport acquisition (acquired September 2013). Contingent consideration represents the portion of the purchase price for an acquisition with-held from a vendor to help ensure future operating performance or completion of post acquisition deliverables.

### 6.0 EARNINGS PER SHARE

Earnings per share calculation	Note	2016	2015
Net profit attributable to shareholders of the parent (\$000s)		78,338	52,433
Adjusted net profit (\$000s)	5.0	64,110	57,134
<b>Basic</b>			
Weighted average number of ordinary shares (net of treasury stock) on issue (000s)		344,737	345,129
Basic earnings per share (cents)		22.7	15.2
Adjusted basic earnings per share (cents)		18.6	16.6
<b>Diluted</b>			
Weighted average number of ordinary shares (net of treasury stock) on issue adjusted for unvested share rights (000s)		347,086	347,533
Diluted earnings per share (cents)		22.6	15.1
Adjusted diluted earnings per share (cents)		18.5	16.4

Earnings per share (EPS) is the amount of post tax profit attributable to each share. Basic EPS is calculated by dividing net profit attributable to shareholders by the weighted average number of ordinary shares (net of treasury stock) outstanding during the year.

Diluted EPS adjusts for any commitments the Group has to issue shares in the future that would decrease the basic EPS. The Group has two types of dilutive potential ordinary shares (performance share rights and award share rights - refer note 14.0). Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the share rights.

Adjusted basic EPS and adjusted diluted EPS are similarly calculated using adjusted net profit as the numerator.

## Notes to the Financial Statements - Financial Performance

For the 52 week period ended 31 July 2016

### 7.0 DIVIDENDS

7.1 Dividends paid	2016	2015	2016	2015
	\$ 000	\$ 000	Cents per Share	Cents per Share
Prior year final dividend	17,342	20,811	5.0	6.0
Interim dividend	38,153	38,153	11.0	11.0
Total dividends paid	55,495	58,964	16.0	17.0

#### Dividend policy

The Board declares two dividends annually in respect of the half year (interim dividend) and full year results (final dividend). The Group's dividend policy is to pay a dividend to shareholders of between 75% and 85% of the Retail Group's adjusted net profit.

All dividends paid were fully imputed.

7.2 Dividends policy reconciliation	Note	2016	2015	2016	2015
		\$ 000	\$ 000	Cents per Share	Cents per Share
Interim dividend		38,153	38,153	11.0	11.0
Final dividend (declared after balance date)		17,342	17,342	5.0	5.0
Total dividends paid and declared in respect of the current and prior financial years		55,495	55,495	16.0	16.0
Group adjusted net profit	5.0	64,110	57,134		
Add back Financial Services Group net loss		(5,046)	(2,075)		
Retail Group adjusted net profit		69,156	59,209		
Payout ratio (%)		80.2 %	93.7 %		

On 22 September 2016 the Board declared a final fully imputed ordinary dividend of 5.0 cents per share to be paid on 8 December 2016 to all shareholders on the Group's share register at the close of business on 25 November 2016.

7.3 Imputation credit account	2016	2015
	\$ 000	\$ 000
Imputation credits at balance date available for future distribution	113,682	103,228

The above amounts represent the balance of the Group's imputation credit account at balance date adjusted for imputation credits that will arise from the payment of the amount of the provision for income taxation. Imputation is a mechanism that a company uses to pass on credits for tax it has paid on its profits, to its shareholders when it pays dividends. These imputation credits offset the amount of taxation that the New Zealand resident shareholders would otherwise be liable to pay on those dividends, so they do not have to pay "double tax".

## Notes to the Financial Statements - Operating Assets and Liabilities

For the 52 week period ended 31 July 2016

### 8.0 WORKING CAPITAL

8.1 Inventory	2016	2015
	\$ 000	\$ 000
Finished goods	469,592	478,150
Inventory adjustments	(19,676)	(17,500)
Retail stock	449,916	460,650
Goods in transit from overseas	51,797	49,811
<b>Inventory</b>	<b>501,713</b>	<b>510,461</b>

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using a weighted average method and includes expenditure incurred to purchase the inventory and transport it to its current location. Net realisable value is the estimated selling price of the inventory in the ordinary course of business less costs necessary to make the sale. The cost of inventories consumed during the year are recognised as an expense and included in cost of goods sold in the Income Statement.

#### Significant judgements and estimates

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 between the most recent store stock counts and balance date. Shrinkage is a reduction in inventory due to shoplifting, employee theft, paperwork errors and supplier fraud. The Group considers a wide range of factors including historical data, current trends and product information from buyers as part of the process to determine the appropriate value of these provisions.

#### 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.

8.2 Trade and other receivables	2016	2015
	\$ 000	\$ 000
Trade receivables	41,131	42,651
Prepayments	11,092	8,924
Rebate accruals and other debtors	24,836	20,558
<b>Trade and other receivables</b>	<b>77,059</b>	<b>72,133</b>

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. Trade receivables are initially recognised at the value of the invoice sent to the customer and subsequently at the amount considered recoverable. Collectability of trade and other receivables is reviewed on an ongoing basis and debts that are known to be uncollectible are either impaired or written off when they are identified.

8.3 Finance business receivables	2016	2015
	\$ 000	\$ 000
Finance business receivables	78,948	14,964
Allowance for impairment	(5,383)	(736)
<b>Finance business receivables</b>	<b>73,565</b>	<b>14,228</b>
Ageing analysis of finance business receivables		
0 to 30 Days	70,609	13,783
31 to 60 Days	1,509	366
61 to 90 Days	567	40
Greater than 90 Days	880	39
<b>Total</b>	<b>73,565</b>	<b>14,228</b>

Finance receivables arise from charge card, credit card and personal loans transactions provided by the Group's Financial Services businesses.

