

The Warehouse Group Financial Statements

(FY18)

Financial Statements

For the 52 week period ended 29 July 2018

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.



Joan Withers
Chairman



Keith Smith
Deputy Chairman

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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.

These financial statements have been approved for issue by the Board of Directors on 20 September 2018.

Consolidated Income Statement

For the 52 week period ended 29 July 2018

		(52 WEEKS)	(52 WEEKS)
	NOTE	2018	2017
		\$000	\$000
Continuing operations			
Retail sales	2.1	2,994,571	2,980,771
Cost of retail goods sold	8.1	(2,003,396)	(2,008,859)
Gross profit		991,175	971,912
Other income	3.1	8,118	7,069
Lease and occupancy expense	3.2	(159,587)	(155,584)
Employee expense	3.3	(524,673)	(492,546)
Depreciation and amortisation expense	2.2	(59,630)	(58,376)
Other operating expenses	3.4	(163,961)	(164,638)
Operating profit from continuing operations	2.1	91,442	107,837
Unusual items	5.0	(34,135)	(605)
Earnings before interest and tax from continuing operations		57,307	107,232
Net interest expense	10.2	(9,165)	(12,527)
Profit before tax from continuing operations		48,142	94,705
Income tax expense	4.1	(20,636)	(23,691)
Net profit for the period from continuing operations		27,506	71,014
Discontinued operations			
Loss from discontinued operations (net of tax)	15.1	(4,386)	(50,283)
Net profit for the period		23,120	20,731
Attributable to:			
Shareholders of the parent		22,878	20,429
Minority interests	11.4	242	302
		23,120	20,731
Profit attributable to shareholders of the parent relates to:			
Profit from continuing operations		27,264	70,712
Loss from discontinued operations		(4,386)	(50,283)
		22,878	20,429
Earnings per share attributable to shareholders of the parent			
Basic earnings per share	6.0	6.6 cents	5.9 cents
Diluted earnings per share	6.0	6.6 cents	5.9 cents
Earnings per share attributable to shareholders of the parent from continuing operations			
Basic earnings per share	6.0	7.9 cents	20.5 cents
Diluted earnings per share	6.0	7.9 cents	20.4 cents

Consolidated Statement of Comprehensive Income

For the 52 week period ended 29 July 2018

		(52 WEEKS)	(52 WEEKS)
	NOTE	2018	2017
		\$000	\$000
Net profit for the period		23,120	20,731
Items that may be reclassified subsequently to the income statement			
Movement in derivative cash flow hedges		35,346	9,484
Movement in de-designated derivative hedges		606	606
Tax relating to movement in hedge reserve		(10,067)	(2,825)
Other comprehensive income		25,885	7,265
Total comprehensive income		49,005	27,996
Attributable to:			
Shareholders of the parent		48,763	27,694
Minority interest	11.4	242	302
Total comprehensive income		49,005	27,996
Attributable to:			
Total comprehensive income from continuing operations		53,391	78,279
Total comprehensive loss from discontinued operations		(4,386)	(50,283)
Total comprehensive income		49,005	27,996
Total comprehensive income from continuing operations attributable to:			
Shareholders of the parent		53,149	77,977
Minority interest	11.4	242	302
Total comprehensive income		53,391	78,279

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

Consolidated Balance Sheet

As at 29 July 2018

		2018	2017
	NOTE	\$000	\$000
ASSETS			
Current assets			
Cash and cash equivalents	10.1	26,455	47,492
Trade and other receivables	8.2	79,758	75,632
Inventories	8.1	523,840	487,274
Derivative financial instruments	12.2	19,030	-
Taxation receivable	4.2	-	4,959
		649,083	615,357
Assets held for sale	17.0	7,560	77,142
Total current assets		656,643	692,499
Non current assets			
Property, plant and equipment	9.1	238,592	252,175
Intangible assets	9.2	115,331	127,726
Derivative financial instruments	12.2	764	541
Deferred taxation	4.3	38,418	40,911
Total non current assets		393,105	421,353
Total assets	2.3	1,049,748	1,113,852
LIABILITIES			
Current liabilities			
Borrowings	10.1	43,840	49,593
Trade and other payables	8.3	279,028	267,304
Derivative financial instruments	12.2	-	17,299
Taxation payable	4.2	6,388	-
Provisions	8.4	67,422	49,769
		396,678	383,965
Securitised borrowings associated with assets held for sale	10.1	-	56,717
Other liabilities directly associated with assets held for sale	17.0	3,886	5,443
Total current liabilities		400,564	446,125
Non current liabilities			
Borrowings	10.1	144,954	159,453
Derivative financial instruments	12.2	3,394	2,507
Provisions	8.4	20,552	19,378
Total non current liabilities		168,900	181,338
Total liabilities	2.3	569,464	627,463
Net assets		480,284	486,389
EQUITY			
Contributed equity	11.2	359,457	358,046
Reserves	11.3	11,472	(13,036)
Retained earnings		108,476	140,512
Total equity attributable to shareholders		479,405	485,522
Minority interest	11.4	879	867
Total equity		480,284	486,389

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 29 July 2018

		(52 WEEKS)	(52 WEEKS)
	NOTE	2018	2017
		\$000	\$000
Cash flows from operating activities			
Cash received from customers		3,003,199	2,995,015
Payments to suppliers and employees		(2,875,770)	(2,840,604)
Income tax paid		(14,082)	(27,454)
Interest paid		(9,307)	(16,008)
		104,040	110,949
Loans repaid by finance business customers		50,469	171,188
New loans to finance business customers		(46,595)	(154,049)
Net cash flows from operating activities		107,914	128,088
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and computer software		12,227	79,714
Proceeds from business disposal	16.0	17,291	-
Minority interest capital contribution		-	750
Purchase of property, plant and equipment and computer software		(70,229)	(70,575)
Contingent and deferred acquisition consideration		-	(1,000)
Other items		-	(327)
Net cash flows from investing activities		(40,711)	8,562
Cash flows from financing activities			
Repayment of bank borrowings		(20,444)	(79,821)
Repayment of securitised borrowings		(11,555)	(3,408)
Repayment of finance leases		(456)	(1,196)
Purchase of treasury stock	11.2	-	(2,148)
Treasury stock dividends received		267	290
Dividends paid to parent shareholders		(55,822)	(52,404)
Dividends paid to minority shareholders		(230)	(352)
Net cash flows from financing activities		(88,240)	(139,039)
Net cash flow		(21,037)	(2,389)
Opening cash position		47,492	49,881
Closing cash position	10.1	26,455	47,492

Reconciliation of Operating Cash Flows

For the 52 week period ended 29 July 2018

		(52 WEEKS)	(52 WEEKS)
	NOTE	2018	2017
		\$000	\$000
Net profit		23,120	20,731
Non-cash items			
Depreciation and amortisation expense	2.2	59,630	60,191
Intangible asset impairment	9.2	25,622	40,061
Share based payment expense	3.3	353	1,283
Interest capitalisation		467	524
Suppliers contributions		(2,694)	-
Movement in deferred tax	4.3	(5,826)	(555)
Movement in de-designated derivative hedges		436	436
Total non-cash items		77,988	101,940
Items classified as investing or financing activities			
Loss/(Gain) on sale of property, plant and equipment		397	(9,979)
Loss on business disposal and related costs		1,421	946
Supplementary dividend tax credit	4.2	327	378
Total investing and financing adjustments		2,145	(8,655)
Changes in assets and liabilities			
Trade and other receivables		(3,715)	4,248
Finance business receivables		3,305	6,210
Inventories		(36,566)	9,895
Trade and other payables		11,522	7,557
Provisions		18,768	(6,811)
Income tax		11,347	(7,027)
Total changes in assets and liabilities		4,661	14,072
Net cash flows from operating activities		107,914	128,088

