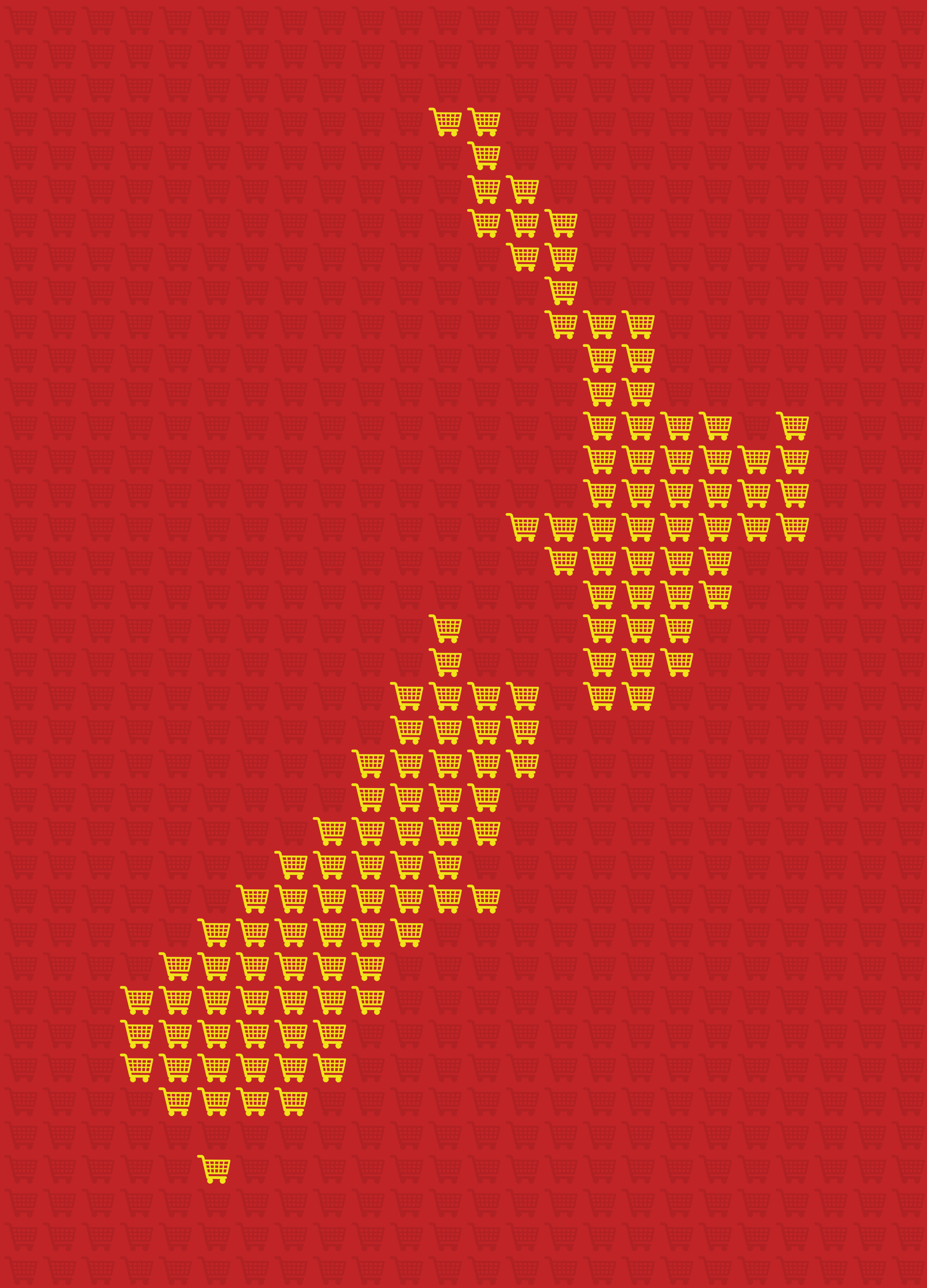
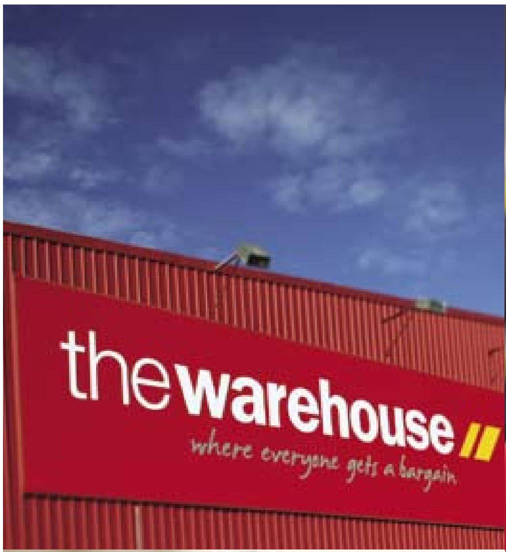


THE WAREHOUSE GROUP LIMITED // ANNUAL REPORT 2010



Peter Ward from The Warehouse South City.

Chachi Wiperi from The Warehouse Manukau.

Sia Tiumalu from The Warehouse Sylvia Park.

Arishma Chand from The Warehouse Sylvia Park.

Theresa Stowers from The Warehouse Manukau.

THE WAREHOUSE GROUP

TWO OF NEW ZEALAND'S MARKET-LEADING RETAILERS, DELIVERING OUTSTANDING VALUE EVERY DAY.

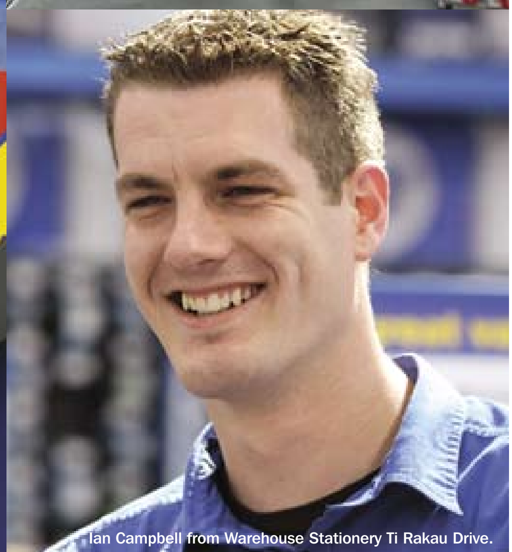
Krishna Siva from The Warehouse Westgate.


Hayley Robertson from Warehouse Stationery Manukau.


Tony He from Warehouse Stationery Ti Rakau Drive.


Lysah An from Warehouse Stationery Manukau.


Reon Scharvi from Warehouse Stationery Manukau.


Ian Campbell from Warehouse Stationery Ti Rakau Drive.


Mel Smith from Warehouse Stationery Ti Rakau Drive.


Kevin Chui from Warehouse Stationery Ti Rakau Drive.

CONTENTS

ANNUAL MEETING

The Annual Meeting of Shareholders of the Company will be held in the Guineas Ballroom, Ellerslie Event Centre, 80–100 Ascot Avenue, Greenlane East, Auckland, New Zealand, on Friday 26 November 2010 commencing at 10.00am.

This Annual Report is dated 15 October 2010 and is signed on behalf of the Board by:

Keith Smith
Chairman

Ian Morrice
Managing Director

thewarehouse

The Warehouse will make a difference to people's lives by making the desirable affordable and supporting New Zealand's communities and the environment.

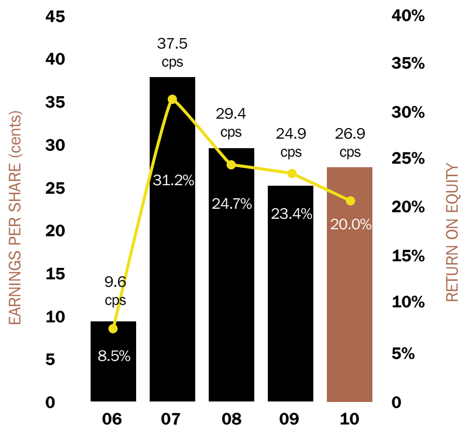
By putting the customer first, we will succeed. Everything we do flows from this principle.

We enjoy success through working together as one team.

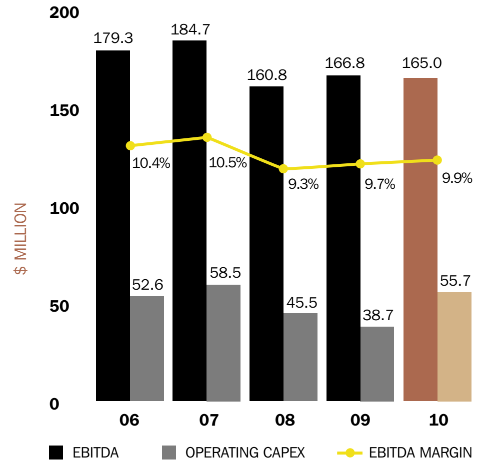
People choose to work for us because we care about and recognise individuals.

GROUP OVERVIEW

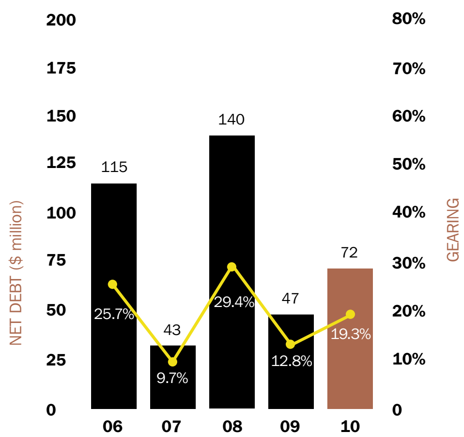
EARNINGS PER SHARE AND RETURN ON EQUITY



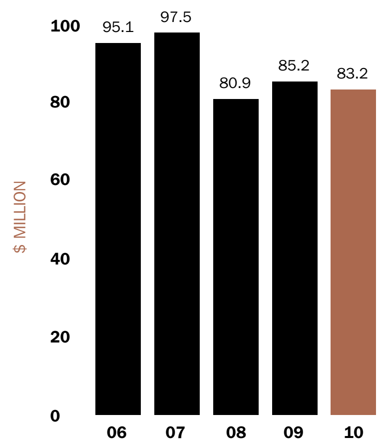
OPERATING EARNINGS AND INVESTMENT



DEBT POSITION AND GEARING



ADJUSTED NET PROFIT AFTER TAX



THE BOARD DECLARED A FINAL DIVIDEND OF 8.5CPS, BRINGING THE TOTAL ORDINARY DIVIDEND FOR THE YEAR TO 24.0CPS, UP 3.0CPS OR 14.3%

14.3%

PERFORMANCE

	2010 $ MILLION	2009 $ MILLION	MOVEMENT
The Warehouse	**1,476.2**	1,531.1	(3.6)%
Warehouse Stationery	**193.6**	187.2	3.4%
Other group operations	**8.1**	8.4	
Inter-segment eliminations	**(5.2)**	(5.9)	
Sales	**1,672.7**	1,720.8	(2.8)%
The Warehouse	**112.7**	120.2	(6.3)%
Warehouse Stationery	**8.0**	1.6	404%
Other group operations	**3.3**	3.2	7.2%
Operating profit	**124.0**	125.0	(0.7)%
Adjusted net profit after tax	**83.2**	85.2	(2.4)%
Ordinary dividends per share	**24.0 cents**	21.0 cents	
Special dividends per share	**6.5 cents**	10.0 cents	

THE WAREHOUSE

- Adjusting for F09's 53rd trading week and discontinued fresh food and liquor categories, sales down 1.4%
- Same-store sales down 2.2% on a like-for-like basis
- Achieved sales increases in growth categories
- Impacted by contraction of the Music and DVD market
- Increased overall share of the department store sector
- Online launch successful with first-year objectives met
- Opened small-format store at St Lukes
- 17 largest stores rebranded 'The Warehouse Extra'

WAREHOUSE STATIONERY

- Significant turnaround in performance
- Growth in sales and market share
- Same-store sales up 7.8% on a like-for-like basis
- A number of categories performed well – particularly Technology, including mobile phones, Consumables and Stationery
- Completed brand facelift of all 47 stores
- Opened new store in Ashburton. Additional eight stores underwent significant interior modernisation

The Group is a nationwide retailer of scale, comprising two of New Zealand's leading retail businesses. The Warehouse accounts for approximately 40% of the department store sector and 7.6% of the total non-food retail market. Warehouse Stationery is an office products retailer and holds an 8% share of its sector. The Group employs nearly 9,000 people throughout New Zealand.

THE WAREHOUSE

87*

STORES

* AS AT 1 AUGUST 2010

WAREHOUSE STATIONERY

47

STORES

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

The F10 year once again demonstrated that the Warehouse Group is resilient in difficult times, continuing to deliver consistent earnings and very good cash flows. This strong financial position gives the Board of Directors confidence to increase distributions to shareholders.

Sales for the Group were $1.67 billion, down 2.8% on the previous year. After adjusting for F09's 53rd trading week and discontinued fresh food and liquor categories, sales were down 0.6%. Adjusted net profit after tax was $83.2 million compared to $85.2 million in F09, down 2.4%.

Reported net profit after tax (NPAT) for the year ended 1 August 2010 was $60.2 million, including a non-cash charge of $22.8 million required as a result of government-announced changes to the income tax deductibility of depreciation on certain buildings. This compares to reported NPAT for the previous year of $76.8 million which included an after tax $7.4 million charge relating to the exit from fresh food and liquor.

The F10 non-cash charge in respect of the tax deductability of depreciation is included in the Financial Statements to achieve compliance with International Financial Reporting Standards. The Directors question the appropriateness of this charge and the application of the relevant Standard and its effect on reported results. It is our position that adjusted earnings is a more appropriate indicator of underlying performance.

THE WAREHOUSE

The Warehouse reported sales of $1.48 billion, down 3.6% compared to F09. After adjusting for F09's 53rd trading week and discontinued fresh food and liquor categories, sales were down 1.4%. Same-store sales were down 2.2% on a like-for-like basis. The Warehouse achieved earnings before interest and tax (EBIT) of $112.7 million, down 6.3% on last year. Poor seasonal sales led to significant discounting to clear inventory and to ensure that we started F11 in good shape. Further margin pressure in the year was also a result of a negative currency cycle with overseas products costed at an average of 61 cents to the US dollar compared to an average of 70 cents in the previous year.

The retail environment remained difficult, with recovery in overall consumption remaining subdued and patchy. In the first half it was clear that specialist retailers would recover at a faster pace than the department store sector and this trend continued into the second half. The Warehouse increased its overall share of the department store sector, although its share of the total non-food retail market fell slightly (0.2%).

Although the market remains challenging we continue to achieve positive results in key growth areas. Our online channel achieved its objectives set in its first year and is well positioned for significant growth in coming years. Also, customers are responding well to the investment being made in growth categories such as Footwear, Health and Beauty, Sporting and Jewellery and in improving the shopping environment in our stores. Our latest small format stores, St Lukes which opened in April and Rolleston in September, are both trading well.

WAREHOUSE STATIONERY

Warehouse Stationery achieved a significant turnaround in performance, reporting sales of $193.6 million up 3.4% on last year. After adjusting for F09's 53rd trading week, sales were up 5.5% with like-for-like same store sales up 7.8% for the year. EBIT for the year was $8.0 million compared to $1.6 million in F09.

The turnaround in Warehouse Stationery reflects an outstanding effort from the team to lift performance. Sales have recovered to 2008 levels, driving significant profit recovery for the business. The business continues to perform well and growth plans through category developments and new stores are well advanced.

DIVIDEND PAYOUT

Dividend policy was reviewed by the Board. Given the company's ability to continue generating solid operating cash flows in both the short term and longer term the payout ratio was increased from 75% to 90% of adjusted net profit.

The Board declared a final dividend of 8.5 cents per share (cps) bringing the total ordinary dividend for the year to 24.0cps, up 3.0cps or 14.3%. Due to strong cash flow performance and the availability of accumulated imputation credits the Directors also declared a special dividend of 5.0cps, bringing total special dividends for the year up to 6.5cps. The final and special dividends will be paid on 17 November 2010 and will be fully imputed at a rate of 30%.

Lifting the company's payout ratio is a key factor in achieving our stated aim of providing superior returns for shareholders over the long term.

NEW BOARD MEMBER

We welcome our new independent director, Mark Callaghan. Mark brings extensive fast moving consumable, commercial and marketing experience to the Board. He was most recently Managing Director of Cadbury Pty Ltd for Australia and New Zealand. We look forward to working with him and value the experience he brings to the team.

LOOKING AHEAD

Concerns expressed this time last year about the pace and sustainability of economic recovery proved well founded and similar concerns remain. Although we are optimistic about the New Zealand economy in the medium and longer term, we expect trading conditions to remain difficult for a period of time yet.

We anticipate continued inflationary pressure on product and operating costs and we will continue to pursue offsets to these through our cost reduction and productivity initiatives.

We will continue to reinforce our strong price and value proposition across both businesses and our investment programme in new and existing stores. Capital expenditure for F11 is expected to be between $50 and $60 million.

THANK YOU

On behalf of the Board and management we would like to thank our customers, shareholders, suppliers and business partners for their ongoing support.

We would like to also thank our teams throughout both businesses. Our people are highly passionate and committed team players at The Warehouse and Warehouse Stationery.