Finance receivables specify minimum instalments which are due for repayment within 30 days. Collectability of finance receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when they are identified. A provision for impairment is recognised when there is evidence that the Group will not be able to collect the receivables in accordance with the terms of the credit arrangement.

8.4 Trade and other payables	2016	2015
	\$ 000	\$ 000
Trade creditors and accruals	198,828	189,512
Goods in transit creditors	19,673	16,522
Capital expenditure creditors	9,412	11,165
Goods and services tax	11,109	11,208
Reward schemes, Lay-bys, Christmas club deposits and gift vouchers	18,010	16,508
Contingent consideration	1,000	3,250
Interest accruals	1,597	1,426
Payroll accruals	11,679	7,908
	271,308	257,499
Less: Non-current contingent consideration	-	(1,000)
<b>Current trade and other payables</b>	<b>271,308</b>	<b>256,499</b>

Trade payables 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. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

## Notes to the Financial Statements - Operating Assets and Liabilities

For the 52 week period ended 31 July 2016

8.5 Provisions	Current		Non-current		Total	
	2016	2015	2016	2015	2016	2015
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Employee entitlements	53,395	39,109	10,861	10,026	64,256	49,135
Make good provision	1,142	705	6,471	6,040	7,613	6,745
Sales returns provision	3,689	3,580	-	-	3,689	3,580
Onerous lease	689	1,029	518	827	1,207	1,856
<b>Total Provisions</b>	<b>58,915</b>	<b>44,423</b>	<b>17,850</b>	<b>16,893</b>	<b>76,765</b>	<b>61,316</b>

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

### Employee entitlements

#### (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) Performance based compensation

The Group recognises a liability and expense for incentives payable to employees where either a contractual or constructive obligation arises to pay an employee based on achieving an agreed level of individual and company performance.

#### (iii) 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.

### 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 make good costs incurred and costs incurred which mitigate the final liability prior to the lease expiry.

### Sales return

The Group provides various guarantees and warranties to replace, repair or refund customers for faulty or defective products sold. This provision represents the estimated sales return obligation at balance date based on historical sale return rates.

### 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.

## 9.0 NON CURRENT ASSETS

9.1 Property, plant and equipment	Note	Land and Buildings		Plant and Equipment		Work in Progress		Total	
		2016	2015	2016	2015	2016	2015	2016	2015
		\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Cost		172,828	154,415	550,739	522,404	15,264	23,170	738,831	699,989
Accumulated depreciation		(11,875)	(12,923)	(371,861)	(350,261)	-	-	(383,736)	(363,184)
Opening carrying amount		160,953	141,492	178,878	172,143	15,264	23,170	355,095	336,805
Additions	2.2	7,188	45,644	40,830	58,473	8,342	(7,906)	56,360	96,211
Disposals		(31,374)	(24,621)	(3,626)	(1,153)	-	-	(35,000)	(25,774)
Depreciation	2.2	(1,438)	(1,562)	(51,697)	(50,585)	-	-	(53,135)	(52,147)
Closing carrying amount		135,329	160,953	164,385	178,878	23,606	15,264	323,320	355,095
Cost		145,647	172,828	570,260	550,739	23,606	15,264	739,513	738,831
Accumulated depreciation		(10,318)	(11,875)	(405,875)	(371,861)	-	-	(416,193)	(383,736)
Closing carrying amount		135,329	160,953	164,385	178,878	23,606	15,264	323,320	355,095
Less: Available for sale property		(49,982)	-	-	-	(2,295)	-	(52,277)	-
<b>Property, plant and equipment</b>		<b>85,347</b>	<b>160,953</b>	<b>164,385</b>	<b>178,878</b>	<b>21,311</b>	<b>15,264</b>	<b>271,043</b>	<b>355,095</b>

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. 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.

Property, plant and equipment are depreciated on a straight line basis to allocate the cost, less any residual value, over their useful life. The estimated useful life of property, plant and equipment are as follows:

Freehold land	indefinite
Freehold buildings	50 - 100 years
Plant and equipment	3 - 12 years
Work in progress	not depreciated

The Group annually reviews the carrying amounts of property, plant and equipment for impairment. 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. In assessing whether an asset is impaired, reference is made to individual store profitability and any other known events or circumstances that may indicate that the carrying amount of an asset may be impaired.

Gains and losses on disposals of assets are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. Costs incurred on repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

### Available for sale property

At balance date the Group was negotiating the possible sale and future development of the Group's Newmarket store property. A third party has commenced due diligence as precursor to making a proposal for the purchase and redevelopment of the site.