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 29 July 2018

		SHARE	TREASURY	HEDGE	FOREIGN	EMPLOYEE	RETAINED	MINORITY	TOTAL
	NOTE	CAPITAL	SHARES	RESERVES	CURRENCY	SHARE	EARNINGS	INTEREST	EQUITY
		\$000	\$000	\$000	RESERVE	BENEFITS	\$000	\$000	\$000
						RESERVE			
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)	

For the 52 week period ended 30 July 2017

Balance at the beginning of the period		365,517	(7,832)	(22,439)	-	3,623	171,560	167	510,596
Profit for the period		-	-	-	-	-	20,429	302	20,731
Movement in derivative cash flow hedges		-	-	9,484	-	-	-	-	9,484
Movement in de-designated derivative hedges		-	-	606	-	-	-	-	606
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	(2,825)	-	-	-	-	(2,825)
Total comprehensive income		-	-	7,265	-	-	20,429	302	27,996
Contributions by and distributions to owners									
Share rights charged to the income statement		-	-	-	-	1,283	-	-	1,283
Minority interest capital contribution		-	-	-	-	-	-	750	750
Share rights vested		-	2,509	-	-	(2,768)	259	-	-
Dividends paid	7.1, 11.4	-	-	-	-	-	(52,026)	(352)	(52,378)
Treasury stock dividends received		-	-	-	-	-	290	-	290
Purchase of treasury stock		-	(2,148)	-	-	-	-	-	(2,148)
Balance at the end of the period		365,517	(7,471)	(15,174)	-	2,138	140,512	867	486,389
		(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 and forming part of the Financial Statements

For the 52 week period ended 29 July 2018

1.0 BASIS OF PREPARATION

1.1 Reporting entity

The Warehouse Group Limited (the Company) and its subsidiaries (together the Group) trade in the New Zealand retail and financial services sectors. The Company is a limited liability company incorporated and domiciled in New Zealand. The Group is registered under the Companies Act 1993 and is an FMC Reporting Entity under Part 7 of the Financial Markets Conduct Act (FMCA) 2013. The address of its registered office is Level 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 does not provide any accounting policy choice, the Group has applied the requirements of NZ IFRS but a detailed accounting policy has not been specifically included.

The Group sold the most of its Financial Services business in September 2017 and is actively seeking a buyer for the remaining part of this business segment. 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	2018	2017
The Warehouse Limited	Retail			100	100
Warehouse Stationery Limited	Retail			100	100
Noel Leeming Group Limited	Retail			100	100
Torpedo7 Limited	Retail			100	100
Torpedo7 Fitness Limited	Retail	Amalgamated with Torpedo7 Limited		N/A	100
Torpedo7 Supplements Limited	Retail	Amalgamated with Torpedo7 Limited		N/A	100
Diners Club (NZ) Limited	Financial Services	Classified as discontinued operations	15	100	100
TW Financial Services Operations Limited	Financial Services	Sold September 2017	16	-	100
The Warehouse Financial Services Limited	Financial Services	Sold September 2017	16	-	100
TW Money Limited	Financial Services	Sold September 2017	16	-	100
Eldamos Investments Limited	Property			100	100
The Warehouse Nominees Limited	Investment			100	100
TWP No.3 Limited	Wholesale			100	100

1.4 Reporting period

These financial statements are for the 52 week period 31 July 2017 to 29 July 2018. The comparative period is for the 52 week period 1 August 2016 to 30 July 2017. 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.

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) Intangible assets (note 9.2)
- (c) Derivative financial instruments (note 12.2)

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 29 July 2018

2.0 SEGMENT INFORMATION

2.1 Operating performance

	NOTE	REVENUE		OPERATING PROFIT		RETAIL OPERATING MARGIN	
		2018	2017	2018	2017	2018	2017
		\$000	\$000	\$000	\$000		
The Warehouse		1,716,596	1,761,399	71,440	84,531	4.2 %	4.8 %
Warehouse Stationery		263,766	278,181	10,590	15,743	4.0 %	5.7 %
Noel Leeming		880,453	810,705	31,163	19,264	3.5 %	2.4 %
Torpedo7		163,402	157,726	(1,447)	2,675	-0.9 %	1.7 %
Digital Retail venture		-	-	(1,133)	-		
Other Group operations		9,655	8,603	(19,171)	(14,376)		
Inter-segment eliminations		(39,301)	(35,843)	-	-		
Retail Group		2,994,571	2,980,771	91,442	107,837	3.1 %	3.6 %
Unusual items	5.0			(34,135)	(605)		
Earnings before interest and tax from continuing operations				57,307	107,232		
Net interest expense	10.2			(9,165)	(12,527)		
Profit before tax from continuing operations				48,142	94,705		

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 strategy 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 (2017: 92) The Warehouse stores, 70 (2017: 69) Warehouse Stationery stores, 74 (2017: 77) Noel Leeming stores and 14 (2017: 12) 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

	NOTE	CAPITAL EXPENDITURE		DEPRECIATION AND AMORTISATION	
		2018	2017	2018	2017
		\$000	\$000	\$000	\$000
The Warehouse		41,353	36,374	40,979	40,819
Warehouse Stationery		1,536	3,861	5,498	6,722
Noel Leeming		11,294	10,382	10,634	8,421
Torpedo7		2,871	581	1,051	1,059
Digital Retail venture		4,363	-	-	-
Other Group operations		10,238	10,253	1,468	1,355
Continuing Retail Group		71,655	61,451	59,630	58,376
Discontinued operations		335	2,513	-	1,815
Total Group		71,990	63,964	59,630	60,191
Comprising					
Property, plant and equipment	9.1	51,185	51,833	52,368	52,626
Computer software	9.2	20,805	12,131	7,262	7,565
Total Group		71,990	63,964	59,630	60,191

2.3 Balance sheet information

	NOTE	TOTAL ASSETS		TOTAL LIABILITIES	
		2018	2017	2018	2017
		\$000	\$000	\$000	\$000
The Warehouse		487,028	461,772	217,398	182,389
Warehouse Stationery		66,323	72,176	13,196	32,746
Noel Leeming		176,967	160,287	122,134	108,008
Torpedo7		53,823	51,742	11,222	11,269
Digital Retail venture		4,390	-	332	-
Other Group operations		88,011	90,229	2,720	2,039
Continuing Retail Group		876,542	836,206	367,002	336,451
Discontinued operations		7,560	77,142	3,886	5,443
Operating assets / liabilities		884,102	913,348	370,888	341,894
Unallocated assets / liabilities					
Cash and borrowings	10.1	26,455	47,492	188,794	265,763
Derivative financial instruments	12.2	19,794	541	3,394	19,806
Intangible goodwill and brands	9.2	80,979	106,601	-	-
Taxation assets / liabilities	4.2, 4.3	38,418	45,870	6,388	-
Total Group		1,049,748	1,113,852	569,464	627,463

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 29 July 2018

3.0 INCOME AND EXPENSES

Retail sales
Retail sales are recognised at the point of sale when the customer receives the goods or delivery takes place. Retail revenue from the sale of goods is recognised at the fair value of the consideration received or receivable, net of returns, discounts and excluding GST.
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 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	2018	2017
	\$000	\$000
Tenancy rents received	4,002	3,957
Other	4,116	3,112
Other income	8,118	7,069

3.2 Lease and occupancy expense	2018	2017
	\$000	\$000
Operating lease costs	125,295	123,075
Other occupancy costs	34,292	32,509
Lease and occupancy expense	159,587	155,584