KEITH SMITH
Chairman

Ian R Morrice

IAN MORRICE
Group Chief Executive Officer and Managing Director

BOARD OF DIRECTORS

1 | GRAHAM EVANS
2 | JANINE SMITH
3 | SIR STEPHEN TINDALL
4 | IAN MORRICE
5 | ROBERT CHALLINOR
6 | KEITH SMITH
7 | JAMES OGDEN
8 | MARK CALLAGHAN

A MESSAGE FROM THE BOARD

On Saturday 4th September 2010, Christchurch was hit with the biggest earthquake in New Zealand since 1931, registering 7.1 on the Richter scale. The region, its people, homes and many businesses suffered huge losses.

The Warehouse Group's eight The Warehouse stores, South Island Distribution Centre and four Warehouse Stationery stores were closed on Saturday 4th September to enable engineers to inspect the sites to ensure they were structurally sound before trading recommenced.

Fortunately the impact of the quake and its aftershocks on the Group was relatively minor. Trading at all locations recommenced speedily as a result of the teamwork of management and our teams on the ground.

We would like to thank everyone in both The Warehouse and Warehouse Stationery Store Support Offices, the North Island Distribution Centre, and the stores outside Christchurch for your assistance to get our impacted stores back open and trading safely.

To all our teams in Christchurch we extend our heartfelt thanks to you and your families for working through this with us in what was a stressful period despite your own personal circumstances.

KEITH SMITH BCom, FCA

Chairman and Independent Non-Executive Director

TERM OF OFFICE: Appointed Director 10 June 1994, Chairman since public launch in 1994, last re-elected 2008 Annual Meeting

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

Keith, 58, has been involved with The Warehouse since Sir Stephen opened his first store in 1982, providing accounting, tax and corporate advice. He has a long-standing record of leadership as a director and advisor to companies in a diverse range of industries, including the energy sector, rural services, printing, media, meat by-products, tannery processing and exporting. He brings considerable experience and governance expertise to his role as Chairman of the board. He is Chairman of listed companies Goodman (NZ) Limited (the Manager of Goodman Property Trust) and Tourism Holdings Limited and is a director of Mighty River Power, NZ Farming Systems Uruguay Limited and PGG Wrightson Limited. Keith was previously a senior partner in the national accounting practice BDO Spicers. He is a past President of The New Zealand Institute of Chartered Accountants.

MARK CALLAGHAN BCA (Hons)

Independent Non-Executive Director

TERM OF OFFICE: Appointed Director 10 September 2010

Mark, 48, brings strong commercial expertise to the board from blue-chip 'Fast Moving Consumer Goods' manufacturing businesses. He has over 25 years in international Managing Director and marketing roles, predominantly in New Zealand and Australia. He is a past winner (1994) of New Zealand's 'Supreme Marketing' award, previous director of Cadbury Pty Ltd's Global Brand marketing group for confectionery, based out of the UK and a past president of the Association of New Zealand Advertisers. He was most recently Managing Director of Cadbury Pty Ltd for Australia and New Zealand, and is a former director of SIFE Australia and The Humour Foundation (Australia). Mark is a member of the Institute of Directors.

ROBERT CHALLINOR BCom, FCA, FCIS, CMA, AFInstD

Independent Non-Executive Director

TERM OF OFFICE: Appointed Director 28 November 1996, last re-elected 2008 Annual Meeting

BOARD COMMITTEES: Chairman of the Audit Committee and Member of the Corporate Governance Committee and Disclosure Committee

Rob, 68, brings strong corporate governance and finance expertise to the board. He has over 25 years' experience as a director of numerous public and private companies. Earlier in his career he was a partner with Deloitte New Zealand and investment bankers Northington Partners Limited. Rob is currently Chairman of listed investment companies Barramundi Limited, Kingfish Limited and Marlin Global Limited, and a director of listed CDL Investments New Zealand Limited. His former directorships include Mighty River Power Limited (Chairman), Ports of Auckland Limited, Electricity Corporation of New Zealand Limited, Tower Health and Life Limited (Chairman), Sheffield Limited (Chairman) and Television New Zealand Limited (Deputy Chairman).

GRAHAM EVANS

Independent Non-Executive Director

TERM OF OFFICE: Appointed Director 1 July 1998, last re-elected 2007 Annual Meeting

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

Graham, 71, brings broad experience to the board, particularly in the areas of business operations and development, strategic direction and performance improvement. He has more than 40 years' experience in the New Zealand retail sector. As a previous Managing Director of Woolworths NZ Limited for 14 years he is able to share his considerable retailing experience. In addition to his role as a director of The Warehouse Group, he is Chairman of Multichem Group Limited and associated companies.

IAN MORRICE MBA

Executive Director

TERM OF OFFICE: Appointed Managing Director and Chief Executive Officer 9 September 2004, last re-elected 2009 Annual Meeting

BOARD COMMITTEE: Member of the Disclosure Committee

Ian, 49, has had a career spanning more than 30 years in the retail industry. Since starting his retail career at age 17 he has been involved in most facets of retailing including merchandising, store formats, retail operations and marketing. He was formerly the Managing Director, Commercial for UK-based B&Q plc, Europe's largest DIY retailer, where he led the growth of the large-format B&Q Warehouse chain, expansion into Ireland, and the launch of financial services. Prior to that, Ian was Retail Director of the Woolworths UK chain of 800 stores. He has also held a number of senior executive positions at Dixons, Europe's leading electrical retailing group.

JAMES OGDEN BCA (Hons), FCA, FInstD

Independent Non-Executive Director

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

BOARD COMMITTEE: Member of the Audit Committee

James, 58, brings strong financial expertise to the board and director experience across a broad range of industries. He has had a distinguished career as an investment banker for eleven years, six years as Country Manager for Macquarie Bank and five years as a director of Credit Suisse First Boston. James has also worked in the New Zealand dairy industry in chief executive and finance roles for eight years. In addition to his role as a director of The Warehouse Group, he is a director of Vehicle Testing Group Limited and Academic Colleges Group Limited and is a member of the Council of Victoria University of Wellington. Former directorships include NZX-listed Powerco Limited and Capital Properties New Zealand Limited.

JANINE SMITH BCom

Independent Non-Executive Director

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

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

Janine, 55, brings to the board wide-ranging knowledge and expertise as a result of her experience as a CEO and director with companies in the commercial, arts and education sectors, both in New Zealand and overseas. She has 15 years' experience in the food and manufacturing industries. Janine specialises in boardroom practice, strategic planning, organisational development and organisational change issues for boards and management. She is currently Deputy Chair of the Kordia Group Limited, Chairman of McLarens Young New Zealand Limited and a Principal of The Boardroom Practice Limited. Former directorships include Bank of New Zealand, Airways Corporation and Auckland Philharmonia Orchestra. She is an alumna of the London Business School and the University of Auckland and is a member of the Institute of Directors.

SIR STEPHEN TINDALL KNZM, Dip. Mgt, FNZIM, HonD, DCom Honoris Causa

Founder and Non-Executive Director

TERM OF OFFICE: Appointed Director 10 June 1994, last re-elected 2007 Annual Meeting

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

Sir Stephen, 59, founded The Warehouse in 1982 and grew the company into a billion-dollar business before stepping down as Managing Director in 2001. His vision for creating an organisation to provide support for worthwhile initiatives benefiting New Zealand and New Zealanders resulted in the establishment of The Tindall Foundation promoting a 'hand up' rather than a 'hand out' philosophy. Sir Stephen has seen many personal honours and awards come his way. In August 2009 he was bestowed the accolade of knighthood in recognition of his work with New Zealand businesses and the community. He has helped ordinary Kiwis reach their potential and is a true leader across the spheres of business, community and the environment.

the**warehouse**

AFTER A STRONG PROFIT IMPROVEMENT REPORTED LAST YEAR WE WERE DISAPPOINTED NOT TO MAINTAIN THAT MOMENTUM. HOWEVER OUR OPERATING PROFIT REMAINS VERY STRONG AND THE CONTINUED EXCELLENT CASH FLOW CONTRIBUTION TO THE GROUP ENABLES US TO CONTINUE TO REWARD OUR SHAREHOLDERS.

GROCERY OUR REGULAR CUSTOMERS RECOGNISE THE OUTSTANDING VALUE WE OFFER EVERY WEEK FOR THEIR EVERYDAY NEEDS.

JEWELLERY OUR NEW DISPLAY COUNTERS AND EXTENDED RANGE ARE AVAILABLE IN OVER 50 STORES.

The continued recessionary environment and fragile recovery in consumer spending meant some specialist retail sectors saw a bounce back from their depressed sales period compared with the previous year. This meant that although our share of the department store sector held firm at 40%, our share of the overall non-food retail market fell back by 0.2%. A significant category for The Warehouse is Music and DVDs and in this past year contraction of this market is estimated to be over 15%. Whilst we grew our share of this shrinking market it contributed more than $13 million of the year-on-year sales shortfall.

For over two decades we have been New Zealand's leading retailer offering a wide choice for the whole family at bargain prices. We are a strong business with clear market leadership in the department store sector. The Warehouse's share at 7.6%[1] of the non-food retail market in New Zealand compares favourably to less than a 5% share being held by any single retailer in the UK, Canada, Australia or US.

Kiwi families come to us for a reason; we deliver on our promise to make a difference to people's lives by making the desirable affordable. We know from our customer research that over 90% of the population shopped with us at least once in the last year, and 80% of New Zealanders shopped in our stores in the last three months, results which demonstrate our enduring appeal.

No other retailer in the non-grocery market can match us for the breadth and depth of our product offering at bargain prices, our extensive network of stores nationwide with extended trading hours, our online offer and our money-back guarantee.

We will build on the strong bond we have with Kiwi families through focusing on the needs and wants of each family member; mums, dads, kids and grandparents. Our choice in categories such as Toys, Kidswear, Womenswear, Home Textiles, Kitchenware, Music and DVD, and Gaming ensure we are their chosen shopping destination.

STRATEGIC PRIORITIES

Our strategic priorities remain clear, to drive profitable growth through:

- putting our customers first, and responding to their needs and wants
- investing in and improving our stores across the country, including adding new selling space
- developing New Zealand's best retail multichannel offer
- keeping our business simple to reduce costs
- continuing to develop our talented teams, and offering rewarding retail careers

These priorities are important to create organic growth and also ensure continuous business improvement so that we maintain our position as New Zealand's leading retail business in the sectors in which we participate.

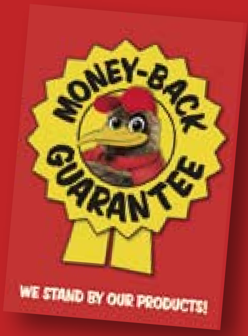
CUSTOMERS FIRST

We recognise that customers are increasingly looking for value and that means the right pricing, right quality and good service. In recent years we have made significant lifts in quality across many of our categories. Quality improvements result from our stringent requirements for product testing in areas such as fabric testing for wear and tear through to quality control carried out before products leave their country of origin. Improvements have been made throughout our Apparel, Footwear, Manchester and Homeware Categories and many of our home products now come with a two-year guarantee.

Further improvements are under way in our Electrical, Gardening Equipment and Sports Categories alongside improvements in sustainable packaging design and presentation. Our customers' quality perceptions are influenced also by our store environment and product presentation. Our in-store teams have clear performance measures to ensure that the customers' shopping experiences reinforce the improvements made in product specification and the addition of quality branded products to our offer.

[1] SOURCE: UBS/EUROMONITOR INTERNATIONAL 2009

OUR MONEY-BACK GUARANTEE is a strong point of difference to our customers and shows that we stand by the quality of our products. Details of our money-back guarantee are available on our website.



BOOKS A GREAT RANGE OF BOOKS FOR THE WHOLE FAMILY INCLUDING BEST SELLERS AT BARGAIN PRICES.

KIDSWEAR NEW ZEALAND MUMS SEE US AS A DESTINATION STORE FOR EVERYTHING THEY NEED FOR THEIR KIDS.

Continued investment in our stores to improve layout and displays is vital to show off our product quality to the maximum.

We stand by the quality of our products and our ‘no quibble’ money-back guarantee reinforces this confidence to our customers.

We have continued to increase the presence of top brands over the past year, such as: Arcosteel pots and pans, Mayfair and Jackson homeware, Antz Pantz lingerie, Diamondback bikes, Phillips and Tom Tom ranges of electronics, Everlast boxing gear, Dunlop Compression sporting wear, Navigator South camping gear, Mambo fashion wear and Havaianas footwear.

Through our scale and direct-sourcing model we are continually sourcing desirable products at break-through prices to keep our offer exciting and fresh. Our research shows customers continue to rate us significantly ahead of other retailers in having the best prices every day and this a key reason why we achieve such high market share.

Our research highlights the opportunity to improve our in-store experience. We carry out visits to each of our stores every two weeks to measure performance to ensure that what we want the customer to see and experience in-store is consistently executed across the country. These visits also include customer-exit interviews, to understand whether we are meeting or exceeding their expectations.

IMPROVING OUR STORES

Our programme of refreshing and refitting stores continued over the period. Our 17 largest stores were rebranded ‘The Warehouse Extra’ and now offer an extended range compared to our other Warehouse stores. These stores performed ahead of the company average in the past year, signifying that this extended offer is appealing to customers. We also rolled out modular investments in: Jewellery, Cards and Wrap, Home Textiles, Footwear, Fashion Accessories and Sporting Goods.

Following the launch of the Mosgiel small-format store in F09, we refined the model before opening our next two stores in St Lukes in April and Rolleston in September 2010.

Footprint growth plans are now well under way with a number of projects which will deliver additional new stores, replacement stores and extensions over the next five-year horizon, increasing our selling space by approximately 30,000 square metres.

MULTICHANNEL CAPABILITY

Our multichannel model offers total convenience for our customers, and it’s proving a winner.

In June 2009 we relaunched our website with the capability for online shopping. Kiwis took to The Warehouse’s new online channel with six million visits in F10, resulting in the site consistently ranking amongst the top shopping sites in New Zealand. Pleasingly, online sales exceeded our targets, with Christmas Day proving the biggest sales day so far, as online customers were able to start the Boxing Day Sale early as they vied for their desired items. We also know that many of our website visitors ultimately shop in-store, using the website to research first. Customer research shows this is typical use of a website, and why the launch of our multichannel model is such an important step for The Warehouse.

A year after launching the new site we’ve grown the range from 2,000 products across four categories (Books, Movies, Music and Gaming) to more than 10,000 products across 20 categories including some that are promoted to online shoppers only, for example quality floral bouquets and hampers. This expansion will continue and customers can expect more of their favourite in-store products to be made available online, as well as more online-only offerings. Investment at the back-end of our system and our flexible fulfilment model ensures we are able to continue to grow scale and with speed.

CAMPING

The high-quality Navigator South range introduced last year was an overwhelming success offering great quality at our every day low prices.

HEALTH AND BEAUTY WE OFFER A FULL RANGE OF THE LEADING BRANDS IN HEALTH AND BEAUTY ACROSS ALL OF OUR STORES.

FISHING TOGETHER WITH GRAEME SINCLAIR WE HAVE CHOSEN A RANGE OF QUALITY FISHING PRODUCTS TO CATER FOR THE OCCASIONAL THROUGH TO THE SERIOUS FISHERMAN.

Our fulfilment model currently uses a combination of Online Distribution Centre fulfilment, in-store pick by our Online Fulfilment team and delivery to store arrangements allowing flexibility and speed to market. This combination helps us manage our stockholding between the Online Distribution Centre and stores and leverage our existing fixed-cost base.

We were delighted to receive excellent customer commendations in our first year; 200,000 consumers in the 2010 NetGuide People's Choice Web Awards chose *thewarehouse.co.nz* as the Best Online Shopping Website and Best Relaunch/Innovation. We were also a finalist in the 2010 Australasian Online Retail Awards – great international recognition of our stellar launch and first year of operation.

KEEPING OUR BUSINESS SIMPLE

We continue to find opportunities to simplify the business and this was a significant positive factor in maintaining our robust profitability. From source to shelf we continually look for opportunities to improve and reduce costs while delivering better quality products to our shelves. For example, efficiencies were made throughout the business with significant improvements achieved in distribution and supply chain, advertising production and property costs. Cost reduction initiatives underpin our low price proposition.

Our improved store operating model was rolled out to all locations. Many of our objectives were achieved, including improving execution of daily activities, raising capability of our people and improving consistency of service delivery and performance. We will continue to invest in our store managers and will focus on providing them with tools to enable ongoing sustainability with the introduction of a modern labour scheduling package.

Our representative office in Shanghai had another excellent year of delivering cost savings and quality improvements, and overseeing our ethical sourcing programme.

Many of the strategic initiatives reported over the last two years are now embedded into our daily operations and the majority of our effort is focused on delivering our long-term strategy.

WAREHOUSE PEOPLE

It was another year of improved performance and significant investment in the talent and capabilities of our people. This focused investment over recent years is paying dividends to the business. We have great depth and breadth of talent among our people. Our pipeline of talent and our ability to continue to develop our people and provide rewarding careers will ensure we can continue to be agile and responsive to business needs.