## Notes to the Financial Statements - Operating Assets and Liabilities

For the 52 week period ended 31 July 2016

9.2 Intangible assets	Note	Goodwill		Brand Names		Computer Software		Total	
		2016	2015	2016	2015	2016	2015	2016	2015
		\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Cost		103,597	103,597	23,523	23,523	110,088	89,566	237,208	216,686
Impairment & accumulated amortisation		(11,302)	-	-	-	(78,474)	(72,995)	(89,776)	(72,995)
Opening carrying amount		92,295	103,597	23,523	23,523	31,614	16,571	147,432	143,691
Acquisition of subsidiaries	15.2	11,700	-	-	-	-	-	11,700	-
Additions	2.2	-	-	-	-	17,066	22,033	17,066	22,033
Disposals		(2,477)	-	-	-	(802)	(503)	(3,279)	(503)
Impairment	5.0	-	(11,302)	-	-	-	-	-	(11,302)
Amortisation	2.2	-	-	-	-	(6,525)	(6,487)	(6,525)	(6,487)
Closing carrying amount		101,518	92,295	23,523	23,523	41,353	31,614	166,394	147,432
Cost		112,820	103,597	23,523	23,523	124,401	110,088	260,744	237,208
Impairment & accumulated amortisation		(11,302)	(11,302)	-	-	(83,048)	(78,474)	(94,350)	(89,776)
Closing carrying amount		101,518	92,295	23,523	23,523	41,353	31,614	166,394	147,432

### Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration paid above the fair value of the net identifiable assets, liabilities and contingent liabilities acquired.

### Brand names

Brand names acquired in a business combination are recognised at fair value at the acquisition date. Brand names are considered to have indefinite useful lives as the Group have rights to use these names in perpetuity.

### Impairment of goodwill and brand names

Assets that have an indefinite useful life 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.

### Computer software

All costs directly incurred in the purchase or development of computer software or subsequent upgrades and enhancements, which can be reliably measured and are not integral to a related asset, are capitalised as intangible assets. Computer software is amortised on a straight line basis over a period of between two to ten years. Costs incurred on computer software maintenance are expensed to the income statement as they are incurred.

### Business disposal

Goodwill attributable to the Pet.co.nz business (\$2.477 million) was fully recovered when it was sold in January 2016. Refer note 15.1 for further details.

### Significant judgements and estimates - impairment testing

Impairment of indefinite life intangible assets is assessed by comparing the recoverable amount of a cash generating unit with its carrying value. Assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units) which also represent the lowest level within the Group at which these assets are monitored for internal management purposes. The allocation of the Groups significant carrying amounts of Goodwill and Brand names to cash generating units are set out in the table below.

The recoverable amount of a cash generating unit is calculated as the higher of 'value in use' or its 'fair value less costs to sell'. The recoverable amounts are determined using either of these two prescribed discounted cashflow valuation methods which require the use of estimates and projections regarding future business unit operating performance. The Group considers a wide range of factors including the Group's financial budgets, strategic plans, external benchmarks and historical performance to formulate future cashflow projections. The Group also engages external advisors to determine appropriate discount rates and long term growth rates, integral to the valuations. Cashflows beyond the projection period are extrapolated using the estimated growth rates stated below. These growth rates do not exceed the long term average growth rate for the sector in which the business unit operates.

Impairment testing	Noel Leeming		Torpedo7		Financial Services		TWP No.3	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Goodwill	27,436	27,436	25,689	25,689	22,714	11,014	21,450	21,450
Brand names	15,500	15,500	8,023	8,023	-	-	-	-
Closing carrying amount	42,936	42,936	33,712	33,712	22,714	11,014	21,450	21,450
<b>Key assumptions</b>								
EBIT margin (%)	2.3	2.2	7.6	8.5	N/A	N/A	5.7	6.6
Terminal growth rate (%)	1.6	2.0	1.6	2.0	1.6	2.0	1.6	2.0
Post-tax discount rate (%)	10.7	11.7	11.6	12.5	10.0	13.4	12.4	13.4
Projection period (Years)	5.0	5.0	5.0	10.0	10.0	10.0	5.0	10.0

Noel Leeming, Torpedo7 and the Financial Services Group cash generating units refer to the business segments detailed in note 2.0. TWP No.3 represents the amalgamation of the trading activities of the Insight business acquired in September 2012 and CES business acquired in February 2013 and forms part of The Warehouse reporting segment. The trading activities of TWP No.3 include the sourcing and wholesaling of product for other group companies and operating pop-up stores and events. The impairment tests have been prepared using a 5 year model except for Financial Services where a 10 year forecast period is used to reflect the expected growth profile of the finance receivables book prior to achieving a steady level of cash flows.

### Impairment testing results

The current year impairment testing did not indicate the carrying values of either goodwill or brand names to be impaired. Except for the Financial Services business, the Group would not expect a reasonably possible change in the key assumptions used in the calculations to reduce the recoverable amount of the Group's 'cash generating units' below the carrying amounts. The Financial Services business represents the greatest impairment risk should this business segment perform below expectation or the discount rates change.

The cashflow projection in the Financial Services model assumes an average growth in revenue of 21.9% in the first three years declining to an average of 14.6% from years 4 to 10. To allow for the risks associated with the forecast growth in the first 10 years, a higher discount rate of 18% was adopted compared to 10% in the terminal year. The recoverable amount of the Financial Services business calculated on 'value in use' exceeded its carrying value by \$3.600 million. A decrease in the terminal growth rate to 1.2% or a rise in the discount rate by 30 basis points would, all changes taken in isolation, result in the recoverable amount being equal to the carrying amount.

## Notes to the Financial Statements - Financing and Capital Structure

For the 52 week period ended 31 July 2016

### 10.0 BORROWINGS

10.1 Net debt	2016	2015
	\$ 000	\$ 000
<b>Cash on hand and at bank</b>	49,881	32,195
Bank borrowings at call - interest rate: 3.18% (2015: 3.89%)	123,980	115,805
Lease liabilities	1,222	1,359
<b>Current borrowings</b>	125,202	117,164
Bank borrowings - interest rate: 2.98% (2015: 4.01%)	40,000	90,000
Lease liabilities	490	1,571
Fixed rate senior bond (coupon: 5.30%)	125,000	125,000
Fair value adjustment relating to senior bond interest rate hedge	738	163
Unamortised capitalised costs on senior bond issuance	(1,694)	(2,130)
<b>Non-current borrowings</b>	164,534	214,604
<b>Non-current securitised borrowings</b> - interest rate 3.06%	60,125	-
<b>Total borrowings</b>	349,861	331,768
<b>Net debt</b>	299,980	299,573

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the net proceeds 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.

