TRANSFORMATION **ON TRACK**

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We continue to change and adapt to the rapidly evolving retail environment. This year, we got to a good place in terms of progress and results.

FRONT COVER

PURPOSE, VISION, VALUES

PURPOSE, VISION AND **VALUES**

Over two million New Zealanders shop with us every week, enjoying the convenience, quality range, and competitive prices we are famous for. Together they spent more than $3 billion with us last year across our networks, which is unparalleled in the New Zealand market.

OUR PURPOSE

Helping Kiwis live better every day

Every day, we're living our purpose by transforming our business to exceed our customers' expectations and beat our competitors in a way that has a positive impact on our communities.

OUR VISION

To build New Zealand's most sustainable, convenient and customer-first company

Being New Zealand's most sustainable business means that we will not only be profitable but we'll also take responsibility for our environmental impact and the impact we have on people's lives. We know that sustainable business is good for our company and the wider economic climate in which we operate. We want to be New Zealanders' first choice for convenience by providing products and services when and where they are needed, with as easy access as possible and a variety of payment and collection options.

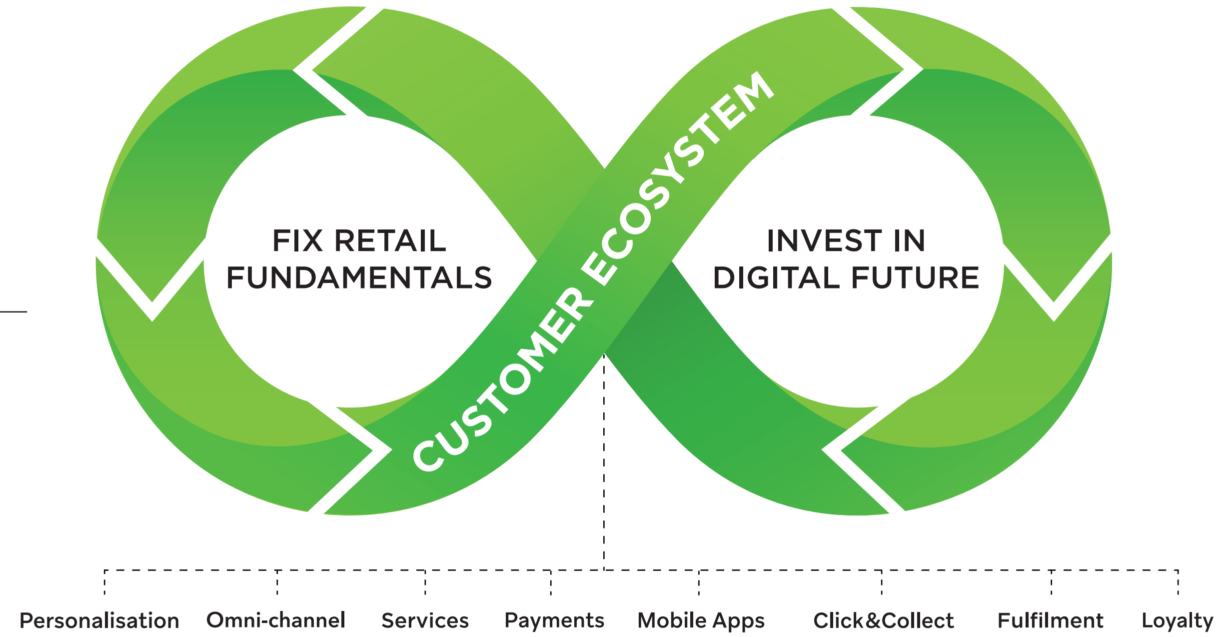
We want to be synonymous with 'customer-first' in New Zealand and help customers understand that quality and great prices don't need to be at a high cost, and we can save them time as well as money.

OUR VALUES

TAKE THE LEAD	BE THE EXPERIENCE	CREATE THE WAY	HERE FOR GOOD
We use our smarts and make things happen	We make every connection count	We make today great and tomorrow even better	We always do the right thing

OUR ECOSYSTEM

Leveraging: Our reach, our customer insights, our ability to serve



Enabled by: World-class team, partners and technology

For: Our communities, our investors, our planet

Our strategy is showing promising signs of delivering results in terms of profit, revenue growth and satisfied customers. We are not changing the strategy at this stage. There is still more to do around fixing our fundamentals through a range of transformative initiatives. We also have the opportunity to continue to invest in our digital capability to meet customer needs and build our future.

Given the fast-moving, changing face of retail, we are working at pace to build an ecosystem around our core business that will provide solutions for our customers' changing expectations and savvier shopping habits. The launch of our digital shopping platform TheMarket is one example of our ecosystem in action. Further initiatives are in progress.

Our strategy is based on customer insights. We will continue to listen to what our customers have to say, before testing and learning to problem-solve in a way that drives a positive quality and value perception for today's customer.

With changing customer expectations comes a need for us to continue to refine our business processes and implementation methods. We are upskilling our team by building a performance culture with new leadership behaviours that are linked to our values. We are also giving thought to the future of work and how we can best equip and support our team for ongoing changing skills needs.

Our transformation programme has enabled greater discipline and ways of working, promoting increased nimbleness and agility, which we will continue to adopt throughout our business.

GROUP HIGHLIGHTS

2.25m
average weekly customer visits

$3.1b
Group sales (up 2.6% on last year)

25.6%
increase in adjusted NPAT

18%
online sales growth (online sales account for 7.8% of total sales*)

* Based on normalised online sales adjusted for the closure of online platforms during FY19.

We are the first retailer in New Zealand (the third in the world) to go carbon neutral.

53%
reduction in net debt

100%
of private label manufacturing sites are required to meet our ethical sourcing standards

$67m
raised in donations for New Zealand since 1982

Development and launch of TheMarket

Noel Leeming is New Zealand's largest TV installer, and Noel Leeming Tech Experts visited over 35,000 homes.

175
transformation initiatives delivered

CHAIR'S REPORT

Where we said we would be

Two and a half years ago, we set out a plan to improve the long-term profitability of The Warehouse Group by fixing our retail fundamentals and investing in the Group's digital future. Over that time, we have been focused on delivering results rather than promises, and being transparent about the progress we are making and the challenges we face.

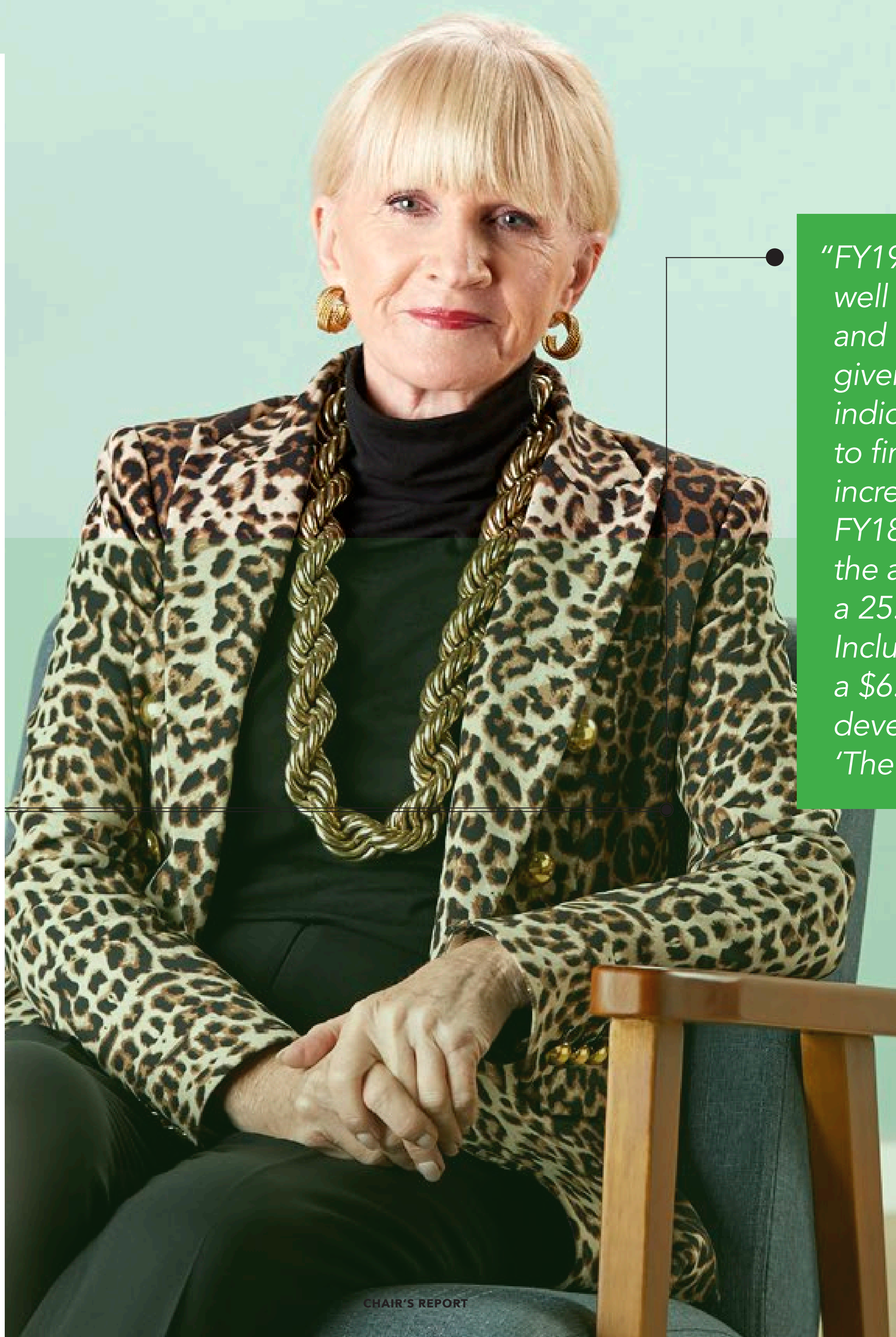
I am pleased to report that the evidence of our transformation is starting to become apparent throughout the business. We are seeing progress in our relationships with customers, our impact on the environment, and now in our financial results with one of our strongest profit results for some years. Our adjusted Net Profit After Tax (NPAT) result of $74.1m for this financial year provides comfort that we are on the right track.

Given the overall performance in the retail market over the last 12 months, the Board is heartened by our progress. We see trading momentum and incremental improvements which augur well for that progress to continue.

Net profit attributable to shareholders for the year was $65.4m, a significant improvement on last year. In line with previous reports, this bottom line result includes a number of one-off items, which is why we use adjusted NPAT for guidance; this metric shows the underlying performance of the business.

FY19's adjusted NPAT is also well up on last year's result, and exceeds the guidance given at the half-year which indicated we expected to finish the year with an increase of 7% to 12% on FY18 adjusted NPAT. In fact, the adjusted NPAT represents a 25.6% improvement. Included in that result is a $6.0m investment in developing our new venture, "TheMarket". Backing that investment out from the result would show that the underlying performance improvement in the retail group on a like for like basis is a 31.1% improvement year on year.

The Board has confirmed a final dividend of 8.0 cents per share. Added to the interim dividend of 9.0 cents per share, fully imputed, that was paid in April, this brings the total dividend pay-out for the year to 17.0 cents per share. This equates to a pay-out ratio of 80.5% on adjusted NPAT for the second half, and 79.6% for the full year. Combining dividends paid with the change in share price, the total shareholder return for FY19 is 20.2%.



"FY19's adjusted NPAT is also well up on last year's result, and exceeds the guidance given at the half-year which indicated we expected to finish the year with an increase of 7% to 12% on FY18 adjusted NPAT. In fact, the adjusted NPAT represents a 25.6% improvement. Included in that result is a $6.0m investment in developing our new venture, 'TheMarket'."

Joan Withers
Chair
The Warehouse Group

CHAIR'S **REPORT**

"Our integrated report shows that using our resources wisely and managing our networks, expertise, people, relationships, responsibilities to the environment and financial capital to best effect is not just about driving financial benefits, it is also about creating benefits across all aspects of the business and our broader stakeholder groups."

Customer behaviours changing quickly

It is difficult to overstate the extent and speed of change in the retail market. As I pointed out at the half year, customer shopping behaviour has changed and will continue to do so at a rapid pace. At the same time, the arrival of global retailers is altering the options for shoppers, bringing new ways of retailing to our already competitive market and pushing us to examine our range and offering as never before.

We have a leadership team with tremendous knowledge and understanding of the global context of retailing, and the Board is confident that we are in a strong position to understand the implications and opportunities of the competitive environment and to respond accordingly. That is starting to come through in our results. The Warehouse, Warehouse Stationery, and Noel Leeming have all reported increases in gross profit, reinforcing our belief that we know how to compete in an intensifying retail environment.

Considerable transformation

Twelve months in, our transformation programme continues to add rigour and discipline to how we work and to enable us to explore greater efficiencies through integrating and improving our systems, streamlining our processes and taking greater control of our brands. So far, we have delivered 175 initiatives across merchandise, store performance, logistics, non-trade spend and other workstreams.

I am impressed that we have been able to sustain the level of intensity in terms of the execution of our transformation over this period. Such programmes depend on strong people engagement. Our people have stepped up and faced tremendous shifts in their day to day working with courage and determination. Not only are we already seeing tangible financial benefits but the transformation has also provided tools and resources that have become embedded as our way of delivering.

We have been able to implement change, improvements and efficiencies right across the business. This year's performance shows that we have the ability to execute an ambitious and multi-faceted programme while still meeting the needs of the millions of customers who shop with us through our stores and online.

The Group has also transformed our internal way of working, becoming more collaborative and utilising our expertise across all brands. A good example of this is the enhanced use of customer data to provide insights which inform retail decisions such as product design, price and experiences.

Our integrated report shows that using our resources wisely and managing our networks, expertise, people, relationships, responsibilities to the environment and financial capital to best effect is not just about driving financial benefits; it is also about creating benefits across all aspects of the business and our broader stakeholder groups.

Strong capital management

The Board recognises the need to invest in areas where there has been an investment deficit in recent years. Systems is one such area, and we have allocated around $100m over several years to re-platform the business with modern, efficient retail and back-office technologies. This will allow us to innovate our offerings to customers, and provide them with the experiences and services that they deserve.

We are conscious that historically the returns from investments have not always been as strong as anticipated. Considerable work has been done to improve our investment processes and capital allocation to ensure that we drive returns from these investments. Noel Leeming is an example of an investment that has worked very well for the Group. Having acquired the business in December 2012 for $65m, Noel Leeming is now performing at an EBIT margin of 4%, delivering annual EBITDA of $48m.

Board activity

The Warehouse Group's Board continues to actively support the strategy of the business and as Chair I have been delighted with the commitment of the Directors individually and collectively. We focus on continuing to improve the quality of governance in the Group and look forward to ongoing improvement in the years ahead. Like any evolving organisation though, we remain aware of the need to keep pace with the skills needed for the business in the future. At both board and executive level we are focused on succession planning.

We see the Future Director programme as an important way of staying in touch with both the capabilities available and the next generation of directors. A future director also brings their own perspectives and experiences to the Board, which can be tremendously valuable. We are pleased to announce that Renee Mateparae, who is currently an Agile team leader at Spark, has just been appointed to our Board as a future director. We look forward to working with her over the next 18 months.

Sir Stephen Tindall has decided to take a further year's leave of absence due to his work commitments with the America's Cup and also his private involvements. Robbie Tindall will continue as his alternate, a role that he continues to impress in.

We continued to focus on our Health, Safety and Wellbeing with our board committee chaired by Julia Raue. Julia has done an exemplary job in working with the executive and assisting the whole Board to gain a better understanding of our critical risks and the moves we should be taking to mitigate them.

We recently launched TheMarket, our exciting new foray into the digital retail environment. TheMarket operates as a separate company with its own board. Our interests are represented by Robbie Tindall and John Journee, who are the parent Board's nominees on that subsidiary board.

Doing right by our shareholders

We complete the year in an upbeat frame of mind. Of course there is still much work to be done – there always will be, given the changing nature of retail – but progress has been at least as good as we hoped for and probably better than we anticipated given how the wider market environment continues to evolve.

I referred, at the beginning of this report, to our commitment two and a half years ago to focus on doing what we said we would do. It would have been possible at that point to simply have taken cost out of the business in a non-strategic way in order to improve short term results. Instead, the Group has focused on effecting sustainable improvement and doing the right thing for the longevity of the business, for our stakeholders and our shareholders in the long term. The balance sheet is now in excellent shape and the business has some exciting growth opportunities ahead.

Our decision to move to a fully integrated report reflects our commitment to improving transparency and providing shareholders and analysts with the widest possible view of our activities as part of good corporate governance.

On behalf of the Board, we thank Nick Grayston and his executive leadership and all the hard working teams across the Group. We thank our customers for their business, and our business partners for their support. This is a result we can all be proud of. My thanks, too, to my fellow Directors for their commitment and energy and for the support they continue to give me. Finally, thank you to all our shareholders for continuing to invest in our quest to help Kiwis live better every day.

Joan Withers
Chair

CHAIR'S REPORT
CEO'S REPORT

CEO'S REPORT

> "Our drive to reduce inventory and improve working capital efficiency saw progress this year, translating through to a reduced net debt position following the renegotiation of offshore supplier trading terms and the reduction in aged inventory."

Nick Grayston
Chief Executive Officer
The Warehouse Group

Proud to serve New Zealanders

Discipline, patience and hard work over a sustained period paid off this year as The Warehouse Group recorded an impressive result. Tangible signs of progress show that the hard yards have been worth it and that the company's focus over recent years can now start to be seen on the bottom line.

Accelerating our strategy through an ambitious transformation programme, relentlessly improving our business processes, focusing on what we offer, our Every Day Low Pricing pricing model, lifting brand performance across the board, and the ongoing development and roll-out of our digital future – these and other strategic initiatives have all improved our position significantly. The range and breadth of these measures speak to the complexity of the retail sector today: the rapidly evolving competitive environment, and the changing shopping behaviours of our customers.

No single answer is ever going to be enough given the dynamics of the retail sector, and so we have a broad portfolio of improvement initiatives running across our business. This has required our people to undertake significant change and I want to thank everyone for their hard work in getting us to this point. I've been impressed with the work and focus of the leadership team, and by the support from the Board.

Good progress across our brands

It is particularly satisfying this year to see improvements across almost all of our brands.

The Warehouse is making good progress following the decision to move to Every Day Low Pricing and we saw clear benefits from the transformation initiatives, especially around merchandising and improvements in the cost of goods sold (COGS). This translated into a 19% increase in operating profit year on year for the Red Sheds. As well as improved profitability, we have also seen a six point increase in terms of perceived quality.

Our drive to reduce inventory and improve working capital efficiency saw progress this year, translating through to a reduced net debt position following the renegotiation of offshore supplier trading terms and the reduction in aged inventory.

Unit volume in the Red Sheds has remained flat this year as we continue to simplify our brand portfolio and further reduce our overall number of full stock keeping units (SKUs) by 17%. Continued focus on the optimisation of our product offering has delivered an enhanced shopping experience for Kiwis.

We are now starting to find the right balance between our ongoing commitment to Every Day Low Pricing and introducing some limited seasonal promotions to give us flexibility around driving foot traffic.

CEO'S REPORT

Revenue for The Warehouse increased by 0.6% to $1.7b, with gross margin up 70 basis points. Our best performing categories were General Merchandise and Home. Good progress was made following the move to Every Day Low Pricing and we saw clear benefits from the transformation initiatives.

Noel Leeming continues to impress, with another record result. The technology expertise offered to customers has made the brand experience more valuable to customers looking to incorporate more and more technology into their lives. Noel Leeming revenue grew by 5.0% to $924.6m this year, with operating profit up by 22.3% to $38.1m and gains in operating margins from 3.5% in FY18 to 4.1% in FY19.

Two important factors in the nature of the Noel Leeming offering point to a healthy future. The first is the continued rise of B2B on top of retail activity. Commercial sales continue to improve and we see this as a significant growth opportunity. The second is the ongoing growth of services, which increased 11.4% on last year. Growth in these areas demonstrate an increasing demand for more end-to-end life-cycle technology services from customers.

Warehouse Stationery made a welcome recovery this year after a poor FY18 as a result of internal systems integration and stock availability issues. Those issues are now behind us and Warehouse Stationery has performed well in FY19, reporting a record profit despite industry headwinds in its core stationery categories.

Revenue for Warehouse Stationery was up by 1.8% on the previous year to $268.6m in FY19. Operating profit also increased from $10.6m in FY18 to $16.7m this year. Operating margins kept pace with this, increasing from 4.0% last year to 6.2% this year.

We have continued to roll out the integration of The Warehouse and Warehouse Stationery. There are now 10 of these stores-within-a-store across the country, and both brands are benefiting from the strengths that the other can bring: foot traffic from Red, and high quality products and services from Blue.

Torpedo7 has continued to roll out more stores this year as we build scale and target new markets. Our overall view of the business is that it has considerable potential but that more focus is needed to turn good fundamentals into a profitable trading entity. To that end we recently announced the appointment of Simon West as CEO for Torpedo7, a move designed to focus on brand-specific issues.

Revenue for Torpedo7 increased again this year to $172.5m, up 5.6% on last year's result of $163.4m; however, the company made an operating loss of $7.0m as we invested in greater market presence through 18 stores. As I have said for some time, expansion alone will not be enough because all stores have proven to be relatively profit-neutral in their first year of operation. This year we continued to build greater brand clarity and to refine our inventory.

Group online sales continued to grow this year, up 18% on last year to $239m. Currently, online sales represent 7.8% of our total sales, and are a critical part of our growth strategy. Digital initiatives enable us to create vehicles that reach beyond the specific constraints of the businesses that we own and operate. New Zealanders currently spend $4.2b online and that figure is only going to get bigger.

We launch a new digital era

After balance date, we launched our new digital platform TheMarket – part of the execution of a wider strategy to construct an enhanced ecosystem around our business. We're very proud of the work that the team has done in a short period of time to release such an elegant platform to market.

Proof that we can do this and that there is capacity in the market for such initiatives can be seen in the fact that, at launch, we had welcomed 150 merchants onto the platform – offering more than a million products, including local brands Karen Walker, WORLD, Father Rabbit, Citta and Barkers, and Australian and international brands PE Nation, Cue, Billabong, Cotton On and The Nile. Key categories include fashion, footwear, kids and baby, toys, health and beauty, home, garden, electronics, sports and outdoor. TheMarket is independently operated but backed by The Warehouse Group.

TheMarket is a key investment for us in the digital future, one in which we see a much broader role for the Group in supporting a range of services to help New Zealanders live their lives better.

The next step will be the launch of a Group loyalty programme, and we have a number of services at various stages of consideration and development to expand the offering in order to become a true ecosystem.

Holding our own in an intense trading environment

These developments come not a moment too soon. We are more convinced than ever that without these changes we could not thrive in tomorrow's retail environment. Our predictions of increased competition are being realised, with a number of fashion and lifestyle retailers having arrived or committed to come here. The presence of competitors such as Zara, H&M and the upcoming arrival of Costco, along with Amazon's growing maturity in Australia which we think will start to affect us too, point to our need as a Group to make the most of our advantages as a New Zealand-based retailer with a significant footprint, loyal customers and deep relationships within communities.

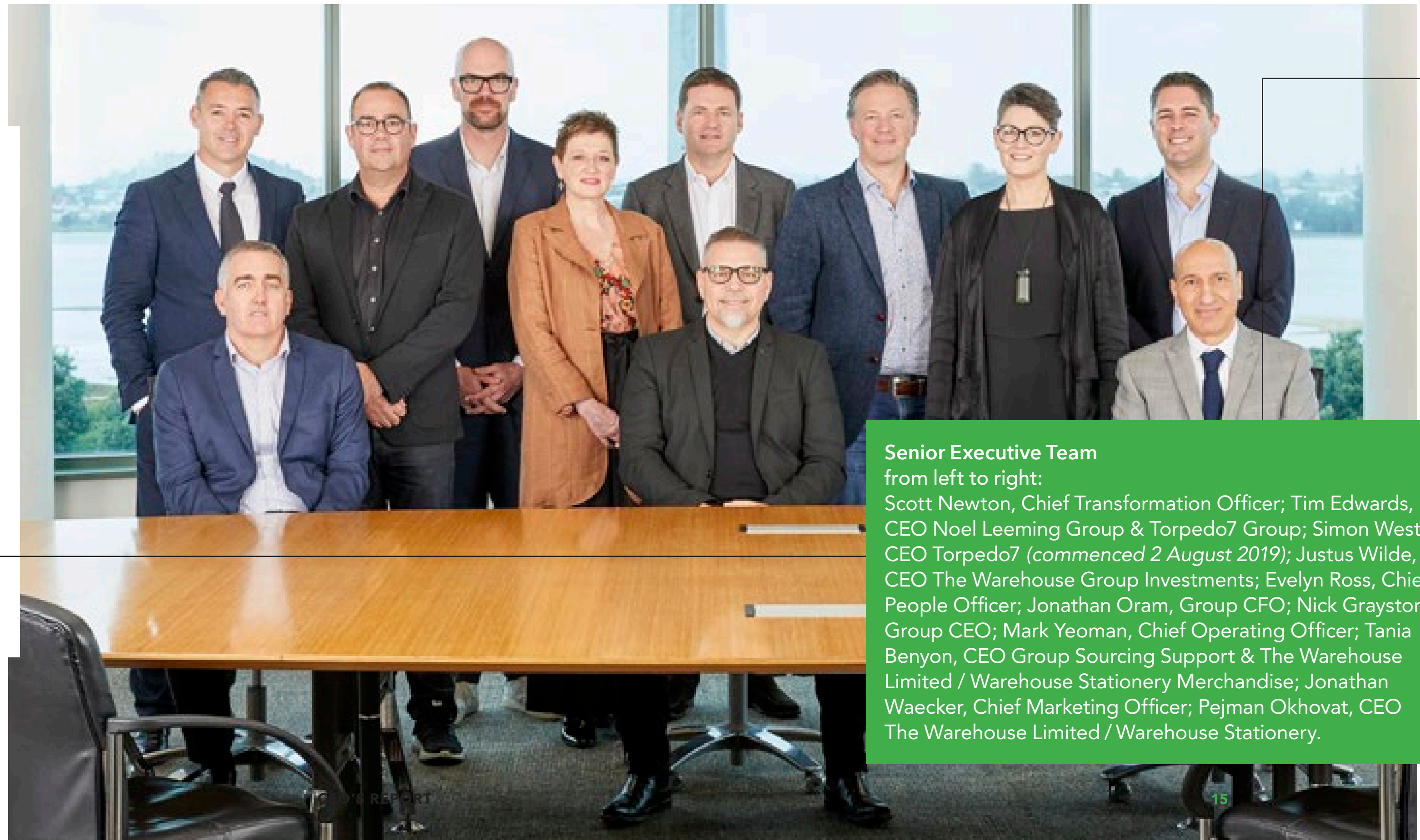
As I said last year, scale and brand affinity are two of our greatest strengths, and we will continue to leverage them by recognising and rewarding the people who shop with us and offering them access to new and exciting digital initiatives, guided by sophisticated data, insights and capabilities. Looking at our performance against our current competitor set, we are satisfied that our strategy is headed in the right direction and our market data is showing significant progress against our close competitors.

Moving with speed

Speed, or rather the inability to respond to changing market dynamics at speed, has always been our greatest challenge. We are determined to move faster – and our Executive Team is focused on how we drive the business forward at an increased pace at the same time as we take care of our people. In light of what is happening around us, it is all the more important that we continue to put our house in order. Right now, we are moving towards peak investment mode in terms of systems and processes, and we'll be looking for better ways to organise and drive customer-centricity, productivity and cultural change.