We have continued to invest in leadership development through a number of programmes. The senior leadership development programmes that focus on commercial acumen, strategic thinking and effective leadership have been offered to more of our team from multiple disciplines and throughout the business. All Merchandise teams have now completed category management development training which ensure a consistent approach using international best practices. The Store Manager Development Programme continues to provide an ongoing pool of talent for our store management roles.

The return on investment in programmes such as these is evidenced by the fact that the number of internal appointments to senior roles has almost doubled from two years ago, and internal recruitment across all roles increased as our people have been better equipped to move around the organisation or step up to leadership positions. Having this succession capability is equipping us well for the future whilst also delivering short-term gains, including reduced recruitment costs and the retention of skills and organisational knowledge.

We know we are providing a safe, stable and rewarding workplace. Our overall retention rate was very high at 85% this year, while in our distribution centres retention was an exceptional 98%.

GARDENING

Our green-fingered customers continue to love the outstanding value across our full gardening offer.

FOOTWEAR WE ARE WELL KNOWN FOR ON-TREND VALUE FOOTWEAR FOR THE WHOLE FAMILY.

WOMENSWEAR OUR WOMENSWEAR APPAREL APPEALS WHETHER YOU ARE FASHION OR FITNESS CONSCIOUS.

Engagement levels in our distribution centres have also remained at extremely high levels. This is undoubtedly as a result of their concerted effort to improve both productivity and engagement, coupled with the roll-out of new targeted leadership and technical development programmes.

The annual engagement survey drew a record 94% response rate, telling us that our people like us to hear what they have to say. Our Lost Time Injury Frequency Rate has decreased by one third due to our ongoing focus and commitment to workplace well-being. In June 2010, we were audited by ACC and retained tertiary status for the fifth year running.

During the year, the company worked with both unions that represent our team members. We are currently working collaboratively to improve our work practices and training and make The Warehouse an even better workplace for our team.

Through ongoing investment we look forward to continuing to develop both our individual team members and our overall organisational capability.

FORWARD FOCUS

We have always taken a long-term view, and a strong business like The Warehouse is built on very firm foundations. This has ensured a robust performance through different economic cycles, our market share, sales and profitability are solid and our position as the market leader is proven. **Our investment programme over the next three years will strengthen our market leadership and cement our position as the favourite store for New Zealand families.**

Investment across our stores will result in over 50 stores being refreshed in the coming financial year. This will help support the product quality improvements, brand introductions and improved service delivery by our store teams. We plan to open two replacement and two extended stores in the next financial year as an important step toward achieving our footprint growth target.

We will continue to focus on growth in categories in large markets where we have a relatively small share by offering more choice and investing in modular resets as well as full refits as we continue to modernise the remainder of our store portfolio.

Our commitment to developing our people and providing rewarding career opportunities is a vital factor in achieving our growth plans.

We continue to take a leadership role and make a real difference to the communities in which we operate and to the environment. A summary of activities can be found on pages 14 and 15 and we will publish our tenth triple bottom-line report on our website later in the year.

The Warehouse relies on incredible support from all its stakeholders. This support is very much appreciated and is never taken for granted. I would like to thank our suppliers – we are proud to represent their brands and appreciate the innovation they bring to our business. I would like to also extend my thanks to each and every team member for their ongoing commitment to The Warehouse and ensuring we deliver our promise to our customers.

Ian R Morrice

IAN MORRICE
Group Chief Executive Officer and Managing Director

warehouse stationery

IT IS PLEASING TO REPORT A SIGNIFICANT TURNAROUND IN THE PERFORMANCE OF WAREHOUSE STATIONERY. AFTER TWO PREVIOUSLY DIFFICULT TRADING YEARS, WE ACHIEVED A COMMENDABLE TURNAROUND IN PERFORMANCE WITH GROWTH IN BOTH SALES AND MARKET SHARE IN CHALLENGING RETAIL CONDITIONS. SAME-STORE SALES WERE UP 7.8% WITH A NUMBER OF CATEGORIES PERFORMING WELL THROUGHOUT THE YEAR PARTICULARLY TECHNOLOGY, INCLUDING MOBILE PHONE SALES WHICH WERE INTRODUCED THIS FINANCIAL YEAR, CONSUMABLES AND STATIONERY.

TECHNOLOGY CONTINUALLY IMPROVING AND BROADENING OUR OFFER.

FURNITURE THE BEST-VALUE DESTINATION FOR FURNITURE FOR THE OFFICE.

When I assumed the leadership role 15 months ago the recession was affecting our performance, particularly in the high-ticket product offering as consumers and small businesses reduced spending on items like computer technology and furniture. Nevertheless, I had a strong belief in the proposition and market positioning of Warehouse Stationery. **The strategy was reset and we focused our attention on four platforms: a strong drive for profitable sales growth in our stores; reconfiguring the direct online business to support our core store business; improving our gross profit through a focus on trading terms, product mix, promotional mix and pricing; and rigorous management of our cost of doing business. With a determined effort from the Warehouse Stationery team we have made great progress across these four platforms.**

We are committed to driving sales by monitoring and leading the market on those products which are the key value drivers and price perceptors for our market. We offer a huge range of products at everyday low prices. During the period, we ramped up marketing efforts, leading the market with our best price guarantee for everyday needs and regularly offered reduced pricing on high-ticket deals such as furniture and technology. Alongside this an increased frequency in mailers and direct marketing to targeted businesses drew a positive response from customers resulting in an increase in foot traffic and sales. Our new ‘Bluebiz’ reward card was launched to both online and in-store customers allowing them to receive added-value offers and rewards with discounts and giveaway items.

Customer research and a desire to improve our offering to technology customers led to new and improved customer warranties as well as an improved finance offer to better meet customer needs. A new partnership with ‘Need a Nerd’, an information technology service provider, gives computer technology customers focused after-sales support and will drive an increase in our perception with customers and credibility in this important category. We will continue to make improvements and strengthen our position to ensure we are perceived as a serious destination for business customers.

Our Arts and Crafts and Stationery Categories have had their ranges reviewed, leading to new products and more complete customer offerings. These revitalised ranges have also contributed to our sales growth in the year.

Our stores are critical to not only how we are perceived but for the physical and emotional shopping experience of our customers. Through the period, we completed a brand facelift of all 47 stores to deliver a fresh and modern look to store exteriors across the country. We are pleased with the fresh, clean, consistent look and feel. One new store was opened in Ashburton whilst a further eight stores underwent significant interior modernisation.

In-store investment to improve the quality of display areas such as in our computer technology range resulted in upgrading all computer and laptop display tables delivering a more professional presentation. Additionally, all copy centres were refreshed with new point of sale and new services.

Our long-term investment in store footprint growth will ultimately allow us to leverage our national scale and deliver higher returns to shareholders. A full pipeline of new store prospects has been identified in preparation for our new store expansion plan in the next 12 to 18 months. In the near-term, plans are in place to open three new stores before Christmas 2010.

The Warehouse Stationery website underwent a number of improvements to speed and usability. We closed our central web-order fulfilment distribution centre and replaced it with four store-based fulfilment centres, significantly reducing fixed costs and improving delivery lead times. At the same time, we closed our import distribution centre and outsourced the operation to a third-party logistics provider, again leading to significant fixed-cost reduction. Additional cost savings were gained through lower communications costs, rent decreases from resized stores and lower shrinkage costs.

INVESTMENT IN OUR PEOPLE

The engagement of our people is of strategic importance to the business. Engaged employees are more productive, more customer-focused, safer and less likely to leave.

BRAND FACELIFT

We completed a brand facelift of all 47 stores to deliver a fresh and modern look to store exteriors across the country, and opened our new store in Ashburton.

ARTS AND CRAFTS REVITALISED RANGES HAVE EXTENDED OUR CUSTOMER REACH.

STATIONERY OUR CORE OFFER WITH A HUGE RANGE AT LOW PRICES.

We were very pleased to achieve a significant year-on-year lift in engagement using the JRA Best Workplaces Survey as our measure. Our targeted development and investment in our people is continuing to serve us well with more engaged employees.

We have continued to embed our Working Smarter store operating model, which defined the roles and behaviours expected of all our team members to assist us to achieve a retail best-practice way of working. A range of targeted training and leadership programmes and tools were developed and rolled out to assist store management, completing the portfolio of in-store training to support the model. A significant investment was made in 'Selling Smarter', our comprehensive online sales training, which was rolled out to all store-based team members to build customer service capability and to embed our solutions-based selling philosophy. This has been supported by the installation of computers in every store nationwide dedicated solely for training purposes.

Additional investment in training at all levels of the organisation included comprehensive on-the-job training from induction into the Warehouse Stationery culture, how we do things and detailing unique technical aspects of individual roles. This investment is important to our business as we build capability and bench strength throughout the organisation. Pleasingly this year, we received external recognition when we won the New Zealand Association for Training and Development initiative of the year for our new training modules. Keeping the modules fresh and relevant is important to us and we will update these in the next calendar year.

DOING GREAT THINGS IN THE COMMUNITY

As a good corporate citizen we like to make a difference. Fund-raising activities in our stores is a great way for our people to work in partnership with our customers to do just that. Support was given to the victims of the Samoan Tsunami, and locally to the Cancer Society, SPCA, The Hearing House and the Southern Cochlear Implant Paediatric Programme.

Our commitment to supporting the youth of New Zealand is demonstrated through our involvement in a number of outreach and support initiatives. We continue our long association with First Foundation. We are truly committed to their model of giving young New Zealanders with plenty of talent but few financial resources a 'hand up' as they pursue a tertiary education.

Again in support of youth, this year we took an active role with Making it on My Own (MIOMO). This is an innovative 10-day live-in programme offering life and leadership skills for 17 to 24 year olds. Warehouse Stationery provided MIOMO scholarships for our team members, their children and for youth in the community.

LOOKING AHEAD

We have delivered a successful turnaround and put in place the foundation on which to build a more profitable business in the future. We have a strong base to go forward with our strategic plan and will drive for continuous business improvement.

It has been satisfying to lead this first step-change in performance; now we have to drive harder to achieve the long-term returns we believe are achievable from this business. I know we have the fundamentals of retail firmly in place: product, price, promotion and store environment. We will continue to focus on improving all these facets of our business in the coming year.

MARK POWELL
Chief Executive Officer
Warehouse Stationery

Communities and Environment

AT THE WAREHOUSE, WE RECOGNISE THAT CHOICES WE MAKE TODAY AFFECT THE FUTURE ENVIRONMENT. WE NEED TO PLAY OUR PART IN ENSURING THAT GROWTH TODAY DOES NOT COMPROMISE OPPORTUNITIES FOR FUTURE GENERATIONS. TO BE A SUSTAINABLE BUSINESS, WE NEED TO EXTEND OUR CONSCIENCE BEYOND IMMEDIATE COMMERCIAL IMPERATIVES. WE BELIEVE THAT THIS IS GOOD FOR BUSINESS, AND FOR THE LONG-TERM INTERESTS OF OUR SHAREHOLDERS AND OTHER STAKEHOLDERS.

Taking a leadership role and demonstrating this through our performance across a range of indicators is therefore critical to us. We are pleased to report the following progress across most of our key community and environment indicators for F10:

Our People

Focus and investment on developing internal leadership is paying dividends with almost double the number of senior appointments being filled internally compared to just two years ago. Our retention rates remain high at 85% and safety and wellness initiatives such as our 'Teamsafe' programme delivered a 33% reduction in hours lost due to injury.

Our Communities

The Warehouse, its customers, team members and suppliers continued to combine efforts and show their support by fund-raising and donating over $2.3 million to many of New Zealand's leading and deserving charitable groups.

Customer support for our 'Bags for Good' campaign has continued to be outstanding. We are very proud to report only around 15% of customers are now requesting a plastic bag at the time of purchase. This means that from our 2008 baseline we have been able to reduce the numbers of bags we issue by 83%, equivalent to approximately 330 tonnes of plastic. All profits from bag sales are distributed by our stores to a locally chosen community project. This year profits distributed amounted to $432,000.

Ethical Sourcing

Our Ethical Sourcing Programme focuses on labour standards in our Asian supply chain, this year reaching more factories and suppliers than ever before. We developed new processes and information systems to strengthen the initiative as we go forward. Encouragingly, audit findings show our programme can generate steady improvements for workers in unison with the efforts of other brands and government support for increasing minimum wages.

The Environment

Over the last three years we have driven a concerted campaign to reduce waste arising from our store operations, resulting in a reduction of almost 50%. Store waste is measured relative to sales and linked to each store's performance scorecard. We will continue to explore further waste reduction opportunities going forward.

After a very successful reduction in our carbon footprint in F09, as a result of the implementation of transport efficiencies, we held our carbon footprint relatively flat in F10. Increases in energy use, such as the consumption of lighting and air conditioning, were not fully offset by reductions achieved elsewhere. However, the introduction of new energy-efficient T5 lighting is under way and in the coming year we believe we will achieve sufficient scale to offset increased usage.

For more information please download our 10th Communities and Environment Report from **www.thewarehouse.co.nz**

10TH

We have improved the timing and relevance of our Communities and Environment communications. Visitors to our website now follow our progress in a dedicated Communities and Environment section. Detailed activity can be found under People, Planet and Profit banners.
www.thewarehouse.co.nz

Supporting Communities & Environment

WE STRIVE TO ENSURE THAT ALL OUR STAKEHOLDERS – CUSTOMERS, TEAM MEMBERS, SHAREHOLDERS, SUPPLIERS AND THE WIDER COMMUNITY – BENEFIT FROM OUR RETAIL ACTIVITY.

7,805	84.8%	$2.3M	78%
TEAM MEMBERS	RETENTION RATES	CHARITY FUND-RAISING	FACTORY SCORE AVERAGE
2009 **7,632**	2009 **78.8%**	2009 **$1.8m**	2009 **75%**
2008 **8,001**	2008 **67.1%**	2008 **$2.5m**	2008 **74%**

18,427	7,232,136	154	23,526
WASTE (M^3)	PLASTIC BAGS ISSUED	ELECTRICITY (STORE KWH/SQM/PA)	CARBON (TONNES CO_2)
2009 **22,972**	2009 **27,042,000**	2009 **148**	2009 **23,376**
2008 **28,851**	2008 **43,370,500**	2008 **153**	2008 **27,446**

(THE INFORMATION CONTAINED ON PAGES 14 AND 15 RELATE SPECIFICALLY TO THE WAREHOUSE LIMITED)

FINANCIAL INFORMATION, GOVERNANCE & DISCLOSURES

Trading conditions proved as challenging in 2010 as they were in 2009. However, the Group maintained both earnings and strong operating cash flows setting a sound foundation for our refinancing programme. In issuing a senior fixed rate bond during the year we were able to achieve diversification in sources of finance and to increase tenor in line with our long term capital investment intentions.

Luke Bunt – Group Chief Financial Officer

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Financial Statements

FOR THE 52 WEEK PERIOD ENDED 1 AUGUST 2010

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

These financial statements have been approved for issue by the board of directors on 9 September 2010.

Keith Smith
Chairman

Ian Morrice
Managing Director

CONTENTS

Consolidated Income Statements

FOR THE 52 WEEK PERIOD ENDED 1 AUGUST 2010

	NOTE	GROUP 2010 (52 WEEKS) $ 000	GROUP 2009 (53 WEEKS) $ 000	PARENT 2010 (52 WEEKS) $ 000	PARENT 2009 (53 WEEKS) $ 000
Revenue		1,672,695	1,720,755	–	–
Cost of sales		(1,064,012)	(1,087,375)	–	–
Gross profit		608,683	633,380	–	–
Other income	6	6,984	6,542	101,139	65,351
Employee expenses	7	(268,665)	(280,824)	–	–
Lease and occupancy expenses	8	(78,330)	(81,664)	–	–
Depreciation and amortisation expenses	9	(40,937)	(41,840)	–	–
Other operating expenses	10	(103,686)	(110,642)	(3)	(6)
Operating profit		124,049	124,952	101,136	65,345
Gain on disposal of property	25	–	315	–	–
Changes in fair value of financial instruments	4	(282)	(1,698)	–	–
Fresh food and liquor decommissioning costs	12	–	(10,661)	–	–
Equity earnings of associate	27	2,808	3,220	–	–
Earnings before interest and tax		126,575	116,128	101,136	65,345
Net interest expense	11	(7,409)	(6,837)	–	–
Profit before tax		119,166	109,291	101,136	65,345
Income tax expense before Government Budget changes	13	(35,590)	(32,295)	1	2
Income tax expense relating to Government Budget changes	13	(23,036)	–	–	–
Income tax expense		(58,626)	(32,295)	1	2
Net profit for the period		60,540	76,996	101,137	65,347
Attributable to:					
Shareholders of the parent		60,185	76,782	101,137	65,347
Minority interests	32	355	214	–	–
		60,540	76,996	101,137	65,347
Basic earnings per share	16	19.5 cents	24.9 cents		
Diluted earnings per share	16	19.4 cents	24.8 cents		
Net assets per share	17	98.0 cents	104.3 cents		

Consolidated Statements of Comprehensive Income

FOR THE 52 WEEK PERIOD ENDED 1 AUGUST 2010

	NOTE	GROUP 2010 (52 WEEKS) $ 000	GROUP 2009 (53 WEEKS) $ 000	PARENT 2010 (52 WEEKS) $ 000	PARENT 2009 (53 WEEKS) $ 000
Net profit for the period		60,540	76,996	101,137	65,347
Changes in cash flow hedge reserve					
Movement in cash flow hedges	22	23,934	(34,750)	–	–
Income tax relating to movement in cash flow hedges	24	(7,204)	10,425	–	–
Other comprehensive income		16,730	(24,325)	–	–
Total comprehensive income		77,270	52,671	101,137	65,347
Total comprehensive income for the period is attributable to:					
Shareholders of the company		76,915	52,457	101,137	65,347
Minority interest		355	214	–	–
Comprehensive income		77,270	52,671	101,137	65,347

The accompanying statement of accounting policies and notes to the financial statements on pages 23 to 63 form an integral part of the financial statements.