#### Cash on hand and at bank

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 day's store sales, which have been paid by EFTPOS, remain uncleared at balance date.

#### Securitised borrowings

When the Group acquired The Warehouse Financial Services Limited (refer note 15.2) it also established a debt securitisation programme to help fund this business segment. The programme is funded by Westpac under a \$225 million borrowing facility. The facility permits the Finance Services Group to borrow up to 80% of the value of qualifying securitised finance business receivables which form part of the borrowing base. The borrowing base is set with reference to how promptly the securitised receivables are collected.

#### Fixed rate senior bond

The Group issued a 5 year fixed rate senior bond on the New Zealand stock exchange in June 2015 with a 5.30% coupon. Interest on the bond is payable every six months (15 June and 15 December) and has a final maturity in June 2020. Based on the last quoted closing price of \$1.06261 (2015: \$1.04411) traded on the New Zealand stock exchange and a market yield of 3.74% (2015: 4.45%) the fair value of Group's fixed rate senior bonds at balance date was \$132,826 million (2015: \$130.514 million). For accounting purposes (*NZ IFRS 13*) this is deemed a level 1 fair value measurement as it is derived from a quoted price, in an active market.

10.2 Net interest expense (excluding finance business interest received)	2016	2015
	\$ 000	\$ 000
Interest on bank overdrafts	36	123
Interest on deposits and use of money interest received	(204)	(375)
Interest on bank borrowings	10,850	8,944
Interest on finance leases	184	259
Interest on fixed rate senior bond	7,025	7,256
<b>Net interest expense (excluding finance business interest received)</b>	17,891	16,207

10.3 Bank facilities	2016	2015
	\$ 000	\$ 000
Bank debt facilities	340,000	330,000
Bank facilities used	(163,980)	(205,805)
Unused bank debt facilities	176,020	124,195
Securitised debt facility	225,000	-
Securitised facility used	(60,125)	-
Unused securitised bank debt facility	164,875	-
Letters of credit facilities	32,566	28,000
Letters of credit	(21,370)	(21,145)
Unused letter of credit facilities	11,196	6,855
<b>Total unused bank facilities</b>	352,091	131,050



## Notes to the Financial Statements - Financing and Capital Structure

For the 52 week period ended 31 July 2016

### 11.0 EQUITY

#### 11.1 Capital management

Capital is defined by the Group to be the total equity as shown in the balance sheet. 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 regularly reviews its capital structure and may make adjustments by means including changes to the Group's dividend payout ratio, issue of new shares, debt issuance, sale of assets or a combination of these.

The Group views the funding of the balance sheet as having two distinct parts, with the Financial Services Group being separately financed from the Retail Group and permits the Financial Services Group to have higher gearing levels. Gearing is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders (debt) versus shareholders (equity). The Financial Services Group is primarily financed by a debt securitisation programme which allows it to borrow up to 80% of the value of its qualifying securitised finance business receivables.

The Retail Group is financed through a mixture of bank borrowings and a fixed rate senior bond. The Retail Group aims to maintain gearing levels, with the exception of the Group's first quarter peak funding period, at levels of between 30% to 40%.

The Group changed its dividend policy last year to help strengthen its balance sheet. The Group's new dividend policy is based on distributing between 75% to 85% of the adjusted net profit of the Retail Group back to shareholders (refer note 7.0).

#### Externally imposed capital requirements

Retail Group 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 will comply with certain quarterly debt ratios and restrictive covenants. The two principal covenants, which are the same for both trust deeds are:

Debt covenant ratios at balance date	Quarterly covenant requirement	2016	2015
Retail Group book gearing ratio (percentage)	will not exceed 60% in the first quarter ending October or exceed 50% in each of the remaining three quarters of the year	36.7	37.8
Retail Group book interest cover (times cover)	will not be less than 2 times operating profit	7.3	5.8

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

11.2 Contributed equity	Contributed equity		Ordinary shares	
	2016	2015	2016	2015
	\$ 000	\$ 000	000s	000s
Share capital	365,517	365,517	346,843	346,843
Treasury stock	(7,832)	(7,302)	(2,348)	(2,134)
<b>Contributed equity</b>	<b>357,685</b>	<b>358,215</b>	<b>344,495</b>	<b>344,709</b>

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.

Treasury stock	Note	Treasury stock		Ordinary shares	
		2016	2015	2016	2015
		\$ 000	\$ 000	000s	000s
Opening balance		7,302	8,707	2,134	2,379
Ordinary shares issued to settle share rights plan obligations	14.0	(2,001)	(4,250)	(708)	(1,255)
Ordinary shares purchased (average purchase price \$2.74 - 2015: \$2.81)		2,531	2,754	922	979
Ordinary shares forfeited under the discontinued staff share purchase plan		-	91	-	31
Closing balance		7,832	7,302	2,348	2,134

Ordinary shares on issue are fully paid and carry one vote per share and participate equally in dividends, other distributions from equity and any surplus on a winding up of the Group. The Group retains its own ordinary shares which are used for employee share based payment arrangements. Voting rights attached to the shares are held by the trustees of the employee share plans, and dividends paid on the shares are retained by the trustee for the benefit of the Group.