3.3 Employee expense	2018	2017
	\$000	\$000
Wages and salaries	490,610	475,692
Directors' fees	700	798
Performance based compensation	33,010	14,773
Equity settled share based payments expense	353	1,283
Employee expense	524,673	492,546

3.4 Other operating expenses	2018	2017
	\$000	\$000
Other operating expenses include:		
Provision for bad and doubtful debts	1,174	1,293
Loss on disposal of plant and equipment	366	716
Donations	663	634
Net foreign currency exchange (gain)/loss	(92)	105

3.5 Auditors' fees	2018	2017
	\$000	\$000
Auditing the Group financial statements	660	579
Reviewing the half year financial statements	90	90
Other services	53	43
Total fees paid to PricewaterhouseCoopers	803	712

Audit Fees - Corporate Governance

Fees paid to PricewaterhouseCoopers for other services largely related to treasury policy advice. 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 considered to be not 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 29 July 2018

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	2018	2017
		\$000	\$000
Profit before tax from continuing operations		48,142	94,705
Loss before tax from discontinued operations	15.1	(5,262)	(53,894)
Profit before tax		42,880	40,811
Taxation calculated at 28%		12,006	11,427
Adjusted for the tax effect of:			
Intangible asset impairment		7,174	11,217
Share based payments		(296)	(343)
Non deductible expenditure		1,563	1,336
Depreciation adjustments on building disposals and prior year business acquisitions	5.0	-	(2,963)
Income tax over provided in prior year		(687)	(594)
Income tax expense		19,760	20,080
Adjust for income tax expense attributable to losses from discontinued operations	15.1	876	3,611
Income tax expense attributable to continuing operations		20,636	23,691
Income tax expense comprises:			
Current year income tax payable	4.2	25,586	20,635
Deferred taxation	4.3	(5,826)	(555)
Income tax expense		19,760	20,080

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	2018	2017
		\$000	\$000
Opening balance		4,959	(2,068)
Current year income tax payable	4.1	(25,586)	(20,635)
Net taxation paid		14,082	27,454
Transfer from cash flow hedge reserve		(170)	(170)
Supplementary dividend tax credit		327	378
Closing balance		(6,388)	4,959

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 29 July 2018		\$000	\$000	\$000	\$000	\$000	\$000	\$000
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
For the 52 week period ended 30 July 2017								
Opening balance		(6,586)	12,604	9,001	12,844	8,161	6,987	43,011
Charged/(credited) to the income statement	4.1	-	(74)	(900)	258	-	1,271	555
Net charged to other comprehensive income		-	-	-	-	(2,655)	-	(2,655)
Closing balance		(6,586)	12,530	8,101	13,102	5,506	8,258	40,911

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 29 July 2018

5.0 ADJUSTED NET PROFIT

Adjusted net profit reconciliation	NOTE	2018	2017
		\$000	\$000
Adjusted net profit		59,015	68,185
Add back: Unusual items			
Gain on property disposals		218	11,455
Goodwill impairment (Torpedo7)	9.2	(25,622)	-
Restructuring costs		(8,731)	(12,060)
Unusual items before taxation		(34,135)	(605)
Income tax relating to unusual items		2,384	169
Income tax expense related to depreciation adjustments on building disposals and prior year business acquisitions	4.1	-	2,963
Unusual items after taxation		(31,751)	2,527
Net profit from continuing operations attributable to shareholders of the parent		27,264	70,712

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 provides a better understanding of underlying business performance and the Group also uses it as the basis for determining dividend payments. Adjusted net profit makes allowance for the after tax effect of unusual items which are not directly connected with the Group's normal trading activities. The Group defines unusual items as any profits from the disposal of properties or investments, goodwill impairment, restructuring costs, direct costs and adjustments relating to business acquisitions or disposals and costs connected with restructuring the Group.

Unusual Items

- (a) Property disposals during the year relate to the sale of surplus land for a net consideration of \$12.036 million which realised a pre-tax profit of \$0.218 million. In the prior year property disposals related to the sale of 3 store properties and surplus land sold which sold for a combined consideration of \$79.304 million and realised a pre-tax profit of \$11.455 million.
- (b) The Group has fully impaired the Goodwill of Torpedo7 (\$25.622 million) following its annual impairment review (refer note 9.2).
- (c) In January 2017 the Group commenced a restructuring programme to change its business operating model. The changes are designed to drive an improvement in financial performance, reduce costs and generate greater customer relevance. The changes focused primarily on simplification to reduce complexities, drive efficiencies and increase business agility. This involved strengthening and consolidating the various Group support service functions to drive synergy benefits, deliver efficiencies and reduce complexity. 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 first stage of this process has concluded and a second phase has started. This second phase is more granular than the initial programme and involves the Group partnering with a management consultancy firm to assist with the transformation process and strategy implementation.

6.0 EARNINGS PER SHARE

Earnings per share calculation	NOTE	2018	2017
Net profit attributable to shareholders of the parent (\$000s)		22,878	20,429
Net profit from continuing operations attributable to shareholders of the parent (\$000s)		27,264	70,712
Adjusted net profit (\$000s)	5.0	59,015	68,185
Basic			
Weighted average number of ordinary shares (net of treasury stock) on issue (000s)		344,916	344,802
Basic earnings per share (cents)		6.6	5.9
Basic earnings per share from continuing operations (cents)		7.9	20.5
Adjusted basic earnings per share (cents)		17.1	19.8
Diluted			
Weighted average number of ordinary shares (net of treasury stock) on issue adjusted for unvested share rights (000s)		345,332	346,355
Diluted earnings per share (cents)		6.6	5.9
Diluted earnings per share from continuing operations (cents)		7.9	20.4
Adjusted diluted earnings per share (cents)		17.1	19.7

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

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

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

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 29 July 2018

7.0 DIVIDENDS

7.1 Dividends paid	2018	2017	2018	2017
	\$000	\$000	CENTS PER SHARE	CENTS PER SHARE
Prior year final dividend	20,811	17,342	6.0	5.0
Interim dividend	34,684	34,684	10.0	10.0
Total dividends paid	55,495	52,026	16.0	15.0

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 Group's adjusted net profit.

All dividends paid were fully imputed.

7.2 Dividends policy reconciliation	NOTE	2018	2017	2018	2017
		\$000	\$000	CENTS PER SHARE	CENTS PER SHARE
Interim dividend		34,684	34,684	10.0	10.0
Final dividend (declared after balance date)		20,811	20,811	6.0	6.0
Total dividends paid and declared in respect of the current and prior financial years		55,495	55,495	16.0	16.0
Group adjusted net profit	5.0	59,015	68,185		
Pay-out ratio (%)		94.0 %	81.4 %		

On 20 September 2018 the Board declared a final fully imputed ordinary dividend of 6.0 cents per share to be paid on 6 December 2018 to all shareholders on the Group's share register at the close of business on 23 November 2018.

7.3 Imputation credit account	2018	2017
	\$000	\$000
Imputation credits at balance date available for future distribution	117,178	120,296

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 29 July 2018

8.0 WORKING CAPITAL

8.1 Inventory	2018	2017
	\$000	\$000
Finished goods	494,028	457,455
Inventory adjustments	(28,981)	(22,547)
Retail stock	465,047	434,908
Goods in transit from overseas	58,793	52,366
Inventory	523,840	487,274

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 retail cost of goods sold in the income statement.