Consolidated Balance Sheets

AS AT 1 AUGUST 2010

	NOTE	GROUP 2010 $ 000	GROUP 2009 $ 000	PARENT 2010 $ 000	PARENT 2009 $ 000
ASSETS					
Current assets					
Cash and cash equivalents	18	**101,226**	52,752	**2,530**	2,528
Trade and other receivables	21	**16,929**	24,466	**–**	–
Inventories	19	**254,606**	257,943	**–**	–
Derivative financial instruments	22	**167**	122	**–**	–
Taxation receivable	23	**–**	557	**1,079**	741
Total current assets		**372,928**	335,840	**3,609**	3,269
Non-current assets					
Trade and other receivables	21	**2,091**	–	**–**	–
Property, plant and equipment	25	**272,346**	257,488	**–**	–
Computer software	26	**21,040**	23,192	**–**	–
Investments	27	**5,921**	7,376	**42,000**	42,000
Derivative financial instruments	22	**706**	508	**–**	–
Intercompany advances		**–**	–	**316,149**	217,062
Deferred taxation	24	**–**	24,844	**–**	–
Total non-current assets		**302,104**	313,408	**358,149**	259,062
Total assets	5	**675,032**	649,248	**361,758**	262,331
LIABILITIES					
Current liabilities					
Borrowings	29	**75,000**	–	**–**	–
Trade and other payables	20	**120,056**	137,459	**949**	–
Derivative financial instruments	22	**3,586**	27,063	**–**	–
Taxation payable	23	**11,350**	–	**–**	–
Provisions	28	**37,649**	43,939	**–**	–
Total current liabilities		**247,641**	208,461	**949**	–
Non-current liabilities					
Borrowings	29	**98,642**	100,000	**98,480**	–
Derivative financial instruments	22	**3,269**	3,522	**–**	–
Provisions	28	**16,637**	16,121	**–**	–
Deferred taxation	24	**5,597**	–	**–**	–
Total non-current liabilities		**124,145**	119,643	**98,480**	–
Total liabilities	5	**371,786**	328,104	**99,429**	–
Net assets		**303,246**	321,144	**262,329**	262,331
EQUITY					
Contributed equity	30	**243,183**	237,089	**251,445**	251,445
Reserves	31	**(585)**	(17,083)	**–**	–
Retained earnings	33	**60,308**	100,887	**10,884**	10,886
Total equity attributable to shareholders		**302,906**	320,893	**262,329**	262,331
Minority interest	32	**340**	251	**–**	–
Total equity		**303,246**	321,144	**262,329**	262,331

The accompanying statement of accounting policies and notes to the financial statements on pages 23 to 63 form an integral part of the financial statements.

Consolidated Statements of Cash Flows

FOR THE 52 WEEK PERIOD ENDED 1 AUGUST 2010

	NOTE	GROUP 2010 (52 WEEKS) $ 000	GROUP 2009 (53 WEEKS) $ 000	PARENT 2010 (52 WEEKS) $ 000	PARENT 2009 (53 WEEKS) $ 000
Cash flows from operating activities					
Cash received from customers		1,687,894	1,738,414	–	–
Dividends received from subsidiary companies		–	–	101,139	65,351
Interest income		927	1,101	1,240	–
Payments to suppliers and employees		(1,529,539)	(1,517,104)	(3)	(6)
Income tax paid		(22,181)	(19,108)	–	–
Interest paid		(7,950)	(8,844)	(1,240)	–
Net cash flows from operating activities		129,151	194,459	101,136	65,345
Cash flows from investing activities					
Proceeds from sale of property, plant & equipment and computer software		401	1,489	–	–
Staff share purchase advances repaid		84	2	–	–
Advances (to) / from subsidiary companies		–	–	(97,317)	763
Dividend received from associate	27	4,263	3,035	–	–
Purchase of property, plant & equipment and computer software		(57,280)	(37,103)	–	–
Refund of staff share purchase advances		(2)	–	–	–
Net cash flows from investing activities		(52,534)	(32,577)	(97,317)	763
Cash flows from financing activities					
Net proceeds from senior bond		98,400	–	98,400	–
Repayment of short term bank borrowings		–	(57,000)	–	–
Repayment of term bank borrowings		(25,000)	–	–	–
Purchase of treasury stock	30	–	(3,942)	–	–
Treasury stock dividends received	33	940	664	–	–
Dividends paid to parent shareholders		(102,217)	(66,090)	(102,217)	(66,090)
Dividends paid to minority shareholders	32	(266)	(154)	–	–
Net cash flows from financing activities		(28,143)	(126,522)	(3,817)	(66,090)
Net cash flow		48,474	35,360	2	18
Opening cash position		52,752	17,392	2,528	2,510
Closing cash position	18	101,226	52,752	2,530	2,528

The accompanying statement of accounting policies and notes to the financial statements on pages 23 to 63 form an integral part of the financial statements.

Consolidated Reconciliation of Operating Cash Flows

FOR THE 52 WEEK PERIOD ENDED 1 AUGUST 2010

	NOTE	(52 WEEKS) GROUP 2010 $ 000	(53 WEEKS) GROUP 2009 $ 000	(52 WEEKS) PARENT 2010 $ 000	(53 WEEKS) PARENT 2009 $ 000
Profit after tax		60,540	76,996	101,137	65,347
Non-cash items					
Depreciation and amortisation expense	5	40,937	41,840	–	–
Share based payment expense	31	2,609	2,600	–	–
Interest amortisation		57	–	80	–
Movement in deferred tax	24	23,237	(248)	–	–
Changes in fair value of financial instruments	4	282	1,698	–	–
Share of surplus retained by associate	27	(2,808)	(3,220)	–	–
Total non-cash items		64,314	42,670	80	–
Items classified as investing or financing activities					
Net (gain) / loss on sale of property, plant and equipment		1,623	1,274	–	–
Fresh food and liquor decommissioning costs	12	–	7,938	–	–
Supplementary dividend tax credit	23	1,078	739	1,078	739
Total investing and financing adjustments		2,701	9,951	1,078	739
Changes in assets and liabilities					
Trade and other receivables		8,076	2,131	–	–
Inventories		3,337	17,638	–	–
Intercompany advances		–	–	(1,030)	(3,402)
Trade and other payables		(15,950)	12,454	949	–
Provisions		(5,774)	20,797	–	–
Income tax		11,907	11,822	(1,078)	2,661
Total changes in assets and liabilities		1,596	64,842	(1,159)	(741)
Net cash flows from operating activities		129,151	194,459	101,136	65,345

The accompanying statement of accounting policies and notes to the financial statements on pages 23 to 63 form an integral part of the financial statements.

Statements of Changes in Equity

FOR THE 52 WEEK PERIOD ENDED 1 AUGUST 2010

GROUP	SHARE CAPITAL $ 000	TREASURY STOCK $ 000	CASH FLOW HEDGE RESERVE $ 000	EMPLOYEE SHARE BENEFITS RESERVE $ 000	RETAINED EARNINGS $ 000	MINORITY INTEREST $ 000	TOTAL EQUITY $ 000
For the 52 week period ended 1 August 2010							
Balance at the beginning of the period	**251,445**	**(14,356)**	**(20,737)**	**3,654**	**100,887**	**251**	**321,144**
Net profit for the period	–	–	–	–	**60,185**	**355**	**60,540**
Net change in fair value of cash flow hedges	–	–	**16,730**	–	–	–	**16,730**
Total comprehensive income	–	–	**16,730**	–	**60,185**	**355**	**77,270**
Share based payments charged to the income statement	–	–	–	**2,609**	–	–	**2,609**
Share rights exercised	–	**1,751**	–	**(2,471)**	**720**	–	–
Shares issued to employee share purchase plan	–	**4,355**	–	**(370)**	**(1,285)**	–	**2,700**
Dividends paid	–	–	–	–	**(101,139)**	**(266)**	**(101,405)**
Treasury stock dividends received	–	–	–	–	**940**	–	**940**
Purchase of treasury stock	–	**(12)**	–	–	–	–	**(12)**
Balance at the end of the period	**251,445**	**(8,262)**	**(4,007)**	**3,422**	**60,308**	**340**	**303,246**
	(note: 30)	(note: 30)	(note: 31)	(note: 31)	(note: 33)	(note: 32)	
For the 53 week period ended 2 August 2009							
Balance at the beginning of the period	251,445	(12,672)	3,588	3,586	88,518	191	334,656
Net profit for the period	–	–	–	–	76,782	214	76,996
Net change in fair value of cash flow hedges	–	–	(24,325)	–	–	–	(24,325)
Total comprehensive income	–	–	(24,325)	–	76,782	214	52,671
Share based payments charged to the income statement	–	–	–	2,600	–	–	2,600
Share rights exercised	–	2,258	–	(2,532)	274	–	–
Dividends paid	–	–	–	–	(65,351)	(154)	(65,505)
Treasury stock dividends received	–	–	–	–	664	–	664
Purchase of treasury stock	–	(3,942)	–	–	–	–	(3,942)
Balance at the end of the period	251,445	(14,356)	(20,737)	3,654	100,887	251	321,144
	(note: 30)	(note: 30)	(note: 31)	(note: 31)	(note: 33)	(note: 32)	

PARENT	SHARE CAPITAL $ 000	RETAINED EARNINGS $ 000	TOTAL EQUITY $ 000
For the 52 week period ended 1 August 2010			
Balance at the beginning of the period	**251,445**	**10,886**	**262,331**
Total comprehensive income	–	**101,137**	**101,137**
Dividends paid	–	**(101,139)**	**(101,139)**
Balance at the end of the period	**251,445**	**10,884**	**262,329**
	(note: 30)	(note: 33)	
For the 53 week period ended 2 August 2009			
Balance at the beginning of the period	251,445	10,890	262,335
Total comprehensive income	–	65,347	65,347
Dividends paid	–	(65,351)	(65,351)
Balance at the end of the period	251,445	10,886	262,331
	(note: 30)	(note: 33)	

The accompanying statement of accounting policies and notes to the financial statements on pages 23 to 63 form an integral part of the financial statements.

Notes to and forming part of the Financial Statements

FOR THE 52 WEEK PERIOD ENDED 1 AUGUST 2010

1. SUMMARY OF ACCOUNTING POLICIES

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

Reporting entity

The Warehouse Group Limited is a company registered under the New Zealand Companies Act 1993 and is listed on the New Zealand and Australian stock exchanges. The Warehouse Group Limited is an issuer for the purposes of the New Zealand Financial Reporting Act 1993. The Group is designated as a profit oriented entity for financial reporting purposes. The consolidated financial statements of The Warehouse Group Limited have been prepared in accordance with the New Zealand Companies Act 1993 and New Zealand Financial Reporting Act 1993. The reporting currency used in the preparation of the financial statements is New Zealand dollars, rounded to the nearest thousands. Ordinary shares and share rights/options disclosures are also rounded to the nearest thousands.

Reporting period

The Group has reported its full year result on a 52 week basis. The current year represents the period commencing 3 August 2009 to 1 August 2010. The prior full year comparative period is reported on a 53 week basis. The prior full year comparative represents the period commencing 28 July 2008 to 2 August 2009.

Historical cost convention

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

(a) Basis of consolidation

The consolidated financial statements include the parent company and its subsidiaries, associates and joint venture investments. Subsidiaries have been consolidated using the purchase method.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

(b) Joint ventures

Where the Group invests in joint ventures, the Group's share of revenues, expenditures, assets and liabilities are included in the appropriate categories within the financial statements.

(c) Associates

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

(d) Statement of cash flows

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

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

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(e) Revenue recognition

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

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

(f) Property, plant and equipment

Cost

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

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

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

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

Depreciation

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

Estimated useful life of property, plant and equipment:

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

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

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

(g) Income tax

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries, associates and joint venture investments 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.

(h) 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.

(i) Cash and cash equivalents

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

(j) Inventories

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

(k) Investments in subsidiaries

Investments are stated at the lower of cost or net realisable value.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(l) Trade receivables

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

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

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

(m) Leases

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

(n) Intangible assets

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

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

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

(o) Impairment of non-financial assets

Assets that are subject to amortisation or depreciation are reviewed (at least annually) for impairment or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

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

(p) Employee benefits

(i) Wages and salaries, annual leave and sick leave

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

(ii) Long service leave

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

(iii) Performance incentive payments

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

(iv) Equity settled share-based compensation

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

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

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

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

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (continued)

(v) Cash settled share-based payments

The Group introduced a cash settled share-based compensation plan for holders of 'performance shares' (refer note 15) granted in April 2007 and November 2007.

Cash-settled share-based payments are recognised at the fair value of the liability incurred and are expensed over the period of the plan. The liability is remeasured at each balance sheet date to its fair value, with all changes recognised immediately as either a profit or a loss. Fair value is determined based on management's assessment of achieving the share price targets.

(vi) Employee share purchase plan

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

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

(q) Derivatives

The Group is party to the following financial derivatives:

- forward foreign exchange rate contracts;
- interest rate swaps; and
- electricity hedge contracts.

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

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

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

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

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

(i) Cash flow hedge

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

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

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

(ii) Fair value hedge

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(r) Fair value estimation

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

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

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

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

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

(s) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are normally unsecured and are usually settled within 30 days of recognition.

(t) Borrowings

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

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

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

(u) Intercompany advances

Intercompany advances between the parent company and its subsidiaries are non interest bearing and repayable on demand. Management's expectation is that these advances will not be repaid within the next 12 months and has classified the advances as non-current assets.

(v) Provisions

Provisions for legal claims and warranties are recognised when:

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

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

(w) Segment reporting

An operating segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments.

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

(x) Contributed equity

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

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

(y) Dividends

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

(z) Foreign currencies

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

(aa) Operating profit

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

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(ab) Changes to accounting policies that have been adopted for new accounting standards and new interpretations in the preparation and presentation of the financial statements:

NZ IAS 1 (Revised) *Presentation of Financial Statements* is effective for annual reporting periods beginning on or after 1 January 2009. The application of this revised standard did not affect any of the amounts recognised in the financial statements, but introduces the concept of comprehensive income in the presentation of financial statements and changes the presentation of the statement of changes in equity.

NZ IFRS 7 (Amendment) *Financial Instruments: Disclosures* – improving disclosures about financial instruments is effective for periods beginning on or after 1 January 2009. The amended standard requires additional disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of the fair value measurement hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The amended standard results in additional disclosures with no impact on reported earnings.

NZ IFRS 8 *Operating Segments* – the Group early adopted this standard in the previous financial year. The new standard required a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segment results disclosed (refer note 5) are based on those reported to the Group's board and are consistent with the way the Group had previously disclosed segment information.

(ac) New accounting standards, amendments and interpretations to existing standards that are not yet effective, and have not been early adopted by the Group, are:

NZ IFRS 9 *Financial Instruments* is effective for periods beginning on or after 1 January 2013. The new standard requires two primary measurement categories for financial assets, amortised cost and fair value, with classification depending upon the entity's business model, and the contractual cash flow characteristics of the financial asset. Management is currently in the process of evaluating the potential effect of adoption of NZ IFRS 9, but the impact of the standard is not expected to be material to the Group.

On 17 August 2010, the International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) published joint exposure drafts (ED), with the IASB issuing ED 2010/9 Leases.

The ED proposes new models for lessee and lessor accounting, which would change current lease accounting requirements significantly. Under the proposed 'right-of-use' model, all leases would effectively be 'on balance sheet'. The calculation of recognised amounts would be based on an 'expected outcome' approach, requiring both up-front and continuous estimates of lease term, contingent rentals and residual guarantees.

The closing date for comments on IASB ED 2010/9 is 15 December 2010, and at this stage the IASB and FASB are expecting to finalise the proposals and issue a new IFRS in June 2011.

Management is currently in the process of evaluating the potential effects of the exposure draft; however, it is expected that if the proposed new IFRS is substantially the same as the ED, it will significantly impact both the Group's income statement and balance sheet.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and have a risk of causing a significant adjustment to the carrying amounts of assets and liabilities in future periods.

(a) Carrying value of deferred taxation (note 13, 24)

The Group calculates the value of deferred taxation in accordance with NZ IAS 12 Income Taxes (NZ IAS 12). NZ IAS 12 requires deferred taxation to be provided on all temporary differences at balance date between the tax carrying value of assets and liabilities and the accounting carrying value for financial reporting purposes. In May 2010, the Government announced changes to the tax legislation to remove the ability to depreciate building structures for tax deductions when the life of the building is equal to or greater than 50 years.

For the Group the application of this taxation change under NZ IAS 12 creates a tax carrying value of nil from August 2011 onwards for these buildings, increases the deferred taxation liability by $22.814 million, including the future change in the income tax rate from 30% to 28%, and creates a one-off, non-cash accounting adjustment to taxation expense for deferred tax on buildings for the current year of $22.814 million.