We've already lifted productivity in our stores by being more efficient and only focusing on those things that make a difference for customers. Boosting our wider productivity starts with addressing a significant under-investment in core systems and supply chain logistics capabilities. We need to make sure our systems of record are no longer a competitive disadvantage. The first step in getting that right is improving our fulfilment capability. Our new Warehouse Management System is the first expression of that. At this stage, it is greatly assisting us to serve our customers digitally.

In terms of our wider back office, we are also continuing to identify how we can use modern integrated systems to support our people, merchandising and finance systems and to reorganise our processes as part of that.



Senior Executive Team
from left to right:
Scott Newton, Chief Transformation Officer; Tim Edwards, CEO Noel Leeming Group & Torpedo7 Group; Simon West, CEO Torpedo7 *(commenced 2 August 2019)*; Justus Wilde, CEO The Warehouse Group Investments; Evelyn Ross, Chief People Officer; Jonathan Oram, Group CFO; Nick Grayston, Group CEO; Mark Yeoman, Chief Operating Officer; Tania Benyon, CEO Group Sourcing Support & The Warehouse Limited / Warehouse Stationery Merchandise; Jonathan Waecker, Chief Marketing Officer; Pejman Okhovat, CEO The Warehouse Limited / Warehouse Stationery.

CEO'S REPORT

"This year we became a carboNZero™ company, and committed to 25 initiatives focused on reducing our carbon footprint. Our environment capital section in this report spells out what we are doing and the progress we are making in this space. We have three key focus areas: reducing our carbon emissions and waste; offsetting our carbon emissions through the regeneration of land and renewing native forests (this will become clearer as carbon trading legislation is finalised); and buying international Gold Standard carbon credits. We are reassessing our raw materials and enhancing our environmental performance by reducing packaging materials and purchasing responsibly produced products."

Transformation on a range of fronts

New systems and processes by themselves won't be sufficient. Our RISE transformation programme has helped us change the way we work and has enabled us to lift our ability to execute, which is now reaping financial benefits. However, it's also clear that we still need to make the full pivot from being a rigid, 20th century command and control organisation focused on supply to become a nimble, digital company focused on solving customer problems. With that goal in mind, we are assessing different operational models, adjusting our culture and looking to adopt lean principles such as speed-as-a-habit, agility, flexibility, minimum viable product and fail-fast as part of how we operate.

All of that requires further deep cultural change. We made the first steps towards that this year by redefining our values and examining the behaviours required to bring those values to life. While changing how we work is important, unlike some companies that have been through significant change, we don't believe that is the extent of the transformation required. For us, it's one part. We want to get the best value we can from it, of course, but we also need to use it as a lever to move the whole company forward.

Our transformation programme has been effective because it has been cross-functional and collaborative. We've recognised that we need to get better right across our Group, not just in some parts of the business, and the key to success is continuing to embed integrated solutions that lead to a far more collaborative style of working.

On top of that, the muscle that we've built in data science has enabled us to start building strength in areas such as price optimisation by category which will grow margins. We will continue to refine our understanding of our customers and their needs and to use that to inform our brand performance and our future investments.

Meeting our other responsibilities

Our core purpose to help Kiwis live better every day gives us both a responsibility and a remit to look beyond just making profits. Of course we must be as efficient and make the best returns as we can but we also serve the communities that we are part of, and there are other elements of value that are important to us and to other stakeholders. That's why we have adopted Here for Good as a core value. It has prompted us to make stands on issues such as mental health and carbon neutrality this year. We believe this is fundamental to our values, to our operating principles, and supports our commitments to the community and the interests and priorities of New Zealanders.

This year we became a carboNZero™ company, and committed to 25 initiatives focused on reducing our carbon footprint. Our environment capital section in this report spells out what we are doing and the progress we are making in this space. We have three key focus areas: reducing our carbon emissions and waste; offsetting our carbon emissions through the regeneration of land and renewing native forests (this will become clearer as carbon trading legislation is finalised); and buying international Gold Standard carbon credits. We are reassessing our raw materials and enhancing our environmental performance by reducing packaging materials and purchasing responsibly produced products.

An integrated approach

Our commitment to a fully integrated report this year recognises that not everything we do is about financial value and we want to keep our stakeholders informed about the many non-financial initiatives we are undertaking and the progress we are making. It is also a reflection of the integrated way we are addressing our strategic priorities: integrating our capitals to give us a holistic view of our vulnerabilities and opportunities; building clear understandings of our progress on multiple fronts; and recognising, as I said earlier, that there is not a singular answer. We believe that's also good business.

Good progress

This year we had defined the key performance indicators (KPIs) that mattered to us as a leadership team: earnings for the year, product and retail experience, systems and processes, performance culture, mid-term strategy and eCommerce.

We have made good progress in each of these areas, but the work is far from done. And we know that major system and process change in the next year of our transformation, coupled with product changes and refinement of our ecosystem, is all part of refining our retail experience and testing new formats as we feel our way into a rapidly evolving competitive environment.

The investments we make going forward will be on that basis: looking for ways to bolster each brand so that it achieves its full potential and, at the same time, getting best leverage from what we do as a Group. With earnings rising and our balance sheet in good health, we are well placed to make some of the big investments in front of us. Having reduced our debt gearing, we now have the capacity to balance the demands on our capital and deliver a strong and sustainable future for our organisation across all our channels, current and emerging.

My thanks to everyone in the Group for your hard work this year.

Nick Grayston
Chief Executive Officer
The Warehouse Group

OUR CEO AND BOARD

Our CEO and Board
from left to right:
Nick Grayston (CEO), Tony Balfour, Joan Withers (Chair), Keith Smith, John Journee, Will Easton, Robbie Tindall, Julia Raue.

OUR BOARD

Board bios available at: www.thewarehousegroup.co.nz/about-us/board-directors

Joan Withers
MBA, CFInstD
Chair & Independent Non-Executive Director

Joan has been a professional director for more than 20 years and spent over 25 years working in the media industry, previously holding CEO positions at The Radio Network and Fairfax Media. Her current governance roles are Chair of Mercury NZ Limited and The Warehouse Group Limited, and director of ANZ Bank NZ Limited. Joan has previously held Chair positions at Television New Zealand Limited and Auckland International Airport.

Joan is a Trustee of the Sweet Louise Foundation and is Chair of a steering committee working to increase the percentage of South Auckland Māori and Pacific Island students taking up roles in the health sector.

INTERNAL
- Corporate Governance and Nomination Committee (Chair)
- Audit & Risk Committee
- Disclosure Committee
- People and Remuneration Committee
- Health, Safety and Wellbeing Committee

OTHER DIRECTORSHIPS
- Mercury NZ Limited (Chair)
- ANZ Bank NZ Limited
- Sweet Louise Foundation

Keith Smith
BCom, FCA
Deputy Chair & Independent Non-Executive Director

Keith has been involved with The Warehouse since Sir Stephen opened his first store in 1982, initially providing accounting, tax and corporate advice, and was Chair from 1995 to May 2011. He has a long-standing record of leadership as a director and advisor to companies in a diverse range of industries, including the energy sector, rural services, printing, media and exporting. Keith is Chair of listed company Goodman (NZ) Limited and is a director of Mercury NZ Limited, Healthcare Holdings Limited and several other private companies.

Keith is a past President of the Chartered Accountants Australia and New Zealand.

INTERNAL
- Audit & Risk Committee (Chair)
- Disclosure Committee (Chair)
- Corporate Governance and Nomination Committee
- People and Remuneration Committee
- Health, Safety and Wellbeing Committee

OTHER DIRECTORSHIPS
- Goodman (NZ) Limited (Chair)
- Mercury NZ Limited
- Healthcare Holdings Limited

Julia Raue
CMInstD, GAICD
Independent Non-Executive Director

Julia is an Independent Director for Z Energy, Television New Zealand Limited, Southern Cross Health Society and Jade Software Corporation Limited.

Julia has extensive experience in digital and information technology, business transformation and strategic planning across the airline, telecommunications and local government sectors, as well as not-for-profit in New Zealand. Previously, Julia was the Chief Information Officer of Air New Zealand (2007–2015) and she was awarded the New Zealand CIO of the Year award in 2009.

INTERNAL
- Health, Safety and Wellbeing Committee (Chair)
- Audit & Risk Committee

OTHER DIRECTORSHIPS
- Z Energy Limited
- Television New Zealand Limited
- Southern Cross Health Society
- Jade Software Corporation Limited

Robbie Tindall
BA, BSc
Non-Executive Director (Alternate to Sir Stephen Tindall)

In October 2017 Sir Stephen Tindall decided to take a leave of absence from the business. Robbie represents him during this time. Robbie has been attending Board meetings since his appointment in 2011.

Robbie studied Arts and Science at the University of Auckland before spending eight years at The Warehouse in various merchandise and buying roles. Today he works for K One W One Limited, a family investment company, working alongside – and investing in – some of New Zealand's most exciting technology and innovation companies as they grow and seek to go global.

INTERNAL
- Disclosure Committee
- Corporate Governance and Nomination Committee
- People and Remuneration Committee
- Health, Safety and Wellbeing Committee

OTHER DIRECTORSHIPS
- K One W One Limited
- The Tindall Foundation
- Franklin Smith Limited
- Foundation Services Limited

John Journee
BCom, CMInstD, MAICD
Independent Non-Executive Director

John has had an extensive retail career, which includes executive experience across sectors that span general merchandise, fashion apparel, FMCG, consumer electronics, telecommunications, hospitality and electricity retailing. Over his 30-year career he has spent 15 years with The Warehouse Group, starting as a joint-venture partner in 1990 and progressing through senior roles in operations, marketing, merchandise, international sourcing and business development. John has also had CEO roles with Noel Leeming and Australasian foodservice distributor Southern Hospitality.

INTERNAL
- Audit & Risk Committee
- Health, Safety and Wellbeing Committee

OTHER DIRECTORSHIPS
- Vanishing Point Limited
- Farmlands Society
- Colonial Motor Company
- Quantiful Limited (Member, Advisory Board)

Antony Balfour
BCom
Independent Non-Executive Director

Tony has extensive global retail and eCommerce experience with a strong track record in a diverse range of industries. Most recently, he was General Manager (Markets) for Icebreaker Clothing with responsibility for the company's global business units in New Zealand, Australia, USA, Canada, Europe and Asia as well as the development of the company's rapidly growing eCommerce and retail business units.

His prior experience includes senior roles in Monster.com and Seek.com, both successful online recruitment sites.

INTERNAL
- People and Remuneration Committee (Chair)
- Corporate Governance and Nomination Committee
- Health, Safety and Wellbeing Committee

OTHER DIRECTORSHIPS
- Les Mills International Limited
- Wayfare Limited (formerly Real Journeys Limited)

Will Easton
Independent Non-Executive Director

Will is a seasoned business leader and has an extensive track record of driving growth across emerging markets and technologies. He is currently Managing Director of Facebook for Australia and New Zealand and was previously Vice President at Facebook for Asia Pacific Emerging Markets.

Other roles in his portfolio include Regional Director at Google for Mobile and Social in the Asia Pacific region and Director of Sales at Microsoft in the Consumer Products Division. Will has a passion for the retail industry and has worked closely with retailers throughout his career. He started his career with Coca-Cola as a Retail Sales Manager and believes that "there are more opportunities than risks in retail, provided retailers focus on improving organisational designs".

INTERNAL
- Health, Safety and Wellbeing Committee

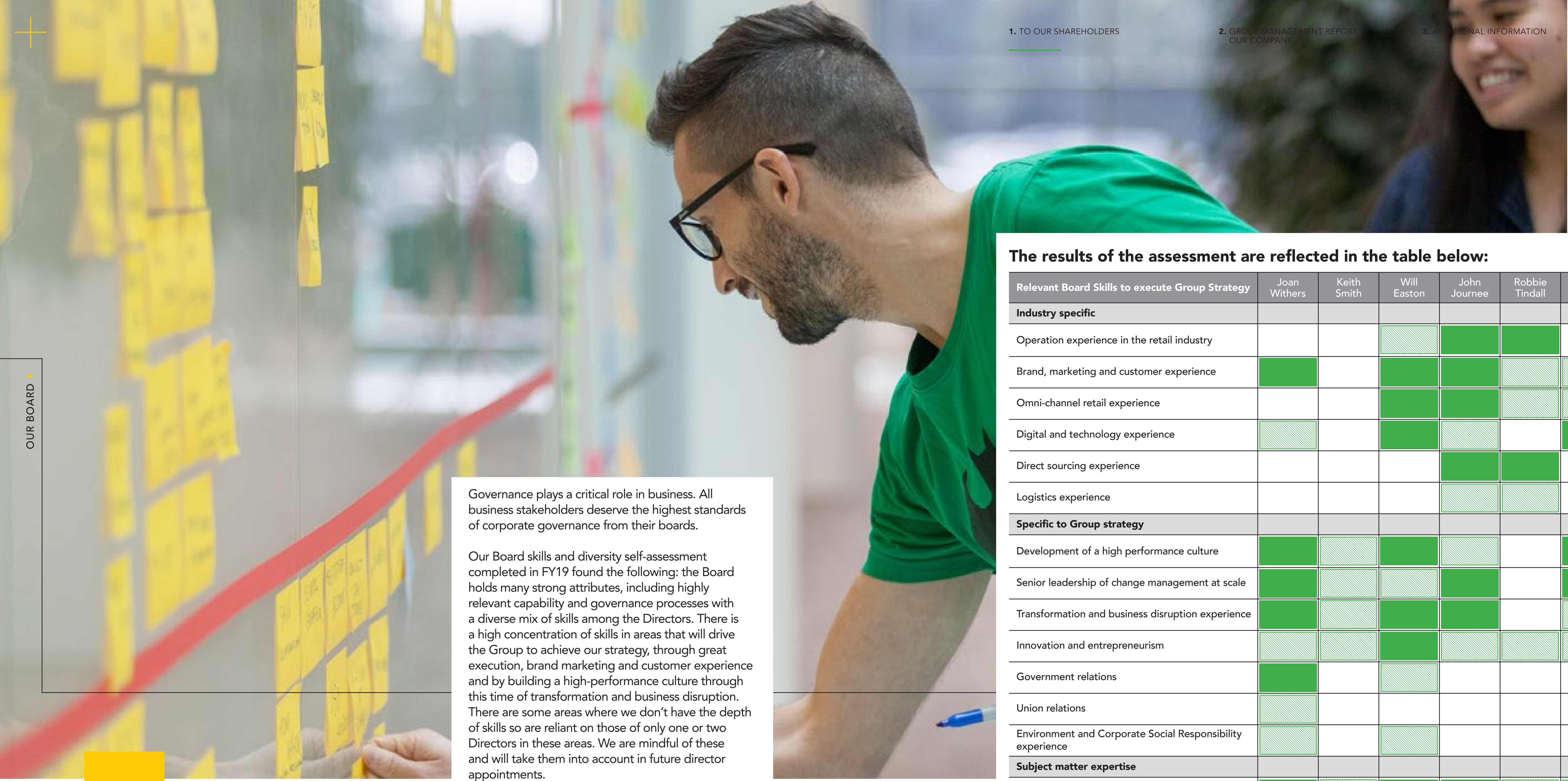
OTHER DIRECTORSHIPS
- Facebook Pty Limited

Renee Mateparae
BEng
Future Director

Renee is currently the Tribe Lead for Future Connectivity at Spark New Zealand, taking a lead role in looking for future connectivity including mobile, Internet of Things, marketplaces, 5G and the technology and 'productisation' of these. At Spark, Renee has played a key leadership role in the organisation's transition to Agile. Prior to this role, Renee worked for major organisations such as Air New Zealand and Macquarie Group. Her earlier career years included roles in strategy transformations, customer experience, product strategy, product development, engineering and business optimisation. She also has previous governance experience, including as a director with AUT Ventures Limited and as Board Observer at PropertyNZ.

Renee holds a Postgraduate Diploma in Business Administration and a Bachelor of Engineering (Automation and Control) (Hons) from Massey University.

OUR CEO AND BOARD
BOARD SKILLS MATRIX



BOARD SKILLS MATRIX

Governance plays a critical role in business. All business stakeholders deserve the highest standards of corporate governance from their boards.

Our Board skills and diversity self-assessment completed in FY19 found the following: the Board holds many strong attributes, including highly relevant capability and governance processes with a diverse mix of skills among the Directors. There is a high concentration of skills in areas that will drive the Group to achieve our strategy, through great execution, brand marketing and customer experience and by building a high-performance culture through this time of transformation and business disruption. There are some areas where we don't have the depth of skills so are reliant on those of only one or two Directors in these areas. We are mindful of these and will take them into account in future director appointments.

The assessment consisted of a list of skills and attributes identified and agreed by the Chair and key members of the management team that are relevant to drive the Group's three-to-five year strategy. The list of skills was grouped into three categories: retail industry skills, skills related to the delivery of Group strategy and general subject matter expertise. Directors then completed a self-assessment of whether or not various skills were 'primary' or 'secondary' skills in their suite of experience and expertise.

The results of the assessment are reflected in the table below:

Relevant Board Skills to execute Group Strategy	Joan Withers	Keith Smith	Will Easton	John Journee	Robbie Tindall	Julia Raue	Tony Balfour
Industry specific							
Operation experience in the retail industry			Secondary	Primary	Primary		Secondary
Brand, marketing and customer experience	Primary		Primary	Primary	Secondary	Secondary	Primary
Omni-channel retail experience			Primary	Primary	Secondary	Secondary	Secondary
Digital and technology experience	Secondary		Primary	Secondary		Primary	Secondary
Direct sourcing experience				Primary	Primary		
Logistics experience				Secondary	Secondary		
Specific to Group strategy							
Development of a high performance culture	Primary	Secondary	Primary	Secondary		Primary	Secondary
Senior leadership of change management at scale	Primary	Secondary	Secondary	Primary		Primary	Secondary
Transformation and business disruption experience	Primary	Secondary	Primary	Primary		Secondary	Secondary
Innovation and entrepreneurism	Secondary	Secondary	Primary	Secondary	Secondary	Secondary	Primary
Government relations	Primary		Secondary				
Union relations	Secondary						
Environment and Corporate Social Responsibility experience	Secondary		Secondary				Secondary
Subject matter expertise							
Development and execution of business strategy	Primary	Secondary	Primary	Primary	Secondary	Secondary	Primary
Governance experience	Primary	Primary	Secondary	Primary		Primary	Primary
Large company leadership experience	Primary	Secondary	Primary	Primary			Primary
Finance / accounting expertise	Secondary	Primary			Secondary		Secondary
Audit committee / risk management experience	Primary	Primary					
Regulatory knowledge and experience	Primary	Primary	Secondary				
Health and safety experience	Secondary		Secondary			Primary	Secondary
HR / learning and development experience	Primary		Secondary			Secondary	Secondary
Financial markets experience	Secondary	Secondary	Secondary		Secondary		
Iwi relationships and connectivity	Primary				Secondary		
Shareholder and investor relations experience	Primary	Primary					

Primary skills
Secondary skills

INTEGRATED REPORTING

HOW WE CREATE VALUE THROUGH OUR BUSINESS MODEL

OUR BUSINESS MODEL
Our core business is retailing of products and services principally aimed at consumers, however we do have a strong presence in the small-to-medium-sized business segment and a sizeable commercial business.

Under Integrated Reporting our concept of creating value is broader than 'how our business process consumes these inputs to create financial value'. It recognises that our business model adds value to each capital at every step in the process, and that value is determined in the context of each capital. As can be seen by the diagram below, value is driven in different ways across each capital at each stage in the process of managing our retail business. The six capitals are not commodity inputs or outputs, rather, they are an intrinsic part of the process of managing a retail business and are impacted in many different ways. External forces, which are covered in our approach to risk management, also influence the six capitals.

RETAIL VALUE CREATION PROCESS

	UNDERSTANDING OUR MARKET	SOURCING PRODUCT	BRINGING PRODUCT TO MARKET	OMNI-CHANNEL SALES ENVIRONMENT	SUPPORTING NEW ZEALAND COMMUNITIES
OUR NETWORKS	Demand forecasting analytics and tools to better understand demand and volume.	International supply offices to ensure local focus and reach into manufacturers and upstream supply chain.	Minimise cost to serve through efficient, managed distribution, warehousing and delivery on time to store. Efficient process management and inventory costing and access to branded products.	Almost universal coverage across NZ, with key local retail points of presence across the country as well as leading omni-channel experiences. Seamless experience for customers across physical and digital channels.	Universal reach means no part of NZ is outside of our influence. Our capabilities can be leveraged to deliver what is needed. Extended operating hours provides choice and access.
OUR PEOPLE	Providing opportunities for team members across the Group to provide customer centric feedback, feeding into design and product choices.	Providing career pathways across the retail value chain, valuing language and cultural differences, giving end-to-end insight and experience across retail activities into sourcing and wholesale.	Providing jobs throughout the network that recruit unskilled and skilled labour into retail and business career pathways. A safe working environment that values an individual's right to return home safely at the end of the day. Recognition of experience and fair and equitable remuneration. Supportive wellness programmes. Opportunities for progression and learning.	Specialist sales and customer engagement training. Treating customers as you would expect to be treated yourself. Flexible working arrangements and equal opportunity advancement. Career opportunities with cutting edge technologies in online retail and the opportunity to contribute to leading retail change in NZ.	Enabling our people to be a part of their community while being part of the Group. Caring and committed teams drive superior customer experiences, increased engagement and performance. Doing the right thing is part of who we are and what we stand for.
OUR EXPERTISE	Understanding customers, through insights and analytics. Fitting product to market at the right price/value/quality intersection. Demand planning and forecasting.	Contract negotiation, quality management and long-term relationship development. Ethical sourcing practices.	Continuous improvement and drive for efficiency. Use of best practice at scale in NZ provides the opportunity to influence change for the better. Modernisation of core systems to disrupt our business model from within.	Value is created through sales expertise, product knowledge and customer service. Product availability and ability to fulfil on time and to meet or exceed customer expectations.	Effective community engagement programmes deliver real results, not intentions. Practised processes to support and empower the people in our communities enables us to deliver on promises that are meaningful to our communities and stakeholders.
OUR RELATIONSHIPS	Developing long-term relationships with suppliers and manufacturers with a focus on ethical work practices and sustainably sourced raw materials.	Developing mutually beneficial partnerships to represent product and provide access to market for manufacturers.	Key partnerships with third parties are an intrinsic part of bringing product to market, and enable us to focus on the risks we manage best, and avoid being a jack-of-all-trades. Mutually beneficial relationships give us access to investment in automation and technology that may be unavailable to stand-alone operators.	A life-cycle perspective of customer interactions. Each transaction is important to build the relationship, however it is the lifetime customer experience that creates loyalty and discretionary participation. Driving loyalty to improve the return on investment on promotional activity and feed up into the product decision making process.	Giving back in support of the communities our customers and team members are part of. Saying thank you and recognising that it is a privilege to be part of a local community, not a right. Creating employment and giving customers what they need.
OUR ENVIRONMENT	Taking a lead on sustainable product quality and materials, packaging and consumption.	Minimising wastage and enhancing product quality through sustainable material and manufacturing processes.	Minimise our impact on the environment through smart use of technologies, packaging, labour management, minimising rework and harmful materials. Maintaining compliance with all materials handling regulations.	Reinforcing good environmental practices at the customer edge, reducing plastics in packaging and providing customers with choice and sustainable options without premium pricing those choices. Role modelling environmental stewardship.	Combining the Group's objectives with those of community groups to maximise impact on environmental matters. Taking a leading role in modelling, educating and facilitating in NZ business. Creating incentives and new opportunities for communities to make a difference.
FINANCIAL CAPITAL	Maintaining our financial resilience and access to capital as a key enabler to retail value creation. Developing and providing innovative payment solutions for customers.	Trade terms with suppliers that manage product risk and maximise financial capacity. Efficient use of working capital to maximise leverage. Management of FX risk that maintains attractive pricing for our customers.	Optimising the economically efficient use of network assets, minimising our cost to serve and inventory touchpoints. Reducing wastage and breakage. Exploring ways to utilise and express existing assets in ways that create value.	Effective sell-through and margin management of products in the right channels. Price optimisation and on-target seasonal events all drive financial value through improving inventory turn rates and minimising clearance. Creating adjacent value streams through value-add services. Diversifying channel risk.	Partnering to share risk. Leading transparency and accountable reporting to increase trust and confidence among investors and financial partners.

BOARD SKILLS MATRIX
RISK & MATERIALITY

RISK & MATERIALITY

The Group faces a broad range of risks as a retailer within New Zealand. These risks include macro-economic, competitive and industry sector risks, including those relating to international trade and our trading partners from an importer's perspective.

Business specific risks include those resulting from our responsibilities in the areas of strategic planning, forecasting, day to day operations, investment and programme or project management.

Strategic Risk Management within the Group is conducted using a structured framework, and deals with two primary concerns:

1. Understanding what the Group's risk appetite is, or our willingness to take and manage risks in the pursuit of value and competitive advantage.
2. Making active decisions around risks and whether to accept, transfer, share or mitigate risks that, in the absence of mitigation strategies, fall outside the target risk settings or acceptable risk appetite.

The Group's risk management framework seeks to ensure that there is an effective process in place to manage risk across all the brands within the Group.

The Group acknowledges that risk management is important to all aspects of our activities and is the responsibility of every team member. Managers have a particular responsibility to appraise their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. Our risk management culture encourages analysis and management of risk in all business processes. These risks are identified, assessed and managed at both an enterprise level (top-down) and business level (bottom-up).

An Enterprise Risk Management Committee will be responsible for this framework and meet monthly to discuss its application, monitoring and management of material risks. The committee will provide a report on its activities to both the Senior Executive Team and the Board.

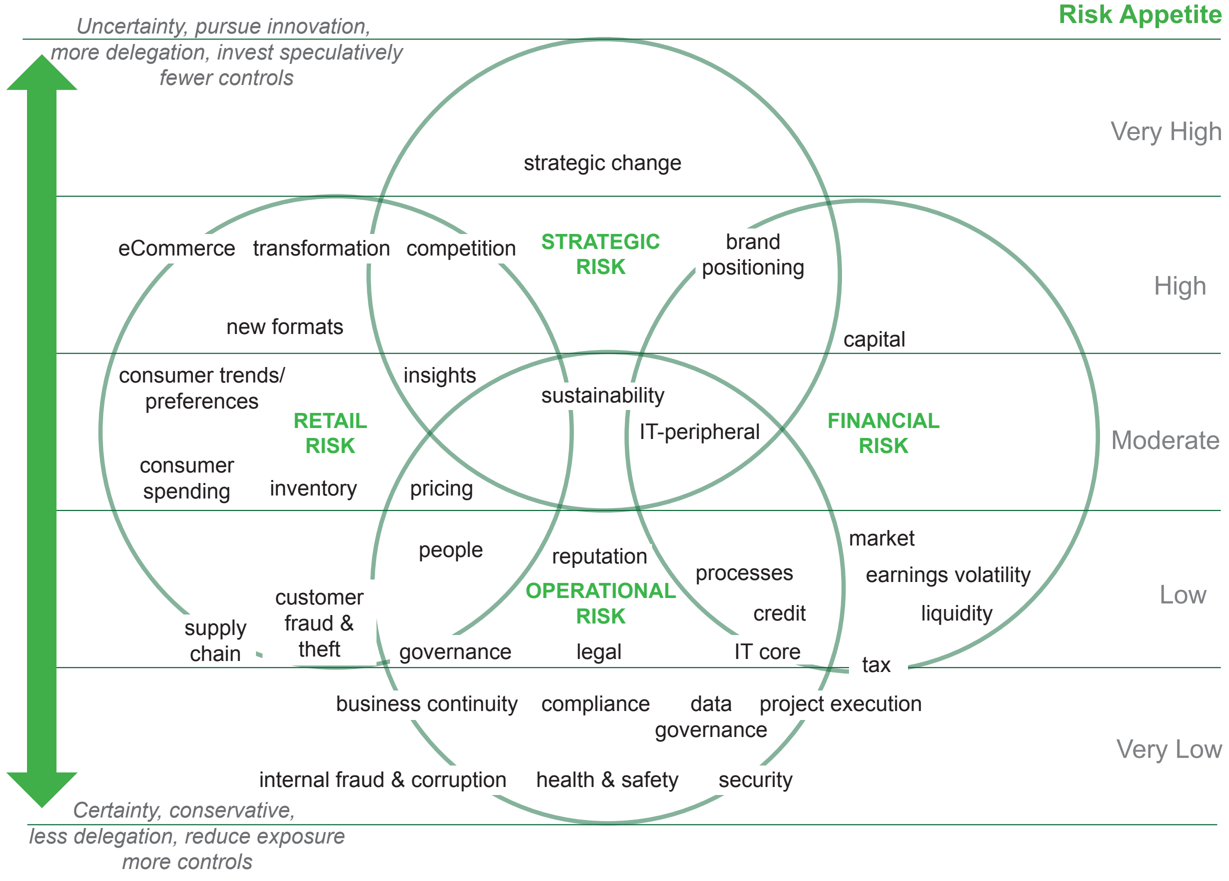
Strategic Risk plans are developed for each primary brand and the Group overall. Operational Risk plans are developed within brand and Group functions to deal with specific operational risks.