## Notes to the Financial Statements - Financing and Capital Structure

For the 52 week period ended 31 July 2016

11.3 Reserves	2016	2015
	\$ 000	\$ 000
Cash flow hedge reserve	(20,986)	25,440
De-designated derivative reserve	(1,453)	(1,889)
Hedge Reserves	(22,439)	23,551
Share based payments reserve	3,623	2,937
<b>Total Reserves</b>	<b>(18,816)</b>	<b>26,488</b>

### Cashflow 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. (Refer also to the consolidated statement of changes in equity and policy notes detailed in note 12.2).

### De-designated derivative reserve

The de-designated derivative reserve is used to record the after tax mark to market losses realised from realigning the Group's interest rate hedge portfolio in June 2015 which resulted in number of interest rate swaps being monetised. The cost to close out the interest rate swaps is recognised in the Income Statement over the effective period of the original interest rate swaps. (Refer also to the consolidated statement of changes in equity and policy notes detailed in note 12.2).

### Share based payments reserve

Share rights are granted to employees in accordance with the Group's executive share rights plan. The fair value of share rights granted under the plan are measured at grant date and recognised as an employee expense over the vesting period with a corresponding increase in equity. The fair value at grant date of the share rights are independently determined using an appropriate valuation model that takes into account the terms and conditions upon which they were granted. (Note 14.0 provides further details regarding the plan and fair value calculations).

This reserve is used to record the accumulated value of the unvested shares rights, which have been recognised as an expense 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. (Refer also to the consolidated statement of changes in equity).

11.4 Minority interest	2016	2015
	\$ 000	\$ 000
Opening balance	2,425	4,317
Purchase of minority interest	(2,874)	-
Net profit / (loss) attributable to minority interest	4,138	(1,496)
Dividends paid to minority shareholders	(3,522)	(396)
<b>Closing balance</b>	<b>167</b>	<b>2,425</b>

The purchase of the remaining 20% minority interest in Torpedo7 and the sale of the jointly owned pet.co.nz business assets (refer note 15.1) during the current financial year means the minority interests at balance date only represent the Group's 50% minority shareholding held in Waikato Valley Chocolates and the residual assets which have not yet been distributed as part of the liquidation of the shell company which had previously owned the pet.co.nz business assets.

### Torpedo7 minority purchase

In March 2016 the Group acquired the remaining 20% of the share capital of Torpedo7 Limited for a consideration of \$9.800 million, increasing the Group's interest in the Torpedo7 group of companies from 80% to 100%. The consideration had two components, a cash component of \$7.500 million settled in March 2016 and the transfer of the Group's interest in a parcel of surplus land located in Hamilton (valued at \$2.300 million).

## Notes to the Financial Statements - Financial Risk Management

For the 52 week period ended 31 July 2016

### 12.0 FINANCIAL RISK MANAGEMENT

#### 12.1 Financial risk factors

The Group's activities expose it to various financial risks including, liquidity risk, credit risk and market risk (including currency risk and interest rate 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.

12.2 Derivative financial instruments	Currency Contracts		Interest Rate Swaps		Total	
	2016	2015	2016	2015	2016	2015
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Current assets	621	39,127	-	-	621	39,127
Non-current assets	-	-	738	164	738	164
Current liabilities	(24,263)	(51)	(870)	-	(25,133)	(51)
Non-current liabilities	-	-	(4,845)	(3,882)	(4,845)	(3,882)
<b>Total Derivative financial instruments</b>	<b>(23,642)</b>	<b>39,076</b>	<b>(4,977)</b>	<b>(3,718)</b>	<b>(28,619)</b>	<b>35,358</b>
<b>Classified as:</b>						
Cash flow hedges	(23,642)	39,076	(5,715)	(3,882)	(29,357)	35,194
Fair value hedges	-	-	738	164	738	164
<b>Total Derivative financial instruments</b>	<b>(23,642)</b>	<b>39,076</b>	<b>(4,977)</b>	<b>(3,718)</b>	<b>(28,619)</b>	<b>35,358</b>

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 an exposure 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 the hedge transactions. An assessment, both at hedge inception and on an ongoing basis is also documented, 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.

#### Cashflow 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.

#### 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.

#### 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.

#### Significant judgements and estimates

The Group's derivatives are not traded in an active market which means quoted prices are not available to determine the fair value. To determine the fair value the Group uses valuation techniques which rely on observable market data. The fair value of forward exchange contracts are determined using the forward exchange market rates at the balance date and interest rate swaps are calculated as the present value of estimated future cash flows based on the applicable market interest yield rates at balance date. For accounting purposes (NZ IFRS 13) these valuations are deemed to be Level 2 fair value measurements as they are not derived from a quoted price in an active market but rather, a valuation technique that relies on other observable market data.

The Group uses an independent advisor to help determine the fair value of its derivatives.

## Notes to the Financial Statements - Financial Risk Management

For the 52 week period ended 31 July 2016

### 12.0 FINANCIAL RISK MANAGEMENT

#### 12.3 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 divides its funding requirements between funding for its retail operations and funding for the financial services business. The funding for the financial services business is provided by means of a debt securitisation programme (refer note 10.1). The securitised debt facility has a limit of \$225.000 million and at balance date 73.3% of these facilities remained undrawn. This debt facility has a maturity of 30 September 2017 and it is expected that the facility will be extended prior to maturity. Additional funding for the financial services business is provided by means of capital injections of funding advances from the Group's retail operations.