The non-cash accounting adjustment to taxation expense and to deferred taxation, noted above, complies with NZ IFRS as required by the Financial Reporting Act 1993. The application of the current NZ IAS 12 creates a large deferred taxation liability which does not reflect taxation payable if the assets were for sale or sold.

Further, the definition of what constitutes a building for taxation purposes is still being clarified by Inland Revenue and Treasury. The adjustment to deferred taxation on buildings represents the best estimate of the building definition as at balance date, based on current information.

The directors question the appropriateness of the one-off, non-cash adjustment to the taxation expense and deferred taxation liability referred to above that arises from obligatory compliance with NZ IFRS and thus NZ IAS 12. The directors consider it appropriate to provide the additional information set out in this note and notes 13 and 24 being information that the directors consider is integral to the truth and fairness of the financial statements. The directors note that the IASB is currently reviewing the application of NZ IAS 12.

(b) Property, plant and equipment and computer software development (note 25, 26)

Capitalisation

Accounting for self-constructed assets requires judgements to be made about whether the costs incurred should be capitalised as they relate to bringing an asset to the location and condition necessary for its intended use, or if the costs should be expensed as incurred.

These distinctions can be difficult; for instance, in the area of store development, where project labour involves a number of pre-opening activities, such as the construction of store fixtures and fittings which are capitalised and shelf stocking costs which are expensed as incurred. The Group has policy guidelines which limit the amount of store development labour costs which are attributed to capital items. In addition to the allocation of labour costs to project work, judgements must be made about the likelihood of a project's success when software is being developed and new store sites are being pursued.

Depreciation

The determination of the appropriate useful life for a particular asset requires management to make judgements based on historical experience about the expected service potential of the asset, and other factors such as anticipated obsolescence, lease terms and asset turnover policies.

Impairment testing

The Group assesses impairment of assets that are subject to amortisation or depreciation by evaluating environmental conditions specific to the Group and to the particular asset to determine impairment. These include reviewing store performance, technology, economic environments, lease terms and future trading expectations. If an impairment trigger exists, the recoverable amount of the asset is determined to quantify the value of the impairment. Management's review of environmental conditions during the current financial year did not identify any impairment triggers to indicate asset impairment.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(c) Inventories (note 19)

Net realisable value

Inventories are stated at the lower of cost and net realisable value. To determine net realisable value, management are required to make judgements about expected selling prices, making allowance for price discounting to clear excess, seasonal and outdated items. Management review the net realisable value of inventory every six months at the half and full year balance dates. Any reassessment of net realisable value in a particular period affects the cost of goods sold.

Shrinkage

Shrinkage is a reduction in inventory due to shoplifting, employee theft, paperwork errors and supplier fraud. Shrinkage is confirmed by performing cyclical stock counts to verify inventory quantities against those recorded in the inventory records. A full stock count of individual stores and distribution centres is performed at least once each year, complemented by partial counts undertaken throughout the year which target areas of high risk, high turnover and end-of-season lines.

Management is required to estimate the amount of shrinkage which has occurred between the last stock count and balance date to determine the carrying value of inventory. In assessing an appropriate shrinkage provision, factors such as store sales since the last stock count, average inventory levels and historical store/distribution centre stocktake results are taken into consideration.

(d) Equity settled share based payments (note 15)

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer, using the methods and assumptions detailed in note 15. At each balance date, the Group also estimates the number of share rights that are expected to vest. The accounting estimates and assumptions relating to share based payments would have no impact on the carrying amounts of assets and liabilities but may impact expenses and equity.

(e) Provisions (note 28)

Provisions

The following management judgements, estimates and assumptions are used in the calculation of provisions.

Annual performance incentive payments

A provision is made for the annual performance incentive payment, which is paid after balance date. Team member incentive payments are calculated based on a formula which takes into consideration both company and individual performance. Management judgement is required to estimate anticipated team member performance before individual performance reviews have been completed.

Cash settled share-based payments

A provision is made for the amount of compensation payable to participants in the cash settled share-based compensation plan based on management's assessment of achieving certain specified share price targets (refer note 15 (e)).

Long service leave

A provision is made for the present value of the Group's expected employee long service leave obligations, based on assumptions about future wage/salary increases and employee turnover. A five year average of Consumers Price Index (CPI) is assumed to approximate wage inflation and employee departures and periods of service, based on historical payroll data and industry statistics. The discount rates used to calculate the present value of these obligations are based on NZ Government Bond yields.

Sales return

The Group offers a 12 month money-back guarantee on most customer sales. Historical sales return data is used as the basis to predict the future return liability.

Make good provision

The present value of the Group's future make good commitment is calculated using assumptions based on historical experience to determine the average cost of 'making good' and the probability of being required to restore sites at the expiry of the lease. The discount rates used to calculate the present value of these obligations are based on NZ Government Bond yields.

Warranty provision

The warranty provision relates to indemnities and guarantees provided by the Group in connection with the sale of the Group's Australian operations in November 2005. The amount, which can be claimed by the purchaser and associated parties under the indemnities and guarantees, is largely capped. Management judgement is used to determine the Group's exposure to future warranty and guarantee claims.

While changes in management's assumptions used to calculate provisions would result in different liabilities, management considers the effect of any likely changes would be immaterial to the Group's result or financial position.

3. CAPITAL MANAGEMENT

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

The Group uses adjusted gearing as a key measure of financial leverage. Adjusted gearing is calculated by reference to the Group's market capitalisation and borrowings adjusted for operating lease obligations. The Group aims to maintain adjusted gearing of 25% to 40%, consistent with retail sector benchmarks.

GROUP	2010	2009
Adjusted gearing ratio		
Number of shares on issue (000s)	311,196	311,196
Share price at balance date ($)	3.53	3.99
Market capitalisation ($ 000)	1,098,522	1,241,672
Net debt ($ 000)	72,416	47,248
Annual operating leases – multiplied by eight ($ 000)	469,312	485,400
Adjusted debt ($ 000)	541,728	532,648
Adjusted gearing ratio (%)	33.0	30.0

The Group regularly reviews its capital structure and may make adjustments by means including changes to the Group's dividend payout ratio, return of surplus capital, issue of new shares, debt issuance, sale of assets or a combination of these. In the current economic environment the Group continues to manage its capital structure with the intention of maintaining conservative gearing ratios.

The Group's dividend policy had previously been to pay a dividend equal to 75% of adjusted net profit (refer note 34); this has now been increased to 90% of adjusted net profit commencing from the current year's final dividend to be paid in November 2010. This has the effect of increasing the final dividend from 5.5 cents to 8.5 cents per share.

The Group also has a stated policy of returning surplus cash to shareholders where it is not required to fund growth in the immediate future. In compliance with this policy, a special dividend of 10.0 cents per share was paid in November 2009 and another special dividend of 5.0 cents per share has been declared after balance date which is payable in November 2010 (refer note 34), to return excess capital to shareholders. In addition to the special dividends, an additional one-off dividend of 1.5 cents per share was paid in March 2010 to distribute the balance of imputation credits available to shareholders which could be imputed at 33% prior to the end of March 2010.

(a) Externally imposed capital requirements

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

- the Group book gearing ratio will not exceed 60.0% in the first quarter ending October and will not exceed 50% in each of the remaining three quarters of the year;
- the interest cover ratio for the Group will not be less than two times operating profit; and
- the total tangible assets of the guaranteeing Group will constitute at least 90% of the total tangible assets of the Group.

GROUP	2010	2009
Book gearing ratio		
Total borrowings ($ 000)	173,642	100,000
Total equity ($ 000)	303,246	321,144
Gearing ratio (%)	36.4	23.7
Interest cover		
Net interest expense ($ 000)	7,409	6,837
Operating profit ($ 000)	124,049	124,952
Interest cover (times)	16.7	18.3

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

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

The Group enters into derivative transactions, principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency fluctuation risks arising from the Group's operations and sources of finance. The Group also uses electricity pricing contracts for the purposes of providing an economic hedge against electricity costs; however, unlike the Group's interest rate and foreign exchange derivatives, these derivatives do not qualify for hedge accounting.

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

(a) Liquidity risk

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

The Group's policy requires funding to be sourced from a minimum of four counter-parties and committed credit facilities to be maintained at an amount that averages at least 115% of peak funding requirements projected for the next two years. The Group's policy also requires that at least 30% of the Group's debt facilities have a maturity of greater than three years. The board permitted the Group to operate outside these guidelines during 2009 when the Group's banks limited the tenor of new funding to a maximum of three years. In April 2010 the Group issued a $100.000 million fixed rate senior bond (refer note 29), with the purpose of increasing funding tenor, achieving policy compliance and diversifying sources of funding.

The Group's liquidity position fluctuates throughout the year. The months leading up to the Christmas trading period typically put the greatest strain on cash flows due to the build up of inventory and payment of the final dividend; conversely the Group's liquidity position is at its strongest immediately after the Christmas trading period. The Group's gearing covenants are increased from 50% to 60% for the first quarter of each financial year to allow for the effect of seasonal funding. (The Group's borrowing covenants are detailed in note 3.)

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

GROUP	2010	2009
	$ 000	$ 000
ANZ National Bank	58,000	80,000
Bank of New Zealand	50,000	50,000
Hong Kong and Shanghai Bank	20,000	20,000
Kiwibank	20,000	20,000
Westpac	110,000	135,000
Fixed Rate Senior Bond	100,000	–
	358,000	305,000

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

GROUP		DEBT FACILITIES		LETTERS OF CREDIT		TOTAL FACILITIES	
	NOTE	2010	2009	2010	2009	2010	2009
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
6 months or less		135,000	105,000	20,000	22,000	155,000	127,000
6 to 12 months		75,000	–	8,000	8,000	83,000	8,000
1 to 2 years		20,000	150,000	–	–	20,000	150,000
Over 2 years		100,000	20,000	–	–	100,000	20,000
		330,000	275,000	28,000	30,000	358,000	305,000
Facilities utilised	29, 36	175,000	100,000	15,899	18,508	190,899	118,508
Unused facilities available		155,000	175,000	12,101	11,492	167,101	186,492
Percentage utilisation		53.0%	36.4%	56.8%	61.7%	53.3%	38.9%

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Contractual maturities

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

GROUP	NOTE	0 TO 6 MONTHS $ 000	7 TO 12 MONTHS $ 000	1 TO 2 YEARS $ 000	2 TO 3 YEARS $ 000	> 3 YEARS $ 000	TOTAL $ 000
At 1 August 2010							
Financial liabilities							
Trade and other payables	20	**120,056**	**–**	**–**	**–**	**–**	**120,056**
Bank borrowings	29	**75,000**	**–**	**–**	**–**	**–**	**75,000**
Fixed rate senior bond	29	**2,736**	**3,685**	**7,370**	**7,370**	**114,740**	**135,901**
		197,792	**3,685**	**7,370**	**7,370**	**114,740**	**330,957**
Derivative net liabilities							
Forward currency contracts							
– outflow		**122,981**	**52,831**	**–**	**–**	**–**	**175,812**
– inflow		**(119,993)**	**(51,131)**	**–**	**–**	**–**	**(171,124)**
Electricity pricing contracts		**197**	**–**	**–**	**–**	**–**	**197**
Interest rate swaps		**969**	**661**	**739**	**403**	**435**	**3,207**
		4,154	**2,361**	**739**	**403**	**435**	**8,092**
At 2 August 2009							
Financial liabilities							
Trade and other payables	20	137,459	–	–	–	–	137,459
Bank borrowings	29	100,000	–	–	–	–	100,000
		237,459	–	–	–	–	237,459
Derivative net liabilities							
Forward currency contracts							
– outflow		121,388	73,674	–	–	–	195,062
– inflow		(104,018)	(62,821)	–	–	–	(166,839)
Electricity pricing contracts		203	40	(342)	–	–	(99)
Interest rate swaps		1,628	1,344	1,483	33	(847)	3,641
		19,201	12,237	1,141	33	(847)	31,765

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

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

The amount disclosed above as payable during the next six month period for the fixed rate senior bond is net of a $0.949 million interest accrual included as part of trade and other payables.

(ii) Maturity analysis based on management's expectation

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

Bank borrowings at balance date are drawn down under a term debt facility by way of 90 day short term bills. These borrowings and the Group's fixed rate senior bond are defined as the Group's 'core' borrowings for treasury management purposes. Bank borrowings at balance date have a contractual maturity of 90 days. It is management's expectation that the bank borrowings which form part of the Group's core borrowings will not be repaid until the expiry of the facility under which they have been drawn. At balance date the Group's bank borrowings of $75.000 million (2009: $100.000 million) were fully drawn against a term debt facility which expires in March 2011. The Group would anticipate that approximately $50.000 million of this facility would be renewed for a further three years when the current facility expires.

The Group's fixed rate senior bond is held by the parent company and represents the only financial liabilities (2009: $Nil) held by the parent at balance date.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk

(i) Interest rate risk

The Group's exposure to market interest rates primarily relates to the Group's core borrowings. The Group's treasury policy is to manage its finance costs using a mix of fixed and floating rate debt. The Group's policy is to maintain between 50% to 90% of core borrowings (repricing after 12 months) at fixed rates. At balance date, 86% (2009: 90%) of the Group's core borrowings were at fixed interest rates. The Group uses fixed rate debt and interest rate swaps to manage the fixed interest rate pricing and profile.

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

			+ 100 BASIS POINTS		- 100 BASIS POINTS	
GROUP ASSET / (LIABILITY)	NOTE	CARRYING AMOUNT	HIGHER / (LOWER) PROFIT	EQUITY	HIGHER / (LOWER) PROFIT	EQUITY
		$ 000	$ 000	$ 000	$ 000	$ 000
At 1 August 2010						
Cash and cash equivalents	18	**101,226**	**709**	**709**	**(709)**	**(709)**
Bank borrowings	29	**(75,000)**	**(525)**	**(525)**	**525**	**525**
Fixed rate senior bond	29	**(98,642)**	**452**	**452**	**(490)**	**(490)**
Derivative financial instruments						
Interest rate swaps – cash flow hedges	22	**(3,210)**	**490**	**1,400**	**(490)**	**(1,430)**
Interest rate swaps – fair value hedges	22	**179**	**(452)**	**(452)**	**490**	**490**
		(75,447)	**674**	**1,584**	**(674)**	**(1,614)**
At 2 August 2009						
Cash and cash equivalents	18	52,752	369	369	(369)	(369)
Bank borrowings	29	(100,000)	(700)	(700)	700	700
Derivative financial instruments						
Interest rate swaps – cash flow hedges	22	(3,642)	630	2,842	(630)	(2,972)
		(50,890)	299	2,511	(299)	(2,641)

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

(ii) Foreign exchange risk

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

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

GROUP ASSET / (LIABILITY)	NOTE	CARRYING AMOUNT 2010 $ 000	 2009 $ 000	NOTIONAL AMOUNT 2010 $ 000	 2009 $ 000
Forward currency contracts – cash flow hedges					
Buy US dollars / Sell New Zealand dollars	22	(2,757)	(26,401)	175,812	195,062

The average exchange rate of US dollar forward contracts at balance date was $0.7066 (2009: $0.5615). The spot rate used to determine the mark-to-market carrying value of the US dollar forward contracts at balance date was $0.7260 (2009: $0.6565).

Throughout the year the Group's US dollar hedge cover levels typically range between 55% to 70% of the forecasted annual US dollar exposure. At balance date the Group has US dollar hedges in place to cover 67.1% (2009: 68.5%) of the forecasted annual US dollar exposure.

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

GROUP FORWARD CURRENCY CONTRACTS – CASH FLOW HEDGES	AFTER TAX PROFIT HIGHER / (LOWER) 2010 $ 000	 2009 $ 000	EQUITY HIGHER / (LOWER) 2010 $ 000	 2009 $ 000
10% appreciation in the New Zealand dollar	–	–	(10,862)	(10,756)
10% depreciation in the New Zealand dollar	–	–	13,276	12,926

There is no profit and loss sensitivity, as the forward currency contracts have been designated as cash flow hedges and it assumed they are 100% hedge effective. The parent company has no currency risk exposures.

(iii) Price risk

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

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

At balance date the Group had the following electricity price risk exposures:

GROUP ASSET / (LIABILITY)	CARRYING AMOUNT 2010 $ 000	 2009 $ 000	AVERAGE PRICE PER MWH 2010 $	 2009 $	NOTIONAL AMOUNT (MWH) 2010	 2009
Electricity pricing contracts – economic hedges	(194)	88	82.64	75.40	14,688	53,280

These contracts are fair valued by comparing the contract rate to the market rate for contracts with matching maturity periods. The market rate is based on hedge price data published daily by Energyhedge.co.nz.

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

GROUP ELECTRICITY PRICING CONTRACTS – ECONOMIC HEDGES	AFTER TAX PROFIT HIGHER / (LOWER) 2010 $ 000	 2009 $ 000	EQUITY HIGHER / (LOWER) 2010 $ 000	 20089 $ 000
10% appreciation in electricity prices	71	239	71	239
10% depreciation in electricity prices	(71)	(239)	(71)	(239)

The Group's 'contracts for difference' do not qualify for hedge accounting and all movements in fair value are recognised as an expense/revenue on the face of the income statement for the period in which they occur. To reduce fair value earnings volatility the Group has not entered any new 'contracts for difference' in the previous two years, preferring to use fixed price supply contracts to hedge its electricity price exposure.