Specific Risk areas are then managed depending on the nature of the domain and our risk appetite settings. For example, in the Health and Safety domain, we have identified certain critical risks which are actively managed as focus areas (Traffic Management, Hazardous Substances, Storage of Product, Violent and Aggressive Behaviour, Working at Height).

Risks arising from the Group's responsibilities can be significant and these risks are managed through detailed processes that emphasise the importance of integrity, maintaining high quality team members and stakeholder accountability.

The diagram opposite outlines the risk appetite for the Group taking into account the various brands. This reflects a balanced perspective on the management of risk which considers our ability to:

- Grow the business and improve the return on equity. To achieve this, the Group needs to continue to innovate and accept some uncertainty
- Achieve growth and return. The Group needs to execute our strategies and maintain control over operational costs, quality and delivery of performance
- Ensure we maintain financial rigour while investing capital into our digital transformation.



Each risk domain in this framework has subsequent detailed breakdown, identification of causal factors and risk management plans. We continue to work to improve, refine and formalise our risk management approach.

Materiality
Materiality in the six capitals is different from financial materiality in the Financial Statements. It is driven by the risk appetite settings, and the specific outcomes and strategies in each capital. A material improvement in our environmental reduction outcomes, for example, may be different this year compared to other years depending on the starting position and default trajectory of performance. Building on an improvement may mean we have a higher materiality for change than if we were attempting to arrest a declining performance.

Materiality is therefore relative to each strategy and metric in each capital and is used to filter what is reported and what is not. The Integrated Report is not the definitive or last word that the organisation has to say on a given topic, it is the material performance report against those elements in the capitals that we are trying to influence or improve.

Intrinsic in the Integrated Reporting Framework is a degree of inter-connection between the capitals. Risk and materiality is considered within the domain of a capital, risk within the domain of strategies that may operate across capitals.

The progress diagrams that are reported in the six capitals section of the integrated report follow the following key:

Colour signifies progress against expected plans	Size signifies completeness of Objectives
Not currently measured	Early stages of completion
Behind plan	50% complete
On plan but at risk	75% complete
On plan	100% complete

OUR NETWORKS

OUR GOAL: Create a world-class omni-channel retail network that leverages physical, digital and infrastructure assets to deliver customer needs and wants in an efficient and innovative way

FOCUS AREA	PRIORITIES	ACTUAL PROGRESS FY18 (last year)	FY19 (this year)	FY19 Progress	ROADMAP TO OUR GOAL FY20 (next year)	FY21	FY22+	KEY RISKS	MITIGATIONS
Customer facing channel optimisation	Improve our store experience and productivity			• Co-located 6 Warehouse Stationery and The Warehouse stores, continuing to test the ranging, customer experience and profitability changes • 24% of capital expenditure allocated to asset maintenance • Online traffic for the Group increased 5.5% year on year while store foot traffic reduced 1.1%, however overall gross profit increased 3.8% • Click&Collect sales grew 57% across our omni-channel brands to now represent an average of 36% of online sales				• Lack of well-positioned affordable retail space • Some landlords not responding to seismic upgrades proactively	• Re-purpose and re-utilise excess space within our large format stores. • As more The Warehouse and Warehouse Stationery stores are co-located, re-purpose vacated Warehouse Stationery stores with other Group brands. • Work with our landlords to ensure stores meet seismic risk requirements.
	Increase our digital footprint and productivity			• Online conversion reduced by 3 basis points driven by a reduction of 30 basis points in Torpedo7, partially offset by The Warehouse app, which increased by 64 basis points • The Warehouse app, which has the most 5-Star reviews of any NZ shopping app[1], grew sales by 244% and now represents 19% of total online sales for The Warehouse.	Year on year incremental growth			• Increasing customer demands driven by continued growth in online shopping • Local and international online retailers taking market share across digital channels.	Improve the omni-channel experience by: • Linking physical and digital and scaling personalisation across channels. • Reinventing our Click&Collect experiences and launching TheMarket.
Optimise supply chain network	Increase our level of direct sourcing			• Moved a further $62m (FY18: $119m) of product purchases to our direct sourcing offices in China, India and Bangladesh.	Ongoing improvement			• Challenge of investing in new, stronger suppliers inside and outside of existing sourcing markets • We are aware of the risks of corruption, particularly in the quality and merchandise teams.	• Consolidate our investment into Asia by creating a direct entity in Bangladesh, supporting the existing team with senior leadership at source and regularly rotating team members through different merchandise categories.
	Reduce our cost to serve and enhance store deliveries			• Achieved a store DIFOT (Delivered In Full On Time) of 97% vs our target of 98% • Cost to serve increased by 11% • Centralised online fulfilment into our North Island Fulfilment Centre for The Warehouse (and Warehouse Stationery post balance date) • Deployed a new warehouse management system to improve online fulfilment performance.				• Significant increase in retail spend, including online shopping growth, will challenge costs, resources and distribution capabilities • Peak period stress on underlying systems and processes causes unscheduled outages.	• Collaborate across the supply chain to collectively reduce costs, improve forecast accuracy, and reduce inventories. • Develop robust contingency, preparation and continuity plans for peak trading volumes and issue/incident management. • Unify commerce strategies to tailor shopping experiences around individual preferences.
	Grow our fulfilment capability to support customer choice			• Achieved a Perfect Order of 88% vs our target of 95% for online customers.					
Data optimisation	Increase our pool of quality data			• Net Promoter Score across all brands either improved or remained consistent[2] • Our Master Data Management practices will be the subject of a major overhaul in FY20.	Development and implementation of a quality data programme			• Data quality issues slow down the speed of effective change and decision making • Data security and privacy is becoming an increasingly important issue.	• Develop a structured programme to improve data quality and practices utilising external advisors. • Continue to strengthen data protection and minimise the amount of third-party information we hold.

Key initiatives

We have made some significant changes within our property portfolio this year, rolling out six SWAS stores (store within a store: Warehouse Stationery and The Warehouse stores co-located), three new Noel Leeming clearance stores (following the acquisition of Appliance Shed) and four new Torpedo7 stores.

We analyse store catchment, identifying four critical areas to resolve to achieve best future use of our properties: small (urban) formats; future (flexible) formats; our physical presence across New Zealand; and tenancy/third party services.

We added new interactive capabilities to enhance customer support via chat bots and live chats. Our other eCommerce venture, TheMarket, successfully launched shortly after balance date.

We developed a Group integrated sourcing model by consolidating our wholesale and Torpedo7 sourcing functions into our sourcing and merchandise structure. We completed our cross-functional, product critical path for every category, to help give us greater alignment and visibility of tasks for sourcing and merchandise.

We enhanced our fulfilment and delivery capabilities, centralising our online fulfilment for The Warehouse and Warehouse Stationery, introducing Click&Collect lockers into some stores, trialling an automated distribution tower at Sylvia Park and commenced implementing our new warehouse management system. Our Information Systems strategy has been refreshed and we are planning a major ($100m) systems modernisation programme across the Group's core systems of record.

Materiality

Online commerce has changed consumer expectations in regard to their shopping experiences. While physical store shopping is still a significant consumer activity, online shopping continues to grow. That means we face greater competition from a broader range of general and specialist retailers both here and overseas. This represents a considerable and ongoing material risk to our business and one we intend to combat by investing actively in our supply chain co-ordination, data optimisation around each customer, improved digital capabilities and attractive stores that our customers enjoy shopping in. In acknowledgement of the future need to re-purpose or reformat our physical store network, the Group has prioritised flexibility in our store lease profile over tenure. Transport is outsourced to partners except for in-home delivery and installation teams.

[1] Apple iOS App Store and Google Play Store

[2] Customer voice

Significance

Retail is an unforgiving sector. If customers cannot buy what they are looking for, they have a number of other places they can turn to. Our network is the critical link between what we offer and what our customers choose to spend their money on. If we fail to understand what our customers want and how they most want to buy and receive it, we are compromising their willingness to come back to us. Our network enables us to bring the right product to the right place at the right time, at a cost that makes economic sense, and in a way that serves our customers' needs best.

Better experiences across channels
Physical property and online environments are core elements in customers' experiences. Our understanding of what constitutes a 'store' has broadened as a result. Our focus now is to increase our foot traffic and per-visit purchase by introducing smaller formats and new concepts that put our customers' needs first. At the same time, we will continue to build our eCommerce capabilities, improving our omni-channel experiences to enable them to shop however, whenever and wherever they want.

Better integration from source to sale
An integrated view of inventory and order management is key to unlocking efficiencies and delivering improved quality, on trend products and product information from the best suppliers. Those products will need to arrive on time through complete alignment between our sourcing teams, merchandise teams, shipping teams and overseas factories.

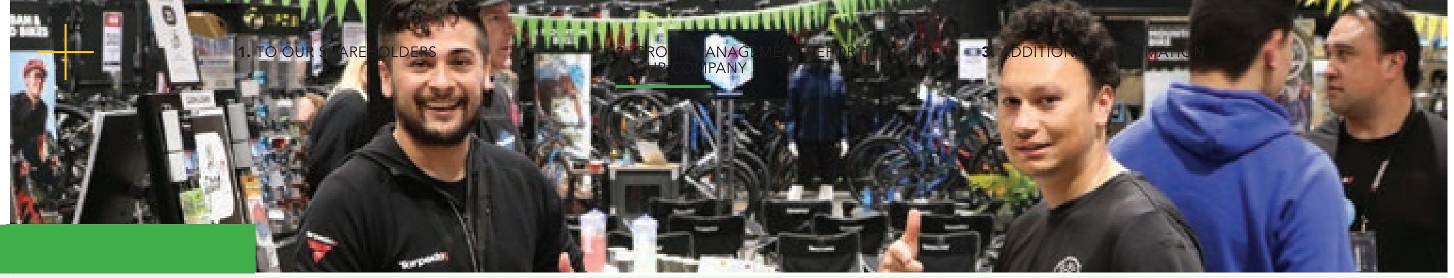
Network optimisation is a key focus for us, as we drive efficiency and look to utilise our core assets and capabilities in new ways to drive value.

Future focus areas

These are the areas where we know we can make important gains:

- Improving property footprint productivity – working with insights and data to complete a robust catchment analysis for all our brands, supporting the SWAS programme and objectively evaluating new format initiatives
- Improving our omni-channel experiences to better link physical and digital
- Achieving an integrated view of our inventory and order management to unlock efficiencies and improve our customer service.

OUR PEOPLE



OUR GOAL: Build a dynamic organisation that has the highest performing retail talent in New Zealand

FOCUS AREA	PRIORITIES	ACTUAL PROGRESS: FY18 (last year)	ACTUAL PROGRESS: FY19 (this year)	ACTUAL PROGRESS: FY19 Progress	ROADMAP TO OUR GOAL: FY20 (next year)	ROADMAP TO OUR GOAL: FY21	ROADMAP TO OUR GOAL: FY22+	KEY RISKS	MITIGATIONS
Health, Safety and Wellbeing	Increase the number of our team members who go home safely at the end of their work day			Total Recordable Injury Frequency Rate (TRIFR)[1] increased from 21.5 (per million hours worked) in FY18 to 25.9 in FY19 against a target of 18.3 • The majority of TRIs are strains and sprains of a minor nature • High level of reporting in place, with high levels of near miss reporting Our Severity One Incidents Frequency Rate (SV1FR)[2] was 22.4 per million hours worked (not measured in FY18).	TRIFR <20 million hours worked SV1FR >10% year on year decrease	TRIFR <15 million hours worked SV1FR >10% year on year decrease	TRIFR <10 million hours worked SV1FR >10% year on year decrease	• Handling of bulky, heavy or awkward goods by team members • Slips and trips due to poor housekeeping or excessive stock • Stockroom racking failure causing product fall • Team member interaction with moving equipment • Falls from height from ladders • Exposure to violent and aggressive behaviour in our stores • Storage of hazardous substances.	• Early intervention programme for pain and discomfort and review of team member tasks in stores • Manual handling improvement programme involving AUT Occupational Health Unit • Equipment solutions for goods handling • Invest in traffic control processes across distribution centres to separate people from mechanical handling equipment (MHE) • Consideration of height access equipment to replace ladder use where practical • Introduce enhanced security for high risk stores • Ongoing compliance with regulatory standards.
High performance workplace	Increase our organisational health and engagement			• Achieved an Organisational Health Index (OHI) of 68 (FY18: 71) maintaining our position in the second quartile • Launched Group Performance and Development Framework.		OHI in top quartile	Ongoing improvement	• Team member and/or union dissatisfaction with change and bargaining outcomes.	• Develop a clear employee relations strategy • Build and nurture relationships with government and external stakeholders.
	Lift our diversity and inclusion			• Achieved Rainbow Tick accreditation in September 2019 • Achieved 100% gender pay equity in our store network.	Maintain Rainbow Tick accreditation	Retain Rainbow Tick accreditation. Gender diversity is at best practice in our store network.		• Challenge in building and/or buying required talent capability.	• Proactively develop talent pipeline • Assign appropriate budget and technology to lift capability • Activate a single-entity approach to talent development and mobility.
Future-ready talent	Build our skills pipeline and workforce planning			• Introduced a single source of recruitment across the Group • Commenced leadership behavioural model • Took an average of 43 days to fill roles vs our target of 60 days.				• Gap in change management experience and demonstrated resilience as we prepare our culture and organisation for Future of Work environments.	• Invest in technology to reinvent productivity • Define clear direction around expected leadership behaviours and seek support from external experts • Align communication clearly and consistently with vision and strategy.
	Introduce continuous learning and future-ready learning experiences			• Launched 'Ability2Execute' facilitated and digital training programmes • Commenced work to build a 'learning, fail fast and iterate' culture.				• Resistance to change • Training does not meet organisational requirements and impedes speed of change.	• Support change readiness through leadership guidance and by shifting mindsets • Streamline engaging communication.

Key initiatives

As part of a shift to a Group focus on performance, we aligned a set of Group values on which to orient our culture. We also introduced a performance focus and discipline to all of our activities and actions, with a new performance and development model aligning goals and measures for all positions.

With a distributed employee model, communicating effectively is critical, especially through times of change. We deployed Workplace by Facebook as our unified platform of communication and engagement, to share vision, best practices and dialogue across all our team members.

In stores we have implemented tools to improve productivity and deliver real-time analytics on store performance. These tools also support coaching and timely feedback for managers and team members.

To help us continue to secure the best people available, we established a connected talent relationship and recruitment digital solution powered by SmartRecruiters and Phenom People.

Key Health, Safety and Wellbeing changes: we introduced a new anti-bullying and harassment policy, launched new Health, Safety and Wellbeing Standards and completed Bow-Tie analysis for three priority critical risks. In our distribution centres, we focused on traffic management and mechanical handling equipment and in FY20 we will be allocating capital for further safety improvements. Directors of the Board attended a number of Health and Safety observations, engaging directly with our people at sites across the country.

From a team development perspective, the transformation programme has delegated the responsibility for driving change across over 150 initiative owners in the business. As we look to move the business towards a more collaborative, less structurally rigid way of working, empowering more team members to own and drive change will be a key success measure.

During FY19 we focused on five priority practices for improving our organisational culture: Challenging Leadership, Performance Framework, Talent Development, Performance Review and Rewards & Recognition. In our team member engagement survey at the end of the financial year, we improved on four out of five of those practices, with Rewards & Recognition going backwards. In FY20 we will adopt a revised set of priority practices based on survey feedback.

[1] TRIFR is measured as a 12-month rolling and 1 million hours is used

[2] Severity One Incidents are those with a high potential for serious injury, long-term health effect or death. SV1FR is measured as a 12-month rolling and 1 million hours is used

Significance

Our team members are at the heart of our organisation and we believe that by focusing on their performance, keeping them safe and preparing them for the future workplace we will lift engagement and achieve long-term business sustainability.

To do this, it is critical we invest in digital solutions to leverage people data and insights to drive performance. Alongside this, we focus on our people's wellbeing and everyday experience at work. We are also focused on attracting top talent, building the skills of the future and defining and embedding leadership behaviours. We continually develop and strengthen our relationships with industry bodies and government to ensure we remain part of the conversations, helping to shape the future of work in New Zealand.

Materiality

True transformation requires culture change and a meaningful shift to a new way of working. Naturally, change can take time and is sometimes met with resistance. This has meant in some cases we have not met the milestones we have set in some initiatives. We also made the conscious decision to exit the implementation of a digital solution option which in turn impacted our potential to scale performance.

Despite this, rapidly changing technology is shaping the future of work and as customer expectations continue to evolve, we need to make significant process, productivity and technology improvements to unlock performance and enable improved ways of working. The next several years will see deliberate change as we prepare our culture and organisation to move into the future of work environments. Moving our culture to be more adaptive will take time. Financial investment into technology, talent development and health, safety and well-being will be critical to reinvent productivity across the Group.

Future focus areas

Our focus in FY20 and beyond will be to accelerate initiatives that deliver:

- Simplified practices and processes that will allow us to track and measure performance and productivity
- Consequence management and remuneration to reward output
- Connected digital solutions that function at scale, enabling productivity and actionable insights
- An evolving organisational structure, team design and capability to support future ways of working.

OUR EXPERTISE

OUR GOAL: Build ways of working that foster repeatable and competitive excellence

FOCUS AREA	PRIORITIES	ACTUAL PROGRESS FY18 (last year)	FY19 (this year)	FY19 Progress	ROADMAP TO OUR GOAL FY20 (next year)	FY21	FY22+	KEY RISKS	MITIGATIONS
Understanding our customers	Use data analytics and insights to achieve better demand planning, product/market fit and more accurate forecasting			• Reduced our aged inventory by 3.3% • Maintained a stock turn of 4.3 • Invested in capability and methodologies in our Data Sciences and Design teams to help drive insights to inform decision making • Further developed a unified view of the customer.	Establish seasonal sell-through metrics			• Concerns over data privacy.	• Adopt a conservative posture and ensure an approach that is consistent and compliant with privacy legislation and best practice • Run customer loyalty programmes across the Group.
Enterprise systems and processes	Integrate and simplify business processes across the Group Innovate at the customer edge using customer-based thinking			This year we have focused on: • increasing the ratio of effort on systems and processes that add value for our customers. We have achieved a ratio of 34%, which is below our target of over 50%. The investment into a replacement back-office integrated system will, by the end of FY21, enable more focus on value-adding processes; • increasing the number of standardised systems and processes across our brands. We have made a small amount of progress, reducing the number of bespoke systems by 2%.	Investment in and implementation of enterprise systems			• Complexity of moving from build to buy/configure with some build at customer edge. • Organisational resistance to change, moving to a Group standardised, consistent, highly visible and transparent approach.	• Develop pathways, retention and support for end of life systems decommissioning • Manage end-of-life workloads • Build capability to support chosen platforms. • Support change readiness through leadership guidance and by shifting mindsets • Standardise processes in line with best practice and new integrated solution.
Innovation	Create leading customer experiences that drive demand Move towards a more collaborative operating model			• Innovation in Click&Collect with an automated distribution tower being trialled at Sylvia Park, continued rollout of self-service checkouts and ongoing innovation with the launch of TheMarket and mobile app features. • Industry recognition for innovation in technology solutions (Elastic). • Much of the workload is still waterfall in nature, with agile teams operating in the eCommerce domains. In FY20 we will focus on developing plans to move towards a more customer-centric way of working.				• New customer experience technologies do not meet customer demands. • Waiting for core systems to be upgraded before implementing change.	• Establish collaborative and customer-centric design innovation capability and investment. • Drive customer-centric ways of working in systems of engagement first (eCommerce).

Key initiatives

Product is at the heart of every successful retailer. Customer is at the centre of every successful business. Our expertise combines our skills across product and customer to drive value. We continue to use data driven insights to improve customer experience. Our merchandise teams align these with our design cues and market trends for product range and assortment planning. While we have invested in improving processes around range management, contracting, specification, quality and pricing, many of our retail processes, particularly those around data interpretation and editing product assortment, remain undocumented. This presents a risk and makes induction and consistency of operations a challenge. As processes are redesigned and improved, documentation and operational support materials will be developed and deployed.

Our strong store layout methodology is documented and is applied to all store types depending on store size, shape and product range. The format of our stores is a key part of the customer experience and we have a number of challenges ahead to manage relevant and modern experiences consistently across our store network.

Every Day Low Prices (EDLP) has made demand planning and price setting more important as there is not the same discounting mechanism to readily address slow moving stock. We are focusing on improving our forecast accuracy and achieving better continuity of product to meet customer demand. Mastering the sell-through curve is about finding the right balance of ongoing and seasonal stock and lowering our weighted average cost of aged inventory. Critical to getting this right is smart demand management. Right now, this is a relatively manual process. We have recognised the need to standardise, automate and document our processes, and while good progress has been made on assortment and range planning, most of the work on demand management is still ahead of us. We are currently focusing on building our expertise in price optimisation and assortment management.

As a group, we operate a number of businesses that use different systems and processes. Our strategy is to provide a more stable core platform of systems and common processes upon which the brands can accelerate their points of competitive differentiation. Across the Group, we currently spend 66% of our Information Systems development and support effort on our core systems of record, and 34% on systems of engagement. We are about to start a major systems and process modernisation investment to drive efficiency and common processes across the Group, supported by a modern technology stack that will enable future innovation.

Materiality

As a customer-focused business, we depend on the expertise of our people in so many ways. We are heavily reliant on the expertise of our team members and on old core systems that require complementary manual resources.

Automation will give us greater resilience because it will mean we are not so dependent on individuals' knowledge. We still need critical human judgements around negotiation, relationship building and so much more. We recognise that leading the customer experience through innovation, for example, will be important in terms of creating and measuring demand.

Materiality can be thought of in the context of reducing key person risk in areas where we create value for customers, and areas that are sources of competitive advantage and scale. Also relevant is the time it takes for team members to be fully productive as well as the reduction of unplanned variability in our processes and outcomes.

Significance

To keep up with changing demands, we need to become better at executing what's relevant for the customer. Meeting their demands means we need to find new ways to deliver value faster.

While we have made some good progress on aged inventory and full price product sell-through versus our targets, we have only recently developed interactive reporting on optimum product inventory ranges. This is enabling data visibility and analysis in more in-depth detail than has previously been available. We are continuing to develop this to identify and maintain the right products at the right quantity levels that align with our customer demand.

We have a key person risk that we need to resolve. Expertise lies within our team members and should they leave the business, the knowledge leaves with them, so we recognise that a focus on documentation and systemisation is a priority.

Old legacy core systems with lack of integration are not fully supported and some are not fit for purpose given the business growth and advances in customer demand for a seamless omni-channel experience. Having a large number of systems means integration is difficult and complex, consolidated data is not easily available. In recognition of this risk, the Board has approved an integrated solution discovery project, which is well underway. A decision as to whether or not to move ahead to implementation with a preferred supplier will be made in FY20.

Future focus areas

Over the next two to three years, we will be focusing on:

- standardising systems and processes by implementing an 'out of the box' integrated suite, completing implementation of our new warehouse management system and implementing a modern point of sale system across our brands
- systems and processes that add value to our customers, including upgrading our existing B2C eCommerce platform for the Group and a new B2B platform
- standardising our retail systems and documenting our processes across our brands
- monitoring and understanding product demand versus our forecasts to enable timely corrective action.

OUR PEOPLE
OUR RELATIONSHIPS

OUR RELATIONSHIPS

OUR GOAL: Build strong relationships with strategic stakeholder groups that deliver sustainable value

FOCUS AREA	PRIORITIES	ACTUAL PROGRESS FY18 (last year)	FY19 (this year)	FY19 Progress	ROADMAP TO OUR GOAL FY20 (next year)	FY21	FY22+	KEY RISKS	MITIGATIONS
Customers	Rewarding and engaging customer experiences	🟡	🟡	• Net Promoter Score across all brands either improved or remained consistent[1] • While customer frequency of purchase has remained stable year on year[2], there has been good growth in basket size in Noel Leeming and Torpedo7 • The Warehouse Group market share grew to 5.8% of the total market[3].	🟢	🟢	🟢	• International competition is growing in New Zealand, as New Zealanders show that they are more ready to interact with overseas brands than ever before • Customer disposable income remains constrained in the years ahead.	• Deliver add-on/supporting services surrounding retail • Focus on delivering value for money propositions linking sustainability values.
Suppliers	Collaborative and engaging supplier relationships	🟢	🟢	• 90.7% of our overseas suppliers meet our 'good factory' standards and measures, up from 90.1% last year. Our stringent focus with suppliers in this area has resulted in a significant change from 57.1% in 2015.[4]	🟢	🟢	🟢	• Consolidation in upstream suppliers limits our choices for changing buyer power dynamics • International trade barriers or limitations of access • Cost of goods sold (COGS) exposure to inflation drivers in other economies.	• Diversify supply chain geographically • Continue to apply hedging and appropriate risk management processes.
Team members	Strong employment brand	🟡	🟡	• The Group has 89% employment brand awareness and 37% attractiveness within the Wholesale and Retail Trade sectors.[5]	🟡	🟡	🟢	• Churn, driving increased staffing costs • Industrial Action risk increases due to climate of wage 'catch up' and base wage inflation.	• Partner with employee groups • Broader services of participation and values beyond wages.
Investors	Reputable standing in the investment community including in our ability to deliver results	🟢	🟢	• Displayed evidence on stated transformation plan, however we still have a long way to go • Achievement of forward-looking guidance.	🟢	🟢	🟢	• Liquidity of free float stock insufficient to drive more active investor interest in the stock • Market prioritisation of short-term profits over long-term sustainable value creation.	• Continue to maintain recurring and open dialogue with the investment community • Provide timely and transparent disclosure of company performance, strategy and investments • Deliver on stated Group goals and performance targets.
Government and community	Strong corporate brand and reputation	🟢	🟢	• The Warehouse is ranked 8th in New Zealand for its corporate reputation with its 108[6] score putting it in the global top 10% of companies that have resilience and reservoirs of trust • $67m raised in donations for New Zealand since 1982 including $0.3m for Victim Support following the Christchurch attacks • 700 New Zealand youth participated in Red Shirts in Communities (RSIC), a programme resulting from a partnership between the Group and the Ministry of Social Development. The RSIC programme was digitised through the Accelerator platform.	🟢	🟢	🟢	• Our capacity to support Government initiatives is exhausted or spread too thinly to be effective • The Warehouse Group becomes too politically identified, leading to reputational risk.	• Continue routine accountability reporting.