Significant judgements and estimates

Assessing provisions for inventory obsolescence, net realisable value and shrinkage involves making judgements and estimates 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	2018	2017
	\$000	\$000
Trade receivables	45,677	45,207
Prepayments	14,110	13,997
Rebate accruals and other debtors	19,971	16,428
Trade and other receivables	79,758	75,632

Trade receivables arise from sales made to customers on credit or through the collection of rebates from suppliers not otherwise deducted from suppliers' payable accounts. Trade receivables are non-interest bearing and are generally on 30 to 60 day terms. Trade receivables are initially recognised at the value of the invoice sent to the customer and subsequently at the amount considered recoverable. Collectability of trade and other receivables is reviewed on an ongoing basis and debts that are known to be uncollectible are either impaired or written off when they are identified.

8.3 Trade and other payables	2018	2017
	\$000	\$000
Trade creditors and accruals	211,171	204,784
Goods in transit creditors	24,545	21,187
Capital expenditure creditors	1,864	2,802
Goods and services tax	13,457	10,768
Reward schemes, lay-bys, Christmas Club deposits and gift vouchers	16,004	15,820
Interest accruals	968	1,089
Payroll accruals	11,019	10,854
Trade and other payables	279,028	267,304

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are normally unsecured and are usually settled within 60 days of recognition. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

Notes to the Financial Statements - Operating Assets and Liabilities

For the 52 week period ended 29 July 2018

8.4 Provisions	CURRENT		NON-CURRENT		TOTAL	
	2018	2017	2018	2017	2018	2017
	\$000	\$000	\$000	\$000	\$000	\$000
Employee entitlements	62,427	43,720	13,636	11,973	76,063	55,693
Make good provision	1,017	1,123	6,916	6,889	7,933	8,012
Sales return provision	3,724	3,708	-	-	3,724	3,708
Onerous lease	254	1,218	-	516	254	1,734
Total provisions	67,422	49,769	20,552	19,378	87,974	69,147

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 provision

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

Onerous lease

A provision for an onerous lease is recognised when the Group retains a lease obligation after vacating a property before the expiry of the lease term.

9.0 NON CURRENT ASSETS

9.1 Property, plant and equipment		LAND AND BUILDINGS		PLANT AND EQUIPMENT		WORK IN PROGRESS		TOTAL	
	NOTE	2018	2017	2018	2017	2018	2017	2018	2017
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cost		87,833	145,647	603,888	570,260	20,019	23,606	711,740	739,513
Accumulated depreciation		(10,650)	(10,318)	(447,871)	(405,875)	-	-	(458,521)	(416,193)
Opening carrying amount		77,183	135,329	156,017	164,385	20,019	23,606	253,219	323,320
Additions	2.2	15,003	10,803	39,563	44,617	(3,381)	(3,587)	51,185	51,833
Disposals		(11,818)	(67,820)	(1,614)	(1,488)	-	-	(13,432)	(69,308)
Depreciation	2.2	(1,190)	(1,129)	(51,178)	(51,497)	-	-	(52,368)	(52,626)
Closing carrying amount		79,178	77,183	142,788	156,017	16,638	20,019	238,604	253,219
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)
Closing carrying amount		79,178	77,183	142,788	156,017	16,638	20,019	238,604	253,219
Less: Assets held for sale	17.0	-	-	(12)	(1,044)	-	-	(12)	(1,044)
Property, plant and equipment		79,178	77,183	142,776	154,973	16,638	20,019	238,592	252,175

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 29 July 2018

9.2 Intangible assets		GOODWILL		BRAND NAMES		COMPUTER SOFTWARE		TOTAL	
	NOTE	2018	2017	2018	2017	2018	2017	2018	2017
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cost		117,094	117,094	23,523	23,523	133,178	124,401	273,795	265,018
Impairment and accumulated amortisation		(34,016)	(11,302)	-	-	(105,033)	(83,048)	(139,049)	(94,350)
Opening carrying amount		83,078	105,792	23,523	23,523	28,145	41,353	134,746	170,668
Additions	2.2	-	-	-	-	20,805	12,131	20,805	12,131
Disposals		-	-	-	-	(7,299)	(427)	(7,299)	(427)
Impairment		(25,622)	(22,714)	-	-	-	(17,347)	(25,622)	(40,061)
Amortisation	2.2	-	-	-	-	(7,262)	(7,565)	(7,262)	(7,565)
Closing carrying amount		57,456	83,078	23,523	23,523	34,389	28,145	115,368	134,746
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)
Closing carrying amount		57,456	83,078	23,523	23,523	34,389	28,145	115,368	134,746
Less: Assets held for sale	17.0	-	-	-	-	(37)	(7,020)	(37)	(7,020)
Intangible assets		57,456	83,078	23,523	23,523	34,352	21,125	115,331	127,726

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 Financial Services Group impairment

In the prior year the Group impaired the goodwill and partially impaired the computer software assets of the discontinued Financial Services Group in anticipation of the sale of the majority of this business segment in September 2017, to reduce the carrying amount to the expected net realisable value (refer note 15).

Significant judgements and estimates - impairment testing

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

The recoverable amount of a cash generating unit is calculated using the 'fair value less costs to sell' method. This discounted cashflow valuation method requires the use of estimates and projections regarding future business unit operating performance. The Group considers a wide range of factors including the Group's financial budgets, strategic plans, external benchmarks and historical performance to formulate future cashflow projections. The Group also engages external advisors to determine appropriate discount rates and long term growth rates, integral to the valuations. Cashflows beyond the 5 year projection period are extrapolated using the estimated growth rates stated below. These growth rates do not exceed the long term average growth rate for the sector in which the business unit operates.

Impairment testing	NOEL LEEMING		TORPEDO7		WHOLESALE BUSINESS	
	2018	2017	2018	2017	2018	2017
	\$000	\$000	\$000	\$000	\$000	\$000
Goodwill	31,776	31,776	25,622	25,622	21,450	21,450
Brand names	15,500	15,500	8,023	8,023	-	-
Closing carrying amount	47,276	47,276	33,645	33,645	21,450	21,450
Key assumptions						
EBIT margin (%)	3.1	2.6	4.6	6.0	4.8	6.3
Terminal growth rate (%)	1.7	1.7	1.7	1.7	1.7	1.7
Post-tax discount rate (%)	10.9	10.9	11.7	11.7	9.1	12.6

Noel Leeming and Torpedo7 cash generating units refer to the business segments detailed in note 2.0. The Wholesale business forms part of The Warehouse segment. In previous years impairment testing for the Wholesale business was based on the business as a standalone cash generating unit. The cash flows for the Wholesale business have changed over recent years, such that the cash flows are now almost entirely based on internal transfer prices which are not independent from those of the wider The Warehouse segment. In the current year, impairment testing for the Wholesale business was changed and is now based on The Warehouse segment as the representative cash generating unit. Impairment testing for both the Noel Leeming and The Warehouse cash generating units did not indicate the carrying amounts of either goodwill or brand names to be impaired.

Torpedo7 impairment.

The current year results for Torpedo7 were below expectation, a combination of both difficult trading conditions and internal disruptions connected with relocating parts of the business operations. It is considered that it will now take longer for this business to achieve the desired scale necessary to achieve acceptable levels of profitability. The Group's transformation programme has identified a number of opportunities for this business, however the future growth expectations, even after factoring in the new transformation initiatives have been set back two years compared to previous forecasts. The revised forecasts for Torpedo7 indicate that the carrying value of the business is impaired and accordingly the Board has decided to write off all the goodwill attributed to the Torpedo7 business.

In our calculations, the recoverable amount of Torpedo7 was sensitive to the achievement of the transformation initiatives, and growing the business to an EBIT of approximately \$10.5 million over the next five years and to a sufficient scale to support the recoverable amount. If the Torpedo7 transformation plan proves to be less successful than currently projected this may cause the Group to reassess the carrying value of the Torpedo7 brand and other assets.