The parent has no direct exposure to commodity price risk.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk

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

	NOTE	GROUP 2010 $ 000	GROUP 2009 $ 000	PARENT 2010 $ 000	PARENT 2009 $ 000
Maximum exposures to credit risk at balance date are:					
Cash and cash equivalents	18	101,226	52,752	2,530	2,528
Trade and other receivables	21	19,020	24,466	–	–
Derivative financial instruments	22	873	630	–	–
Intercompany advances		–	–	316,149	217,062
Investment in associate company	27	5,921	7,376	–	–
		127,040	85,224	318,679	219,590

The Group places cash and short-term investments with high credit quality financial institutions. The board reviews the bank counter-parties which the Group can invest with on an annual basis. The Group's Treasury Policy requires bank counter-parties to have a Standard & Poor's credit rating of at least AA-.

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

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

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

(d) Fair values

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

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

The methods used in determining fair value are as follows:

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

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

(e) Derivatives at fair value through the Income Statement

ELECTRICITY PRICING CONTRACTS – ECONOMIC HEDGES ASSET / (LIABILITY)	NOTE	GROUP 2010 $ 000	GROUP 2009 $ 000
Opening balance		88	1,786
Changes in fair value of financial instruments recognised in the Income Statement		(282)	(1,698)
Closing balance	22	(194)	88

5. SEGMENT INFORMATION

GROUP	REVENUE 2010 $ 000	REVENUE 2009 $ 000	OPERATING PROFIT 2010 $ 000	OPERATING PROFIT 2009 $ 000
The Warehouse	1,476,219	1,531,114	112,664	120,238
Warehouse Stationery	193,599	187,167	8,044	1,596
Other group operations	8,107	8,419	3,341	3,118
Inter-segment eliminations	(5,230)	(5,945)	–	–
	1,672,695	1,720,755	124,049	124,952
Unallocated (expenses) / revenue				
Gain on disposal of property			–	315
Changes in fair value of financial instruments			(282)	(1,698)
Fresh food and liquor decommissioning costs			–	(10,661)
Equity earnings of associate			2,808	3,220
Earnings before interest and tax			126,575	116,128
Net interest expense			(7,409)	(6,837)
Income tax expense			(58,626)	(32,295)
Net profit for the period			60,540	76,996
Operating margin				
The Warehouse			7.6 %	7.9 %
Warehouse Stationery			4.2 %	0.9 %
Total Group			7.4 %	7.3 %

The operating margin is calculated by dividing operating profit by revenue.

(a) Operating segments

The Group has two primary operating segments operating in the New Zealand retail sector. The operating segments are managed separately with their own management, stores and infrastructure.

The Warehouse

The Warehouse is predominantly a general merchandise and apparel retailer, with 87 (2009: 86) stores located throughout New Zealand.

Warehouse Stationery

Warehouse Stationery is a stationery retailer, with 47 (2009: 46) stores located throughout New Zealand.

Other Group

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

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

(b) Other segment information

GROUP	NOTE	DEPRECIATION & AMORTISATION 2010 $ 000	DEPRECIATION & AMORTISATION 2009 $ 000	CAPITAL EXPENDITURE 2010 $ 000	CAPITAL EXPENDITURE 2009 $ 000
The Warehouse		33,307	33,751	22,905	33,966
Warehouse Stationery		4,608	5,362	4,310	4,378
Other group operations		3,022	2,727	28,454	371
		40,937	41,840	55,669	38,715
Comprising:					
Property, plant and equipment	25	33,080	34,353	49,534	31,099
Computer software	26	7,857	7,487	6,135	7,616
		40,937	41,840	55,669	38,715

5. SEGMENT INFORMATION (CONTINUED)

(c) Balance sheet segment information

GROUP	TOTAL ASSETS 2010 $ 000	TOTAL ASSETS 2009 $ 000	TOTAL LIABILITIES 2010 $ 000	TOTAL LIABILITIES 2009 $ 000
The Warehouse	**326,639**	347,725	**137,178**	163,224
Warehouse Stationery	**52,861**	53,639	**23,509**	21,151
Other group operations	**187,512**	161,725	**6,241**	5,730
Operating assets / liabilities	**567,012**	563,089	**166,928**	190,105
Unallocated assets / liabilities				
Cash and borrowings	**101,226**	52,752	**173,642**	100,000
Derivative financial instruments	**873**	630	**6,855**	30,585
Taxation assets/liabilities	**–**	25,401	**16,947**	–
Investments	**5,921**	7,376	**–**	–
Warranty provision	**–**	–	**7,414**	7,414
Total	**675,032**	649,248	**371,786**	328,104

6. OTHER INCOME

GROUP	2010 $ 000	2009 $ 000
Tenancy rents received	**3,071**	3,521
Other	**3,913**	3,021
	6,984	6,542

During the year the parent received dividends from subsidiaries of $101.139 million (2009: $65.351 million).

7. EMPLOYEE EXPENSES

GROUP	NOTE	2010 $ 000	2009 $ 000
Wages and salaries		**252,189**	256,481
Directors' fees	14	**559**	542
Performance incentive payments		**10,958**	18,885
Cash settled share based payments expense	15	**1,684**	1,464
Equity settled share based payments expense	31	**2,609**	2,600
Movement in long service and sick leave provisions		**666**	852
		268,665	280,824

The parent has no direct employees.

8. LEASE AND OCCUPANCY EXPENSES

GROUP	2010 $ 000	2009 $ 000
Operating lease costs	**58,664**	60,675
Other occupancy costs	**19,666**	20,989
	78,330	81,664

The parent has no lease or occupancy expenses.

9. DEPRECIATION AND AMORTISATION EXPENSES

GROUP	NOTE	2010 $ 000	2009 $ 000
Freehold buildings		**2,838**	2,543
Store fittings and equipment		**23,829**	24,485
Computer hardware		**6,017**	6,825
Vehicles		**396**	500
Property, plant and equipment	25	**33,080**	34,353
Computer software	26	**7,857**	7,487
		40,937	41,840

The parent has no depreciable assets.

10. OTHER OPERATING EXPENSES

GROUP	NOTE	2010 $ 000	2009 $ 000
Other operating expenses include:			
Bad debts written off	21	**389**	408
Provision for doubtful debts	21	**(146)**	37
Loss on sale of plant and equipment		**1,623**	1,589
Donations		**121**	88
Net foreign currency exchange loss		**80**	101
Ineffective foreign exchange cash flow hedges expensed	22	**51**	(546)
Auditors' fees			
Auditing the Group financial statements		**307**	306
Reviewing the half year financial statements		**72**	70
Other services		**33**	35
Total fees paid to PricewaterhouseCoopers		**412**	411
Internal audit services		**528**	516
Other consultancy services		**–**	519
Total fees paid to Ernst & Young		**528**	1,035

Fees paid to PricewaterhouseCoopers for other audit services were approved by the Group's Audit Committee and related to agreed upon additional audit assurance procedures. In the current year the other audit services related to issuance of the fixed rate senior bond. For information on the Group's policies regarding audit governance and independence refer to page 73 (Corporate Governance).

11. NET INTEREST EXPENSE

GROUP	NOTE	2010 $ 000	2009 $ 000
Interest on bank overdrafts		**135**	100
Interest on bank borrowings		**3,568**	7,646
Interest on fixed rate senior bond		**2,269**	–
Fair value interest rate swaps		**(17)**	–
Ineffective interest rate swap cash flow hedges expensed	22	**206**	–
Interest rate swap cash flow hedges transfer from equity	22	**2,870**	1,082
Interest expense		**9,031**	8,828
Interest received on bank deposits		**1,090**	1,101
Use of money interest		**510**	890
Discount on employee share plan loans		**22**	–
Interest income		**1,622**	1,991
Net interest expense		**7,409**	6,837

The parent received intercompany interest of $2.269 million (2009: $Nil), fully offsetting interest of the same amount payable in respect of the fixed rate senior bond.

12. FRESH FOOD AND LIQUOR DECOMMISSIONING COSTS – 2009

Following a review of the future earnings potential of The Warehouse Extra format, the board decided to discontinue this store format. A phased withdrawal from fresh produce, meat, frozen foods and liquor was undertaken during the 2009 year in the three pre-existing Extra stores and six Cellars stores. The exit and restructuring costs are classified as non-operating costs (refer note 1(aa)).

13. INCOME TAX

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

	NOTE	GROUP 2010	GROUP 2009	PARENT 2010	PARENT 2009
		$ 000	$ 000	$ 000	$ 000
Profit before tax		**119,166**	109,291	**101,136**	65,345
Taxation calculated at 30%		**35,750**	32,787	**30,341**	19,604
Adjusted for the tax effect of:					
Non taxable dividends		**–**	–	**(30,342)**	(19,606)
Entertainment		**259**	317	**–**	–
Equity earnings of associate		**(842)**	(966)	**–**	–
Other non deductible expenditure		**570**	337	**–**	–
Income tax over provided in prior year		**(147)**	(180)	**–**	–
Income tax expense before Government Budget changes		**35,590**	32,295	**(1)**	(2)
Change in building tax depreciation		**22,814**	–	**–**	–
Change in corporate tax rate		**222**	–	**–**	–
Income tax expense relating to Government Budget changes		**23,036**	–	**–**	–
Total tax expense		**58,626**	32,295	**(1)**	(2)
Effective tax rate before Government Budget changes		**29.9%**	29.5%		
Effective tax rate after Government Budget changes		**49.2%**	29.5%		
Income tax expense comprises:					
Current year income tax payable	23	**35,389**	32,543	**(1)**	(2)
Deferred taxation	24	**23,237**	(248)	**–**	–
		58,626	32,295	**(1)**	(2)

The accounting impact of the 2010 Government Budget changes

In May 2010 the Government announced a number of changes to the tax legislation in its annual budget. These changes included the reduction in the corporate income tax rate from 30% to 28%, and the removal of the ability to depreciate buildings for tax purposes. Both of these changes in tax legislation are effective for the Group from August 2011.

In accordance with NZ IAS 12 'Income Taxes', the impacts of the above two changes in tax legislation have been reflected in the deferred tax balances at balance date.

In respect of the reduction in the corporate income tax rate, deferred tax on those temporary differences expected to reverse before July 2011 continue to be recognised at 30%, while those temporary differences expected to reverse after August 2011 have been remeasured using the effective rate of 28% that will apply for that period. This has resulted in a net decrease in the deferred tax asset which has been recognised in the income statement to the extent that it relates to items not previously charged or credited to equity.

The removal of the ability to depreciate buildings for tax purposes has reduced the tax base of the Group's buildings that have an estimated useful life of more than 50 years, as future tax deductions will no longer be available from August 2011. This has resulted in an increase in the deferred tax liability in relation to these buildings which has been required to be recognised in the tax expense in the current year (refer note 2(a)).

14. KEY MANAGEMENT PERSONNEL

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

GROUP NON-EXECUTIVE DIRECTORS	NOTE	DIRECTORS' FEES 2010 $ 000	 2009 $ 000
K R Smith (Chairman)		**153**	153
J R Avery (retired November 2009)		**28**	84
R L Challinor		**79**	79
G F Evans		**82**	82
J H Ogden (appointed August 2009)		**73**	–
J L Smith		**72**	72
Sir Stephen Tindall		**72**	72
	7	**559**	542

The total compensation of the executive director and key senior executives consists of two elements, fixed compensation and performance linked compensation. The weighting between fixed and performance linked compensation is set out below.

GROUP REMUNERATION STRUCTURE BASED ON 'ON TARGET' PERFORMANCE		EXECUTIVE DIRECTOR %	OTHER KEY EXECUTIVES %
Fixed compensation	Base salary	46	50
Performance linked compensation	Annual performance based compensation	27	25
	Share based compensation	27	25

There have been no changes to the weightings between fixed and performance linked compensation for determining executive compensation during the current or previous financial years.

GROUP	I R MORRICE 2010 $ 000	 2009 $ 000	KEY EXECUTIVES 2010 $ 000	 2009 $ 000
Base salary	**1,537**	1,521	**3,324**	3,208
Annual performance based compensation	**316**	1,199	**868**	1,933
Cash settled share based entitlement	**438**	410	**670**	547
Equity settled share based compensation	**553**	670	**634**	912
Termination benefits	**–**	–	**–**	422
	2,844	3,800	**5,496**	7,022

The annual performance based compensation is an estimate of compensation, which will be paid to executives when performance against specified individual and company performance objectives has been evaluated following the end of the financial year. The Group performance multiplier used to estimate executive compensation for the current financial year is 44% (2009: 118%). Any adjustment, which arises between the amounts finally paid and those which were estimated, is treated as an adjustment in the payment year.

Cash settled share based compensation for the 2010 year represents the amount payable to executives should certain share price hurdles be achieved in October 2010 (refer note 15 (e)). Executives are not compensated if these targets are not achieved. Executives received compensation for the 2009 year as the share price hurdles were met.

Equity settled share based compensation disclosed in the above table represents the fair value of share rights measured at grant date and recorded as an expense during the year. This will be different from the value of the compensation received by the executive at the date when the share rights vest. By way of example the value of shares received by the executive director during the year based on share prices when the share rights vested was $386,000 (2009: $346,000) which is less than the fair value compensation of $553,000 (2009: $670,000) disclosed in the above table.

Where an executive ceased employment, and the Remuneration Committee approved the early vesting of outstanding share rights, the share-based payment expense has been included in termination benefits.

14. KEY MANAGEMENT PERSONNEL (CONTINUED)

Directors and other key executives held the following share rights at balance date (refer note 15 for plan details):

GROUP EXPECTED VESTING DATES	PERFORMANCE SHARES 2010 000	PERFORMANCE SHARES 2009 000	AWARD SHARES 2010 000	AWARD SHARES 2009 000	TOTAL SHARE RIGHTS 2010 000	TOTAL SHARE RIGHTS 2009 000
Executive director						
October 2009	–	61	–	43	–	104
November 2009	–	–	–	59	–	59
October 2010	79	79	74	22	153	101
November 2010	–	–	48	59	48	59
October 2011	–	–	52	–	52	–
November 2011	126	126	48	59	174	185
October 2012	111	–	52	–	163	–
Outstanding at the end of the year	316	266	274	242	590	508
Other key executives						
October 2009	–	81	–	58	–	139
November 2009	–	–	–	92	–	92
October 2010	121	121	123	30	244	151
November 2010	–	–	73	92	73	92
October 2011	–	–	92	–	92	–
November 2011	196	196	73	92	269	288
October 2012	197	–	92	–	289	–
Outstanding at the end of the year	514	398	453	364	967	762

During the year, I R Morrice was granted 111,000 (2009: 126,000) performance shares and 156,000 (2009: 177,000) award shares; 95,000 (2009: 145,000) share rights were forfeited and 90,000 (2009: 89,000) share rights vested.

Other key executive were collectively granted 197,000 (2009: 224,000) performance shares and 276,000 (2009: 313,000) award shares; 136,000 (2009: 315,000) share rights were forfeited and 132,000 (2009: 114,000) share rights vested.

Details of other key executives

L N E Bunt (Chief Financial Officer)
R Lewis (Chief Operating Officer)
O S McCall (Chief Information Officer)
M N Otten (Finance Director)
M D Powell (Chief Executive Officer – Warehouse Stationery effective April 2009 – formerly General Manager Supply Chain & Commercial Support)
G R Rohloff (Chief Executive Officer – Warehouse Stationery), resigned April 2009
P T Walsh (Human Resources Director)
S J Yorston (Marketing Director)

Key executives and directors are also entitled to purchase goods at normal staff discount rates. For further details regarding the nature of compensation provided to key executives refer to page 72 (Corporate Governance).

15. EXECUTIVE LONG TERM INCENTIVE PLAN (LTIP)

Share rights are granted to senior executives, who are selected by the Group's Remuneration Committee and elect to participate in the Group's LTIP. The plan is designed to align participants' interests with those of shareholders by providing participants with an incentive for delivering results and growing the value of the Group, as measured by the Group's annual performance and share price performance. At balance date the plan had 43 (2009: 38) participants.

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

(a) Award shares

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

(b) Performance shares

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

The target price for the plan is calculated using the weighted average market price of the Group's share price over the 10 share trading days prior to grant date, increased by the Group's estimated cost of equity (after adjusting for dividends) between the grant date and the exercise date. The estimated cost of equity is independently determined by external advisors and the target price approved by the Remuneration Committee prior to granting the share rights.

The target prices for the performance shares vesting in October 2010, November 2011 and October 2012 are $6.99, $4.19 and $4.56 respectively.