We invest in long-standing, sustainable relationships to build our networks based on shared understanding and values. We engage with our many stakeholders in ways that align with their influence and involvement in the life of our business.

Measuring our impact and the strength of relationships is difficult, and something we continue to work on. Some basic measures are available such as money raised to support charities and local communities, or international suppliers accredited for ethical sourcing, but we recognise that relationships go deeper than outcomes. Our work in FY20 will involve more focus on measurement in this area.

Key initiatives

This year we began a two year journey to bring all our marketing in-house to create a fully-scaled and integrated marketing function that delivers for our customers and our business. This has significantly increased our accountability across our entire marketing supply chain. We further developed customer journey maps to continue to optimise customer experiences and saw good growth in The Warehouse app. Understanding our customers and how they want to interact with us is core to better meeting their needs.

We continued to consolidate our supply chain, placing more business with fewer, stronger suppliers and creating deeper strategic relationships. For example, we consolidated our fabrics buy by 79% and shifted 29% of our apparel business to Bangladesh, India and Pakistan. This helps bring suppliers closer to our business, making it easier for them to help us innovate, and to drive quality and economy, deliver more effective waste reduction programmes, and focus our work to support up-stream suppliers more effectively.

In our relationships with investors, we are driving the adoption of Integrated Reporting as evidenced by this report. Using the principles of Integrated Thinking in decision making, helps our business to recognise the different aspects of value that are important in a way that is understandable and consistent.

We interacted with appropriate Government Ministries and related public parties on issues ranging from climate change to youth employment to technology. We also provided input into a variety of legislation including De Minimis, Employment Relations Amendment Bill, Equal Pay Amendment Bill, Plastic Bags, Waste, Ministry for Primary Industries Cost Recovery Actions, Food Safety and Foam Filled Furniture.

The Red Shirts in Schools (a high school based retail work experience programme) now reaches more than 2,000 participants. We piloted P-Tech, a high school IBM partnership for technology students.

We will be concluding our funding for the establishment of the Massey University Bachelor of Retail and Business Management (BRBM) degree, which has now been established and is growing solidly year on year. We are also driving Retail as a Career through Industry Training Organisations and membership on the Boards of Directors at ServiceIQ and Retail NZ.

[1] Customer voice
[2] Market view token data
[3] Marketview (total market includes petrol, supermarkets and non-retail spend)
[4] Based on our factory assurance audits
[5] Randstad New Zealand
[6] Colmar Brunton's Corporate Reputation Index 2019 in partnership with Wright Communications

Significance

The continuing rise of global online retailing means that our customers have unlimited shopping choices 24/7. We must source dynamically and deliver the latest trends quickly by partnering and planning with the right suppliers to remain relevant and continue to grow in our market.

Our customers
As New Zealanders face increasing challenge in balancing their weekly household budget, we want to help them live better every day by guaranteeing market leading quality, availability, selection and convenience at the best possible value.

Investors
A track record of doing what we say we will do, being transparent and open, as well as showing our values and who we are as a company will help investors make good decisions about supporting our business. Our goal is not to pitch our company to investors, but to expose investors to our thinking and our way of operating so that they are appropriately informed about us and the risk/reward proposition that we represent.

Our suppliers
Our relationships with our suppliers focus on meeting our product sustainability objective to source sustainably, optimise design and support recycling. By consolidating our suppliers and building more strategic relationships, we can drive long-term value.

Government and community
Operating in a deregulated industry does not absolve us from playing a role in the future wellbeing of our country. It is a privilege to be part of the communities we serve. We work with government and our communities to leverage our capabilities in ways that matter to the people who are our customers, suppliers and partners, not only of today but also tomorrow.

Our purpose is helping Kiwis live better every day. It is a role that can make a difference in many ways.

Future focus areas

Our focus in FY20 and beyond will be to:

- Deliver stronger end-to-end customer experiences that motivate our customers to give us lifetime value
- Drive product development and design through strategic relationships with our suppliers and take the ethical and sourcing actions that our customers now expect
- Prepare our culture and organisation to move our team members into the future of work environments
- Continue to work within our communities.

OUR EXPERTISE
OUR ENVIRONMENT

OUR ENVIRONMENT

OUR GOAL: Retain our carboNZero status and drive more responsible practices and resource efficiency into our business

FOCUS AREA	PRIORITIES	ACTUAL PROGRESS FY18 (last year)	FY19 (this year)	FY19 Progress	ROADMAP TO OUR GOAL FY20 (next year)	FY25 (five years)	FY30 (ten years)	KEY RISKS	MITIGATIONS
Reduce	Reduce carbon emissions by 32% or 12,742 tonnes of CO_2 by 2030 (from 2015 baseline)	3.4% year on year increase	4% year on year reduction[1]	• On track to convert 30% of our light commercial fleet to Electric Vehicles by end of 2019 • Our 24 Electric Vehicle chargers are available free to our customers.	Programme still developing	20% reduction from 2015	32% reduction from 2015	• Carbon emissions increase due to business growth or efficiency limits • Financial costs of reduction become prohibitive • Ability to control emissions from logistics networks.	• Focus on active emission and reduction initiatives • Make the financial impact of emissions visible in our cost of doing business (CODB) • Influence our logistics partners.
	Divert 85% of our operational waste by 2022		78% diverted this year	• Disposed of 2,652 tonnes of waste to landfill, a reduction of 25% year on year, thanks to our waste diversion initiatives.	80% diverted	85% diverted	ongoing improvement	• Reduction offset by business growth • Downstream recycling ineffective or unavailable (e.g. soft plastics).	• Maintain a focus on improvements • Partner with business and government to take a long-term New Zealand recycling view.
	Reduce our packaging materials	Reduction plans commenced		• Developing new sustainable packaging guidelines.	Internal supply chain focus	Consumer packaging focus	100% recyclable packaging	• Limited buying power to influence factory re-tooling at point of manufacture.	• Partner with international retailers and innovate with manufacturers • Review the impact of non-sustainable packaging on our cost of goods sold.
Offset[2]	Regeneration of land to offset 65% of our carbon emissions by 2025			• The programme is developing against announced change in the Government regulations of voluntary domestic emissions offset.	Investment phase	Yield phase	65% of emissions offset this way	• Insufficient land available for domestic offset regeneration activity • Misalignment with emerging legislative, regulatory frameworks.	• Consider alternative domestic strategies for emission offset • Liaise with stakeholders to influence policy direction.
	Buying international Gold Standard carbon credits		FY18 emissions 100% offset[3]	• Purchased 41,000 international Gold Standard carbon credits. • Became the third retailer in the world and largest company in NZ to be certified carbon neutral.	FY19 emissions 100% offset		35% of emissions offset this way	• Market volatility for international Gold Standard carbon credits driven by global forces • Provenance of credits undermined.	• Keep abreast of hedging/risk management developments • Ensure Gold Standard accreditation has valid third-party attestation.
Enhance	Reassess our raw materials			• Developing an end to end sustainable sourcing roadmap to deliver measurable improvements to our product offering. • We only sourced paper from sustainable wood sources, and from March 2019 all products we stock are either without Palm Oil or certified as containing sustainably sourced Palm Oil.	Programme is still developing		Sustainable sourcing programme in place	• Incompatible messages to suppliers, better quality, lower price. • Volume of available products insufficient for consumer demand	• Accept the total life-cycle cost in decision making, not just product preparation costs, to assist decision making. • Take more design in-house and open up different price/value combinations for customers
	Source responsibly			• 100% of our private label manufacturing sites are required to meet our ethical sourcing standards[4].				• International attestation and transparency up the supply chain.	• Continue to elevate our ethical auditing practice.

Key initiatives

Reduce
Across the Group, we have a mature programme of over 25 specific energy efficiency and emissions reduction initiatives. Some of these have been running for several years, for example, the replacement of fluorescent lighting in-store with energy-efficient LED lighting. Supporting these initiatives, we have incorporated energy efficiency principles into our procurement practices, and engage widely with stakeholders to share knowledge and adopt approaches that other industries and companies are having success with.

Offset
The offset element of our strategy is relatively recent, although we have been exploring options for effective offset for the past two years. Given the emergent nature of the Emissions Trading Scheme, Zero Carbon Bill legislation and uncertainty relating to the carbon credit trading, we have delayed the finalisation of our domestic offset strategy. Consequently we are developing our own approach to offset 65% of our emissions by 2025 and provide other benefits such as native forest regeneration, biodiversity and local community benefits.

Enhance
We have made some good progress on specific programmes in this area, particularly the work around packaging that we generate as a business, such as online order fulfilment. We continue to improve in that area, and our next focus is on packaging that our upstream suppliers create, not only for shipping purposes but also product packaging. We are currently developing a sustainable packaging policy. Our other focus for FY20 will be on accelerating the development of product ranges with stronger environmental attributes so that the core product itself is more sustainably produced, consumed and ultimately recycled.

Materiality

Achieving tangible sustainability benefits for our stakeholders is important to us. Consequently, we are prepared to over-invest in reaching sustainable outcomes beyond those programmes that can be justified on purely economic grounds. We take a long-term view for considering such investments, albeit many of the underlying technologies and market structures are emergent, which gives rise to significant uncertainty in predicting project benefits. We recognise our opportunity in New Zealand to lead and role model behaviours in this area, and see our sustainability credentials as a material element of our reputational and brand assets. Achievement of our stated targets is a minimum performance threshold for us. Our KPIs against our stated strategies have been set with that in mind.

1 New Zealand CEMARS® certification

2 To offset our emissions, we have selected Clean Development Mechanism projects that generate Gold Standard carbon credits in regions where our business has operations – India, Bangladesh, China. These projects deliver social and community co-benefits satisfying eight of the United Nations' Sustainable Development Goals, (SGDs 1, 3, 5, 7, 8, 9, 13, 15).

3 CarboNZeroCert™

4 The Warehouse Group Ethical Sourcing Policy 2019

Significance

Sustainability to The Warehouse Group is not just a buzzword or a compliance activity, it is a central part of our values as a business and is embedded into our business strategies, and has been for many years (the Group began sustainability reporting in 2001).

As a reputable New Zealand business
From a social licence to operate perspective, stakeholders are demanding more transparency from business. The impacts of doing business on the immediate environment, both upstream and downstream, are important to be able to clearly communicate on.

The Group has a comprehensive programme spanning long standing activities such as energy efficiency, plastic reduction and recycling, through to new initiatives across our Reduce, Offset and Enhance framework.

For our customers
Making positive environmental choices should not be only available to the economically privileged. It is a reality that these choices today often come with a premium price tag for consumers – be they Electric Vehicles, sustainably generated produce, or clothing and general merchandise.

Our aspiration and responsibility is to enable all customers, including those who are value conscious or economically disadvantaged, to still be able to make sustainable choices.

We take this seriously. Our emissions reporting follows the CarboNZeroCert™ and CEMARS (Certified Emissions Measurement And Reduction Scheme) programmes. These two certifications ensure accurate and consistent carbon measurement, reduction and neutrality claims. Our reduction targets are aligned with the Climate Leaders Coalition commitments, which follow the current Paris Agreement reduction guidelines, and are consistent with keeping temperature increase to no more than two degrees Celsius based on pre-industrial times. The Group's emissions baseline year is 2015. As emerging international standards develop we will look to align our reporting and audit activities with best practice. Our organisation is certified in accordance with ISO 14064-1:2006 or PAS 2050:2011.

Future focus areas

Our sustainability strategies continue to evolve. Key focus areas continue to include:

- Accelerating the deployment of our Electric Vehicle fleet
- Reducing carbon emissions throughout our operations
- Minimising the plastic packaging and plastic waste generated by our private label offering
- Developing a robust sustainable sourcing capability with measurable improvements on ingredients certification and recyclability
- Helping our customers live more sustainable lives by offering them new post consumer waste recycling solutions and price valued sustainable product choices.

FINANCIAL **CAPITAL**

OUR GOAL: Ensure efficient utilisation of financial capital to compete and enable growth

FOCUS AREA	PRIORITIES	ACTUAL PROGRESS: FY18 (last year)	FY19 (this year)	FY19 Progress	ROADMAP TO OUR GOAL: FY20 (next year)	FY21	FY22+	KEY RISKS	MITIGATIONS
Financial resilience	Maintain financial flexibility through strong capital management	●	●	• Reduced gearing from 25.3% in FY18 to 13.6% in FY19 reflects working capital focus and lower capital expenditure due to increased capital allocation discipline • Access to committed bank debt facilities of $180m (undrawn at balance date) in addition to a $50m seasonal credit facility • Headroom provides ability to invest for growth above maintenance capital expenditure.	●	● Gearing levels not greater than 30%	●	• Like many New Zealand businesses, the Group is impacted by the performance of the New Zealand economy and indirectly the economic performance of New Zealand's major trading partners. Economic downturns may result in a deterioration of financial performance. • Offshore retailers may enter or increase existing footprint in New Zealand, altering the retail sector's competitive landscape and creating direct business competition.	• The Group's established New Zealand brands and diversified product offering can alleviate performance pressure from market downturns • Maintain access to diverse and quality sources of capital • Tightly manage our property portfolio to balance location security with flexibility to manage individual store performance. • Maintain our unparalleled footprint in the New Zealand non-food market across physical and online channels • Remain dedicated to providing the best retail experience for our customers • Continue to create and develop appealing and new ways to shop, such as TheMarket.
Total Shareholder Return	Reward shareholders with a consistently strong return on investment	◕	●	• Strong capital growth in the share price over the course of FY19 of 12.8% (FY18: -4.2%)[1] • Total Shareholder Return (inclusive of dividend) of 20.2% (FY18: 3.3%)[2] • Dividend policy of 75% to 85% of adjusted Net Profit After Tax • Return on Funds Employed of 23.5% (FY18: 16.9%)[3].	●	● Target 17%+ Return on Funds Employed	●	• Downturn in international and domestic financial markets may impact on the share price of The Warehouse Group.	• Develop trust with shareholders through delivering a high level of financial reporting and transparency • Maintain our commitment to consistently deliver value to our shareholders through a balance of dividends and capital growth.
Allocation of capital	Optimally invest in our business to retain relevance in a dynamic retail landscape	◐	◐	• Greater discipline around our capital expenditure in FY19 • The recently established Investment Review Committee assesses each business case and applies internal hurdle rates to ensure propositions 'stack up' from a financial perspective • Reduction in capital expenditure from 121% capex/depreciation in FY18 to 104% in FY19 due to focus on transformation and development of strategic initiatives.	●	● Targeting increased proportion of capital spend on growth initiatives	●	• Erosion of the asset base from under-investment due to deferral of spend or lack of strategic direction • Under-investment in growth initiatives that are core to delivering exceptional customer retail experiences. • Underperformance of investments relative to initial expectations.	• Refine our maintenance capital expenditure programme to ensure our infrastructure and customer channels (physical and online) meet or exceed customer expectations. • Use our investment review process to test the robustness of investments from an operational, strategic and financial perspective.
Access to capital	Maintain access to diverse capital sources	●	●	• The Group maintains three primary sources of capital in operating cash flow, debt and equity • Operating cash flow has significantly improved in FY19 due to working capital initiatives • Access to debt is through multi bank bilaterals and an NZX listed bond • Market capitalisation increased from $704m in FY18 to $794m in FY19.	●	● Maintain diversity of funding sources	●	• Tightening of credit markets and/or local banking regulations and downturn in equity market performance due to local and/or global economic factors causes a rationing of capital.	• Retain our banking relationships and headroom in excess of immediate needs. Supplement our bank funding with an NZX listed bond • NZX listed for nearly 25 years with a founding shareholder that has maintained a controlling stake • Continue our focus on working capital control and conversion of earnings into operating cash flow.

Key initiatives

In FY19, inventory management and improved supplier terms were a key focus of our transformation initiatives. In line with comments made throughout the financial year, we have begun to realise some of the benefit from these undertakings with a meaningful reduction in working capital. Consequently, the business has generated sufficient free cash flow over the course of the year to increase the dividend paid to shareholders to 17 cents per share, while repaying $63.7m of bank debt and funding capital expenditure of $62.1m. The current low level of gearing is helping to build capacity in advance of expected future investment in planned transformation and growth initiatives.

Increased discipline around the allocation of capital has resulted in capital spend this year below guidance.

There were also transformation initiatives that were originally planned to land in FY19 which are now expected to occur in the first half of FY20. Of the capital expenditure, 39% was on stores and distribution centres, 40% on information systems and digital initiatives and 21% on logistics. Investment in a warehouse management system drove the proportion of capital spent on logistics higher than anticipated, the first phase of which has delivered improvement in eCommerce fulfilment metrics. For the purposes of capital planning, we are assuming to have several years of capital spend in the $100m to $120m range. In addition to lifting our capital expenditure versus depreciation, we will be looking to increase our percentage of growth capital spend as we start to execute our growth aspirations.

[1] Capital growth calculated as close price at Financial Year end / open price at the start of the Financial Year.

[2] Simple Total Shareholder Return calculated as (close price at Financial Year end + dividends paid to shareholders during the Financial Year)/ open price at the start of the Financial Year.

[3] Return on Funds Employed calculated as Operating Profit from Continuing Operations as a percentage of average Funds Employed.

Significance

Financial capital is an enabler that allows the Group to execute on the various initiatives we identify as important for the long-term sustainability of the Group and development of its capital base (financial and non-financial). Current focuses for the Group are completing our detailed transformation plans as well as investing in growth initiatives. The transformation plans are, however, not only associated with financial performance. We are investing in areas of the business where goals are linked to non-financial measures but the ability to develop, implement and achieve them is dependent on the financial resources of the Group. Financial capital is therefore not only about financial results, it is also about delivering results for the betterment of the Group and our stakeholders.

Materiality

'Here for good' is a value within the Group that displays our commitment to our people and our planet and delivering great value to customers with our products. In order to make-good on that commitment, the Group needs to also have a robust financial capital base. The Group has been focused on achieving a strong balance sheet that provides capital headroom to weather potential downturns and fund investment in value-enhancing initiatives and strategies. Financial discipline is of utmost importance to us and is core to making sure that we are here for good and for New Zealanders.

Future focus areas

Our focus in FY20 and beyond will be to:

- Continue with the transformation process through:
  - Investing capital in line with the strategy and delivering shareholder value
  - Focusing on the retail fundamentals to grow the top line while assessing areas to be more cost efficient
- Continue our focus on financial risk management.

Financial Statements

For the 52 week period ended 28 July 2019

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 green 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.

These financial statements have been approved for issue by the Board of Directors on 24 September 2019.

Joan Withers - Chair
24 September 2019

Keith Smith - Deputy Chair
24 September 2019

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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 4, 4 Graham Street, PO Box 2219, Auckland.

Consolidated Income Statement

For the 52 week period ended 28 July 2019

	NOTE	(52 WEEKS) 2019 $000	(52 WEEKS) 2018 $000
Continuing operations			
Retail sales	2.1	3,071,357	2,994,571
Cost of retail goods sold	8.1	(2,042,722)	(2,003,396)
Gross profit		1,028,635	991,175
Other income	3.1	8,325	8,118
Lease and occupancy expense	3.2	(164,375)	(159,587)
Employee expense	3.3	(520,892)	(524,673)
Depreciation and amortisation expense	2.2	(60,613)	(59,630)
Other operating expenses	3.4	(178,702)	(163,961)
Operating profit from continuing operations	2.1	112,378	91,442
Unusual items	5.0	(9,435)	(34,135)
Earnings before interest and tax from continuing operations		102,943	57,307
Net interest expense	10.2	(8,879)	(9,165)
Profit before tax from continuing operations		94,064	48,142
Income tax expense	4.1	(26,621)	(20,636)
Net profit for the period from continuing operations		67,443	27,506
Discontinued operations			
Loss from discontinued operations (net of tax)	15.1	(1,928)	(4,386)
Net profit for the period		65,515	23,120
Attributable to:			
Shareholders of the parent		65,382	22,878
Minority interests	11.4	133	242
		65,515	23,120
Profit attributable to shareholders of the parent relates to:			
Profit from continuing operations		67,310	27,264
Loss from discontinued operations		(1,928)	(4,386)
		65,382	22,878
Earnings per share attributable to shareholders of the parent			
Basic earnings per share	6.0	18.9 cents	6.6 cents
Diluted earnings per share - continuing operations	6.0	19.5 cents	7.9 cents

Consolidated Statement of Comprehensive Income

For the 52 week period ended 28 July 2019

	NOTE	(52 WEEKS) 2019 $000	(52 WEEKS) 2018 $000
Net profit for the period		65,515	23,120
Items that may be reclassified subsequently to the income statement			
Movement in foreign currency translation reserve		19	(5)
Movement in derivative cash flow hedges		(17,165)	35,346
Movement in de-designated derivative hedges		580	606
Tax relating to movement in hedge reserve		4,644	(10,067)
Other comprehensive income		(11,922)	25,880
Total comprehensive income		53,593	49,000
Attributable to:			
Shareholders of the parent		53,460	48,758
Minority interest	11.4	133	242
Total comprehensive income		53,593	49,000
Attributable to:			
Total comprehensive income from continuing operations		55,521	53,386
Total comprehensive loss from discontinued operations		(1,928)	(4,386)
Total comprehensive income		53,593	49,000
Total comprehensive income from continuing operations attributable to:			
Shareholders of the parent		55,388	53,144
Minority interest	11.4	133	242
Total comprehensive income		55,521	53,386

The above consolidated income statement and statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 28 July 2019

	NOTE	2019 $000	2018 $000
ASSETS			
Current assets			
Cash and cash equivalents	10.1	49,297	26,455
Trade and other receivables	8.2	90,670	79,758
Inventories	8.1	517,758	523,840
Derivative financial instruments	12.2	7,948	19,030
Taxation receivable	4.2	-	-
		665,673	649,083
Assets held for sale	15.2	-	7,560
Total current assets		665,673	656,643
Non current assets			
Property, plant and equipment	9.1	221,161	238,592
Intangible assets	9.2	125,512	115,331
Derivative financial instruments	12.2	-	764
Deferred taxation	4.3	38,475	38,418
Total non current assets		385,148	393,105
Total assets	2.3	1,050,821	1,049,748
LIABILITIES			
Current liabilities			
Borrowings	10.1	125,465	43,840
Trade and other payables	8.3	352,575	279,028
Derivative financial instruments	12.2	939	-
Taxation payable	4.2	713	6,388
Provisions	8.4	60,771	67,422
		540,463	396,678
Other liabilities directly associated with assets held for sale	15.2	-	3,886
Total current liabilities		540,463	400,564
Non current liabilities			
Borrowings	10.1	-	144,954
Derivative financial instruments	12.2	7,055	3,394
Provisions	8.4	21,270	20,552
Total non current liabilities		28,325	168,900
Total liabilities	2.3	568,788	569,464
Net assets		482,033	480,284
EQUITY			
Contributed equity	11.2	360,061	359,457
Reserves	11.3	(1,216)	11,472
Retained earnings		122,469	108,476
Total equity attributable to shareholders		481,314	479,405
Minority interest	11.4	719	879
Total equity		482,033	480,284

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the 52 week period ended 28 July 2019

	NOTE	(52 WEEKS) 2019 $000	(52 WEEKS) 2018 $000
Cash flows from operating activities			
Cash received from customers		3,083,748	3,003,199
Payments to suppliers and employees		(2,853,781)	(2,875,770)
Income tax paid		(26,540)	(14,082)
Interest paid		(8,657)	(9,307)
		194,770	104,040
Loans repaid by finance business customers		26,417	50,469
New loans to finance business customers		(23,194)	(46,595)
Net cash flows from operating activities		197,993	107,914
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and computer software		1,860	12,227
Proceeds from business disposal	15.0	1,850	17,291
Purchase of property, plant and equipment and computer software		(61,326)	(70,229)
Business disposal warranty claim	15.0	(1,421)	-
Net cash flows from investing activities		(59,037)	(40,711)
Cash flows from financing activities			
Repayment of bank borrowings		(63,715)	(31,999)
Repayment of finance leases		(135)	(456)
Treasury stock dividends received		217	267
Dividends paid to parent shareholders		(52,302)	(55,822)
Dividends paid to minority shareholders		(179)	(230)
Net cash flows from financing activities		(116,114)	(88,240)
Net cash flow		22,842	(21,037)
Opening cash position		26,455	47,492
Closing cash position	10.1	49,297	26,455

Reconciliation of Operating Cash Flows

For the 52 week period ended 28 July 2019

	NOTE	(52 WEEKS) 2019 $000	(52 WEEKS) 2018 $000
Net profit		65,515	23,120
Non cash items			
Depreciation and amortisation expense	2.2	60,613	59,630
Intangible asset impairment	9.2	5,478	25,622
Share based payment expense	3.3	420	353
Interest capitalisation		446	467
Supplier contributions		-	(2,694)
Movement in deferred tax	4.3	4,857	(5,826)
Movement in de-designated derivative hedges		418	436
Total non cash items		72,232	77,988
Items classified as investing or financing activities			
Loss/(Gain) on sale of property, plant and equipment		(10,392)	397
(Gain)/Loss on business disposal	15.0	(398)	1,421
Supplementary dividend tax credit	4.2	275	327
Total investing and financing adjustments		(10,515)	2,145
Changes in assets and liabilities			
Trade and other receivables		268	(3,715)
Finance business receivables		5,929	3,305
Inventories		6,082	(36,566)
Trade and other payables		70,785	11,522
Provisions		(6,628)	18,768
Income tax		(5,675)	11,347
Total changes in assets and liabilities		70,761	4,661
Net cash flows from operating activities		197,993	107,914

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the 52 week period ended 28 July 2019

	NOTE	SHARE CAPITAL $000	TREASURY SHARES $000	HEDGE RESERVES $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	EMPLOYEE SHARE BENEFITS RESERVE $000	RETAINED EARNINGS $000	MINORITY INTEREST $000	TOTAL EQUITY $000
For the 52 week period ended 28 July 2019									
Balance at the beginning of the period		365,517	(6,060)	10,711	(5)	766	108,476	879	480,284
Adjustment on adoption of NZ IFRS 15		-	-	-	-	-	(275)	-	(275)
Restated balance at the beginning of the period		365,517	(6,060)	10,711	(5)	766	108,201	879	480,009
					-				
Net profit for the period		-	-	-	-	-	65,382	133	65,515
Movement in foreign currency translation reserve		-	-	-	19	-	-	-	19
Movement in derivative cash flow hedges		-	-	(17,165)	-	-	-	-	(17,165)
Movement in de-designated derivative hedges		-	-	580	-	-	-	-	580
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	4,644	-	-	-	-	4,644
Total comprehensive income		-	-	(11,941)	19	-	65,382	133	53,593
Contributions by and distributions to owners									
Share rights charged to the income statement		-	-	-	-	63	-	357	420
Share rights vested		-	604	-	-	(829)	696	(471)	-
Dividends paid	7.1, 11.4	-	-	-	-	-	(52,027)	(179)	(52,206)
Treasury stock dividends received		-	-	-	-	-	217	-	217
Balance at the end of the period		365,517	(5,456)	(1,230)	14	-	122,469	719	482,033
		(note: 11.2)	(note: 11.2)	(note: 11.3)	(note: 11.3)	(note: 11.3)		(note: 11.4)	
For the 52 week period ended 29 July 2018									
Balance at the beginning of the period		365,517	(7,471)	(15,174)	-	2,138	140,512	867	486,389
					-				
Net profit for the period		-	-	-	-	-	22,878	242	23,120
Movement in foreign currency translation reserve		-	-	-	(5)	-	-	-	(5)
Movement in derivative cash flow hedges		-	-	35,346	-	-	-	-	35,346
Movement in de-designated derivative hedges		-	-	606	-	-	-	-	606
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	(10,067)	-	-	-	-	(10,067)
Total comprehensive income		-	-	25,885	(5)	-	22,878	242	49,000
Contributions by and distributions to owners									
Share rights charged to the income statement		-	-	-	-	353	-	-	353
Share rights vested		-	1,411	-	-	(1,725)	314	-	-
Dividends paid	7.1, 11.4	-	-	-	-	-	(55,495)	(230)	(55,725)
Treasury stock dividends received		-	-	-	-	-	267	-	267
Balance at the end of the period		365,517	(6,060)	10,711	(5)	766	108,476	879	480,284
		(note: 11.2)	(note: 11.2)	(note: 11.3)	(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 the Financial Statements - Basis of Preparation

For the 52 week period ended 28 July 2019

1.0 BASIS OF PREPARATION

1.1 Reporting entity

The Warehouse Group Limited (the Company) and its subsidiaries (together the Group) largely trade in the New Zealand retail sector. 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 4, 4 Graham 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 Generally Accepted Accounting Practice (GAAP), FMCA 2013 and NZX listing rules. They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other applicable Financial Reporting Standards, and authoritative notes 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. Certain comparative amounts have been reclassified to conform with the current year's presentation.