Notes to the Financial Statements - Financing and Capital Structure

For the 52 week period ended 29 July 2018

10.0 BORROWINGS

10.1 Net debt	2018	2017
	\$000	\$000
Cash on hand and at bank	26,455	47,492
Bank borrowings at call - interest rate: 2.88% (2017: 2.96%)	43,715	49,159
Lease liabilities	125	434
Current borrowings	43,840	49,593
Bank borrowings - interest rate: 2.74% (2017: 2.48%)	20,000	35,000
Lease liabilities	51	169
Fixed rate senior bond (coupon: 5.30%)	125,000	125,000
Fair value adjustment relating to senior bond interest rate hedge	723	541
Unamortised capitalised costs on senior bond issuance	(820)	(1,257)
Non-current borrowings	144,954	159,453
Securitised borrowings (interest rate: 2.68%)	-	56,717
Total borrowings	188,794	265,763
Net debt	162,339	218,271

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the net proceeds and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Cash on hand and at bank

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

Securitised borrowings

The Group used a securitised borrowing facility to fund part of the Group's discontinued Financial Services operations. The facility permitted the Finance Services Group to borrow up to 80% of the value of qualifying securitised finance business receivables. The Group's securitised borrowing facility was included as part of the sale of the Financial Services businesses on 9 September 2017 (refer note 16).

Fixed rate senior bond

The Group issued a 5 year fixed rate senior bond on the New Zealand Stock Exchange in June 2015 with a 5.30% coupon. Interest on the bond is payable every six months (15 June and 15 December) and has a final maturity in June 2020. Based on the last quoted closing price of \$1.03369 (2017: \$1.04087) traded on the New Zealand Stock Exchange and a market yield of 3.79% (2017: 4.03%) the fair value of the Group's fixed rate senior bonds at balance date was \$129.211 million (2017: \$130.109 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	2018	2017
		\$000	\$000
Interest on bank overdrafts		33	266
Interest on deposits and use of money interest received		(1,494)	(150)
Interest on bank borrowings		3,935	9,330
Interest on finance leases		30	87
Interest on fixed rate senior bond		7,043	7,043
Net interest expense		9,547	16,576
Less interest attributable to discontinued operations	15.1	(382)	(4,049)
Net interest expense from continuing operations		9,165	12,527

10.3 Bank facilities	2018	2017
	\$000	\$000
Bank debt facilities	210,000	280,000
Bank facilities used	(63,715)	(84,159)
Unused bank debt facilities	146,285	195,841
Securitised debt facility	-	150,000
Securitised facility used	-	(56,717)
Unused securitised bank debt facility	-	93,283
Letters of credit facilities	28,000	32,389
Letters of credit	(5,516)	(13,153)
Unused letter of credit facilities	22,484	19,236
Total unused bank facilities	168,769	308,360

Notes to the Financial Statements - Financing and Capital Structure

For the 52 week period ended 29 July 2018

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 is financed through a mixture of bank borrowings and a fixed rate senior bond. The Group currently aims to maintain gearing levels, except for the Group's first quarter peak funding period, at levels of between 20% to 40%. Gearing is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders (debt) versus shareholders (equity). Prior to the sale of the Group's Financial Services businesses in September 2017 the Group viewed the funding of the balance sheet as having two distinct parts, with the discontinued Financial Services Group being separately financed from the Retail Group which allowed the Financial Services Group to have higher gearing levels.

The Group's longer term target is to continue to look at opportunities to reduce bank debt. The introduction of the new leasing standard (refer note 21), which is effective for the Group from the 2020 financial year will significantly increase book gearing as operating lease liabilities are included on the balance sheet. This new standard is non-cash in nature and for the purposes of testing debt covenant compliance with our external funding providers, these new lease liabilities and the associated interest expense are excluded from the covenant calculations.

The Group's dividend policy is based on distributing between 75% to 85% of the adjusted net profit of the Retail Group back to shareholders (refer note 7.0).

Externally imposed capital requirements

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

DEBT COVENANT RATIOS AT BALANCE DATE	QUARTERLY COVENANT REQUIREMENT	2018	2017
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	25.6	26.9
Retail Group book interest cover (times cover)	will not be less than 2 times operating profit	9.8	7.7

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

11.2 Contributed equity	CONTRIBUTED EQUITY		ORDINARY SHARES	
	2018	2017	2018	2017
	\$000	\$000	000s	000s
Share capital	365,517	365,517	346,843	346,843
Treasury shares	(6,060)	(7,471)	(1,793)	(2,346)
Contributed equity	359,457	358,046	345,050	344,497

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		ORDINARY SHARES	
		2018	2017	2018	2017
		\$000	\$000	000s	000s
Opening balance		7,471	7,832	2,346	2,348
Ordinary shares issued to settle share rights plan obligations	14.0	(1,411)	(2,509)	(553)	(902)
Ordinary shares purchased (average purchase price \$2.39)		-	2,148	-	900
Closing balance		6,060	7,471	1,793	2,346

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 29 July 2018

11.3 Reserves	2018	2017
	\$000	\$000
Cash flow hedge reserve	11,292	(14,157)
De-designated derivative reserve	(581)	(1,017)
Hedge reserves	10,711	(15,174)
Foreign currency translation reserve	(5)	-
Share based payments reserve	766	2,138
Total reserves	11,472	(13,036)

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

De-designated derivative reserve

The de-designated derivative reserve is used to record the after tax mark to market losses realised from realigning the Group's interest rate hedge portfolio in 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 also to the consolidated statement of changes in equity and policy notes 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 are granted to employees in accordance with the Group's executive share rights plan. The fair value of share rights granted under the plan are measured at grant date and recognised as an employee expense over the vesting period with a corresponding increase in equity. The fair value at grant date of the share rights are independently determined using an appropriate valuation model that takes into account the terms and conditions upon which they were granted. (Note 14.0 provides further details regarding the plan and fair value calculations).

This reserve is used to record the accumulated value of the unvested shares rights, which have been recognised as an expense in the income statement. Upon the vesting of share rights, the balance of the reserve relating to the share rights is offset against the cost of treasury stock allotted to settle the obligation, with any difference in the cost of settling the commitment transferred to retained earnings. (Refer also to the consolidated statement of changes in equity).

11.4 Minority interest	2018	2017
	\$000	\$000
Opening balance	867	167
Minority interest capital contribution	-	750
Net profit attributable to minority interest	242	302
Dividends paid to minority shareholders	(230)	(352)
Closing balance	879	867

At balance date the Group's minority interest represents the 50% minority shareholding held in Waikato Valley Chocolates. During the prior year both the Group and the Waikato Valley Chocolates minority shareholders each invested an additional \$0.750 million of share capital into the business.

Notes to the Financial Statements - Financial Risk Management

For the 52 week period ended 29 July 2018

12.0 FINANCIAL RISK MANAGEMENT

12.1 Financial risk factors

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

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

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

12.2 Derivative financial instruments	CURRENCY CONTRACTS		INTEREST RATE SWAPS		TOTAL	
	2018	2017	2018	2017	2018	2017
	\$000	\$000	\$000	\$000	\$000	\$000
Current assets	19,030	-	-	-	19,030	-
Non-current assets	-	-	764	541	764	541
Current liabilities	-	(16,899)	-	(400)	-	(17,299)
Non-current liabilities	-	-	(3,394)	(2,507)	(3,394)	(2,507)
Total derivative financial instruments	19,030	(16,899)	(2,630)	(2,366)	16,400	(19,265)
Classified as:						
Cash flow hedges	19,030	(16,899)	(3,394)	(2,907)	15,636	(19,806)
Fair value hedges	-	-	764	541	764	541
Total derivative financial instruments	19,030	(16,899)	(2,630)	(2,366)	16,400	(19,265)

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

- Cash flow hedges when they hedge an exposure to a highly probable forecast transaction; or
- Fair value hedges when they hedge the exposure to changes in fair value of a recognised asset or liability.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transactions. An assessment, both at hedge inception and on an ongoing basis is also documented, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Cashflow hedge

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

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

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

Fair value hedge

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

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

Derivatives that do not qualify for hedge accounting

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

Significant judgements and estimates

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

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

Notes to the Financial Statements - Financial Risk Management

For the 52 week period ended 29 July 2018

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 divided its funding requirements between funding for its retail operations and funding for the discontinued Financial Services business. The funding for the Financial Services business was provided by means of a debt securitisation programme (refer note 10.1). The debt securitisation facility was sold in September 2017 as part of the Financial Services Group business sale (note 16.0).