The Retail 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, conversely the Retail Group's liquidity position is at its strongest immediately after the Christmas trading period. The Retail 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. 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 (2015: \$50.000 million) which are in addition to the \$340.000 million (2015: \$330.000 million) of committed credit facilities (refer note 10.3). The Group has set treasury policy limits to ensure it maintains and operates within its available funding facilities.

Liquidity position at balance date	Treasury policy requirement	2016	2015
Retail Group unused debt facilities (refer note: 10.3)	committed credit facilities to be maintained at an amount that averages at least 115% of peak funding requirements projected for the next 2 years.	51.8%	37.6%
Retail Group funding tenor	at least 30% of the committed credit facilities have a maturity of greater than 3 years (includes retail bond)	35.5%	36.3%
Retail Group funding diversity (number of counterparties)	funding to be sourced from a minimum of four counterparties (includes retail bond)	6	6

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. 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.

Contractual maturity analysis	0 - 1 Years		1 - 3 Years		> 3 Years		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Trade and other payables	(271,308)	(256,499)	-	(1,000)	-	-	(271,308)	(257,499)
Bank borrowings	(163,980)	(205,805)	-	-	-	-	(163,980)	(205,805)
Securitised borrowings	(60,125)	-	-	-	-	-	(60,125)	-
Finance lease liabilities	(1,303)	(1,535)	(489)	(1,611)	(29)	(51)	(1,821)	(3,197)
Fixed rate senior bond	(5,771)	(5,736)	(13,250)	(13,250)	(131,625)	(138,250)	(150,646)	(157,236)
<b>Financial liabilities</b>	<b>(502,487)</b>	<b>(469,575)</b>	<b>(13,739)</b>	<b>(15,861)</b>	<b>(131,654)</b>	<b>(138,301)</b>	<b>(647,880)</b>	<b>(623,737)</b>
Forward currency contracts								
- outflow	(363,291)	(275,304)	-	-	-	-	(363,291)	(275,304)
- inflow	337,438	311,945	-	-	-	-	337,438	311,945
Interest rate swaps	(1,667)	(1,153)	(1,036)	(2,577)	(2,728)	(137)	(5,431)	(3,867)
<b>Net derivatives</b>	<b>(27,520)</b>	<b>35,488</b>	<b>(1,036)</b>	<b>(2,577)</b>	<b>(2,728)</b>	<b>(137)</b>	<b>(31,284)</b>	<b>32,774</b>

#### 12.4 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 finance business receivables, trade and other receivables, derivatives and transactions with financial institutions.

The Group places its cash and short-term investments and derivatives with high credit quality financial institutions approved by directors and in accordance with specified treasury policy limits. The Group's treasury policy requires bank counter-parties to have a minimum Standard & Poor's credit rating of at least A (2015: A).

The Group controls its credit risk from finance business receivables, trade and other receivables by the application of credit approval, limits and monitoring procedures. Receivable balances are monitored on an ongoing basis to ensure the Group's bad debt exposure is not significant. Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect the group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. As the Group transacts with a diversity of counterparties it does not have any significant exposure to any individual customers, industry or economic sector.

## Notes to the Financial Statements - Financial Risk Management

For the 52 week period ended 31 July 2016

### 12.0 FINANCIAL RISK MANAGEMENT

#### 12.5 Market risks

##### Foreign exchange risks

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 enters into forward exchange contracts to purchase foreign currencies. These contracts hedge highly probable forecast purchases and are timed to mature when the payments are scheduled to be settled. Management work to a board approved Treasury Policy to manage this foreign exchange risk. The policy parameters for hedging forecast 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 specific approval

Currency position at balance date	Carrying value		Notional amount (NZD)		Average exchange rate		0 to 12 month hedge level	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$ 000	\$ 000	\$ 000	\$ 000	Cents	Cents	Percentage	Percentage
Forward exchange contracts								
Buy US dollars/Sell New Zealand dollars	(23,642)	39,076	363,291	275,304	0.6714	0.7462	74.6	62.8

The Group did not hold any foreign exchange derivatives with a maturity exceeding 1 year at either the current or last years balance date. The spot rate used to determine the mark-to-market carrying value of the US dollar forward contracts at balance date was \$0.7228 (2015: \$0.6586).

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

Currency position at balance date	Net profit after tax		Equity	
	2016	2015	2016	2015
	\$ 000	\$ 000	\$ 000	\$ 000
10% appreciation in the New Zealand dollar	-	-	(22,006)	(20,381)
10% depreciation in the New Zealand dollar	-	-	26,899	24,909

There is no profit and loss sensitivity, as the forward currency contracts have been designated as cash flow hedges and based on historical performance it has been assumed they will be 100% hedge effective.

##### Interest rate risk

The Group's exposure to market interest rates primarily relates to the Retail Group's core borrowings estimated to be \$250.000 million for treasury management purposes. The Group's treasury policy is to manage its finance costs using a mix of fixed and floating rate debt. The Group's treasury policy is to maintain between 50% to 90% of core borrowings at fixed rates. At balance date 76% (2015: 76%) 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.