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 do 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 sold its Financial Services business (excluding Diners Club (NZ)) in September 2017 and then sold the Diners Club (NZ) finance receivables in April 2019, the Group's remaining Diners Club franchise obligations cease in December 2019. The results for the Financial Services Group have been classified as a discontinued operation and are presented as a single amount in the income statement and form part of 'assets held for sale' and 'liabilities associated with assets held for sale' on the balance sheet.

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

				PERCENTAGE OWNERSHIP	
NAME OF ENTITY	PRINCIPAL ACTIVITY	CHANGE	NOTE	2019	2018
The Warehouse Limited	Retail			100	100
Warehouse Stationery Limited	Retail	Amalgamated with The Warehouse Limited		N/A	100
Noel Leeming Group Limited	Retail			100	100
Torpedo7 Limited	Retail			100	100
The Warehouse Group Investments Limited	Digital Retail		11.4	95	100
Diners Club (NZ) Limited	Financial Services	Classified as discontinued operations	15.0	100	100
Eldamos Investments Limited	Property			100	100
The Warehouse Nominees Limited	Investment			100	100
TWP No.3 Limited	Retail / Wholesale	Amalgamated with The Warehouse Limited		N/A	100

1.4 Reporting period

These financial statements are for the 52 week period 30 July 2018 to 28 July 2019. The comparative period is for the 52 week period 31 July 2017 to 29 July 2018. The Group operates on a weekly trading and reporting cycle which means most financial years represent a 52 week period, a 53 week year occurring once every 5 to 6 years. The next 53 week trading period is next year's 2020 financial year.

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) Inventory (note 8.1)

(b) Provisions (note 8.4)

(c) Derivative financial instruments (note 12.2)

(d) Intangible assets (note 9.2)

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 28 July 2019

2.0 SEGMENT INFORMATION

2.1 Operating performance

		REVENUE		OPERATING PROFIT		RETAIL OPERATING MARGIN	
	NOTE	2019	2018	2019	2018	2019	2018
		$000	$000	$000	$000		
The Warehouse		1,705,687	1,695,839	85,075	71,440	5.0%	4.2%
Warehouse Stationery		268,592	263,766	16,669	10,590	6.2%	4.0%
Warehouse Segment		1,974,279	1,959,605	101,744	82,030	5.2%	4.2%
Noel Leeming		924,648	880,453	38,103	31,163	4.1%	3.5%
Torpedo7		172,474	163,402	(7,027)	(1,447)	−4.1%	−0.9%
Noel Leeming Segment		1,097,122	1,043,855	31,076	29,716	2.8%	2.8%
Digital Retail		-	-	(5,996)	(1,133)		
Other Group operations		8,508	9,655	(14,446)	(19,171)		
Inter-segment eliminations		(8,552)	(18,544)	-	-		
Retail Group		3,071,357	2,994,571	112,378	91,442	3.7%	3.1%
Unusual items	5.0			(9,435)	(34,135)		
Earnings before interest and tax from continuing operations				102,943	57,307		
Net interest expense	10.2			(8,879)	(9,165)		
Profit before tax from continuing operations				94,064	48,142		

Operating segments

The Group has four operating segments trading in the New Zealand retail sector and a start-up venture to expand the Group's digital offering. These segments form the basis of internal reporting used by senior management and the Board of Directors to monitor and assess performance and assist with strategic decisions.

Each of the four main retail segments represent a distinct retail chain, synonymous with its segment name. Customers can purchase product from the retail chains either online or through the Group's physical retail store network. The Group's store network currently has 93 (2018: 93) The Warehouse stores, 70 (2018: 70) Warehouse Stationery stores, 77 (2018: 74) Noel Leeming stores and 18 (2018: 14) Torpedo7 stores. The Warehouse predominantly sells general merchandise and apparel, Noel Leeming sells technology and appliance products, Torpedo7 sells sporting equipment and as the name indicates Warehouse Stationery sells stationery.

Group support office functions, such as Information Systems, Finance, Brand Executives and People Support are operated using a shared services model which allocates the costs of these support office functions to individual brands calculated on an arm's length basis. The remaining support office functions which relate to corporate and governance functions, a property company and the Group's interest in a chocolate factory are not allocated and form the main components of the "Other Group operations" segment.

2.2 Capital expenditure, depreciation and amortisation

		CAPITAL EXPENDITURE		DEPRECIATION AND AMORTISATION	
	NOTE	2019	2018	2019	2018
		$000	$000	$000	$000
The Warehouse Segment		47,753	42,889	46,310	46,477
Noel Leeming Segment		10,276	14,165	11,364	11,685
Digital Retail		3,641	4,363	1,200	-
Other Group operations		433	10,238	1,739	1,468
Continuing Retail Group		62,103	71,655	60,613	59,630
Discontinued operations		-	335	-	-
Total Group		62,103	71,990	60,613	59,630
Comprising					
Property, plant and equipment	9.1	34,676	51,185	50,371	52,368
Computer software	9.2	27,427	20,805	10,242	7,262
Total Group		62,103	71,990	60,613	59,630

2.3 Balance sheet information

		TOTAL ASSETS		TOTAL LIABILITIES	
	NOTE	2019	2018	2019	2018
		$000	$000	$000	$000
The Warehouse Segment		536,464	553,351	302,333	230,594
Noel Leeming Segment		238,747	230,790	128,001	133,356
Digital Retail		6,906	4,390	1,940	332
Other Group operations		97,483	88,011	2,342	2,720
Continuing Retail Group		879,600	876,542	434,616	367,002
Discontinued operations		-	7,560	-	3,886
Operating assets/liabilities		879,600	884,102	434,616	370,888
Unallocated assets/liabilities					
Cash and borrowings	10.1	49,297	26,455	125,465	188,794
Derivative financial instruments	12.2	7,948	19,794	7,994	3,394
Intangible goodwill and brands	9.2	75,501	80,979	-	-
Taxation assets/liabilities	4.2, 4.3	38,475	38,418	713	6,388
Total Group		1,050,821	1,049,748	568,788	569,464

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 28 July 2019

3.0 INCOME AND EXPENSES

Retail sales
Retail sales are recognised at the point of sale when the customer receives the goods or where delivery of the goods is not instantaneous which is typical with online sales, the sale is recognised when the goods are delivered. 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.

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 8.4 and 14.0.

3.1 Other income	2019	2018
	$000	$000
Tenancy rents received	3,348	4,002
Other	4,977	4,116
Other income	8,325	8,118

3.2 Lease and occupancy expense	2019	2018
	$000	$000
Operating lease costs	127,346	125,295
Other occupancy costs	37,029	34,292
Lease and occupancy expense	164,375	159,587

3.3 Employee expense	2019	2018
	$000	$000
Wages and salaries	493,514	490,610
Directors' fees	709	700
Performance based compensation	26,249	33,010
Equity settled share based payments expense	420	353
Employee expense	520,892	524,673

3.4 Other operating expenses	2019	2018
	$000	$000
Other operating expenses include:		
Provision for bad and doubtful debts	281	1,174
Loss on disposal of plant and equipment	1,369	366
Donations	89	663
Net foreign currency exchange (gain)/loss	64	(92)

3.5 Auditors' fees	2019	2018
	$000	$000
Auditing the Group financial statements	520	660
Reviewing the half year financial statements	90	90
Other services	67	53
Total fees paid to PricewaterhouseCoopers	677	803

Audit Fees - Corporate Governance
Fees paid to PricewaterhouseCoopers for other services relate to treasury related market analysis and equity scheme commentary, agreed upon procedures at the Annual Shareholders' Meeting and tax compliance services. In accordance with the Group's policies regarding audit governance and independence this work was approved by the Group's Audit and Risk Committee. The Group's policy permits the audit firm to provide non-audit services that are not considered to be in conflict with the preservation of the independence of the auditor, subject to Audit and Risk Committee approval.

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 28 July 2019

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	2019	2018
		$000	$000
Profit before tax from continuing operations		94,064	48,142
Loss before tax from discontinued operations	15.1	(2,714)	(5,262)
Profit before tax		91,350	42,880
Taxation calculated at 28%		25,578	12,006
Adjusted for the tax effect of:			
Goodwill impairment		-	7,174
Share-based employee compensation		66	(296)
Non deductible expenditure		738	1,563
Income tax over provided in prior year		(547)	(687)
Income tax expense		25,835	19,760
Adjust for income tax expense attributable to losses from discontinued operations	15.1	786	876
Income tax expense attributable to continuing operations		26,621	20,636
Income tax expense comprises:			
Current year income tax payable	4.2	20,978	25,586
Deferred taxation	4.3	4,857	(5,826)
Income tax expense		25,835	19,760

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/(payable) during the current and prior year.

4.2 Taxation - Balance sheet current taxation	NOTE	2019	2018
		$000	$000
Opening balance		(6,388)	4,959
Current year income tax payable	4.1	(20,978)	(25,586)
Net taxation paid		26,540	14,082
Transfer from cash flow hedge reserve		(162)	(170)
Supplementary dividend tax credit		275	327
Closing balance		(713)	(6,388)

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	BRAND NAMES	INVENTORY	PROPERTY, PLANT SOFTWARE & EQUIPMENT	EMPLOYEE PROVISIONS	DERIVATIVES	OTHER	TOTAL
For the 52 week period ended 28 July 2019		$000	$000	$000	$000	$000	$000	$000
Opening balance		(6,586)	15,387	12,815	13,933	(4,391)	7,260	38,418
Adjustment on adoption of NZ IFRS 15		-	-	-	-	-	108	108
Charged/(credited) to the income statement		1,533	(3,544)	(1,634)	(508)	-	(704)	(4,857)
Net charged to other comprehensive income	4.1	-	-	-	-	4,806	-	4,806
Closing balance		(5,053)	11,843	11,181	13,425	415	6,664	38,475
For the 52 week period ended 29 July 2018								
Opening balance		(6,586)	12,530	8,101	13,102	5,506	8,258	40,911
Charged/(credited) to the income statement	4.1	-	2,857	2,431	953	-	(415)	5,826
Net charged to other comprehensive income		-	-	-	-	(9,897)	-	(9,897)
Disposal of subsidiary		-	-	2,283	(122)	-	(583)	1,578
Closing balance		(6,586)	15,387	12,815	13,933	(4,391)	7,260	38,418

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 28 July 2019

5.0 ADJUSTED NET PROFIT

Adjusted net profit reconciliation	NOTE	2019	2018
		$000	$000
Adjusted net profit		74,103	59,015
Add back: Unusual items			
Gain on property disposals		11,761	218
Brand and Goodwill impairment (Torpedo7)	9.2	(5,478)	(25,622)
Restructuring costs		(15,718)	(8,731)
Unusual items before taxation		(9,435)	(34,135)
Income tax relating to unusual items		2,642	2,384
Unusual items after taxation		(6,793)	(31,751)
Net profit from continuing operations attributable to shareholders of the parent		67,310	27,264

Certain transactions can make the comparison of profits between years difficult. The Group uses adjusted net profit as a key indicator of performance and considers it a better measure of underlying business performance. 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 gains or losses from the disposal of properties or investments, goodwill and brand impairment, costs relating to business acquisitions or disposals and costs connected with restructuring the Group.

Unusual items

(a) The group entered a sale agreement that became unconditional in May 2019 to sell surplus land at its Auckland Support Office for a consideration of $13.000 million representing a pre-tax profit of $11.761 million. The Group received an initial deposit of $1.950 million and will receive the balance of the consideration ($11.050 million refer note 8.2) once the purchaser has obtained the necessary resource consent for its proposed development works which will be no later than April 2020. The property disposal in the prior year related to surplus land in Auckland and was sold prior to the commencement of store development works for a consideration of $12.036 million, realising a pre-tax profit of $0.218 million.

(b) The Group fully impaired the Torpedo7 brand assets associated with the online 1-day business ($5.478 million – refer note 9.2). In the prior year the Group impaired the Torpedo7 goodwill ($25.622 million).

(c) In January 2017, the Group commenced a transformation programme to change its business operating model, which included shifting The Warehouse away from a 'Hi-Lo' pricing model to an 'Every Day Low Price' model. The changes have been designed to drive an improvement in financial performance, reduce costs and generate greater customer relevance. The changes focused primarily on simplification to reduce complexities, reduce working capital, drive efficiencies and increase business agility. This involved strengthening and consolidating the various Group support service functions to drive synergy benefits. It also involved combining The Warehouse and Warehouse Stationery and similarly combining the Noel Leeming and Torpedo7 Groups by integrating their operating structures and executive leadership teams.

The Group has partnered with a management consultancy firm to assist with the transformation process and strategy implementation. In addition to a retainer the Group recognises an expense for success fees payable to the management consultancy firm where they have been involved in transformation initiatives that are shown to have achieved the expected outcomes. This phase of the partnership is scheduled to conclude in January 2020.

6.0 EARNINGS PER SHARE

Earnings per share calculation	NOTE	2019	2018
Net profit attributable to shareholders of the parent ($000s)		65,382	22,878
Net profit from continuing operations attributable to shareholders of the parent ($000s)		67,310	27,264
Adjusted net profit ($000s)	5.0	74,103	59,015
Basic			
Weighted average number of ordinary shares (net of treasury stock) on issue (000s)		345,229	344,916
Basic earnings per share (cents)		18.9	6.6
Basic earnings per share from continuing operations (cents)		19.5	7.9
Adjusted basic earnings per share (cents)		21.5	17.1

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 shares) outstanding during the year. Continuing and adjusted basic EPS are similarly calculated using continuing and adjusted net profit as the numerator.

The Group's share rights and related put options (refer note 14.0) are dilutive as they create a future commitment for the Group to issue shares in certain circumstances that would decrease the basic EPS. The dilution currently attributed to these share rights and put options is insignificant and does not have a material impact on the basic EPS calculation, however, this could change in the future if a higher conversion value is attributed to both the put options and the share rights held by the Group's minority shareholders.

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 28 July 2019

7.0 DIVIDENDS

7.1 Dividends paid	2019	2018	2019	2018
	$000	$000	CENTS PER SHARE	CENTS PER SHARE
Prior year final dividend	20,811	20,811	6.0	6.0
Interim dividend	31,216	34,684	9.0	10.0
Total dividends paid	52,027	55,495	15.0	16.0

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	2019	2018	2019	2018
		$000	$000	CENTS PER SHARE	CENTS PER SHARE
Interim dividend		31,216	34,684	9.0	10.0
Final dividend (declared after balance date)		27,747	20,811	8.0	6.0
Total dividends paid and declared in respect of the current and prior financial years		58,963	55,495	17.0	16.0
Group adjusted net profit	5.0	74,103	59,015		
Pay-out ratio (%)		79.6%	94.0%		

On 24 September 2019 the Board declared a final fully imputed ordinary dividend of 8.0 cents per share to be paid on 5 December 2019 to all shareholders on the Group's share register at the close of business on 22 November 2019.

7.3 Imputation credit account	2019	2018
	$000	$000
Imputation credits at balance date available for future distribution	113,294	117,178

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 28 July 2019

8.0 WORKING CAPITAL

8.1 Inventory	2019	2018
	$000	$000
Finished goods	478,234	494,028
Inventory adjustments	(23,968)	(28,981)
Retail stock	454,266	465,047
Goods in transit from overseas	63,492	58,793
Inventory	517,758	523,840

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	NOTE	2019	2018
		$000	$000
Trade receivables		42,335	45,677
Prepayments		13,479	14,110
Property disposal proceeds	5.0	11,050	-
Rebate accruals and other debtors		23,806	19,971
Trade and other receivables		90,670	79,758

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 recognised based on the value of the invoice sent to the customer and adjusted for expected credit losses to provide for future unrecovered debts. The expected collectability of trade and other receivables is reviewed on an ongoing basis.

8.3 Trade and other payables	2019	2018
	$000	$000
Local trade creditors and accruals	211,132	211,171
Foreign currency trade creditors	76,869	-
Goods in transit creditors	20,508	24,545
Capital expenditure creditors	2,641	1,864
Goods and services tax	14,345	13,457
Reward schemes, lay-bys, Christmas club deposits and gift vouchers	17,393	16,004
Interest accruals	736	968
Payroll accruals	8,951	11,019
Trade and other payables	352,575	279,028

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 to 120 days of recognition. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

The Group changed the terms for payments to overseas suppliers in November 2018. The Group had previously paid for the purchase of inventory from overseas suppliers upon the receipt of valid shipping documentation which was prior to the inventory being received in New Zealand. These payment terms have now been extended which means the inventory from overseas suppliers is paid after the goods are received by the Group and results in the recognition of foreign currency trade creditors.

Notes to the Financial Statements - Operating Assets and Liabilities

For the 52 week period ended 28 July 2019

8.4 Provisions	CURRENT		NON-CURRENT		TOTAL	
	2019	2018	2019	2018	2019	2018
	$000	$000	$000	$000	$000	$000
Employee entitlements	54,204	62,427	14,490	13,636	68,694	76,063
Make good provision	942	1,017	6,780	6,916	7,722	7,933
Sales return provision	5,625	3,724	-	-	5,625	3,724
Onerous lease	-	254	-	-	-	254
Total provisions	60,771	67,422	21,270	20,552	82,041	87,974

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.

Significant judgements and estimates

The calculation of the Group's annual employee incentive liability requires the Group to use judgement to collectively estimate the outcome of individual employee performance appraisals and company performance against specified performance hurdles linked to the Group's incentive schemes prior to the completion of individual employee entitlement calculations.

9.0 NON CURRENT ASSETS

9.1 Property, plant and equipment	NOTE	LAND AND BUILDINGS		PLANT AND EQUIPMENT		WORK IN PROGRESS		TOTAL	
		2019	2018	2019	2018	2019	2018	2019	2018
		$000	$000	$000	$000	$000	$000	$000	$000
Cost		91,018	87,833	638,828	603,888	16,638	20,019	746,484	711,740
Accumulated depreciation		(11,840)	(10,650)	(496,040)	(447,871)	-	-	(507,880)	(458,521)
Opening carrying amount		79,178	77,183	142,788	156,017	16,638	20,019	238,604	253,219
Additions	2.2	3,594	15,003	38,018	39,563	(6,936)	(3,381)	34,676	51,185
Disposals		(1,112)	(11,818)	(636)	(1,614)	-	-	(1,748)	(13,432)
Depreciation	2.2	(1,248)	(1,190)	(49,123)	(51,178)	-	-	(50,371)	(52,368)
Closing carrying amount		80,412	79,178	131,047	142,788	9,702	16,638	221,161	238,604
Cost		93,498	91,018	651,544	638,828	9,702	16,638	754,744	746,484
Accumulated depreciation		(13,086)	(11,840)	(520,497)	(496,040)	-	-	(533,583)	(507,880)
Closing carrying amount		80,412	79,178	131,047	142,788	9,702	16,638	221,161	238,604
Less: Assets held for sale		-	-	-	(12)	-	-	-	(12)
Property, plant and equipment		80,412	79,178	131,047	142,776	9,702	16,638	221,161	238,592

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.

Notes to the Financial Statements - Operating Assets and Liabilities

For the 52 week period ended 28 July 2019

9.2 Intangible assets

	NOTE	GOODWILL 2019	GOODWILL 2018	BRAND NAMES 2019	BRAND NAMES 2018	COMPUTER SOFTWARE 2019	COMPUTER SOFTWARE 2018	TOTAL 2019	TOTAL 2018
		$000	$000	$000	$000	$000	$000	$000	$000
Cost		94,380	117,094	23,523	23,523	126,689	133,178	244,592	273,795
Impairment and accumulated amortisation		(36,924)	(34,016)	-	-	(92,300)	(105,033)	(129,224)	(139,049)
Opening carrying amount		57,456	83,078	23,523	23,523	34,389	28,145	115,368	134,746
Additions	2.2	-	-	-	-	27,427	20,805	27,427	20,805
Disposals		-	-	-	-	(1,563)	(7,299)	(1,563)	(7,299)
Impairment		-	(25,622)	(5,478)	-	-	-	(5,478)	(25,622)
Amortisation	2.2	-	-	-	-	(10,242)	(7,262)	(10,242)	(7,262)
Closing carrying amount		57,456	57,456	18,045	23,523	50,011	34,389	125,512	115,368
Cost		94,380	94,380	23,523	23,523	149,035	126,689	266,938	244,592
Impairment and accumulated amortisation		(36,924)	(36,924)	(5,478)	-	(99,024)	(92,300)	(141,426)	(129,224)
Closing carrying amount		57,456	57,456	18,045	23,523	50,011	34,389	125,512	115,368
Less: Assets held for sale	15.2	-	-	-	-	-	(37)	-	(37)
Intangible assets		57,456	57,456	18,045	23,523	50,011	34,352	125,512	115,331

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

Prior year Torpedo7 Goodwill write-off
In the prior year the goodwill attributed to the Torpedo7 Group ($25.622 million) was fully written off.

Significant judgements and estimates - impairment testing
Impairment testing requires both judgement and estimates to assess the recoverable amount of the assets compared to the carrying values. Estimates of future cash flows are subjective and can be significantly impacted by business changes and economic conditions. The recoverable amounts are calculated using the 'fair value less costs to sell' method. This discounted cash flow valuation method requires the use of estimates and projections regarding future 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 the future cash flow projections. The Group also engages external advisors to determine appropriate discount rates and long term growth rates, integral to the valuations. In a departure from prior years the results of these valuations have been further refined and scaled back to align with the average values assessed by a selection of the Group's external equity research analysts.

The Group's goodwill and brand assets are allocated to cash generating units and form the basis for impairment testing. Cash generating units represent the lowest level within the Group at which the assets are monitored for internal management purposes. Details of the carrying amounts of goodwill and brand assets (excluding the Torpedo7 brands) and the allocation to cash generating units along with the key assumptions used in the impairment tests to extrapolate cash flows beyond the 5 year projection period are set out in the table below.

Impairment testing	NOEL LEEMING 2019	NOEL LEEMING 2018	THE WAREHOUSE 2019	THE WAREHOUSE 2018
	$000	$000	$000	$000
Goodwill	31,776	31,776	25,680	25,680
Brand names	15,500	15,500	-	-
Closing carrying amount	47,276	47,276	25,680	25,680
Key assumptions				
Terminal year EBIT margin (%)	5.1	3.1	7.1	4.8
Terminal year growth rate (%)	1.5	1.7	1.5	1.7
Post-tax discount rate (%)	9.3	10.9	8.5	9.1

The annual impairment testing for the Noel Leeming and The Warehouse cash generating units did not indicate the carrying amounts of the attributed goodwill and brand assets were impaired.

1-day brand Impairment
Impairment testing performed for the Torpedo7 cash generating unit at balance date indicated a potential asset impairment and caused the Group to assess the carrying values of the segment's two brand assets. The recoverable amount of each brand was determined using a relief from royalty valuation methodology using royalty rates derived from comparable market data. The brand valuation for the "Torpedo7" brand exceeded the carrying value ($2.545 million), however the valuation of the segment's other "1-day" brand was significantly less than the carrying value ($5.478 million) and as a consequence the Group fully impaired this asset.

Notes to the Financial Statements - Financing and Capital Structure

For the 52 week period ended 28 July 2019

10.0 BORROWINGS

10.1 Net debt	2019	2018
	$000	$000
Cash on hand and at bank	49,297	26,455
Bank borrowings at call - interest rate: 2.88%	-	43,715
Lease liabilities	50	125
Fixed rate senior bond (coupon: 5.30%)	125,000	-
Fair value adjustment relating to senior bond interest rate hedge	799	-
Unamortised capitalised costs on senior bond issuance	(384)	-
Current borrowings	125,465	43,840
Bank borrowings - interest rate: 2.74%	-	20,000
Lease liabilities	-	51
Fixed rate senior bond (coupon: 5.30%)	-	125,000
Fair value adjustment relating to senior bond interest rate hedge	-	723
Unamortised capitalised costs on senior bond issuance	-	(820)
Non current borrowings	-	144,954
Total borrowings	125,465	188,794
Net debt	76,168	162,339

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.

Fixed rate senior bond
The Group issued a 5 year fixed rate senior bond on the New Zealand Stock Exchange in June 2015 with interest payable every six months (15 June and 15 December) based on a 5.30% coupon. The bond is classified as a current liability as it matures in June 2020 which is less than 12 months following balance date. The Group has not yet decided if it will replace the bond when it matures as a number of working capital initiatives were implemented during the year which have reduced the Group's debt requirements. The lower debt levels will be factored into the Group's deliberations over the next few months as it considers its long term funding options before deciding the amount, if any, of a replacement bond issuance.

Based on the last quoted closing price of $1.02712 (2018: $1.03369) traded on the New Zealand Stock Exchange and a market yield of 2.90% (2018: 3.79%) the fair value of the Group's fixed rate senior bonds at balance date was $128.390 million (2018: $129.211 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	NOTE	2019	2018
		$000	$000
Interest on deposits and use of money interest received		(436)	(1,494)
Interest on bank borrowings		2,254	3,968
Interest on finance leases		9	30
Interest on fixed rate senior bond		7,043	7,043
Net interest expense		8,870	9,547
Less interest attributable to discontinued operations	15.1	9	(382)
Net interest expense from continuing operations		8,879	9,165

10.3 Bank facilities	2019	2018
	$000	$000
Bank debt facilities	180,000	210,000
Bank facilities used	-	(63,715)
Unused bank debt facilities	180,000	146,285
Letters of credit facilities	28,000	28,000
Letters of credit	(2,467)	(5,516)
Unused letter of credit facilities	25,533	22,484
Total unused bank facilities	205,533	168,769

In addition to the $180.000 million (2018: $210.000 million) of committed bank debt facilities the Group has seasonal credit facilities (three months) of $50.000 million (2018: $50.000 million) to accommodate the increased funding demands during the Group's peak funding period.

Notes to the Financial Statements - Financing and Capital Structure

For the 52 week period ended 28 July 2019

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 pay-out ratio, issue of new shares, debt issuance, sale of assets or a combination of these. The Group's current dividend policy is based on distributing between 75% to 85% of the adjusted net profit back to shareholders (refer note 7.0).

The Group monitors gearing which 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) and is comfortable to maintain gearing levels (except for the Group's first quarter peak funding period) at levels of between 20% to 40%. Current gearing levels are tracking below this band as the Group builds capacity in advance of expected future investment in planned transformation projects.

The introduction of the new NZ IFRS 16 lease accounting standard (refer note 20.0), which is effective for the Group from the 2020 financial year will significantly increase book gearing as operating lease liabilities will be recorded on the balance sheet. This new standard is non-cash in nature and for internal purposes and for testing debt covenant compliance with our external funding providers, these new lease liabilities and the associated interest expense will be excluded from our internal gearing and debt covenant calculations.