(c) Summary of share rights granted under LTIP arrangements

GROUP	NOTE	PERFORMANCE SHARES 2010 000	PERFORMANCE SHARES 2009 000	AWARD SHARES 2010 000	AWARD SHARES 2009 000	TOTAL SHARE RIGHTS 2010 000	TOTAL SHARE RIGHTS 2009 000
Outstanding at the beginning of the year		**1,155**	1,009	**1,074**	908	**2,229**	1,917
Granted during the year		**608**	662	**851**	927	**1,459**	1,589
Vested during the year	30	**–**	–	**(365)**	(330)	**(365)**	(330)
Forfeited during the year		**(255)**	(516)	**(225)**	(431)	**(480)**	(947)
Outstanding at the end of the year		**1,508**	1,155	**1,335**	1,074	**2,843**	2,229
Expected vesting dates							
October 2009		**–**	222	**–**	161	**–**	383
November 2009		**–**	–	**–**	276	**–**	276
October 2010		**343**	343	**365**	85	**708**	428
November 2010		**–**	–	**201**	276	**201**	276
October 2011		**–**	–	**284**	–	**284**	–
November 2011		**557**	590	**201**	276	**758**	866
October 2012		**608**	–	**284**	–	**892**	–
Outstanding at the end of the year		**1,508**	1,155	**1,335**	1,074	**2,843**	2,229

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

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

15. EXECUTIVE LONG TERM INCENTIVE PLAN (CONTINUED)

(d) Fair values

The fair value of performance shares at grant date has been independently estimated and represents an average of the two valuations produced from using the Binomial Options Pricing Model and a Monte Carlo simulation. The 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 capital and allowing for expected future dividends.

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

Performance shares

Date granted	October 2009	November 2008	November 2007
Vesting date	October 2012	November 2011	October 2010
Risk free interest rate (%)	5.33	5.68	7.13
Average expected volatility (%)	27.50	30.00	25.00
Average share price at measurement date ($)	4.09	3.61	5.26
Estimated fair value at grant date ($)	1.61	1.37	2.10

Award shares

Date granted	October 2009	November 2008	November 2007
First vesting date (then annually on the next two anniversaries)	October 2010	November 2009	October 2008
Weighted average cost of capital (%)	9.80	10.90	10.86
Average share price at measurement date ($)	4.09	3.61	5.26
Average estimated fair values at grant date ($)	3.62	3.25	4.98

(e) Cash settled share-based compensation plan

In 2009 the Group introduced a cash settled share-based compensation plan for holders of 'performance shares' granted in April 2007 and November 2007. In the event that the share price hurdles for these performance shares of $7.50 and $6.99 respectively are not met, then participants have the opportunity to receive cash settled compensation providing certain revised share price targets are achieved.

The share price performance hurdles for the April 2007 and November 2007 performance shares were set during a period when the Group's share price included a 'takeover premium' due to external market speculation around ownership. The board considered the performance hurdles for these performance shares were elevated to the extent that it had diminished the ability of the two offers to retain, motivate and reward the participants. The alternative cash settled plan has share price targets calculated on a share price, which excludes the takeover premium.

The first tranche of the cash settled share-based compensation plan was paid in full ($1.464 million) in October 2009 when the target share price hurdle of $4.01 was met. A provision of $1.684 million for payment of the second and final tranche of this plan has been recognised (refer note 28) which assumes the share price hurdle of $3.85 will be achieved in October 2010.

(f) Share option plan

GROUP	SHARE OPTIONS	
	2010 000	2009 000
Outstanding at the beginning of the year	–	453
Forfeited during the year	–	(453)
Outstanding at the end of the year	–	–

The share option plan has been replaced as a mechanism for providing employees with a form of long term compensation.
The last tranche of share options was granted to participants in March 2004 and expired in March 2009.

16. EARNINGS PER SHARE

(a) Basic earnings per share

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

GROUP	2010	2009
Profit attributable to shareholders of the parent ($ 000s)	60,185	76,782
Basic		
Weighted average number of ordinary shares on issue (000s)	311,196	311,196
Adjustment for treasury stock (000s)	(2,709)	(2,985)
Weighted average number of ordinary shares outstanding (000s)	308,487	308,211
Basic earnings per share (cents)	19.5	24.9

(b) Diluted earnings per share

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

Share rights

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

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

GROUP	2010	2009
Profit attributable to shareholders of the parent ($ 000s)	60,185	76,782
Diluted		
Weighted average number of ordinary shares outstanding (000s)	308,487	308,211
Shares deemed to be issued for no consideration in respect of share rights (000s)	1,385	1,052
Weighted average number of ordinary shares for diluted earnings per share (000s)	309,872	309,263
Diluted earnings per share (cents)	19.4	24.8

17. NET ASSETS PER SHARE

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

GROUP	NOTE	2010	2009
Net assets ($ 000s)		303,246	321,144
Basic			
Number of ordinary shares on issue (000s)	30	311,196	311,196
Adjustment for treasury stock (000s)	30	(1,797)	(3,162)
Number of ordinary shares outstanding (000s)		309,399	308,034
Net assets per share (cents)		98.0	104.3

18. CASH AND CASH EQUIVALENTS

	GROUP 2010 $ 000	GROUP 2009 $ 000	PARENT 2010 $ 000	PARENT 2009 $ 000
Cash on hand and at bank	**16,786**	15,652	**2,530**	2,528
Deposits at call (interest rate: 3.00% to 3.05% – 2009: 2.50%)	**84,440**	37,100	**–**	–
	101,226	52,752	**2,530**	2,528

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

19. INVENTORIES

GROUP	2010 $ 000	2009 $ 000
Retail stock	**221,690**	220,514
Goods in transit from overseas	**32,916**	37,429
	254,606	257,943

In some instances, where goods have been purchased locally, the supplier retains title to the goods until payment has been made.

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

The parent has no inventories.

20. TRADE AND OTHER PAYABLES

GROUP	2010 $ 000	2009 $ 000
Trade creditors	**90,712**	102,919
Goods in transit creditors	**12,918**	20,260
Unearned income (includes lay-bys, gift vouchers and Christmas club deposits)	**7,743**	5,997
Payroll accruals	**8,683**	8,283
	120,056	137,459

Trade payables are normally unsecured and non-interest bearing and are usually settled within 30 days of recognition. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value. With the exception of an accrual for $0.949 million (2009: $Nil) relating to interest payable on the fixed rate senior bond, the parent has no other payables.

21. TRADE AND OTHER RECEIVABLES

GROUP	2010 $ 000	2009 $ 000
Trade receivables	**11,056**	11,781
Allowance for impairment	**(742)**	(888)
	10,314	10,893
Other debtors and prepayments	**6,069**	13,566
Employee share purchase plan loans	**2,637**	7
	19,020	24,466
Less: Non-current employee share purchase plan loans	**(2,091)**	–
Current trade and other receivables	**16,929**	24,466

(a) Trade receivables

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

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

GROUP	TOTAL $ 000	0 TO 30 DAYS $ 000	31 TO 60 DAYS $ 000	61 TO 90 DAYS $ 000	> 90 DAYS $ 000
At 1 August 2010					
Trade receivables	**11,056**	**8,198**	**1,680**	**613**	**565**
Allowance for impairment	**(742)**	**(32)**	**(70)**	**(152)**	**(488)**
	10,314	**8,166**	**1,610**	**461**	**77**
At 2 August 2009					
Trade receivables	11,781	9,573	1,146	421	641
Allowance for impairment	(888)	(26)	(128)	(236)	(498)
	10,893	9,547	1,018	185	143

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

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

Movements in the provision for impairment loss were as follows:

GROUP	2010 $ 000	2009 $ 000
Opening balance	**888**	851
Charge to the income statement	**243**	445
Trade receivables written off	**(389)**	(408)
Closing balance	**742**	888

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Employee share purchase plan

GROUP GRANT DATE	EXERCISE PERIOD	ISSUE PRICE	NUMBER OF SHARES 2009	SHARES ALLOCATED	SHARES REDEEMED	SHARES FORFEITED	NUMBER OF SHARES 2010
		$	000	000	000	000	000
May 2010	May 2013 to May 2015	3.06	–	1,003	(1)	(3)	999
Legacy plans			5	–	(1)	–	4
			5	1,003	(2)	(3)	1,003

In May 2010 the Group reintroduced its employee share purchase plan. Shares were offered to all team members of The Warehouse Limited and Warehouse Stationery Limited who had been employed for more than three months prior to the offer and work more than 15 hours per week. The offer was priced at a 20% discount to the current market share price on terms permitted by share purchase plans, in accordance with section DC13 and 14 of the Income Tax Act 2007, to a maximum consideration of $2,340 per team member. The share purchase plan has been approved by the Inland Revenue in accordance with section DC12 of the Income Tax Act 2007.

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

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

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

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

GROUP	NOTE	ORDINARY SHARES 2010	ORDINARY SHARES 2009
		000	000
Allocated to employee share purchase plan		1,003	5
Unallocated treasury stock	30	1,797	3,162
Total ordinary shares held by the Group's trustees		2,800	3,167
Percentage of share capital		0.90 %	1.02 %

The fair value of shares allocated during the period is $2.700 million (2009: $Nil) or $2.69 per share, representing the discount on issue and the present value of the interest free loan provided to the employee. The employee compensation expense recognised during the year for the employee share plan was $0.064 million (2009: $Nil).

The parent has no trade or other receivables.

22. DERIVATIVE FINANCIAL INSTRUMENTS

GROUP ASSET / (LIABILITY)	CURRENCY CONTRACTS $ 000	INTEREST RATE SWAPS $ 000	ELECTRICITY CONTRACTS $ 000	TOTAL DERIVATIVES $ 000
At 1 August 2010				
Current assets	**167**	**–**	**–**	**167**
Non-current assets	**–**	**706**	**–**	**706**
Current liabilities	**(2,924)**	**(468)**	**(194)**	**(3,586)**
Non-current liabilities	**–**	**(3,269)**	**–**	**(3,269)**
	(2,757)	**(3,031)**	**(194)**	**(5,982)**
At 2 August 2009				
Current assets	122	–	–	122
Non-current assets	–	268	240	508
Current liabilities	(26,523)	(427)	(113)	(27,063)
Non-current liabilities	–	(3,483)	(39)	(3,522)
	(26,401)	(3,642)	88	(29,955)

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

(a) Forward currency contracts – cash flow hedges

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

At balance date the details of the outstanding contracts are:

GROUP FORWARD CURRENCY CONTRACTS – CASH FLOW HEDGES	NOTIONAL AMOUNT 2010 NZ$ 000	 2009 NZ$ 000	AVERAGE EXCHANGE RATE 2010 $	 2009 $
Buy US dollars / Sell New Zealand dollars				
Maturity 0 to 6 months	**122,981**	121,388	**0.7084**	0.5626
Maturity 7 to 12 months	**52,831**	73,674	**0.7026**	0.5598

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

(b) Interest rate swaps

GROUP	2010 $ 000	2009 $ 000
Cash flow hedges	**(3,210)**	(3,642)
Fair value hedges	**179**	–
	(3,031)	(3,642)

(i) Interest rate swaps – cash flow hedges

The Group's core bank borrowings bear an interest rate priced 0.40% (2009: 0.40%) above the bank bill mid rate (BKBM). In order to protect against rising interest rates, the Group has entered interest rate swap contracts which it has a right to receive interest at variable rates and to pay interest at fixed rates.

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

GROUP INTEREST RATE SWAPS – CASH FLOW HEDGES	NOTIONAL AMOUNT 2010 $ 000	 2009 $ 000	AVERAGE INTEREST RATE 2010 %	 2009 %
Maturity				
0 to 1 years	**20,000**	–	**6.60**	–
1 to 2 years	**20,000**	20,000	**4.92**	6.60
2 to 3 years	**–**	20,000	**–**	4.92
4 to 5 years	**30,000**	30,000	**6.70**	6.70
5+ years	**–**	20,000	**–**	6.39
	70,000	90,000	**6.16**	6.34

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

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

(ii) Interest rate swaps – fair value hedges

At balance date the Group held interest rate swaps where it receives a fixed rate of interest and pays a variable rate on a notional amount of $40.000 million (2009: $Nil). These interest rate swaps are designated as fair value hedges and transform a series of known future fixed interest cash flows on the fixed rate senior bond to variable interest cash flows, with effect from June 2013, so as to mitigate exposure to fair value changes in the fixed rate senior bond resulting from movements in interest rates. These interest rate swaps also spread the exposure to fixed rate repricing risk at the maturity of the Group's fixed rate senior bond.

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

GROUP	2010 $ 000	2009 $ 000
Gains / (losses) on fixed rate senior bond	(162)	–
Gains / (losses) on interest rate swaps	162	–

(c) Cash flow hedge reserve

Movements in the cash flow hedge reserve are set out below:

GROUP	NOTE	CURRENCY CONTRACTS $ 000	INTEREST RATE SWAPS $ 000	DEFERRED TAXATION $ 000	HEDGE RESERVE $ 000
For the 52 week period ended 1 August 2010					
Opening balance		(26,401)	(3,223)	8,887	(20,737)
Transferred to inventory		36,390	–	(10,917)	25,473
Hedge ineffectiveness recognised in the income statement	10, 11	51	206	(77)	180
Transferred to interest expense	11	–	2,870	(861)	2,009
Transferred to equity		(12,797)	(2,786)	4,651	(10,932)
Closing balance		(2,757)	(2,933)	1,683	(4,007)
				(note: 24)	(note: 31)
For the 53 week period ended 2 August 2009					
Opening balance		3,954	1,172	(1,538)	3,588
Transferred to inventory		(33,913)	–	10,174	(23,739)
Hedge ineffectiveness recognised in the income statement	10	(546)	–	164	(382)
Transferred to interest expense	11	–	1,082	(325)	757
Transferred to equity		4,104	(5,477)	412	(961)
Closing balance		(26,401)	(3,223)	8,887	(20,737)
				(note: 24)	(note: 31)

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

Details of the electricity pricing contracts can be found in note 4. The parent does not have any derivative financial instruments.

23. CURRENT TAXATION

The movement in income tax receivable is set out below:

ASSET / (LIABILITY)	NOTE	GROUP 2010 $ 000	GROUP 2009 $ 000	PARENT 2010 $ 000	PARENT 2009 $ 000
Opening balance		557	12,379	741	3,402
Current year income tax payable	13	(35,389)	(32,543)	1	2
Net taxation paid		22,181	19,108	–	–
Supplementary dividend tax credit		1,078	739	1,078	739
Use of money interest and other adjustments		223	874	(741)	(3,402)
Closing balance		(11,350)	557	1,079	741

24. DEFERRED TAXATION

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

GROUP ASSET / (LIABILITY)	NOTE	OPENING BALANCE $ 000	CHARGED TO PROFIT $ 000	CHARGED TO EQUITY $ 000	CLOSING BALANCE $ 000
For the 52 week period ended 1 August 2010					
Gross deferred tax assets					
Inventory		6,472	(672)	–	5,800
Doubtful debts		267	(44)	–	223
Employee benefit provisions		8,533	301	–	8,834
Make good provision		811	(31)	–	780
Sales return provision		719	27	–	746
Derivatives – cash flow hedges	22	8,887	–	(7,204)	1,683
Derivatives – economic hedges		–	58	–	58
Other		311	(69)	–	242
		26,000	(430)	(7,204)	18,366
Gross deferred tax liabilities					
Depreciation and amortisation		(1,042)	(22,830)	–	(23,872)
Derivatives – economic hedges		(26)	26	–	–
Other		(88)	(3)	–	(91)
		(1,156)	(22,807)	–	(23,963)
Net deferred tax assets / (liabilities)		24,844	(23,237)	(7,204)	(5,597)
			(note: 13)		
For the 53 week period ended 2 August 2009					
Gross deferred tax assets					
Depreciation and amortisation		695	(695)	–	–
Inventory		5,897	575	–	6,472
Doubtful debts		256	11	–	267
Employee benefit provisions		7,553	980	–	8,533
Make good provision		711	100	–	811
Sales return provision		747	(28)	–	719
Derivatives – cash flow hedges	22	–	–	8,887	8,887
Other		475	(164)	–	311
		16,334	779	8,887	26,000
Gross deferred tax liabilities					
Depreciation and amortisation		–	(1,042)	–	(1,042)
Derivatives – cash flow hedges	22	(1,538)	–	1,538	–
Derivatives – economic hedges		(536)	510	–	(26)
Other		(89)	1	–	(88)
		(2,163)	(531)	1,538	(1,156)
Net deferred tax assets		14,171	248	10,425	24,844
			(note: 13)		

The parent has no deferred income tax assets/liabilities.