Interest rate sensitivity table	Note	Amount	+ 100 basis points		- 100 basis points	
			Profit	Equity	Profit	Equity
		\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
<b>At 31 July 2016</b>						
Finance business receivables	8.3	73,565	530	530	(530)	(530)
Securitised borrowings	10.1	(60,125)	(433)	(433)	433	433
Net bank borrowings	10.1	(114,099)	(822)	(822)	822	822
Fixed rate senior bond	10.1	(124,044)	294	294	(312)	(312)
<b>Derivative financial instruments</b>						
Interest rate swaps - cash flow hedges	12.2	(5,715)	468	2,058	(468)	(2,174)
Interest rate swaps - fair value hedges	12.2	738	(294)	(294)	312	312
<b>Total increase/(decrease)</b>		(229,680)	(257)	1,333	257	(1,449)
<b>At 2 August 2015</b>						
Finance business receivables	8.3	14,228	102	102	(102)	(102)
Net bank borrowings	10.1	(173,610)	(1,250)	(1,250)	1,250	1,250
Fixed rate senior bond	10.1	(123,033)	282	282	(260)	(260)
<b>Derivative financial instruments</b>						
Interest rate swaps - cash flow hedges	12.2	(3,882)	468	2,327	(468)	(2,463)
Interest rate swaps - fair value hedges	12.2	164	(282)	(282)	260	260
		(286,133)	(680)	1,179	680	(1,315)

## Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 31 July 2016

### 13.0 KEY MANAGEMENT PERSONNEL

Key management includes the directors of the Company and those employees deemed to have disclosure obligations under subpart 6 of the Financial Markets Conduct Act 2013, being the Group Chief Executive Officer and his 11 (2015: 11) direct reports.

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

Directors Fees	2016	2015
	\$ 000	\$ 000
E K van Arkel (Chairman)	166	166
K R Smith (Deputy Chairman)	115	119
A J Balfour	85	85
J W M Journee	86	88
J H Ogden	101	100
V C M Stoddart	116	91
Sir Stephen Tindall	85	85
<b>Total</b>	<b>754</b>	<b>734</b>

In addition to the directors fees stated above K R Smith received fees of \$43,000 (2015: \$24,000) and J H Ogden also received fees of \$43,000 (2015: \$24,000) in their capacity as directors of the Group's Financial Services business.

Key Management Personnel	2016	2015
	\$ 000	\$ 000
Base salary	6,934	6,288
Annual performance based compensation	2,881	303
Equity settled share-based compensation (refer note: 14.0)	1,520	1,051
<b>Total</b>	<b>11,335</b>	<b>7,642</b>

### 14.0 EXECUTIVE LONG TERM INCENTIVE PLAN (LTIP)

Share rights were granted to key management and other senior executives, selected by the Group's Remuneration Committee as a component of each participants remuneration package. There will be no further share rights granted under this plan as it is currently in the process of being replaced by a new cash based incentive plan. At balance date this legacy share based plan has 66 (2015: 67) participants.

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

#### 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 each participant at the end of the initial vesting period and a further third at the end of each of the next two vesting dates.

#### 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 has achieved a specified total shareholder return on the vesting date. The target total shareholder return represents 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.

Share rights	Note	Performance Shares		Award Shares		Total Share Rights	
		2016	2015	2016	2015	2016	2015
		000	000	000	000	000	000
Outstanding at the beginning of the year		2,005	1,940	2,234	1,806	4,239	3,746
Granted during the year		726	791	1,725	1,757	2,451	2,548
Vested during the year	11.2	-	(681)	(708)	(574)	(708)	(1,255)
Forfeited during the year		(1,036)	(45)	(982)	(755)	(2,018)	(800)
Outstanding at the end of the year		1,695	2,005	2,269	2,234	3,964	4,239
<b>Expected vesting dates</b>							
October 2015		-	729	-	934	-	1,663
October 2016		351	484	920	731	1,271	1,215
October 2017		617	792	780	569	1,397	1,361
October 2018		727	-	569	-	1,296	-
Outstanding at the end of the year		1,695	2,005	2,269	2,234	3,964	4,239

#### Fair Values

The fair value of performance shares at grant date have been 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 fair value of the share rights and key inputs used in the pricing models to determine the values:

#### Performance shares

Date granted	October 2015	October 2014	October 2013
Vesting date	October 2018	October 2017	October 2016
Target total shareholder return (%)	0.78	1.00	1.26
Risk free interest rate (%)	2.64	3.73	3.40
Average expected volatility (%)	21.50	21.60	22.50
Average share price at measurement date (\$)	2.58	3.09	3.77
Estimated fair value at grant date (\$)	0.81	0.97	1.15

#### Award shares

Date granted	October 2015	October 2014	October 2013
First vesting date (then annually on the next two anniversaries)	October 2016	October 2015	October 2014
Weighted average cost of equity capital (%)	8.72	9.83	10.10
Average share price at measurement date (\$)	2.58	3.09	3.77
Average estimated fair values at grant date (\$)	2.30	2.77	3.38

## Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 31 July 2016

### 15.0 BUSINESS COMBINATIONS

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 consolidates the financial statements of subsidiaries, using the acquisition method. 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.