Externally imposed capital requirements

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 underlying basis for the calculation of these ratios remains unchanged when the new NZ IFRS 16 lease accounting standard is adopted next year with the impact of this new accounting standard carved out of the ratio calculations. The two principal covenants, which are the same for both trust deeds are:

DEBT COVENANT RATIOS AT BALANCE DATE	QUARTERLY COVENANT REQUIREMENT	2019	2018
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	13.7	25.6
Retail Group book interest cover (times cover)	will not be less than 2 times operating profit	12.7	9.8

The Group was in compliance with the negative pledge covenants throughout the current and previous financial year. For the purposes of calculating debt covenant ratios an adjustment is made to exclude the discontinued financial services operations.

11.2 Contributed equity	CONTRIBUTED EQUITY 2019	2018	ORDINARY SHARES 2019	2018
	$000	$000	000s	000s
Share capital	365,517	365,517	346,843	346,843
Treasury shares	(5,456)	(6,060)	(1,557)	(1,793)
Contributed equity	360,061	359,457	345,286	345,050

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 shares	NOTE	TREASURY SHARES 2019	2018	ORDINARY SHARES 2019	2018
		$000	$000	000s	000s
Opening balance		6,060	7,471	1,793	2,346
Ordinary shares issued to settle share rights plan obligations	14.0	(604)	(1,411)	(236)	(553)
Closing balance		5,456	6,060	1,557	1,793

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 28 July 2019

11.3 Reserves	2019	2018
	$000	$000
Cash flow hedge reserve	(1,067)	11,292
De-designated derivative reserve	(163)	(581)
Hedge reserves	(1,230)	10,711
Foreign currency translation reserve	14	(5)
Share based payments reserve	-	766
Total reserves	(1,216)	11,472

Cash flow hedge reserve

This reserve records the portion of the gain or loss on a hedging derivative in a cash flow hedge that is determined to be an effective hedge. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement, or depending on the nature of the hedge, is included in a non-financial hedged item when the hedged event occurs. (Refer to the consolidated statement of changes in equity and accounting policies 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 prior years which resulted in a number of interest rate swaps being monetised. The cost to close the interest rate swaps is recognised in the income statement over the effective period of the original interest rate swaps. (Refer to the consolidated statement of changes in equity and accounting policies detailed in note 12.2).

Foreign currency translation

Exchange differences arising on translation of the Group's subsidiary in India are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the income statement when the net investment is sold.

Share based payments reserve

Share rights were granted to employees in accordance with the Group's discontinued executive share rights plan. The fair value of share rights granted under the plan were 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 were independently determined using a valuation model that made allowance for the terms and conditions upon which they were granted. (Note 14.0 provides further details regarding the plan).

This reserve was 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 to the consolidated statement of changes in equity).

11.4 Minority interest	2019	2018
	$000	$000
Opening balance	879	867
Net profit attributable to minority interest	133	242
Share rights charged to the income statement	357	-
Share rights vested	(471)	-
Dividends paid to minority shareholders	(179)	(230)
Closing balance	719	879

Minority interest reserve

A minority interest is an ownership position in a Group subsidiary where the shareholder owns less than 50% of outstanding shares and has no control over decisions. Minority interests are measured based on the minority shareholders proportionate share of the net asset value of the subsidiary and also includes the accumulated value of unvested shares rights in the minority subsidiary which have been granted and recognised as an employee share based payment expense. (Note 14.0 provides further details regarding the plan).

The fair value of share rights granted in a subsidiary are measured at grant date and recognised as an employee share based payment expense over the vesting period with a corresponding increase in the minority interest reserve. Upon vesting of these share rights, the balance of the minority interest reserve relating to the share rights is offset against the proportionate share of the net asset value of the subsidiary acquired by the minority shareholder, with any difference in the value attributed to settling the commitment transferred to retained earnings.

At balance date the Group's minority interest represents a 50.0% (2018: 50.0%) minority shareholding held in Waikato Valley Chocolates and a 5.3% (2018: nil) shareholding and associated share rights in The Warehouse Group Investments (Digital Retail venture).

Notes to the Financial Statements - Financial Risk Management

For the 52 week period ended 28 July 2019

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 sources of finance and foreign currency purchases.

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	
	2019	2018	2019	2018	2019	2018
	$000	$000	$000	$000	$000	$000
Current assets	7,071	19,030	877	-	7,948	19,030
Non-current assets	-	-	-	764	-	764
Current liabilities	(939)	-	-	-	(939)	-
Non-current liabilities	-	-	(7,055)	(3,394)	(7,055)	(3,394)
Total derivative financial instruments	6,132	19,030	(6,178)	(2,630)	(46)	16,400
Classified as:						
Cash flow hedges	5,518	19,030	(7,055)	(3,394)	(1,537)	15,636
Fair value hedges	614	-	877	764	1,491	764
Total derivative financial instruments	6,132	19,030	(6,178)	(2,630)	(46)	16,400

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.

Cash flow hedge

The Group applies cash flow hedge accounting for hedging variable interest on borrowings and managing the currency risk associated with purchasing inventory in foreign currencies. 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

The Group applies fair value hedge accounting for hedging fixed interest on borrowings and managing the currency risk associated with foreign currency trade creditors. 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. If the hedge no longer meets the criteria for hedge accounting, or the hedge is not fully effective, then the hedge or portion of the hedge which is not effective is recognised immediately in the income statement as either an interest expense or foreign exchange gain or loss based on the nature of the hedged risk.

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.

Notes to the Financial Statements - Financial Risk Management

For the 52 week period ended 28 July 2019

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 liquidity position fluctuates throughout the year. The months leading up to Christmas typically have the greatest demand for cash flows due to the build up of inventory, conversely the Group's liquidity position is at its strongest immediately after the Christmas trading period. The Group's maximum permitted gearing covenants increase during this period from 50% to 60% (refer note 11.1) to accommodate for the effect of seasonal funding.

The Group improved its working capital position during the year by increasing the payment terms of overseas creditors which resulted in a significant reduction in debt offset by a corresponding increase in overseas trade creditors. The Group is currently reviewing its funding requirements and mix ahead of the maturity of the fixed rate senior bond in June 2020 but has not yet determined its preferred funding solution. To ensure the Group has funding flexibility ahead of the bond maturity the Group is maintaining additional bank facility headroom (refer note 10.0).

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	
	2019	2018	2019	2018	2019	2018	2019	2018
	$000	$000	$000	$000	$000	$000	$000	$000
Trade and other payables	(352,575)	(282,601)	-	-	-	-	(352,575)	(282,601)
Bank borrowings	-	(63,715)	-	-	-	-	-	(63,715)
Finance lease liabilities	(50)	(135)	-	(175)	-	(4)	(50)	(314)
Fixed rate senior bond	(130,774)	(5,808)	-	(138,250)	-	-	(130,774)	(144,058)
Financial liabilities	(483,399)	(352,259)	-	(138,425)	-	(4)	(483,399)	(490,688)
Forward currency contracts								
- outflow	(373,386)	(369,225)	-	-	-	-	(373,386)	(369,225)
- inflow	380,582	388,622	-	-	-	-	380,582	388,622
Interest rate swaps	382	(208)	(5,831)	(2,153)	(1,004)	(500)	(6,453)	(2,861)
Net derivatives	7,578	19,189	(5,831)	(2,153)	(1,004)	(500)	743	16,536

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 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 (2018: A).

The Group controls its credit risk from 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 28 July 2019

12.5 Market risk

Foreign exchange risk

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	
	2019	2018	2019	2018	2019	2018	2019	2018
	$000	$000	$000	$000	CENTS	CENTS	PERCENTAGE	PERCENTAGE
Forward exchange contracts								
Buy US dollars/Sell New Zealand dollars	6,132	19,030	373,386	369,225	0.6759	0.7153	64.8	65.4

The Group did not hold any foreign exchange derivatives with a maturity exceeding 1 year at either the current or last year's balance date. The spot rate used to determine the mark-to-market carrying value of the US dollar forward contracts at balance date was $0.6631 (2018: $0.6795).

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.

Foreign currency sensitivity table			+ 10 PERCENT		- 10 PERCENT	
	NOTE	AMOUNT	PROFIT	EQUITY	PROFIT	EQUITY
		$000	$000	$000	$000	$000
At 28 July 2019						
Foreign currency trade creditors	8.3	(76,869)	5,031	5,031	(6,150)	(6,150)
Derivative financial instruments						
Forward currency contracts - cash flow hedges	12.1	5,518	-	(19,657)	-	24,031
Forward currency contracts - fair value hedges	12.1	614	(5,013)	(5,013)	6,128	6,128
Total increase/(decrease)			18	(19,639)	(22)	24,009
At 29 July 2018						
Derivative financial instruments						
Forward currency contracts - cash flow hedges	12.1	19,030	-	(25,196)	-	30,796
Total increase/(decrease)			-	(25,196)	-	30,796

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 $150 million (2018: $200 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 77% (2018: 65%) 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			+ 100 BASIS POINTS		- 100 BASIS POINTS	
	NOTE	AMOUNT	PROFIT	EQUITY	PROFIT	EQUITY
		$000	$000	$000	$000	$000
At 28 July 2019						
Cash on hand and at bank	10.1	49,297	355	355	(355)	(355)
Fixed rate senior bond	10.1	(125,415)	371	371	(541)	(541)
Derivative financial instruments						
Interest rate swaps - cash flow hedges	12.2	(7,055)	108	2,012	(108)	(2,106)
Interest rate swaps - fair value hedges	12.2	877	(371)	(371)	541	541
Total increase/(decrease)			463	2,367	(463)	(2,461)
At 29 July 2018						
Finance business receivables	15.2	7,381	53	53	(53)	(53)
Cash on hand and at bank	10.1	(37,260)	(268)	(268)	268	268
Fixed rate senior bond	10.1	(124,903)	358	358	(432)	(432)
Derivative financial instruments						
Interest rate swaps - cash flow hedges	12.2	(3,394)	108	2,012	(108)	(2,066)
Interest rate swaps - fair value hedges	12.2	764	(358)	(358)	432	432
Total increase/(decrease)			(107)	1,797	107	(1,851)

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 28 July 2019

13.0 KEY MANAGEMENT

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 9 (2018: 8) 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	2019	2018
	$000	$000
J Withers (Chair)	166	166
K R Smith (Deputy Chair)	115	115
A J Balfour	85	85
W K Easton (appointed October 2018)	65	-
J W M Journee	86	86
J H Ogden (retired November 2017)	-	39
J M Raue	107	86
V C M Stoddart (retired November 2017)	-	38
Sir Stephen Tindall	85	85
Total	709	700

In 2019 John Journee received an additional fee of $16,500 as a director of the Group's Digital Retail subsidiary. In the prior year K R Smith and J H Ogden both received $8,000 as additional fees as directors of the Group's discontinued Financial Services subsidiaries.

Key management	2019	2018
	$000	$000
Base salary	7,433	6,101
Annual performance based compensation	2,492	2,944
Three year performance based cash settled compensation	2,195	1,389
Equity settled share-based compensation (refer note: 14.0)	162	140
Termination benefits	-	666
Total	12,282	11,240

14.0 SHARE-BASED LONG TERM INCENTIVE PLANS (LTIP)

Executive share rights plan

The Groups legacy share based executive incentive plan ceased in October 2015 when the last two tranches of share rights were granted. The plan was subsequently replaced by a three year cash based incentive plan in November 2016. In this revised plan employee value creation was linked to company performance rather than share price performance. The legacy share right plan concluded in October 2018 when the last tranche of award shares (236,000 shares) vested and the last tranche of performance shares (392,000 shares) were forfeited as the total shareholder return performance target of $0.78 per share over the 3 year vesting period was not met.

Award shares provided participants with a conditional right to be allocated and transferred ordinary shares upon achieving certain company and individual performance targets. Performance shares provided participants with a conditional right to be transferred ordinary shares at the end of the vesting period if the Group achieved a specified total shareholder return on the vesting date. The award shares which vested and the performance share which were forfeited in October 2018 were valued at $2.16 and $0.81, respectively at the time they were granted.

Digital Retail share rights plan

Share rights were provided as a performance incentive to key executives in the Group's Digital Retail start-up venture, The Warehouse Group Investments Limited (TWGI). As part of the share plan participants were collectively transferred 53,333 TWGI shares in June 2019 (Tranche 1), and are entitled to receive the same number of shares in March 2020 (Tranche 2) and March 2021 (Tranche 3), subject to certain conditions, which include continued employment. The share rights were independently valued at $5.00 per share when they were granted in June 2019 and if the entitlements are fully vested would provide the participants with up to a 16% minority shareholding in TWGI.

Under the plan the Group also granted participants put options over a proportion of their Tranche 2 and Tranche 3 TWGI shares, exercisable within 4 weeks of the share transfer to fund the participants tax obligations arising under the plan; and a further put option over the participants entire TWGI shareholding, exercisable during the 3 years following March 2021 or within 3 months of certain 'good leaver' events, such as death or incapacity. If the put option is exercised, the Group is required to purchase the TWGI shares at a price based on the fair value of the shares at that time, in consideration for providing the participant with ordinary shares in the Group of equivalent value (using the volume weighted average market price of the Group's shares).

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 28 July 2019

15.0 DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group that represents a separate major line of business that is part of a disposal plan. The results of discontinued operations are presented separately as a single amount in the Income Statement.

The Group sold its Financial Services business (excluding Diners Club (NZ)) in September 2017 for a consideration of $17.291 million which was equivalent to the carrying value of the business assets at the time of sale. The sale was subject to a 9 month claw back provision to recover bad debts which exceeded the level of impairment provisions included in the carrying value of the finance receivables which were sold. A claim for recovery was made and settled for $1.421 million in August 2018.

The Diners Club (NZ) business was subsequently split between the merchant acquisition business and the card issuance business. A buyer was found for the card issuing business and the finance receivables were sold in April 2019 for $1.850 million realising a gain of $0.398 million. The sale is subject to a warranty claim period which expires in October 2019 and in line with industry practice the value of any claim is capped at the value of the consideration received.

The remaining Diners Club (NZ) merchant acquisition business is part of a network participation agreement (NPA) with Diners Club International. The NPA expired in December 2018 but as part of the transitional obligations contained in the NPA the Group is required to continue to provide franchise services for a further year through to December 2019.

The full year results and cash flows from the Financial Services Group are as follows.

15.1 Financial Services Group results and cash flows	NOTE	2019	2018
		$000	$000
Finance business revenue		1,262	4,729
Expenses		(4,383)	(8,188)
Gain/(Loss) on business disposal		398	(1,421)
Loss before interest and tax		(2,723)	(4,880)
Interest expense	10.2	9	(382)
Loss before tax		(2,714)	(5,262)
Income tax credit	4.1	786	876
Loss from discontinued operations		(1,928)	(4,386)
Cash flows from discontinued operations			
Net cash flows from operating activities		2,461	5,069
Net cash flows from investing activities		429	16,957
Net cash flows from financing activities		(3,327)	(28,753)

15.2 Financial Services Group assets classified as held for sale	2019	2018
	$000	$000
Finance business receivables	-	7,381
Property, plant and equipment	-	12
Computer software	-	37
Other assets	-	130
Total assets classified as held for sale	-	7,560
Other liabilities directly associated with assets held for sale	-	(3,886)

A group of assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for deferred tax assets, assets arising from employee benefits and financial assets which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less cost to sell of an asset, but not more than any cumulative impairment loss previously recognised. Non-current assets are not depreciated or amortised while they are classified as held for sale.

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 28 July 2019

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:

Future minimum rentals payable	2019	2018
	$000	$000
0–1 years	127,142	121,473
1–2 years	108,034	107,531
2–5 years	240,375	249,550
5+ years	185,957	234,207
Operating leases	661,508	712,761

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

Capital commitments	2019	2018
	$000	$000
Within one year	1,452	2,783

17.0 CONTINGENT LIABILITIES

	2019	2018
	$000	$000
Bank letters of credit issued to secure future purchasing requirements	2,467	5,516
Less included as a goods in transit creditor	(213)	(575)
	2,254	4,941
Bank guarantees provided to landlords and the New Zealand Stock Exchange Limited	456	643
Total contingent liabilities	2,710	5,584

Contingent liabilities connected to the sale of the Group's Financial Services businesses are detailed in note 15.0.

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

(i) Sir Stephen Tindall (Director) has a beneficial shareholding of 93,687,096 shares (2018: 93,687,096 shares) which carry the normal entitlement to dividends. Dividends of $14.054 million (2018: $14.990 million) were received on these shares during the year.

(ii) The Group's other Directors collectively had beneficial shareholdings of 198,964 shares (2018: 198,964 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 333,586 shares (2018: 263,166 shares) at balance date which carry the normal entitlement to dividends.

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 28 July 2019

19.0 NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR

The Group adopted two new accounting standards during the year, NZ IFRS 9 'Financial Instruments' and NZ IFRS 15 'Revenue from Contracts with Customers'. The adoption of these two new standards did not have a material impact on the Group's financial statements and the Group elected to use the modified retrospective approach to transition which means it was not required to restate comparative information.

NZ IFRS 9: Financial Instruments

NZ IFRS 9 'Financial Instruments' replaced the previous Financial Instruments standard (NZ IAS 39) with effect for the Group from the start of the current financial year. The new standard addresses the classification, measurement and recognition of financial assets and liabilities, introduced new rules for hedge accounting and a new impairment model for financial assets. The two areas which potentially impacted the Group concerned hedge accounting and the impairment of
trade receivables.

Hedge accounting

The Group was not required to make any changes to the way it hedges foreign currency and interest rate risks following the adoption of NZ IFRS 9. The Group was however required to make some minor changes to the way it internally documents hedge relationships when it enters a new derivative contract and was able to simplify the method used to demonstrate the effectiveness of the hedge relationships. The Group's hedge relationships continued to qualify as effective hedges when NZ IFRS 9 was adopted and the Group has not experienced any profit impact from implementing the new accounting treatment for its hedge relationships.

Trade receivables impairment provisions

The new standard changed the way impairment of Financial Assets (classified at amortised cost) are calculated from an 'incurred credit loss' model as previously stipulated under NZ IAS 39 to an 'expected credit loss' model. Based on the Group's assessment of historical provision rates and forward-looking analysis, there was no material impact on the impairment provisions.

NZ IFRS 15: Revenue from Contracts with Customers

NZ IFRS 15, 'Revenue from contracts with customers' replaced the current revenue recognition guidance in NZ IAS 18 'Revenue' and NZ IAS 11 'Construction Contracts' and related interpretations with effect for the Group from the start of the current financial year. The new standard is based on the principle that revenue is recognised when control of a good and service transfers to a customer.

The Group assessed the potential impact of NZ IFRS 15 which involved segregating the different revenue streams within the Group and analysing any impact arising from the new accounting standard. The majority of the Group's revenue is made up of in store transactions where performance obligations are generally satisfied at the point of sale, with less than 10% earned through online sales. Accounting for online sales was the only area identified as potentially having a profit impact on the Group.

Accounting for online sales

The Group's online transactions provide customers with the option for direct delivery or collection of goods from the store. Under NZ IFRS 15, an assessment must be made in these arrangements whether control has transferred to the customer, even though the customer does not have physical possession of the goods. Another consideration for online sales is whether arranging the delivery of goods is a separate performance obligation that impacts the timing, measurement and classification of revenue recognised. The Group has assessed the implications of these matters and concluded that there was a small deferral in the timing of revenue recognition arising from the adoption of NZ IFRS 15 which resulted in an adjustment to opening retained earnings of $0.275 million.

Reclassifications

There were also two reclassifications which arose from the adoption of NZ IFRS 15, one related to the sales return provision in the balance sheet and the second related to the treatment of warranty sales revenue in the income statement. Receivables and the sales return provision were both grossed up ($1.818 million) to reflect supplier recoveries arising from predicted customer sales returns which had previously been netted against the sales return provision in prior years. Revenue from the sale of third party warranties was reduced in the current year to record the net warranty commission due from the suppliers rather than the full value of the sale. This change resulted in a reduction in both revenue and the cost of sales ($8.666 million) but did not change the reported gross profit.

20.0 NEW ACCOUNTING STANDARDS - EFFECTIVE NEXT YEAR

NZ IFRS 16: Leases

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17 and will be adopted by the Group next year commencing from 29 July 2019. The current accounting model for leases requires a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 requires the Group, as a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is an optional exemption for short term leases and leases of low value assets which the Group has elected to apply.

The income statement is impacted by the recognition of interest and depreciation expenses and the removal of the current rental expense.

The Group has been evaluating and planning for the adoption and implementation of NZ IFRS16 which included setting up a new lease accounting system, evaluating practical expedient and accounting policy elections, and assessing the overall financial statement impact. While the impact of NZIFR16 is non-cash in nature and will not impact the Group's cash flows it will have a material impact on the Group's reported financial position.

The new standard provides a choice of transition methods. The Group has decided to use a simplified transition approach to adopt NZ IFRS 16. The problem with using the 'modified retrospective approach' expedient is that it does not permit the Group to restate comparative amounts for the periods prior to adoption. The Group's estimate of the balance sheet impact at the date of transition of adopting NZ IFRS 16 based on the Group's current operating leases is detailed below.

- Recognition of a right of use asset of approximately $829 million;
- Recognition of a deferred taxation asset of approximately $44 million;
- Recognition of a lease liability of approximately $986 million; and
- Decrease in opening retained earnings of approximately $113 million.

The impact on the income statement for next year based on the same leases is expected to decrease occupancy expenses (approximately $130 million), increase amortisation expenses (approximately $91 million) and increase interest expenses (approximately $40 million). The overall impact on net profit attributable to shareholders is expected to be less than $1 million. To calculate these estimates management was required to make various key judgements which included determining:

- the incremental borrowing rate used to discount lease assets and liabilities; and
- the lease term including potential rights of renewals.

The estimated potential financial adjustments are expected to be different from next year's actual result as the transition calculations are further refined, new lease contracts are entered into by the Group, changes are made to existing lease contracts and management's judgements regarding exercising rights of renewals under lease arrangements change.

The lease liabilities calculated in accordance with NZ IFRS 16 at transition are higher than the disclosed lease commitments of $661.508 million (refer note 16.0) calculated in accordance with NZ IAS 17 which are calculated using non-cancellable lease terms, undiscounted cash flows and do not allow for expected lease renewals.

Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

We have audited the financial statements which comprise:

- the consolidated balance sheet as at 28 July 2019;
- the consolidated income statement for the 52 week period then ended;
- the consolidated statement of comprehensive income for the 52 week period then ended;
- the consolidated statement of changes in equity for the 52 week period then ended;
- the consolidated statement of cash flows for the 52 week period then ended; and
- the notes to the financial statements, which include significant accounting policies.

OUR OPINION

In our opinion, the accompanying financial statements of The Warehouse Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 28 July 2019, its financial performance and its cash flows for the 52 week period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

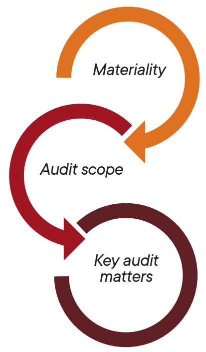
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of treasury related market analysis and equity scheme commentary, agreed upon procedures at the Annual Shareholders' Meeting and tax compliance services. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These relationships have not impaired our independence as auditor of the Group. The provision of these other services has not impaired our independence as auditor of the Group.

OUR AUDIT APPROACH

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $5.1 million, which represents approximately 5% of profit before tax from continuing operations, adjusted for the gain on property disposals, brand impairment and restructuring costs.

We chose this as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users.

We have determined that there is one key audit matter:

- Valuation of inventory

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Independent Auditor’s Report

To the shareholders of The Warehouse Group Limited

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the 52 week period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of inventory	

As at balance date, the Group’s finished goods inventory amounted to $478.2 million (2018: $494.0 million) exclusive of inventory provisions of $24.0 million (2018: $29.0 million).
 	
Inventory is measured at the lower cost or net realisable value.
 	
The cost of finished goods is calculated using a weighted average method and includes expenditure incurred to purchase the inventory and transport it to its current location.
 	
The inventory provision which represents a deduction from cost to measure finished goods at the lower of cost and net realisable value is determined based on various factors including historical data, current trends and product information from buyers. Determining the appropriate level of provisioning involves judgements including management’s expectations of future sales levels and estimation of selling price adjustments.
 	
Provision for rebates from suppliers are also recorded against the cost of finished goods and recognised in the consolidated income statement in accordance with supplier agreement terms.
 	
Because of the significance of the inventory balance and the judgements involved in estimating the inventory provisions, we considered this as an area of focus for the audit.
 	
Note 8.1 of the financial statements describes the accounting policy on inventory and the judgements and estimates applied by management in determining the inventory provision.
	Our audit procedures over inventory cost included:
	• Testing the accuracy of the weighted average cost calculation, on a sample basis, by reperforming the calculation.
	• Validating the cost of inventory, on a sample basis, to supplier and freight invoices.
	
	Our procedures over inventory provisions included:
	• Observing management’s stocktake process at selected locations to confirm that aged and clearance items were identified and accounted for.
	• Holding discussions with management to understand and corroborate the assumptions used to estimate inventory provisions.
	• Testing on a sample basis,
	  • the net realisable value of finished goods by comparing the cost of finished goods against the most recent retail price less cost to sell; and
	  • that finished goods are valued at lower of cost or net realisable value.
	• Reviewing the inventory ageing schedules to check, on a sample basis, whether provisions were recorded for aged stock in accordance with Group policy.
	• Obtaining an understanding of specific inventory provisions calculated for certain inventory categories, such as discontinued and clearance items, and considering whether the additional provisions were appropriate based on review of aged stock and net realisable value.
	• Testing on a sample basis, the accounting treatment of supplier rebates relating to inventory by comparing the rebate recorded against the supplier agreement and the inventory levels held at balance date.
	• Comparing all inventory provisions for each finished goods category as a percentage of the gross carrying amount versus the prior year and obtaining and validating the rationale for material or unexpected changes.
	
	From the procedures performed, we have no matters to report.

Independent Auditor’s Report

To the shareholders of The Warehouse Group Limited

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR’S REPORT

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), the auditor exercises professional judgement and maintains professional scepticism throughout the audit. The auditor also:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor’s opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concludes on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor’s opinion. The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. The auditor is responsible for the direction, supervision and performance of the Group audit. The auditor remains solely responsible for the audit opinion.

The auditor communicates with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

The auditor also provides the Directors with a statement that the auditor has complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor’s independence, and where applicable, related safeguards.