The Retail Group's liquidity position fluctuates throughout the year. The months leading up to the Christmas trading period typically put the greatest requirement for cash flows due to the build up of inventory, conversely the Retail Group's liquidity position is at its strongest immediately after the Christmas trading period. The Retail Group's gearing covenants increase from 50% to 60% for the first quarter of each financial year to allow for the effect of seasonal funding. To accommodate the increased funding requirements during the peak funding period the Group has committed three month seasonal credit facilities commencing in mid September of \$50.000 million (2017: \$50.000 million) which are in addition to the \$210.000 million (2017: \$280.000 million) of committed credit facilities (refer note 10.3). The Group has set treasury policy limits to ensure it maintains and operates within its available funding facilities.

LIQUIDITY POSITION AT BALANCE DATE	TREASURY POLICY REQUIREMENT	2018	2017
Retail Group unused debt facilities (refer note: 10.3)	committed credit facilities to be maintained at an amount of at least 115% of peak funding requirements projected for the next 2 years.	69.7%	69.9%
Retail Group funding tenor	at least 30% of the committed credit facilities have a maturity of greater than 3 years (includes retail bond)	30.0%	30.0%
Retail Group funding diversity (number of counterparties)	funding to be sourced from a minimum of four counterparties (includes retail bond)	6	6

The table below analyses the Group's financial liabilities and derivatives into relevant maturity bands, based on the remaining period from balance date to the contractual maturity date. The cash flow amounts disclosed in the table represent undiscounted cash flows liable for payment by the Group. The forward currency contracts "outflow" amounts disclosed in the table represent the gross amount payable by the Group for the purchase of foreign currency, whereas the "inflow" amounts represent the corresponding receipt of foreign currency arising from settlement of the contracts, converted using the spot rate at balance date.

Contractual maturity analysis	0 - 1 YEARS		1 - 3 YEARS		> 3 YEARS		TOTAL	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Trade and other payables	(282,601)	(271,443)	-	-	-	-	(282,601)	(271,443)
Bank borrowings	(63,715)	(84,159)	-	-	-	-	(63,715)	(84,159)
Securitised borrowings	-	(56,717)	-	-	-	-	-	(56,717)
Finance lease liabilities	(135)	(464)	(53)	(175)	-	(4)	(188)	(643)
Fixed rate senior bond	(5,808)	(5,790)	(131,625)	(138,250)	-	-	(137,433)	(144,040)
Financial liabilities	(352,259)	(418,573)	(131,678)	(138,425)	-	(4)	(483,937)	(557,002)
Forward currency contracts								
- outflow	(369,225)	(331,674)	-	-	-	-	(369,225)	(331,674)
- inflow	388,622	313,851	-	-	-	-	388,622	313,851
Interest rate swaps	(208)	(667)	(2,153)	(73)	(500)	(1,693)	(2,861)	(2,433)
Net derivatives	19,189	(18,490)	(2,153)	(73)	(500)	(1,693)	16,536	(20,256)

12.4 Credit risk

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

The Group places its cash and short-term investments and derivatives with high credit quality financial institutions approved by directors and in accordance with specified treasury policy limits. The Group's treasury policy requires bank counter-parties to have a minimum Standard & Poor's credit rating of at least A (2017: A).

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

Notes to the Financial Statements - Financial Risk Management

For the 52 week period ended 29 July 2018

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	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$000	\$000	\$000	\$000	CENTS	CENTS	PERCENTAGE	PERCENTAGE
Forward exchange contracts								
Buy US dollars/Sell New Zealand dollars	19,030	(16,899)	369,225	331,674	0.7153	0.7115	65.4	72.1

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 \$0.6795 (2017: \$0.7520).

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

Currency position at balance date	NET PROFIT AFTER TAX		EQUITY	
	2018	2017	2018	2017
	\$000	\$000	\$000	\$000
10% appreciation in the New Zealand dollar	-	-	(25,196)	(20,424)
10% depreciation in the New Zealand dollar	-	-	30,796	24,965

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 \$200 million (2017: \$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 65% (2017: 80%) of the Group’s core borrowings were at fixed interest rates. The Group uses fixed rate debt and interest rate swaps to manage the fixed interest rate pricing and profile.

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

Interest rate sensitivity table	NOTE	AMOUNT	+ 100 BASIS POINTS		- 100 BASIS POINTS	
			PROFIT	EQUITY	PROFIT	EQUITY
		\$000	\$000	\$000	\$000	\$000
At 29 July 2018						
Finance business receivables	17.0	7,381	53	53	(53)	(53)
Net bank borrowings	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	1,945	(108)	(2,066)
Interest rate swaps - fair value hedges	12.2	764	(358)	(358)	432	432
Total increase/(decrease)		(157,412)	(107)	1,730	107	(1,851)

At 30 July 2017

Finance business receivable	17.0	67,355	485	485	(485)	(485)
Securitised borrowings	10.1	(56,717)	(408)	(408)	408	408
Net bank borrowings	10.1	(36,667)	(264)	(264)	264	264
Fixed rate senior bond	10.1	(124,284)	295	295	(308)	(308)
Derivative financial instruments						
Interest rate swaps - cash flow hedges	12.2	(2,907)	252	1,472	(252)	(1,558)
Interest rate swaps - fair value hedges	12.2	541	(295)	(295)	308	308
Total increase/(decrease)		(152,679)	65	1,285	(65)	(1,371)

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 29 July 2018

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 (2017: 9) 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	2018	2017
	\$000	\$000
J Withers (Chair - appointed September 2016)	166	128
K R Smith (Deputy Chair)	115	115
E K van Arkel (retired September 2016)	-	42
A J Balfour	85	85
J W M Journee	86	86
J H Ogden (retired November 2017)	39	94
J M Raue (appointed September 2016)	86	72
V C M Stoddart (retired November 2017)	38	91
Sir Stephen Tindall	85	85
Total	700	798

In addition to the directors fees stated above K R Smith and J H Ogden both received \$8,000 (2017: \$43,000) each in their capacity as directors of the Group’s discontinued Financial Services business.

Key management	2018	2017
	\$000	\$000
Base salary	6,101	6,934
Annual performance based compensation	2,944	1,470
Accrued three year performance based cash settled compensation	1,389	703
Equity settled share-based compensation (refer note: 14.0)	140	987
Termination benefits	666	981
Total	11,240	11,075

14.0 EXECUTIVE LONG TERM INCENTIVE PLAN (LTIP)

Share rights were granted to key management and other senior executives as part of a legacy share based incentive plan. There have been no share rights granted under this plan since October 2015 and the plan was replaced by a cash based incentive plan in November 2016 (which is not linked to the share price). At balance date this legacy share based plan had 32 (2017: 53) participants. The final two tranches of the plan will both settle in October 2018. The plan was divided into medium term (Award shares) and long term (Performance shares) share plans.