15.1 Business disposals - 2016	Note	TWFSL \$ 000	Pet.co.nz \$ 000	Total \$ 000
Consideration		6,006	8,411	14,417
Less:				
Net assets sold		806	1,184	1,990
Goodwill	9.2	-	2,477	2,477
Carrying value of net assets sold		806	3,661	4,467
Gain on business disposal	5.0	5,200	4,750	9,950
Minority interest		-	(3,641)	(3,641)
<b>Gain on business disposal (after minority interests)</b>		<b>5,200</b>	<b>1,109</b>	<b>6,309</b>

#### Sale and Purchase of The Warehouse Financial Services Limited

In September 2015 the Group gained control over The Warehouse Financial Services Limited (TWFSL) when it acquired 100% of the company's share capital. The Group had previously held a non-controlling 49% interest in TWFSL which was accounted for as an associate investment up until the acquisition date. For accounting purposes this single transaction is treated as having two distinct components, the first being the notional sale by the Retail Group (RG) of its 49% TWFSL associate investment, and the second, the purchase by the Financial Services Group (FSG) of TWFSL's share capital from both Westpac as the majority 51% shareholder and RG as the 49% associate shareholder. In respect of the first part and the intercompany sale transaction between RG and FSG for the 49% associate investment, this results in a notional gain on sale of \$5.200 million. The intercompany acquisition consideration has been calculated with reference to the premium above net assets paid to Westpac for its 51% TWFSL shareholding.

#### Pet.co.nz Limited business disposal

In January 2016 the Group sold the business assets of Pet.co.nz (formerly Shop HQ Limited) for a consideration of \$8.411 million. The consideration was comprised of an initial payment of \$6.411 million, received in February 2016 and deferred consideration (\$1.000 million payable to the Group) and contingent consideration (\$1.000 million payable to the minority shareholder) receivable in December 2016. The remaining shell company is currently in the process of liquidation.

The Group has recognised the following identifiable acquisition assets and liabilities for the The Warehouse Financial Services Limited business acquisition.

15.2 The Warehouse Financial Services Limited - Acquisition	Note	2016 \$ 000
Cash and cash equivalents		3,453
Finance business receivables		57,010
Trade and other receivables		346
Deferred taxation		640
		61,449
Trade and other payables		(357)
Provision for tax		(820)
Borrowings		(58,629)
Fair value of identifiable net assets		1,643
Goodwill arising on acquisition	9.2	11,700
<b>Total consideration</b>		<b>13,343</b>
<b>The acquisition consideration is as follows:</b>		
Cash paid for Westpac's 51% interest in TWFSL		7,337
Value attributed to the Group's previously held 49% equity investment in TWFSL	15.1	6,006
<b>Acquisition consideration</b>		<b>13,343</b>
<b>The cash outflow on acquisition is as follows:</b>		
Cash and cash equivalents acquired		(3,453)
Direct costs relating to the acquisition		479
Cash paid for Westpac's 51% interest in TWFSL		7,337
<b>Net consolidated cash outflow</b>		<b>4,363</b>

The acquisition of TWFSL represents the next step in the Group's development of an in-house financial services business and follows the earlier acquisition of Diners Club (NZ) Limited in March 2014. TWFSL currently offers credit and risk related products that include credit cards and insurance cover. The increase in the Finance Receivable loan book following the acquisition helps provide scale and enables the Group to leverage its current infrastructure, core systems and people capability to grow this business segment cost effectively.

**Notes to the Financial Statements - Other Disclosures**

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<b>15.3 The Warehouse Financial Services Limited - Pre-acquisition associate investment</b>	Note	2016	2015
		\$ 000	\$ 000
Investment at beginning of the year		2,778	5,541
Share of associates profit before taxation		1,004	3,892
Less taxation		(281)	(1,090)
Equity earnings of associate		723	2,802
Dividend received from associate		(2,695)	(5,565)
Acquisition of majority shareholder	15.1	(806)	-
<b>Investment at end of the period</b>		<b>-</b>	<b>2,778</b>

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.

**16.0 COMMITMENTS****Operating leases**

The Group's non-cancellable operating leases mainly relate to building occupancy leases and typically expire within ten 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:

<b>Future minimum rentals payable</b>	2016	2015
	\$ 000	\$ 000
0-1 Years	120,636	111,406
1-2 Years	111,731	103,687
2-5 Years	254,246	239,656
5+ Years	325,121	298,809
<b>Operating leases</b>	<b>811,734</b>	<b>753,558</b>

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

<b>Capital commitments</b>	2016	2015
	\$ 000	\$ 000
Within one year	12,666	9,957

**17.0 CONTINGENT LIABILITIES**

	2016	2015
	\$ 000	\$ 000
Bank letters of credit issued to secure future purchasing requirements	16,804	21,145
Less included as a goods in transit creditor	(1,394)	(1,152)
	15,410	19,993
Standby letter of credit issued to Visa Worldwide	4,566	-
Bank guarantees provided to landlords and the New Zealand Stock Exchange Limited	643	643
<b>Total contingent liabilities</b>	<b>20,619</b>	<b>20,636</b>

**18.0 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.

**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.

(i) Sir Stephen Tindall (Director) has a beneficial shareholding of 93,687,096 shares (2015: 93,687,096 shares) which carry the normal entitlement to dividends. Dividends of \$14.522 million (2015: \$15.927 million) were received on these shares during the year.

(ii) The Group's other Directors collective had beneficial shareholdings of 221,066 shares (2015: 221,066 shares) at balance date which carry the normal entitlement to dividends.

(iii) Share transactions undertaken by the Directors during the year and Directors non-beneficial shareholdings 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.

(iv) Key management (as detailed in note 13.0) collectively held 672,563 shares (2015: 950,270 shares) at balance date which carry the normal entitlement to dividends.

(v) The Tindall Foundation - Sir Stephen Tindall (Director) and R J Tindall (alternate Director) are trustees 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 73,920,496 shares (2015: 73,920,496 shares) in the Group. Dividends of \$11.458 million (2015: \$12.566 million) were received on these shares during the year.