From the matters communicated with the Directors, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

WHO WE REPORT TO

This report is made solely to the Company’s shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor’s report is Lisa Crooke.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants, Auckland

24 September 2019

Annual 5 Year Summary

	(52 WEEKS) 2019 $000	(52 WEEKS) 2018 $000	(52 WEEKS) 2017 $000	(52 WEEKS) 2016 $000	(52 WEEKS) 2015 $000
SUMMARY INCOME STATEMENTS					
The Warehouse	1,705,687	1,695,839	1,738,751	1,741,831	1,702,955
Warehouse Stationery	268,592	263,766	278,181	279,155	262,780
Noel Leeming	924,648	880,453	810,705	752,137	665,628
Torpedo7	172,474	163,402	157,726	148,660	131,231
Other group operations	8,508	9,655	8,603	13,998	16,633
Inter-segment eliminations	(8,552)	(18,544)	(13,195)	(11,602)	(8,806)
Retail sales	3,071,357	2,994,571	2,980,771	2,924,179	2,770,421
The Warehouse	85,075	71,440	84,531	89,376	79,600
Warehouse Stationery	16,669	10,590	15,743	14,288	12,723
Noel Leeming	38,103	31,163	19,264	12,050	6,424
Torpedo7	(7,027)	(1,447)	2,675	3,380	34
Digital Retail venture	(5,996)	(1,133)	-	-	-
Other group operations	(14,446)	(19,171)	(14,376)	(7,929)	(5,555)
Retail operating profit	112,378	91,442	107,837	111,165	93,226
Equity earnings of associate	-	-	-	723	2,802
Gain on business disposals	11,761	218	11,455	5,533	5,533
Gain/(losses) from business acquisition		-	-	10,625	(977)
Restructuring costs	(15,718)	(8,731)	(12,060)	-	-
Intangible asset impairment	(5,478)	(25,622)	-	-	(12,491)
Earnings before interest and tax	102,943	57,307	107,232	128,046	88,093
Net interest expense	(8,879)	(9,165)	(12,527)	(14,154)	(15,123)
Profit before tax	94,064	48,142	94,705	113,892	72,970
Income tax expense	(26,621)	(20,636)	(23,691)	(25,890)	(21,148)
Profit after tax	67,443	27,506	71,014	88,002	51,822
Discontinued operations (net of tax)	(1,928)	(4,386)	(50,283)	(5,526)	(2,074)
Minority interests	(133)	(242)	(302)	(4,138)	1,562
Profit attributable to shareholders	65,382	22,878	20,429	78,338	51,310
ADJUSTED PROFIT RECONCILIATION					
Unusual items (detailed above)	9,435	34,135	605	(16,158)	7,935
Income tax relating to unusual items	(2,642)	(2,384)	(3,132)	(2,163)	(941)
Minority interests	-	-	-	3,614	(1,170)
Discontinued operations (net of tax)	1,928	4,386	50,283	5,526	2,074
Adjusted net profit	74,103	59,015	68,185	69,157	59,208
THE WAREHOUSE					
Operating margin (%)	5.0	4.2	4.9	5.1	4.7
Same store sales growth (%)	1.5	(3.0)	1.2	4.1	1.4
Number of stores	93	93	92	92	92
Store footprint (square metres)	501,537	505,645	501,807	499,547	497,702
WAREHOUSE STATIONERY					
Operating margin (%)	6.2	4.0	5.7	5.1	4.8
Same store sales growth (%)	1.4	(6.0)	(0.3)	6.5	1.4
Number of stores	70	70	69	66	65
Store footprint (square metres)	70,550	71,491	73,216	71,927	70,445
NOEL LEEMING					
Operating margin (%)	4.1	3.5	2.4	1.6	1.0
Same store sales growth (%)	2.8	5.7	6.4	14.2	1.0
Number of stores	77	74	77	75	78
Store footprint (square metres)	80,273	76,055	73,591	71,169	70,999
DIVIDEND DISTRIBUTIONS					
Interim (cents per share)	9.0	10.0	10.0	11.0	11.0
Final (cents per share)	8.0	6.0	6.0	5.0	5.0
Ordinary dividends declared (cents per share)	17.0	16.0	16.0	16.0	16.0
Basic earnings per share (cents)	18.9	6.6	5.9	22.7	15.2
Basic adjusted earnings per share (cents)	21.5	17.1	19.8	20.1	17.2

	2019 $000	2018 $000	2017 $000	2016 $000	2015 $000
SUMMARY BALANCE SHEETS					
Inventories	517,758	523,840	487,274	501,713	510,461
Trade and other receivables	90,670	79,758	75,632	150,624	86,361
Creditors and provisions	(434,616)	(367,002)	(336,451)	(347,073)	(315,565)
Working capital	173,812	236,596	226,455	305,264	281,257
Fixed assets	271,172	272,944	273,300	312,396	386,709
Held for sale	-	3,674	71,699	52,277	-
Investments	-	-	-	-	2,778
Funds employed	444,984	513,214	571,454	669,937	670,744
Taxation (liabilities)/assets	37,762	32,030	45,870	40,943	18,599
Contingent and deferred consideration	-	-	-	(1,000)	(3,250)
Goodwill and brand names	75,501	80,979	106,601	129,315	120,092
Derivative financial instruments	(46)	16,400	(19,265)	(28,619)	35,358
Capital employed	558,201	642,623	704,660	810,576	841,543
Net debt	76,168	162,339	218,271	299,980	299,573
Equity attributable to shareholders	481,314	479,405	485,522	510,429	540,060
Minority interest	719	879	867	167	1,910
Sources of funds	558,201	642,623	704,660	810,576	841,543
SUMMARY CASH FLOW					
Continuing operating profit	112,378	91,442	107,837	111,165	93,226
Continuing depreciation and amortisation	60,613	59,630	58,376	58,210	57,770
Continuing Operating EBITDA	172,991	151,072	166,213	169,375	150,996
Change in trade working capital	77,249	(5,853)	21,661	35,198	(35,343)
Income tax paid	(26,540)	(14,082)	(27,454)	(28,037)	(22,398)
Net interest paid	(8,657)	(9,307)	(16,008)	(16,495)	(18,662)
Share based payment expense	420	353	1,283	3,208	2,114
Supplier contributions	-	(2,694)	-	-	-
Restructuring costs	(15,718)	(8,731)	(12,397)	-	-
Discontinued EBITDA	(3,121)	(3,459)	(6,686)	(1,930)	(929)
Loss on sale of plant and equipment	1,369	615	1,476	1,141	691
Operating cash flow	197,993	107,914	128,088	162,460	76,469
Capital expenditure	(61,326)	(70,229)	(70,575)	(75,180)	(109,345)
Proceeds from divestments	3,710	74,680	79,714	45,870	31,120
Dividend from associate	-	-	-	2,695	5,565
Net dividends paid	(52,264)	(55,785)	(52,466)	(58,162)	(59,640)
Employee share schemes	-	-	(2,148)	(2,528)	(2,455)
Acquisition of subsidiaries and minorities	-	-	(1,000)	(74,367)	(20,043)
Other items	(1,942)	(648)	96	(1,195)	(366)
Net cash flow	86,171	55,932	81,709	(407)	(78,695)
Opening debt	(162,339)	(218,271)	(299,980)	(299,573)	(220,878)
Closing debt	(76,168)	(162,339)	(218,271)	(299,980)	(299,573)
FINANCIAL RATIOS					
Operating margin (%)	3.7	3.1	3.6	3.8	3.4
Interest cover (times)	12.7	10.0	8.6	7.9	6.3
Fixed charge cover (times)	2.2	2.0	2.0	2.1	2.1
Net debt/EBITDA (times)	0.5	1.1	1.4	1.8	2.0
Net debt/net debt plus equity (%)	13.6	25.3	31.0	37.0	35.6
Return on funds employed (%)	23.5	16.9	17.4	16.7	15.0
Capex/depreciation (times)	1.0	1.2	1.1	1.2	2.0

THE WAREHOUSE GROUP
INTEGRATED ANNUAL REPORT 2019

Governance Report

At The Warehouse Group Limited (the Company) we are committed to high standards of corporate governance and believe it is a critical component in creating sustainable long-term value for our shareholders, building strong relationships with team members, improving the experience we offer our customers and contributing to our place within the wider community.

This statement gives an overview of the policies and processes that are in place throughout the Company that ensure best-practice standards of corporate governance are followed.

We support the NZX Corporate Governance Code 2017 (the NZX Code), which replaced the Best Practice Code from October 2017. This statement follows the structure of the new Code and addresses its recommendations. As at the date of the publication of this Annual Report, the Company considers its governance practices are compliant with the NZX Code.

This governance statement was approved by the Board on 24 September 2019 and is current as at that date.

The Company's constitution, the Board and committee charters, codes and policies referred to in this statement are available to view at **www.thewarehousegroup.co.nz/investor-centre/corporate-governance**

CODE OF ETHICAL BEHAVIOUR

"Directors should set a high standard of ethical behaviour, model this behaviour, and hold management accountable for delivering these standards being followed throughout the organisation."

The Company is committed to fostering the highest standards of ethical behaviour and good conduct. We believe this is at the heart of having a reputation as a trusted and respected company that promotes honesty, integrity and ethical conduct across the organisation in day-to-day behaviour and decision-making.

Code of Ethics

The Code of Ethics sets out the standards of conduct expected of everyone working at The Warehouse Group including Directors, our people, contractors and other agents. The Code of Ethics provides a guide to the conduct that is consistent with the Company's values and behaviours, business goals and legal obligations, and outlines internal reporting procedures for any breaches. Sanctions for breaches may include serious disciplinary action, removal from office and dismissal as well as other remedies, all to the extent permitted by law and as appropriate given the specific circumstances. An introduction to the Code of Ethics forms part of the induction and training process of new employees. The Code is available on the Corporate Governance section of the website.

Securities Trading Policy

The Company is committed to transparency and fairness in dealing with all of its stakeholders and to ensuring adherence to all applicable laws and regulations. The Securities Trading Policy governs trading in the Company's securities by Directors, employees and other associated persons. The policy and timing of black-out periods is set out in the Securities Trading Policy which is available on the Company's intranet.

BOARD COMPOSITION AND PERFORMANCE

"To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives."

Responsibilities of the Board

The central role of the Board is to set the strategic direction, to select and appoint the Company's Group Chief Executive Officer (Group CEO) and to oversee the Company's management and business activities with the primary objective to create and continue to build sustainable value for shareholders.

The Board has adopted a Board Charter which sets out how the Board will achieve its purpose. The Charter was last approved in March 2018 and is available in the Corporate Governance section of the website. The Charter is reviewed as required and at least every two years. The Board's responsibilities contained in the Charter include:

- set strategic direction and appropriate operating frameworks;
- monitor Management's performance within those frameworks;
- ensure there are adequate resources available to meet the Company's objectives;
- appoint and remove the Group CEO and oversee succession plans for the senior executive team;
- set criteria for, and evaluate the performance of, the Group CEO and approve his or her remuneration;
- approve and monitor financial reporting and capital management including the payment of dividends;
- monitor the financial solvency of the Company;
- subject to shareholder approval being granted, approve the appointment and retention of the external auditor;
- ensure that effective risk management procedures are in place and are being used;
- approve timely and balanced communication to shareholders;
- ensure, so far as is reasonably practicable, a safe and healthy working environment is provided and maintained for all employees, customers, contractors and visitors;
- promote and authorise ethical and responsible decision-making by the Company;
- ensure the Company has appropriate corporate governance structures in place including standards of ethical behaviour;
- annually review, approve and adopt the Diversity Policy and diversity objectives, and measure achievement against the objectives; and
- ensure that the Board is and remains appropriately skilled to meet the changing needs of the Company.

Day-to-day management and administration of the Company is undertaken by the Group CEO in accordance with the strategy, plans and delegations approved by the Board. The Group CEO is assisted by the executive management team in delivering the Company's strategy. The Board has implemented appropriate procedures to enable management to undertake its delegated duties and for performance to be assessed. More information can be found in the Remuneration section on pages 79–81.

Chair

Joan Withers is Chair of The Warehouse Board and was first appointed in 2016. Mrs Withers is an independent, non-executive director. Mrs Withers' responsibilities include:

- providing leadership to the Board and to the Company;
- ensuring the efficient organisation and conduct of the Board;
- monitoring Board performance annually;
- facilitating Board discussions to ensure core issues facing the Company are addressed;
- briefing all Directors in relation to issues arising at Board meetings;
- facilitating the effective contribution and ongoing development of all Directors;
- promoting consultative and respectful relations between Board members and between the Board and Management; and
- chairing Board and shareholder meetings.

The Warehouse Group Limited charter states the Company's Chair must not be the same person who is the Company's Chief Executive Officer.

Director Appointments

Procedures for the appointment and removal of Directors are governed by the Company's constitution. The Corporate Governance and Nominations Committee is delegated with the responsibility of identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise. In doing so the Committee will seek to identify the necessary and desirable competencies that will ensure that any candidate it puts forward will enable the Board to:

- fulfil its responsibilities;
- represent a variety of skills, expertise, experience (including commercial and/or industry experience and diversity of backgrounds and thought); and
- competently address accounting, finance and legal matters.

Governance Report

The terms and conditions of appointment are set out in a letter of appointment which details the Director's duties, term of appointment (subject to shareholder approval), expectations of the role and remuneration. A copy of the standard letter is available in the Corporate Governance section of the website at **thewarehousegroup.co.nz/investor-centre/coporate-governance.**

In addition, the Company indemnifies and provides insurance to Directors in accordance with The Companies Act for certain claims which may be brought against them as Directors.

Board structure, skills and composition

The current Board comprises Directors with a mix of qualifications, skills and experience appropriate to the Company's existing operations and strategic directions. Qualifications and experience of individual Directors are detailed on pages 20 and 21. A comprehensive matrix of Director skills is contained on pages 22 and 23.

Director induction and Development

When appointed to the Board, all new Directors undergo a detailed induction programme to familiarise themselves with the Company's businesses and strategy.

On-going training includes briefings by senior management and guest speakers on relevant industry and competitive issues, occasional overseas study tours and site-visits. Directors are actively encouraged to attend regular Institute of Director (IOD) courses.

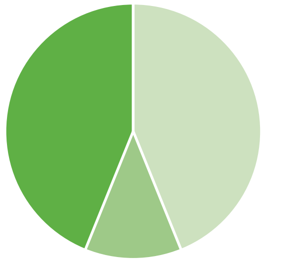
Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense.

Board Tenure

The Constitution provides that the size of the Board should be between five and 10. Each year, one third of the Directors, or if their number is not a multiple of three then the nearest number to three, shall retire from office and may offer themselves for re-election at the annual meeting of shareholders. Directors to retire are those who have been longest in office since they were last elected or deemed elected.

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

Sir Stephen Tindall was granted an initial leave of absence from the Board in October 2017 until October 2018, which was extended for a further period until October 2019. Sir Stephen has decided to take a further 12 months leave of absence and this has been approved by the Board. During this time Robert (Robbie) Tindall has acted and will continue to act as Sir Stephen's alternate director.



NAME OF DIRECTOR	ORIGINALLY APPOINTED	LAST REAPPOINTED/ ELECTED
Joan Withers	23 September 2016	25 November 2016
Sir Stephen Tindall	10 June 1994	24 November 2017
Keith Smith	10 June 1994	24 November 2017
Antony (Tony) Balfour	15 October 2012	20 November 2015
John Journee	17 October 2013	25 November 2016
Julia Raue	23 September 2016	25 November 2016
Will Easton	3 October 2018	23 November 2018

Director Independence and Conflicts

The Board's standards for determining the independence of a Director, including the requirements of the NZX Listing Rules, are set out in full in the Board Charter.

Under this criteria, the Board has a majority of independent Directors and the roles of Chair and Group Chief Executive Officer (CEO) are not exercised by the same person.

The Board consists of seven Directors. Joan Withers (Chair), Keith Smith (Deputy Chair), Antony (Tony) Balfour, John Journee, Julia Raue and William (Will) Easton are considered to be independent non-executive Directors. Sir Stephen Tindall, and his alternate director Robbie Tindall, are not deemed to be independent by virtue of their shareholding in the Company. The Board assesses the independence of directors on their appointment and at least annually thereafter.

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

Board Evaluation

The Chair, with the assistance of appropriate external advisors, regularly assesses the performance of individual Directors while Directors also assess the collective performance of the Board and the performance of the Chair. A formal evaluation is regularly conducted with assistance from an outside facilitator.

Future Directors Programme

Continuing the Company's commitment to supporting the next generation of governance talent in New Zealand, the Board appointed Ms Renee Mateparae in August 2019 as part of the Future Directors programme administered by the Institute of Directors in New Zealand. Ms Mateparae attended her first Board meeting on 22 August 2019 and her appointment will continue for the next 18 months.

BOARD COMMITTEES

"The Board should use committees where this would enhance its effectiveness in key areas, while still retaining board responsibility."

The Board has established Committees that focus on particular areas of the Board's responsibilities and together ensure the efficient performance of the Board, and the achievement of Corporate Governance outcomes. The committees report to the full Board on all material matters and issues requiring Board decisions. From time-to-time, the Board may create ad hoc committees to examine specific issues on its behalf. As at the date of this statement, the Company has no other ad hoc committees.

Current Committees

The current committee structure is set out in the table below.

Committee Charters

All committees operate under formal charters which define the role, authority and operations of the committee and can be found in the Corporate Governance section of the website. Going forward charters are reviewed as required and at least every two years.

Takeover Offer Protocols

The Company has takeover protocols that meet the requirements of the NZX Corporate Governance Code 2017.

Governance Report

COMMITTEE	ROLES AND RESPONSIBILITIES	MEMBERSHIP	MEETINGS
People and Remuneration Committee	Review and make recommendations in relation to the human resources strategy, the Company's remuneration policies and practices and the remuneration and performance of the Group Chief Executive Officer.	Comprised of a majority of non-executive, independent Directors. Current members: • Tony Balfour (Chair) • Joan Withers • Keith Smith • Robbie Tindall as alternate for Sir Stephen Tindall	At least twice a year. Employees may only attend by invitation.
Corporate Governance and Nomination Committee	Ensure a high level of corporate governance through continuous monitoring of international corporate governance best practice as promulgated by the relevant authoritative bodies. Ensure that the Board is populated with an appropriate mix of skills and experience who collectively provide the diversity of thought and judgement required.	Comprised of a majority of independent Directors. Disclosure Officer and Founder. Current members: • Keith Smith • Joan Withers (Chair) • Tony Balfour • Robbie Tindall as alternate to Sir Stephen Tindall	At least once a year.
Disclosure Committee	Support the Company in meeting its disclosure obligations as set out in the NZX Listing Rules, the Companies Act and any other applicable regulations by overseeing the Company's compliance with this policy.	Comprised of the Chair, Deputy Chair, Chair of the Audit and Risk Committee, Group Chief Executive Officer, Chief Financial Officer, Disclosure Officer and Founder. Current members: • Keith Smith (Chair) • Joan Withers • Robbie Tindall as alternate to Sir Stephen Tindall	Held as required.
Audit and Risk Committee	Assist the Board to fulfil its risk and audit responsibilities.	Comprised of at least three independent Directors. The Chair will be independent and may not be the Chair of the Company. Current members: • Joan Withers • Keith Smith (Chair) • John Journee • Julia Raue Keith Smith is a Fellow of the Chartered Accountants Australia and New Zealand (CAANZ)	At least three times each year. Employees may only attend by invitation.
Health, Safety and Wellbeing Committee	Assist the Board to govern health, safety and wellbeing.	Comprised of all Directors Chair • Julia Raue	At the discretion of the Committee Chair.

The table below reports attendance of members at Board and Board Committee meetings during the year ended 28 July 2019.

	BOARD	AUDIT AND RISK COMMITTEE	PEOPLE AND REMUNERATION COMMITTEE	CORPORATE GOVERNANCE AND NOMINATION COMMITTEE	HEALTH, SAFETY AND WELLBEING COMMITTEE	DISCLOSURE COMMITTEE
NUMBER OF MEETINGS	**16**	**4**	**5**	**1**	**10**	**2**
Tony Balfour	15	1[1]	5	1	10	
John Journee	15	4	3[1]		10	
Keith Smith	16	4	5	1	10	2
Sir Stephen Tindall[2]						
Robbie Tindall	16	4[1]	3	1	10	1
Joan Withers	16	4	5	1	10	2
Will Easton[3]	8				5	
Julia Raue	15	4	2[1]		10	

[1]Non-committee member in attendance [2]Leave of absence August 2018 to July 2019 [3]Joined Board in October 2018

Governance Report

REPORTING AND DISCLOSURE

"The Board should demand integrity in financial and non-financial reporting and in the timeliness and balance of corporate disclosures."

The Board is committed to providing full and timely financial and non-financial information that is accurate, balanced, meaningful and consistent. As a listed Company, keeping the market informed is a key component to ensure the securities are valued fairly.

Market Disclosure Policy

The Board has approved a Market Disclosure Policy which describes the processes designed to ensure that the Company meets its reporting and disclosure objectives and all disclosure obligations under the NZX Listing Rules.

To assist the Company with its Market Disclosure Policy, the Board has appointed a Disclosure Committee. The Committee is responsible for making decisions on what should be disclosed publicly under the Market Disclosure Policy. The Company Secretary is the Disclosure Officer of the Company and has responsibility for ensuring compliance with the continuous disclosure requirements, and overseeing and co-ordinating disclosure to the market.

Financial Reporting

The Audit and Risk Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements. The Committee is committed to providing balanced, clear and objective financial reporting.

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

Management accountability for the integrity of the Company's financial reporting is reinforced by certification from the CEO and the CFO. The CEO and CFO have provided the Board with written confirmation that the Company's financial report presents a true and fair view, in all material respects, of the Company's financial position for the year ended 28 July 2019, and that operational results are in accordance with relevant accounting standards.

Non-Financial Reporting

The Warehouse's Corporate Governance section on the website includes all key governance documents including the Code of Ethics, Board and Committee Charters and relevant Company policies.

Communities and Environment are at the heart of the Company's culture. Our philosophy and achievements are outlined on pages 36–37. The Company reports annually its financial and non-financial contribution to the community, as well as audited figures on its greenhouse gas emissions. The Company's material environmental, economic and social risks are also outlined on these pages.

REMUNERATION

"The remuneration of directors and executives should be transparent, fair and reasonable."

The Company's remuneration philosophy, policy and details regarding executives' remuneration (including remuneration components and performance criteria) are discussed on pages 79–81.

The current Directors' fee pool limit is $900,000 which was approved by the shareholders at the 22 November 2013 annual meeting of shareholders. Fees are paid for Board and committee roles as indicated below. Directors are reimbursed for reasonable travel and other costs associated with fulfilling his or her role. The Chair and Deputy Chair do not receive additional fees for membership of other Board committees.

The Board considers the advice of independent remuneration consultants when setting remuneration levels and will not be seeking any increase in the pool limit at the 2019 Annual Shareholders Meeting.

BOARD/COMMITTEE NAME	POSITION	FEES (PER ANNUM)
Board of Directors	Chair	$166,000[1]
	Deputy Chair	$115,000[1]
	Member	$78,525
Audit and Risk Committee	Chair	$15,000
	Member	$7,500
People and Remuneration Committee	Chair	$12,000
	Member	$6,000
Health, Safety and Wellbeing Committee	Chair	$12,000
	Member	-
Corporate Governance and Nomination Committee	Chair	-
	Member	-
Disclosure Committee	Chair	-
	Member	-

[1]Includes attendances at committee meetings

The fees paid to non-executive Directors for services in their capacity as directors during the year ended 28 July 2019 totalling $725,017 were paid as follows:

Actual Director Remuneration 2018/19

NAME OF DIRECTOR	BOARD FEES	AUDIT AND RISK COMMITTEE	PEOPLE AND REMUNERATION COMMITTEE	CORPORATE GOVERNANCE AND NOMINATION COMMITTEE	DISCLOSURE COMMITTEE	HEALTH, SAFETY AND WELLBEING COMMITTEE	OTHER COMMITTEES	SHARES AND OTHER PAYMENTS OR BENEFITS	TOTAL INDIVIDUAL REMUNERATION
Joan Withers (Chair)	$166,000 (Chair)	- (member)	- (member)	- (member)	- (member)	- (member)	-	-	$166,000
Keith Smith (Deputy Chair)	$100,000 (Deputy Chair)	$15,000 (Chair)	- (member)	- (Chair)	- (Chair)	- (member)	-	-	$115,000
Tony Balfour	$78,525	-	$6,000 (Chair)	-	-	- (member)	-	-	$84,525
William Easton	$65,417	-	-	-	-	- (member)	-	-	$65,417
Julia Raue[1]	$78,525	$7,500 (member)	-	-	-	$21,000 (Chair)	-	-	$107,025
John Journee[2]	$78,525	$7,500 (member)	-	-	-	- (member)	-	$16,500	$102,525
Sir Stephen Tindall[3]	$78,525	-	$6,000 (member)	-	- (member)	- (member)	-	-	$84,525

[1]Julia Raue received $9,000 backpay for duties undertaken as Chair of the Health, Safety and Wellbeing Committee in FY18. [2]John Journee received additional fees of $16,500 as a director of the Group's Digital Retail subsidiary. [3]Director fees on-paid to Robbie Tindall, Alternate Director to Sir Stephen Tindall. Robbie Tindall received additional fees of $16,500 as a director of the Group's Digital Retail subsidiary.

Governance Report

RISK MANAGEMENT

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."

Risk Management Framework

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

The Company recognises three main types of risk:

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

Material risks identified

Information on material risks the business faces and how they are managed, is outlined on pages 26–27.

Risk management roles and responsibilities

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

Risk monitoring and evaluation

While the Board of Directors is ultimately responsible for the risk management of the Company, the Audit and Risk Committee reviews the reports of management and the external and internal auditors on the effectiveness of systems for internal control, financial reporting and risk management. To assist in discharging this responsibility, the Board has in place a number of strategies designed to safeguard the Company's assets and interests and ensure the integrity of reporting. These reports include quarterly reviews of store audit results and quarterly reports on internal audit findings.

Health and safety

The Company's approach and process on health and safety initiatives can be found on pages 30–31.

AUDITORS

"The Board should ensure the quality and independence of the external audit process."

Approach to audit governance

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

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

- the external auditor must remain independent of the Company at all times and comply with the Chartered Accountants Australia and New Zealand (CAANZ) Code of Ethics;
- the external auditor must monitor its independence and annually report to the Board that it has remained independent;
- the audit firm is permitted to provide certain non-audit services, set out in the Audit and Risk Committee Charter, that are not considered to be in conflict with the preservation of the independence of the auditor; and
- the Audit and Risk Committee must approve significant permissible non-audit work assignments that are awarded to an external auditor, and the value of non-audit work must be reported at every Board meeting.

Engagement of the external auditor

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

Attendance at the Annual Meeting

PwC, as auditor of the 2019 Financial Statements, has been invited to attend this year's Annual Meeting and will be available to answer questions about the conduct of the audit, preparation and content of the auditors' report, accounting policies adopted by The Warehouse Group Limited and the independence of the auditor in relation to the conduct of the audit.

The Company's corporate legal advisors, Russell McVeagh, will also attend the Annual Meeting.

Internal audit

The Company has an internal audit function which is independent of the Company's external auditors. The internal audit function of the Company is undertaken by Ernst and Young and the Company's internal Audit team. The respective internal audit teams report to and are directed by the Audit and Risk Committee.

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

The role of internal audit is to:

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

SHAREHOLDER RIGHTS AND RELATIONS

"The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."

The Company is committed to providing a high standard of communication to its investors. The Company believes effective communication achieved by equal access to timely, accurate and complete information allows investors to make informed assessments of the Company's value and prospects. Investor communication is governed by the *Investor Communications Policy.*

The Company transitioned to the new NZX Listing Rules with effect from 1 March 2019.

The Company has an investor relations programme which includes communication through:

- periodic and continuous disclosure to NZX;
- annual reports;
- the Annual Shareholders' Meeting (ASM);
- the Company's website which includes financial and operational information, and key Corporate Governance information; and
- analyst and investor briefings and roadshows.

Engagement with investors

The Company values its dialogue with strategic stakeholders, institutional and retail investors, and believes effective engagement benefits both the Company and investors. ASMs, analyst and investor briefings and roadshows provide an important opportunity for this dialogue. Shareholders also have the opportunity to direct questions and comments through **investor@twgoup.co.nz**.

Governance Report

Website

The Company's website contains a comprehensive set of investor-related material and data including NZX disclosures and media releases, interim and annual reports, share-price and dividend information, shareholder meeting materials and all of the Company's governance charters and policies.

Annual Shareholders Meeting (ASM)

The ASM provides an opportunity for Directors, the Group CEO, senior management and the Company's external auditor to meet shareholders and answer any questions they may have.

The ASM is held at a convenient time and location as well as being webcast to maximise participation. The 2019 ASM will be held on 22 November 2019. The Notice of Meeting will be circulated as soon as possible (at least 28 days before the meeting) and will be posted on the Company's website.