Award shares

Award shares provide participants with a conditional right to be allocated and transferred ordinary shares upon the satisfaction of certain company performance targets and individual performance targets, measured during the initial vesting period. The number of ordinary shares which are allocated is determined by reference to the percentage achievement of these targets, with one third of the allocated shares being transferred to each participant at the end of the initial vesting period and a further third at the end of each of the next two vesting dates.

Performance shares

Performance shares provide participants with a conditional right to be transferred ordinary shares at the end of the vesting period if the Group has achieved a specified total shareholder return on the vesting date. The target total shareholder return represents the increase in Group’s share price over the period between the grant date and the vesting date, inflated from the grant date using the Group’s cost of equity.

Share rights	NOTE	PERFORMANCE SHARES		AWARD SHARES		TOTAL SHARE RIGHTS	
		2018	2017	2018	2017	2018	2017
		000	000	000	000	000	000
Outstanding at the beginning of the year		954	1,695	841	2,269	1,795	3,964
Vested during the year	11.2	-	-	(553)	(902)	(553)	(902)
Forfeited during the year		(562)	(741)	(52)	(526)	(614)	(1,267)
Outstanding at the end of the year		392	954	236	841	628	1,795
Expected vesting dates							
October 2017		-	408	-	502	-	910
October 2018		392	546	236	339	628	885
Outstanding at the end of the year		392	954	236	841	628	1,795

Fair values

The fair value of performance shares at grant date have been estimated using a variant of the Binomial Options Pricing Model. The fair value of award shares has been calculated as the present value of the rights at grant date discounted using the Group’s estimated cost of equity and allowing for expected future dividends. The following table lists the fair value of the share rights and key inputs used in the pricing models to determine the values:

Performance shares		Award shares	
Date granted	October 2015	Date granted	October 2015
Vesting date	October 2018	Final vesting date	October 2018
Target total shareholder return (\$)	0.78	Weighted average cost of equity capital (%)	8.72
Risk free interest rate (%)	2.64	Average share price at measurement date (\$)	2.58
Average expected volatility (%)	21.50	Average estimated fair values at grant date (\$)	2.30
Average share price at measurement date (\$)	2.58		
Estimated fair value at grant date (\$)	0.81		

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 29 July 2018

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.

In July 2017 the Group developed plans for the sale of the Group’s Financial Services businesses and executed the first part of this plan when it sold most of its Financial Services business in September 2017 to Finance Now, a subsidiary of SBS Bank (refer note 16). The last part of this plan involves selling the remaining Diners Club (NZ) business (refer note 17). As a result of these actions, the Financial Services Group has been reported as a discontinued operation.

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	2018	2017
		\$000	\$000
Finance business revenue		4,729	20,392
Expenses		(8,188)	(28,893)
Business acquisition, disposal and restructuring costs		(1,421)	(1,283)
Impairment of assets	9.2	-	(40,061)
Loss before interest and tax		(4,880)	(49,845)
Interest expense	10.2	(382)	(4,049)
Loss before tax		(5,262)	(53,894)
Income tax expense	4.1	876	3,611
Loss from discontinued operations		(4,386)	(50,283)
Cash flows from discontinued operations			
Net cash flows from operating activities		5,069	(169)
Net cash flows from investing activities		16,957	(3,208)
Net cash flows from financing activities		(28,753)	(2,660)

16.0 BUSINESS DISPOSAL - FINANCIAL SERVICES GROUP

	2018
	\$000
Cash and cash equivalents of the subsidiaries sold	(2,831)
Sale proceeds settled in cash	20,122
Consideration	17,291
Finance business receivables	56,669
Property, plant and equipment	1,011
Computer software	7,090
Securitised borrowings related to the sold subsidiaries	(45,162)
Other working capital	(2,317)
Carrying value of net assets sold	17,291
Claw back provision	1,421
Loss on business disposal	(1,421)

Contingent and ‘claw back’ liabilities

When the Group sold the Financial Services businesses in September 2017 to Finance Now (a subsidiary of SBS Bank) it exposed the Group to a few actual and contingent liabilities connected with a claw back provision and warranties contained in the sale and purchase agreement.

The Group was required to pay a purchase price adjustment to the extent that the finance receivables impairment provisions which were sold were less than the actual write-offs experienced during the 9 month period following the sale (termed claw back). The Group settled the claw back obligation (\$1.421 million) after balance date.

The Group was also required to make warranties, which are typical for a transaction of this nature. These warranties are largely covered by an insurance contract, however there are some items which are not covered, such as tax claims. These warranty claims are capped at \$18.0 million (representing the purchase consideration) and expire after 18 months and are treated as contingent liabilities.

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 29 July 2018

17.0 HELD FOR SALE

Non-current assets or 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.

The Group committed to a plan in July 2017 to sell its Financial Services credit card business and executed the first part of this plan when it sold most of these businesses in September 2017. A tactical decision was then made to separate the remaining Diners Club (NZ) business into two distinct parts, being the merchant acquisition business and the card issuance business to increase buyer interest. The card issuance business is part of a franchise arrangement which is due to expire in December 2018 and while the Group is actively seeking buyers for both businesses, if a buyer cannot be found for the card issuance business this business will be wound up when the franchise agreement expires.

Financial Services Group assets classified as held for sale	NOTE	2018	2017
		\$000	\$000
Finance business receivables		7,381	67,355
Property, plant and equipment	9.1	12	1,044
Computer software	9.2	37	7,020
Other assets		130	1,723
Total assets classified as held for sale		7,560	77,142
Other liabilities directly associated with assets held for sale		(3,886)	(5,443)

18.0 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	2018	2017
	\$000	\$000
0–1 Years	121,473	120,363
1–2 Years	107,531	105,533
2–5 Years	249,550	242,456
5+ Years	234,207	270,975
Operating leases	712,761	739,327

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

Capital commitments	2018	2017
	\$000	\$000
Within one year	2,783	7,339

19.0 CONTINGENT LIABILITIES

	2018	2017
	\$000	\$000
Bank letters of credit issued to secure future purchasing requirements	5,516	8,764
Less included as a goods in transit creditor	(575)	(586)
	4,941	8,178
Standby letter of credit issued to Visa Worldwide	-	4,389
Bank guarantees provided to landlords and the New Zealand Stock Exchange Limited	643	643
Total contingent liabilities	5,584	13,210

Contingent liabilities connected to the sale of the Group’s Financial Services businesses in September 2017 are detailed in note 16.

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 29 July 2018

20.0 RELATED PARTIES

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

Shareholdings

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

- (i) Sir Stephen Tindall (Director) has a beneficial shareholding of 93,687,096 shares (2017: 93,687,096 shares) which carry the normal entitlement to dividends. Dividends of \$14,990 million (2017: \$14,053 million) were received on these shares during the year.
- (ii) The Group's other Directors collectively had beneficial shareholdings of 198,964 shares (2017: 215,052 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 this annual report.
- (iv) Key management (as detailed in note 13.0) collectively held 263,166 shares (2017: 524,069 shares) at balance date which carry the normal entitlement to dividends.

21.0 NEW ACCOUNTING STANDARDS WHICH ARE RELEVANT TO THE GROUP BUT ARE NOT YET EFFECTIVE

NZ IFRS 9: Financial Instruments

NZ IFRS 9 "Financial Instruments" replaces the current Financial Instruments standard (NZ IAS 39) with effect for the Group from 30 July 2018. The new standard addresses the classification, measurement and recognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The two areas which could potentially impact the Group concern hedge accounting and impairment provisions for trade receivables.

Hedge accounting - the Group's current hedge relationships can qualify as continuing hedges upon the adoption of NZ IFRS 9. Accordingly, the Group does not expect any significant profit impact from implementing the new accounting treatment for its hedge relationships. The nature and extent of the Group's disclosures in next year's financial statements in relation to its hedge relationships will however need to be amended to accommodate the requirements of the new reporting standard.