In accordance with the Companies Act and Listing Rules, the Company refers any significant matters to shareholders for approval at the ASM, and shareholders are given the opportunity to vote by proxy ahead of the meeting or by polling if attending the meeting in person.

Electronic communication

A key component of the Company's strategy is cost effectiveness and minimising the Company's impact on the environment. Therefore, in 2016 the Board moved to electronic reporting. We understand this doesn't suit everyone, so shareholders can request a hard copy of the annual report to be mailed to them free of charge by contacting Computershare, our share registrar. We would also encourage shareholders to provide their email addresses to Computershare to enable them to receive all other shareholder materials electronically.

Computershare Investor Services Limited
Telephone: +64 9 488 8777
Email: investor@twgroup.co.nz

CELEBRATING DIVERSITY AND INCLUSION

The Group strives to create a workplace where our people feel they can bring their whole selves to work. We believe that can only happen in an environment where diversity and inclusion are embraced. That is why we're committed to continuously identifying ways we can improve diversity and inclusivity. This way of thinking is embedded in our new leadership behaviours.

Areas of focus	Objective	Target		Actual		
Gender	Improve representation of women at senior levels of business		2021	Female representation	2018	2019
		40% of senior management positions held by women by 2021	40%	Senior management	36%	38%
				Executive	27%	21%
				Board	33%	29%
		100% of shortlists for all senior management roles must include 1 woman				
	Close gender pay gaps	Gender pay gap is within +/- 2.5% for senior management		Closed gender pay gaps in stores		
Maori Culture	Build our Maori cultural competency	100 Group Executive Team and other selected senior leaders complete Te Kaa – igniting your Maori Cultural Competency Programme by 2021		Introduced bilingual signage (Maori and English) in our support office		
Diversity and Inclusion (D&I)	Develop and celebrate our diversity	Senior managers complete unconscious bias training and managing diversity in the workplace workshops Launch Diversity & Inclusion survey to build D&I understanding Establish 5 D&I communities		Obtained Rainbow Tick accreditation Carried out team celebrations centred on Diwali, Pasifika, Matariki, Chinese New Year, Maori Language Week		
	Continue to support our Gender Transition Policy and Family Violence Policy	Continue to support our Gender Transition Policy and Family Violence Policy Support parental leave policies such as Ease Back to Work to encourage mothers to return to work				

For 2020 we are focused on gender equity, building our Maori cultural competency and better understanding, developing and celebrating our diversity. Our initiatives will include supporting our Group D&I communities to drive D&I strategy for their community using our company communications platform Workplace, rolling out Maori cultural competency training to an initial group of senior leaders via the Te Kaa programme, and providing senior managers with unconscious bias training and managing diversity in the workplace workshops.

Statutory Disclosures

DISCLOSURES OF INTERESTS BY DIRECTORS

General disclosures

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

ANTONY (TONY) BALFOUR

Director, Les Mills International Limited
Director, Methven Limited *(resigned)*
Director, Mt Difficulty Wines Limited *(resigned)*
Director, Wayfare Limited (formerly Real Journeys Limited)
Director, Silver Fern Farms Co-operative Limited *(resigned)*

WILLIAM EASTON

Director, Facebook Pty Ltd

JOHN JOURNEE

Chairman, Max Fashions Holdings Limited and subsidiary *(resigned)*
Director, Farmlands Society
Director, Colonial Motor Company
Director, Vanishing Point Limited
Member, Advisory Board, Quantiful Limited

KEITH SMITH

Chairman, Anderson & O'Leary Limited
Chairman, Goodman (NZ) Limited
Chairman, Healthcare Holdings Limited and subsidiaries
Chairman, Mobile Surgical Services Limited
Chairman, H J Asmuss & Co Limited and subsidiaries
Director, Community Financial Services Limited
Director, Enterprise Group Limited and subsidiaries
Director, Gwendoline Holdings Limited (non-trading)
Director, James Raymond Holdings Limited (non-trading)
Director, Mercury NZ Limited
Director, Tree Scape Limited
Director, Westland Co-operative Dairy Limited *(resigned)*
Member, Advisory Board NZ Tax Traders Limited
Trustee, Cornwall Park Trust Board

JULIA RAUE

Director, Jade Software Corporation Limited
Director, Southern Cross Health Society
Director, Television New Zealand Limited
Director, Z Energy Limited
Director, Rowdy Consulting Limited
Member, Risk & Audit Committee of The Treasury *(resigned)*

JOAN WITHERS

Chair, Mercury NZ Limited
Director, ANZ Bank New Zealand Limited
Director, On Being Bold Limited
Member, Appointments Panel Fonterra farmer elected directors
Trustee, Sweet Louise Foundation

SIR STEPHEN TINDALL

Founding Director, KEA New Zealand
Director, Branches Station Limited
Director, Byron Corporation Limited
Director, Foundation Services Limited
Director, Elliott Street No.5 Limited
Director, K One W One Limited
Director, K One W One (No.2) Limited
Director, K One W One (No.3) Limited
Director, K One W One (No.4) Limited
Director, Lake Pupuke Investments Limited
Director, Norwood Investments Limited
Director, No Holdings Limited
Director, The Gorse Company Limited
Director, Team New Zealand Limited
Director, America's Cup Event Limited
Trustee, Team New Zealand Trust
Trustee, The Tindall Foundation
Shareholder*, Solar City Ltd
Shareholder*, Velocity Made Good Holdings Ltd
Shareholder*, Ask Nicely Ltd
Shareholder*, Auror Ltd
Shareholder*, Career Engagement Group Ltd
Shareholder*, MEA Mobile Ltd
Shareholder*, PicsOS Ltd
Shareholder*, Qotient Group Ltd
Shareholder*, Snakk Media Ltd
Shareholder*, Sportsground Ltd
Shareholder*, TNX Ltd
Shareholder*, 1Above Ltd
Shareholder*, VWork Ltd

*Indirect interest

ROBERT TINDALL (ALTERNATE DIRECTOR)#

Trustee, The Tindall Foundation
Director, Foundation Services Limited
Director, Franklin Smith Limited
Director, K One W One Limited
Director, K One W One (No.2) Limited
Director, K One W One (No.3) Limited
Director, K One W One (No.4) Limited

#alternate to Sir Stephen Tindall

INDEMNITY AND INSURANCE

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

Statutory Disclosures

DIRECTORS' SECURITY PARTICIPATION

Directors' shareholdings as at 28 July 2019

At 28 July 2019 the following Directors, or entities related to them, held interests in the Company shares:

	BENEFICIAL INTEREST	BENEFICIAL INTEREST	NON-BENEFICIAL INTEREST	NON-BENEFICIAL INTEREST	RELATED PARTY	RELATED PARTY
	2019	2018	2019	2018	2019	2018
J Journee	172,000	172,000				
K R Smith	13,250	13,250		7,602,572	35,144	32,800
R J Tindall[1]	4,800	4,800		7,233,252	93,721,184	84,738,511
Sir Stephen Tindall	93,687,096	93,687,096	7,986,050	7,986,050	34,088	9,600
J Withers	8,914	8,914	1,797,697	1,797,697		

[1]Alternate director

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

- Sir Stephen Tindall and Robert Tindall both hold an interest in 93,687,096 shares and other smaller parcels by virtue of their family relationship.

Share dealings by Directors

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

SHARE TRANSACTION	DATE OF TRANSACTION	NUMBER OF ORDINARY SHARES ACQUIRED/(DISPOSED)	CONSIDERATION
J Withers and K R Smith as trustees of The Warehouse Management Trustee Company No.2 Limited	October 2018	(236,403)	Settlement of obligations under the executive share scheme

Statutory Disclosures

SUBSIDIARY COMPANY DIRECTORS

The following people held office as directors of subsidiary companies at 28 July 2019. Those who retired during the year are indicated with an (R).

COMPANY	DIRECTORS
1–Day Limited	K Nickels
1–Day Liquor Limited	K Nickels
Bond and Bond Limited	B Moors, K Nickels
Boye Developments Limited	K Nickels, M Yeoman
Diners Club (NZ) Limited	M Yeoman, K Nickels
Eldamos Investments Limited	P Judd (R), K Nickels, P Okhovat
Eldamos Nominees Limited	P Judd (R), K Nickels
Noel Leeming Finance Limited	B Moors
Noel Leeming Financial Services Limited	B Moors, K Nickels
Noel Leeming Furniture Limited	B Moors, K Nickels
Noel Leeming Limited	B Moors, K Nickels
Noel Leeming Group Limited	B Moors (R), K Nickels (R), T Edwards
The Book Depot Limited	K Nickels
The Warehouse Card Limited	K Nickels
The Warehouse Group Support Services Limited	P Judd (R), K Nickels
The Warehouse Group Investments Limited	N Grayston, T Kasbe (R), J Journee, R Tindall, K Nickels, M Yeoman
The Warehouse Investments Limited	K Nickels
The Warehouse Limited	P Judd (R), K Smith, N Grayston, M Yeoman
The Warehouse Nominees Limited	K Nickels, B Moors
TWGI Operations Limited	J Oram
Torpedo7 Limited	P Okhovat, B Moors (R), T Edwards
TWGA Pty Ltd	I McGill, B Moors, K Smith, Sir Stephen Tindall
TWL Australia Pty Limited	I McGill, B Moors, K Smith, Sir Stephen Tindall
TWP No.1 Limited	P Judd (R), N Tuck
TWP No.4 Limited	B Moors, K Nickels
TWP No.5 Limited	B Moors, P Okhovat
TWP No.6 Limited	K Smith, M Yeoman
Waikato Valley Chocolates Limited	N Craig, P Judd, M Razey, H Vetsch, M Anderson
Warehouse Stationery Limited	P Judd (R), P Okhovat (R), B Moors
The Warehouse Management Trustee Company Limited	K Smith, J Withers
The Warehouse Management Trustee Company No.2 Limited	K Smith, J Withers
TW House Sourcing Private Limited (India)	K Kramer, A Passi, T Benyon

Statutory Disclosures

TEAM MEMBERS' REMUNERATION

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

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

Team Members also received share-based remuneration during the year as part of the Group's share-based incentive plans (refer note 14 to the financial statements). The amount attributed to share-based remuneration presented in the table below represents the value to the employee of the compensation determined using the share price on the date when the share rights vested.

REMUNERATION ($000)	NUMBER OF TEAM MEMBERS
100 - 110	106
110 - 120	81
120 - 130	61
130 - 140	60
140 - 150	42
150 - 160	31
160 - 170	24
170 - 180	15
180 - 190	19
190 - 200	19
200 - 210	16
210 - 220	15
220 - 230	19
230 - 240	9
240 - 250	7
250 - 260	11
260 - 270	6

REMUNERATION ($000)	NUMBER OF TEAM MEMBERS
270 - 280	6
280 - 290	2
300 - 310	8
310 - 320	3
320 - 330	2
330 - 340	4
350 - 360	2
360 - 370	2
390 - 400	1
400 - 410	2
410 - 420	2
420 - 430	2
430 - 440	4
440 - 450	3
480 - 490	1
500 - 510	2
530 - 540	1

REMUNERATION ($000)	NUMBER OF TEAM MEMBERS
540 - 550	1
580 - 590	1
600 - 610	2
610 - 620	1
640 - 650	1
650 - 660	2
670 - 680	1
780 - 790	1
830 - 840	1
920 - 930	1
950 - 960	1
1,110 - 1,120	1
1,190 - 1,200	1
1,320 - 1,330	1
2,260 - 2,270	1

Statutory Disclosures

REMUNERATION REPORT

1. Group CEO remuneration 2019 ($000s)

	BASE PACKAGE			PAY FOR PERFORMANCE			
	SALARY	TAXABLE BENEFITS	SUBTOTAL	STI	LTI	SUBTOTAL	TOTAL REMUNERATION
Nick Grayston	1,435	66	1,501	471	-	471	1,972

2. 5 year summary of group CEO remuneration ($000s)

YEAR	GROUP CEO	TOTAL EARNINGS PAID	BASE	TAXABLE BENEFITS	STI	STI AS % OF MAXIMUM	LTI
2019	Nick Grayston	1,972	1,435	66	471	48%	-
2018	Nick Grayston	2,237	1,415	54	768	96%	-
2017	Nick Grayston	1,773	1,415	25	333	31%	-
2016	Nick Grayston	1,398	934*	-	464*	66%	-
	Mark Powell	759	733	26	-	-	-
2015	Mark Powell	1,808	1,263	38	-	-	507

*The 2016 base salary and Short Term Incentive (STI) payment for Nick Grayston were pro-rata based on his start date of November 2015.

Explanation of the above items

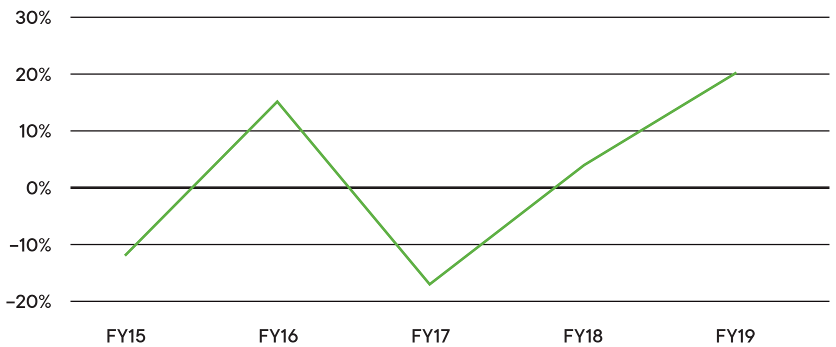
1. CEO remuneration is based on actual remuneration paid within a financial year. The 2019 STI value relates to FY19 but will be paid in FY20.
2. The actual remuneration paid includes holiday pay paid as per NZ legislation.
3. Nick Grayston joined the group in November 2015 and replaced Mark Powell, who left at the end of January 2016 following a three-month handover period.
4. Taxable benefits are the value of employer Kiwisaver contributions.
5. The LTI for Mark Powell's equity-settled share-based compensation represents the value of the share rights vested based on the share price at the vesting date.

3. Breakdown of pay for performance (2019)

	DESCRIPTION	PERFORMANCE MEASURES	PERCENTAGE ACHIEVED
Short-term Incentive (STI)	Set at 50% of base salary for On Target performance. Combination of financial and non-financial performance measures.	**Financial Measures: 70% weighting:** The financial measure is based on achieving Group EBIT budget (excluding STI).	70% x 40.3%
	For this to be payable, the Group must firstly achieve a gate opener of 100% of the Adjusted NPAT budget and a minimum level of individual performance must be achieved.	**Individual Measures 30% weighting:** Individual goals relate to delivery of strategic priorities, delivering core business drivers and building capability.	30% x 125%
Long-term Incentive (LTI)	Cash based scheme. Potential 50% of base salary for On Target performance. For FY17 pro-rated to start date of November 2015.	100% weighting based on the three-year Group Adjusted NPAT, calculated as a percentage of the budgeted Group Adjusted NPAT. 50% of potential paid if >95% of target achieved, increasing to a maximum of 150% of potential for achievement of 125% of target.	110.6%

The above STI and LTI payments for 2019 will be paid in FY20.

4. 5 year summary of total shareholder return performance



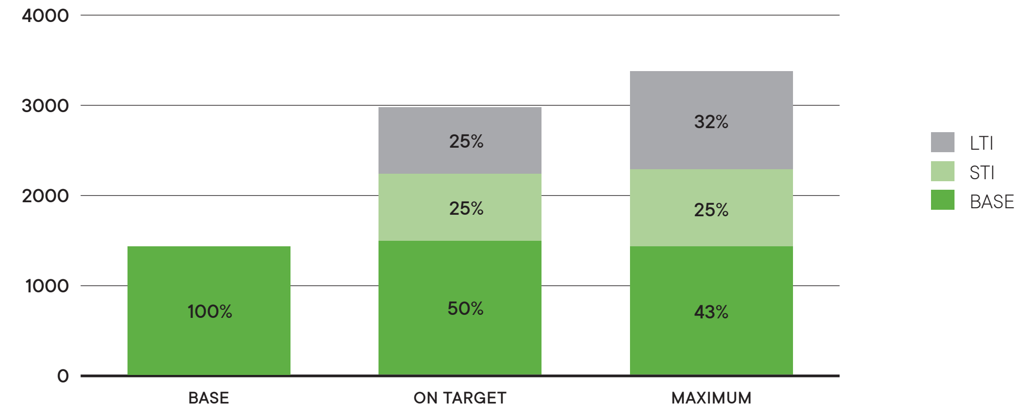
TOTAL SHAREHOLDER RETURN

Financial Year 2015 (FY15)	-11.0%
Financial Year 2016 (FY16)	15.2%
Financial Year 2017 (FY17)	-18.9%
Financial Year 2018 (FY18)	3.3%
Financial Year 2019 (FY19)	20.2%

Statutory Disclosures

REMUNERATION POLICY AND DISCLOSURES

5. Potential Group CEO remuneration (2020)



	BASE PACKAGE			PAY FOR PERFORMANCE AT TARGET			
$000	SALARY	TAXABLE BENEFITS	SUBTOTAL	STI	LTI	SUBTOTAL	TOTAL REMUNERATION
Nick Grayston	1,461	66	1,527	731	731	1,462	2,989

Explanation: Base salary is set at $1.461 million for the financial year. STI is 50% of base salary for On Target performance. The gate for payment is 90% of 2020 Group Adjusted NPAT budget and this would result in an STI of 50% of base salary. A maximum of 60% of base salary is payable if individual goals are exceeded and budgeted EBIT is exceeded. The STI is split: 70% based on Group financial results and 30% individual performance against goals. LTI is 50% of base salary, settled in cash, and is payable at the end of the three-year performance period if the aggregated Group Adjusted NPAT for the three year period is achieved. The gate for payment is 95% of Group Adjusted NPAT budget and this would result in LTI of 50% of base salary. A maximum of 75% of base salary is payable if 125% of Group Adjusted NPAT budget is achieved.

6. Scheme Investments awarded to Group CEO

YEAR INVITED	% OF SALARY	SETTLEMENT	PERFORMANCE PERIOD	MEASURE
FY17	50%	Cash	August 2016 to July 2019*	Three-year Group Adjusted NPAT achieved calculated as a percentage of the budgeted Group Adjusted NPAT.
FY18	50%	Cash	August 2017 to July 2020	Three-year Group Adjusted NPAT achieved calculated as a percentage of the budgeted Group Adjusted NPAT.
FY19	50%	Cash	August 2018 to July 2021	Three-year Group Adjusted NPAT achieved calculated as a percentage of the budgeted Group Adjusted NPAT.
FY20	50%	Cash	August 2019 to July 2022	Three-year Group Adjusted NPAT achieved calculated as a percentage of the budgeted Group Adjusted NPAT.

*FY17 scheme was pro-rated to start date of November 2015.

7. Required disclosures per guidelines

DESCRIPTION	PERFORMANCE MEASURES
1. Group CEO Pay as a Multiple	34.9 measured on fixed remuneration. Median hourly rate of all Team Members is $19.71 per hour.
2 TSR Methodology	Total Shareholder Return has been calculated as the movement in the share price during the period plus any dividends paid.
3. Board Discretion	The Board of Directors has exercised discretion with regards to Group CEO STI pay for performance for 2019. Any payments made or forecasted are in line with contractual or scheme criteria.
4. Omissions	No information has been omitted relating to Group CEO remuneration.
5. Any Other Items	There are no other items payable to the Group CEO that are not disclosed.
6. Benefits	There are no benefits attributable to the Group CEO due to any loans made.
7. Withholdings	No part of the Group CEO remuneration has been withheld for any purpose.
8. Related Parties	No related parties are involved with the Group CEO remuneration.

Statutory Disclosures

TWENTY LARGEST REGISTERED SHAREHOLDERS AS AT 31 JULY 2019

	NUMBER OF ORDINARY SHARES	PERCENTAGE OF ORDINARY SHARES
Sir Stephen Tindall	93,687,096	27.01%
The Tindall Foundation Inc.	73,920,496	21.31%
James Pascoe Limited	68,671,082	19.80%
Cash Wholesalers Limited	10,373,363	2.99%
Foodstuffs (Auckland) Nominees Limited	10,373,363	2.99%
Wardell Bros & Coy Ltd	10,373,363	2.99%
Citibank Nominees (New Zealand) Limited - NZCSD A/C	4,456,392	1.28%
Sir Stephen Tindall, Brian Mayo-Smith & JR Avery (as Trustees)	3,778,149	1.09%
Accident Compensation Corporation - NZCSD	3,544,441	1.02%
RG Tindall, Sir Stephen Tindall & Pupuke Trustee Limited	3,455,103	1.00%
HSBC Nominees (New Zealand) Limited – A/C State Street NZCSD	1,138,525	0.33%
Forsyth Barr Custodians Limited	1,066,311	0.31%
HSBC Nominees (New Zealand) Limited - NZCSD	973,341	0.28%
Stephen Robert Tindall + John Richard Avery + Brian Mayo-Smith – Merani A/C	752,798	0.22%
FNZ Custodians Limited	739,757	0.21%
The Warehouse Management Trustee Company Limited	667,174	0.19%
James Raymond Holdings Limited	600,000	0.17%
Custodial Services Limited <A/C 4>	588,528	0.17%
John Francis Managh	549,673	0.16%
The Warehouse Management Trustee Company No.2 Limited	545,419	0.16%
	290,254,174	83.68%

[1]New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of members. As at 31 July 2019 total holdings in NZSCD were 10,740,740 or 3.09% of shares on issue.

SUBSTANTIAL PRODUCT HOLDERS

According to notices given to the Company under the Financial Markets Conduct Act 2013, as at 28 July 2019, the substantial product holders in the Company and their relevant interests are noted below:

	RELEVANT INTEREST	DATE OF NOTICE
James Pascoe Limited	68,270,081	10 May 2018
Wardell Bros & Coy Limited, Cash Wholesalers Limited and Foodstuffs (Auckland) Nominees Limited	31,120,089	23 March 2007
Sir Stephen Tindall	84,141,524	19 March 2004
The Tindall Foundation	66,323,220	19 March 2004

Statutory Disclosures

DISTRIBUTION OF SHAREHOLDERS AND HOLDINGS AS AT 31 JULY 2019

SIZE OF SHAREHOLDING	NUMBER OF SHAREHOLDERS	PERCENTAGE	NUMBER OF SHARES	PERCENTAGE
1 - 1,000	3,807	37.50%	1,779,728	0.51%
1,001 - 5,000	4,072	40.11%	9,006,391	2.60%
5,001 - 10,000	1,043	10.27%	6,808,107	1.96%
10,001 - 100,000	1,220	12.02%	42,809,828	12.34%
100,000 and over	10	0.10%	286,439,066	82.59%
	10,152	100.00%	346,843,120	100.00%
GEOGRAPHIC DISTRIBUTION				
Auckland and Northland	3,916	38.57%	304,141,645	87.69%
Waikato and Central North Island	2,102	20.71%	11,658,953	3.36%
Lower North Island and Wellington	1,449	14.27%	7,753,436	2.24%
Canterbury, Marlborough and Westland	1,074	10.58%	16,031,171	4.62%
Otago and Southland	691	6.81%	4,694,219	1.35%
Australia	776	7.64%	1,395,895	0.40%
Other Overseas	144	1.42%	1,167,801	0.34%
	10,152	100.00%	346,843,120	100.00%

DISTRIBUTION OF BONDHOLDERS AND HOLDINGS AS AT 31 JULY 2019

SIZE OF BONDHOLDING	NUMBER OF BONDHOLDERS	PERCENTAGE	NUMBER OF BONDS	PERCENTAGE
5,000 - 9,999	600	31.93%	3,763,000	3.01%
10,000 - 49,999	1,066	56.73%	19,549,000	15.64%
50,000 - 99,999	121	6.44%	7,476,000	5.98%
100,000 - 499,999	78	4.15%	11,518,000	9.21%
500,000 - 999,999	3	0.16%	1,997,000	1.60%
1,000,000 and over	11	0.59%	80,697,000	64.56%
	1,879	100.00%	125,000,000	100.00%
GEOGRAPHIC DISTRIBUTION				
Auckland and Northland	746	39.70%	37,278,000	29.82%
Waikato and Central North Island	330	17.56%	49,524,000	39.61%
Lower North Island and Wellington	390	20.76%	15,664,000	12.53%
Canterbury, Marlborough and Westland	209	11.12%	2,807,000	2.25%
Otago and Southland	199	10.59%	19,644,000	15.72%
Other Overseas	5	0.27%	83,000	0.07%
	1,879	100.00%	125,000,000	100.00%

Statutory Disclosures

STOCK EXCHANGE LISTING

The ordinary shares of The Warehouse Group Limited are listed on the New Zealand Stock Exchange (NZX).

ORDINARY SHARES

The total number of voting securities of the Company on issue on 31 July 2019 was 346,843,120 fully paid ordinary shares.

Holders of each class of equity security as at 31 July 2019

CLASS OF EQUITY SECURITY	NUMBER OF HOLDERS	NUMBER OF SHARES OR RIGHTS
Ordinary Shares	10,152	346,843,120

RIGHTS ATTACHING TO SHARES

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

ON-MARKET SHARE BUY-BACKS

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

ESCROW

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

DIVIDENDS ON ORDINARY SHARES

The Warehouse Group Limited has paid dividends on its ordinary shares every year without interruption since listing on the New Zealand Exchange in 1994. The Group's current dividend policy was approved by the Board in September 2015, commencing from the 2016 financial year. The Group's dividend policy is to distribute between 75% and 85% of the Retail Group's adjusted net profit to shareholders.

On 24 September 2019 the Directors declared a fully imputed final dividend of 8.0 cents per share bringing the total dividend for the year to 17.0 cents per share. The dividends will be fully imputed at a rate of 28.0 percent and will be paid on 5 December 2019 to all shareholders on the share register at the close of business on 22 November 2019.

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

Cents per share

DIVIDENDS	2019	2018	2017	2016	2015
Interim	9.0	10.0	10.0	11.0	11.0
Final	8.0	6.0	6.0	5.0	5.0
Total	17.0	16.0	16.0	16.0	16.0

AUDITOR

PricewaterhouseCoopers have continued to act as auditors of the Company and have undertaken the audit of the financial statements for the 28 July 2019 year.

DISCIPLINARY ACTION

The NZX has not taken any disciplinary action against the Company during the period under review.

DONATIONS

In accordance with section 211(1)(h) of the Companies Act 1993, the Company records that it donated $89,000 (2018 $663,000) to various charities during the year. In line with Board policy, no political contributions were made during the year.

NZX WAIVERS

Details of all waivers granted and published by NZX within or relied upon by the Company in the 12 months immediately preceding the date two months before the date of publication of this annual report are available on the Company's website **www.thewarehousegroup.co.nz**

Directory

Board of Directors
Joan Withers (Chair)
Keith Smith (Deputy Chair)
Robbie Tindall (alternate to Sir Stephen Tindall)
Antony Balfour
John Journee
Will Easton
Julia Raue

Group Chief Executive Officer
Nick Grayston

Group Chief Financial Officer
Jonathan Oram

Company Secretary
Kerry Nickels

Place of Business
26 The Warehouse Way
Northcote, Auckland 0627
PO Box 33470, Takapuna
Auckland 0740, New Zealand
Telephone: +64 9 489 7000
Facsimile: +64 9 489 7444

Registered Office
C/-BDO
Level 4, 4 Graham Street
PO Box 2219
Auckland 1140, New Zealand

Auditor
PricewaterhouseCoopers
Private Bag 92162
Auckland 1142, New Zealand

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

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

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

Investor Relations
For investor relations enquiries, email investor@twgroup.co.nz

Stock Exchange Listing
NZX trading code: WHS

New Zealand Business Number (NZBN)
New Zealand Incorporation: 9429038 766633.

Website
www.thewarehousegroup.co.nz

THE WAREHOUSE GROUP