Trade receivables impairment provisions - the new standard changes how the impairment of Financial Assets (classified at amortised cost) are calculated from an 'incurred credit loss' model as 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 is not expected to be a material impact on the impairment provisions in the year of adoption.

The Group's assessment has not identified any other material changes from the adoption of NZ IFRS 9.

NZ IFRS 15: Revenue from contracts with customers

NZ IFRS 15, 'Revenue from contracts with customers' replaces the current revenue recognition guidance in NZ IAS 18 'Revenue' and NZ IAS 11 'Construction Contracts' and related interpretations. The new standard is based on the principle that revenue is recognised when control of a good and service transfers to a customer. The standard is effective for the Group from 30 July 2018.

The Group has assessed the potential impact of NZ IFRS 15. The work involved segregating the different revenue streams within the Group and analysing any impact arising from the new accounting standard. The majority of 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. The following matters were identified as potentially impacting 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 is no material impact to revenue recognition upon adoption of NZ IFRS 15.

Accounting for sales returns - NZ IAS 18 does not specify how the sales return provision is classified on the balance sheet. Under NZ IFRS 15, the Group will be required to change the way it classifies the estimated value of goods expected to be returned and record these as a separate asset rather a reduction in the sales return liability.

The Group's assessment has not identified any other material changes from the adoption of NZ IFRS 15.

NZ IFRS 16: Leases

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17 and will be adopted by the Group from 28 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 will require a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The income statement will also be 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 IFRS 16 including selecting a new lease accounting system, evaluating practical expedient and accounting policy elections, and assessing the overall financial statement impact. While the impact of NZ IFRS 16 is non-cash in nature and will not affect the Group's cash flows it will have a material impact on the Group's financial position.

The Group currently intends to use a simplified transition approach on adoption of NZ IFRS 16, this expedient however does not permit the Group to restate comparative amounts for the periods prior to adoption. Management has estimated the impact of NZ IFRS 16 using the 'modified retrospective approach' at the date of adoption based on the Group's current operating leases. The model required management to make some key judgements including:

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

On adoption the Group will recognise the following line items:

- Recognition of a right of use asset of approximately \$710 million;
- Recognition of a lease liability of approximately \$871 million; and
- Recognition of a deferred taxation asset of approximately \$45 million;
- Decrease in opening retained earnings of approximately \$116 million.

The impact on the consolidated income statement for the period ended 2 August 2020 is expected to decrease occupancy expenses, increase amortisation expenses and increase in interest expenses. The impact on each of these line items is expected to be significant however currently management do not expect the overall effect on net profit attributable to shareholders to be material. Managements current estimates will change prior to adoption as conditions change, due to:

Managements current estimates will change prior to adoption as conditions change, due to:

- Finalisation of management's judgements and subsequent movements in borrowing rates;
- New lease contracts entered into by the Group;
- Changes to existing lease contracts; and
- Change in management's judgement regarding exercising rights of renewals under lease arrangements.
- Clarification of tax rules impacting the recognition of deferred tax assets

Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

The financial statements comprise:

- the consolidated balance sheet as at 29 July 2018;
- 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 a summary of significant accounting policies.

OUR OPINION

In our opinion, the 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 29 July 2018, 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 policy advice, other assurance services and ASM scrutineering. 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: \$4.1 million, which represents approximately 5% of profit before tax from continuing operations, adjusted for the gain on property disposals, goodwill impairment and restructuring costs.

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

We have determined that there are two key audit matters:

- Impairment of intangible assets
- 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 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 sector in which the Group operates.

We conducted full scope audit work on two entities within the Group which make up 86% of external revenue and 93% of profit before tax from continuing operations, adjusted for the gain on property disposals, goodwill impairment and restructuring costs. The remaining entities in the Group were not considered individually significant and depending on our risk assessment were subject to other audit procedures such as testing of key balances or reconciliations, supplemented by analytical review.

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 judgment, were of most significance in our audit of the financial statements of the current 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
<p>Impairment of intangible assets</p> <p>At balance date, the carrying value of the Group’s intangible assets was \$115.3 million. Of this amount, \$81.0 million (2017: \$106.6 million) related to goodwill and brands, which are tested for impairment at least annually.</p> <p>To assess the carrying value of goodwill and brands, management used discounted cash flow models based on the fair value less cost to dispose methodology for each cash generating unit (CGU) and compared the valuations to the underlying carrying amount of the CGUs, including goodwill and brands.</p> <p>The assessment of impairment of the intangible assets was an area of audit focus due to the magnitude of the balances and the judgements applied by management in the assessment of impairment.</p> <p>The key assumptions adopted by management in their impairment assessment are described in Note 9.2. The assessment performed resulted in the conclusion that goodwill of \$25.6 million relating to the Torpedo7 CGU was fully impaired.</p>	<p>To respond to the risk of impairment of goodwill and brands, our audit procedures included the following:</p> <ul style="list-style-type: none">• Engaged our valuation expert to assist in our assessment of the reasonableness of certain assumptions used by management. In particular, we obtained an understanding of the terminal growth rates used by management and challenged the reasonableness of those rates by comparing them to comparable industry rates. We also compared the discount rate applied by management to the average cost of capital of the Group.• Reviewed management’s sensitivity analysis over the key assumptions and also considered alternative possible scenarios and their potential impact.• Assessed the reliability of management’s forecasts by performing a lookback analysis of historical forecasts against actual results.• For the Torpedo7 CGU, we understood the key changes between the performance for the 52 week period to 29 July 2018 to the forecast used in the impairment calculation. We considered these based on past performance and subsequent changes that have been made within the business.• For Torpedo7, we also considered whether assets other than goodwill were impaired.• Tested the mathematical accuracy of the underlying model.• Assessed the adequacy of disclosures in the financial statements. <p>We have no matters to report.</p>
<p>Valuation of inventory</p> <p>The Group had finished goods of \$494.0 million as at 29 July 2018 (2017: \$457.4 million).</p> <p>The inventory provision associated with finished goods of \$29.0 million (2017: \$22.5 million) was determined based on a combination of an automated system calculation as well as management’s assessment of discontinued, aged and clearance items.</p> <p>This was an area of focus due to the significance of the inventory balance and the judgements involved in determining the appropriate level of provisioning, including management’s expectations for future sales and estimation of inventory write-downs.</p> <p>Note 8.1 of the financial statements describes the judgements and estimates applied by management in determining the inventory provision.</p>	<p>Our audit procedures over the Group’s inventory provisioning methodology included the following:</p> <ul style="list-style-type: none">• Observed management’s stocktake process at selected locations and checked that obsolete inventory items were identified and accounted for.• Held discussions with management to understand and corroborate assumptions used to estimate inventory provisions.• On a sample basis, tested the net realisable value of finished goods by comparing the supplier invoice against the most recent retail price less cost to sell.• On a sample basis, reperformed the obsolescence and net realisable value system-generated calculations and tested inputs to detailed inventory listings.• Reviewed the inventory aging schedules to check, on a sample basis, whether provisions were recorded for aged stock in accordance with Group policy.• Obtained an understanding of specific inventory provisions calculated for certain inventory categories and checked that these additional provisions were appropriate based on review of aged stock and net realisable value.• On a sample basis, tested the accounting treatment of supplier rebates relating to inventory by comparing the rebate recorded versus the supplier agreement.• Compared all inventory provisions for each finished goods category as a percentage of the gross amount versus the prior year and understood the rationale for any changes. <p>From the procedures performed, we have no matters to report.</p>

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 those charged with governance 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.

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 Leopino Foliaki.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants, Auckland

20 September 2018