25. PROPERTY, PLANT AND EQUIPMENT

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

GROUP	NOTE	FREEHOLD LAND	FREEHOLD BUILDINGS	STORE FITTINGS AND EQUIPMENT	COMPUTER HARDWARE	VEHICLES	WORK IN PROGRESS	TOTAL
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
For the 52 week period ended 1 August 2010								
Opening carrying amount		53,720	104,683	77,812	16,322	1,428	3,523	257,488
Additions	5	20,111	4,342	16,202	5,995	163	2,721	49,534
Reclassification		2,500	(2,500)	–	–	–	–	–
Disposals		–	–	(955)	(564)	(77)	–	(1,596)
Depreciation	5, 9	–	(2,838)	(23,829)	(6,017)	(396)	–	(33,080)
Closing carrying amount		76,331	103,687	69,230	15,736	1,118	6,244	272,346
At 1 August 2010								
Cost		76,331	125,939	288,625	82,680	2,474	6,244	582,293
Accumulated depreciation		–	(22,252)	(219,395)	(66,944)	(1,356)	–	(309,947)
Net carrying amount		76,331	103,687	69,230	15,736	1,118	6,244	272,346
For the 53 week period ended 2 August 2009								
Opening carrying amount		53,757	107,221	85,267	19,071	1,176	4,201	270,693
Additions	5	143	69	26,160	4,379	1,026	(678)	31,099
Disposals		(180)	(64)	(2,023)	(86)	(274)	–	(2,627)
Decommissioning costs	12	–	–	(7,107)	(217)	–	–	(7,324)
Depreciation	5, 9	–	(2,543)	(24,485)	(6,825)	(500)	–	(34,353)
Closing carrying amount		53,720	104,683	77,812	16,322	1,428	3,523	257,488
At 2 August 2009								
Cost		53,720	124,240	277,594	78,492	2,748	3,523	540,317
Accumulated depreciation		–	(19,557)	(199,782)	(62,170)	(1,320)	–	(282,829)
Net carrying amount		53,720	104,683	77,812	16,322	1,428	3,523	257,488
At 27 July 2008								
Cost		53,757	124,288	271,660	75,682	2,764	4,201	532,352
Accumulated depreciation		–	(17,067)	(186,393)	(56,611)	(1,588)	–	(261,659)
Net carrying amount		53,757	107,221	85,267	19,071	1,176	4,201	270,693

(a) Property valuations

The directors, having taken into consideration purchase offers, independent and government valuations and other known factors, have assessed the fair value of freehold land and buildings to be $279.258 million (2009: $266.670 million). The directors' valuation was approved by the board on 9 September 2010. Independent property valuations are sought at least every three years, unless other factors indicate there may have been a significant change in fair value which would necessitate a revaluation being undertaken earlier.

GROUP	CARRYING AMOUNT		DIRECTORS' VALUATION	
	2010	2009	2010	2009
	$ 000	$ 000	$ 000	$ 000
Freehold land and buildings				
Support offices	11,020	10,773	23,000	23,000
Distribution centres	41,279	42,111	96,000	96,000
Stores	99,598	79,997	117,287	97,650
Development assets and tenanted property	28,121	25,522	42,971	50,020
Total freehold land and buildings	180,018	158,403	279,258	266,670

Stores comprise ten (2009: nine) store sites located throughout New Zealand. Development assets include two (2009: two) Auckland properties and properties at Silverdale, Gisborne and Timaru.

25. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Property disposals – 2009

In the previous year, the Group sold a property next to the Rangiora store, which realised a pre-tax profit of $0.315 million. There were no property disposals during the current year.

(c) Impairment review

Management annually review the carrying amounts of property, plant and equipment for impairment. For the purposes of this review assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units), which in most instances is a store. In assessing whether an asset is impaired, reference is made to individual store profitability and any other known events or circumstances that may indicate that the carrying amount of the asset may not be recoverable. The Group's impairment review did not identify any asset impairment (2009: nil).

During the previous year, the carrying amounts of plant, equipment and computer software (refer note 26) related to the fresh food and liquor operations which were decommissioned and fully written off. The carrying amounts written off are separately disclosed as decommissioning costs in the reconciliation of asset movements in the previous table and asset movements in note 26.

The parent has no property, plant and equipment.

26. COMPUTER SOFTWARE

Reconciliations of the carrying amounts of computer software at the beginning and end of the year are set out below:

GROUP	NOTE	COMPUTER SOFTWARE $ 000	WORK IN PROGRESS $ 000	TOTAL $ 000
For the 52 week period ended 1 August 2010				
Opening carrying amount		**23,095**	**97**	**23,192**
Additions	5	**5,925**	**210**	**6,135**
Disposals		**(430)**	**–**	**(430)**
Amortisation	5, 9	**(7,857)**	**–**	**(7,857)**
Closing carrying amount		**20,733**	**307**	**21,040**
At 1 August 2010				
Cost		**67,411**	**307**	**67,718**
Accumulated amortisation		**(46,678)**	**–**	**(46,678)**
Net carrying amount		**20,733**	**307**	**21,040**
For the 53 week period ended 2 August 2009				
Opening carrying amount		23,146	668	23,814
Additions	5	8,187	(571)	7,616
Disposals		(137)	–	(137)
Decommissioning costs	12	(614)	–	(614)
Amortisation	5, 9	(7,487)	–	(7,487)
Closing carrying amount		23,095	97	23,192
At 2 August 2009				
Cost		62,700	97	62,797
Accumulated amortisation		(39,605)	–	(39,605)
Net carrying amount		23,095	97	23,192
At 27 July 2008				
Cost		55,813	668	56,481
Accumulated amortisation		(32,667)	–	(32,667)
Net carrying amount		23,146	668	23,814

The Group's annual impairment review of computer software did not identify any assets which should be impaired (2009: nil).

The parent has no computer software.

27. INVESTMENTS

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

GROUP	2010 $ 000	2009 $ 000
Opening balance	7,376	7,191
Share of associate's profit before taxation	4,033	4,611
Less taxation	(1,225)	(1,391)
Equity earnings of associate	2,808	3,220
Distributions received	(4,263)	(3,035)
Closing balance	5,921	7,376

(a) Investment details

The Group has a 49% interest, and Westpac a 51% interest in The Warehouse Financial Services Limited. There have been no changes in the shareholders or the percentage shareholdings since the company was formed in July 2001. The Warehouse Financial Services Limited offers consumer credit and risk related products that include credit cards and basic insurance cover. The products and services are sold through The Warehouse stores as well as by direct mail and over the telephone.

The balance date of The Warehouse Financial Services Limited is 30 September. The share of associate earnings is based on both audited financial statements for the year ended 30 September 2009 and unaudited management accounts for the 10 month period ended 31 July 2010.

(b) Summarised financial information

Details of the summarised financial information relating to the Group's associate are set out below.

	2010 $ 000	2009 $ 000
Extract from the associate's balance sheet		
Loans	71,345	66,803
Other assets	17,668	19,350
	89,013	86,153
Liabilities	(76,930)	(71,100)
Net assets	12,083	15,053
Share of associate's net assets	5,921	7,376
Extract from associate's income statement		
Operating income	16,122	16,092
Net profit after tax	5,730	6,571

Contingent liabilities relating to the Group's associate are detailed in note 36.

The parent has an investment in subsidiaries at cost of $42.000 million (2009: $42.000 million). The value of the parent's investment represents a 100% (2009: 100%) shareholding in The Warehouse Limited.

A list of Group companies is detailed in note 39.

28. PROVISIONS

GROUP	NOTE	CURRENT 2010 $ 000	CURRENT 2009 $ 000	NON-CURRENT 2010 $ 000	NON-CURRENT 2009 $ 000	TOTAL 2010 $ 000	TOTAL 2009 $ 000
Annual performance incentive payment		9,707	19,103	–	–	9,707	19,103
Cash settled share-based compensation	15	1,684	1,464	–	–	1,684	1,464
Annual leave		18,478	16,365	–	–	18,478	16,365
Long service leave		–	–	6,199	5,696	6,199	5,696
Other employee benefits		4,521	4,018	1,065	901	5,586	4,919
Employee benefits		34,390	40,950	7,264	6,597	41,654	47,547
Make good provision		771	593	1,959	2,110	2,730	2,703
Sales returns provision		2,488	2,396	–	–	2,488	2,396
Warranty provision		–	–	7,414	7,414	7,414	7,414
		37,649	43,939	16,637	16,121	54,286	60,060

(a) Movements in provisions

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

GROUP	MAKE GOOD 2010 $ 000	MAKE GOOD 2009 $ 000	SALES RETURN 2010 $ 000	SALES RETURN 2009 $ 000	WARRANTY 2010 $ 000	WARRANTY 2009 $ 000
Opening balance	2,703	2,370	2,396	2,491	7,414	7,414
Arising during the year	683	947	2,488	2,396	–	–
Net settlements	(656)	(614)	(2,396)	(2,491)	–	–
Closing balance	2,730	2,703	2,488	2,396	7,414	7,414

Nature and timing of provisions

(b) Employee benefit provisions

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

(i) Annual performance incentive payment

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

(ii) Annual leave

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

(iii) Long service leave

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

(iv) Other employee benefits

Employees are entitled to five days sick leave per year with any unused days up to a maximum of 15 days carried over to the next year to a maximum entitlement of 20 days in any year. A provision for sick leave has been recognised for employees with entitlements in excess of one year, where there is a likelihood that the entitlement will be taken. This provision also includes an estimate of the Group's outstanding ACC liabilities.

(c) Make good provision

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

(d) Sales return

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

28. PROVISIONS (CONTINUED)

(e) Warranty

In November 2005, the Group sold the business assets of The Warehouse Australia to Australian Discount Retail (ADR). In accordance with the sale and purchase agreement, the Group provided certain warranties and indemnities to ADR, most of which have been settled or have expired. A number continue and a provision has been made where it is probable that a liability exists from these obligations.

Under commercial arrangements associated with the sale process in November 2005, the Group retained guarantees to certain landlords in respect of rental payments by ADR after November 2005.

In January 2009, ADR was placed in receivership; until the receivership process concludes it remains uncertain whether the existing status of the Group's liability will change.

The parent has no provisions.

29. BORROWINGS

	NOTE	GROUP 2010 $ 000	GROUP 2009 $ 000	PARENT 2010 $ 000	PARENT 2009 $ 000
Bank borrowings at call (interest rate: 3.50%)		75,000	–	–	–
Current borrowings		75,000	–	–	–
Bank borrowings (interest rate: 3.21%)		–	100,000	–	–
Fixed rate senior bond (coupon: 7.37%)		100,000	–	100,000	–
Fair value adjustment relating to senior bond effective interest		162	–	–	–
Unamortised capitalised costs on senior bond		(1,520)	–	(1,520)	–
Non-current borrowings		98,642	100,000	98,480	–
	4	173,642	100,000	98,480	–

Cash balances have been netted off against bank overdrafts where the Group has a 'set off' arrangement with a bank counter-party. The average bank overdraft interest rate incurred for the year was 9.43% (2009: 10.58%).

(a) Fair values

The fair value of the fixed rate senior bond at 1 August 2010 was $101.906 million, based on the last price traded on the New Zealand stock exchange prior to balance date and a market yield of 6.90%.

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

(b) Borrowing covenants

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

(c) Interest rate and liquidity risk

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

(d) Fixed rate senior bond

In April 2010 the Group issued a $100.000 million fixed rate senior bond bearing a fixed interest rate of 7.37% per annum. Interest is payable every six months on 15 June and 15 December and the bond has a final maturity in June 2015. The Group incurred costs of $1.600 million in connection with the issuance of the bond which have been capitalised. These costs are being amortised equally over the term of the bond. An amortisation expense of $0.080 million has been recognised as part of the interest expense during the year.

30. CONTRIBUTED EQUITY

	GROUP 2010 $ 000	GROUP 2009 $ 000	PARENT 2010 $ 000	PARENT 2009 $ 000
Share capital	251,445	251,445	251,445	251,445
Treasury stock	(8,262)	(14,356)	–	–
	243,183	237,089	251,445	251,445

(a) Share capital

GROUP AND PARENT	SHARE CAPITAL 2010 $ 000	SHARE CAPITAL 2009 $ 000	ORDINARY SHARES 2010 000	ORDINARY SHARES 2009 000
Opening balance	251,445	251,445	311,196	311,196
Closing balance	251,445	251,445	311,196	311,196

Fully paid ordinary shares carry one vote per share and participate equally in dividends, other distributions from equity and any surplus on a winding up of the Group. No shares were issued during the current financial year (2009: Nil).

(b) Treasury stock

GROUP	NOTE	TREASURY STOCK 2010 $ 000	TREASURY STOCK 2009 $ 000	ORDINARY SHARES 2010 000	ORDINARY SHARES 2009 000
Opening balance		14,356	12,672	3,162	2,492
Ordinary shares issued to settle share plan obligations	31, 15	(1,751)	(2,258)	(365)	(330)
Ordinary shares issued to employee share purchase plan	31, 21	(4,355)	–	(1,003)	–
Ordinary shares purchased on market		–	3,942	–	1,000
Ordinary shares forfeited under the staff share purchase plan	21	12	–	3	–
Closing balance		8,262	14,356	1,797	3,162
Percentage of share capital				0.58 %	1.02 %

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

31. RESERVES

GROUP	NOTE	2010 $ 000	2009 $ 000
Cash flow hedge reserve	22	**(4,007)**	(20,737)
Share based payments reserve		**3,422**	3,654
		(585)	(17,083)

(a) Cash flow hedge reserve

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

(b) Share based payments reserve

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

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

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

GROUP	NOTE	2010 $ 000	2009 $ 000
Opening balance		**3,654**	3,586
Share based payments expense	7	**2,609**	2,600
Transfer from treasury stock	30	**(6,106)**	(2,258)
Transfer to employee share purchase plan		**2,700**	–
Transferred to retained earnings	33	**565**	(274)
Closing balance		**3,422**	3,654

The parent has no reserves.

32. MINORITY INTEREST

GROUP	2010 $ 000	2009 $ 000
Opening balance	**251**	191
Net profit attributable to minority interest	**355**	214
Dividends paid to minority shareholders	**(266)**	(154)
Closing balance	**340**	251

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

The parent has no minority interests.

33. RETAINED EARNINGS

	NOTE	GROUP 2010 $ 000	GROUP 2009 $ 000	PARENT 2010 $ 000	PARENT 2009 $ 000
Opening balance		**100,887**	88,518	**10,886**	10,890
Net profit attributable to shareholders		**60,185**	76,782	**101,137**	65,347
Dividends paid to shareholders	34	**(101,139)**	(65,351)	**(101,139)**	(65,351)
Treasury stock dividends received		**940**	664	**–**	–
Transferred from share based payments reserve	31	**(565)**	274	**–**	–
Closing balance		**60,308**	100,887	**10,884**	10,886

34. DIVIDENDS

GROUP AND PARENT	NOTE	DIVIDENDS PAID 2010 $ 000	DIVIDENDS PAID 2009 $ 000	CENTS PER SHARE 2010	CENTS PER SHARE 2009
Prior year final dividend		**17,116**	17,116	**5.5**	5.5
Interim dividend		**48,235**	48,235	**15.5**	15.5
		65,351	65,351	**21.0**	21.0
Special interim dividend	3	**4,669**	–	**1.5**	–
Special final dividend	3	**31,119**	–	**10.0**	–
Total dividends paid	33	**101,139**	65,351	**32.5**	21.0

All dividends paid were fully imputed. Supplementary dividends of $1.078 million (2009: $0.739 million) were paid.

Dividend policy

The Group's dividend policy was changed by the board in September 2010. The Group's previous dividend policy was to pay a dividend equal to 75% of adjusted net profit. The policy payout ratio was increased to 90% of adjusted net profit commencing from the current year's final dividend to be paid in November 2010. This has the effect of increasing the final dividend from 5.5 cents to 8.5 cents per share.

Adjusted net profit makes allowance for unusual items, which include profits from the disposal of properties, fresh food and liquor decommissioning costs, unrealised gains or losses from changes in the fair value of financial instruments and one-off non-cash tax adjustments.

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

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

GROUP AND PARENT	NOTE	DIVIDENDS PAID AND DECLARED 2010 $ 000	DIVIDENDS PAID AND DECLARED 2009 $ 000	CENTS PER SHARE 2010	CENTS PER SHARE 2009
Interim dividend		**48,235**	48,235	**15.5**	15.5
Final dividend (declared after balance date)		**26,452**	17,116	**8.5**	5.5
		74,687	65,351	**24.0**	21.0
Special interim dividend		**4,669**	–	**1.5**	–
Special final dividend (declared after balance date)		**15,560**	31,119	**5.0**	10.0
Total dividends paid and declared		**94,916**	96,470	**30.5**	31.0
Adjusted net profit	38	**83,196**	85,213		
Payout ratio (%) – excluding special dividend		**89.8 %**	76.7 %		

On 9 September 2010 the board declared a final fully imputed ordinary dividend of 8.5 cents per share and a fully imputed special dividend of 5.0 cents per share to be paid on 17 November 2010 to all shareholders on the Group's share register at the close of business on 5 November 2010.

35. IMPUTATION CREDIT ACCOUNT

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

IMPUTATION CREDIT ACCOUNT	GROUP 2010 $ 000	GROUP 2009 $ 000	PARENT 2010 $ 000	PARENT 2009 $ 000
Opening balance	**82,845**	91,774	**20,648**	19,909
Taxation payments made	**21,972**	19,000	**–**	–
Credits attached to dividends paid	**(48,736)**	(31,449)	**(48,736)**	(31,449)
Credits attached to dividends received	**2,211**	2,476	**46,476**	32,188
Other adjustments	**262**	1,044	**–**	–
Closing balance	**58,554**	82,845	**18,388**	20,648

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

36. CONTINGENT LIABILITIES

GROUP	2010 $ 000	2009 $ 000
Bank letters of credit issued to secure future purchasing requirements	**15,899**	18,508
Less included as a goods in transit creditor	**(1,539)**	(2,514)
	14,360	15,994
Bank guarantees provided to landlords and the New Zealand Stock Exchange Limited	**315**	315
Lease disputes	**300**	600
Product liabilities	**–**	320
Workers' compensation claims	**1,000**	1,000
Total contingent liabilities	**15,975**	18,229

Letter of credit

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

Bank guarantees

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

The Warehouse Financial Services Limited

The Commerce Commission issued civil proceedings against Visa, Mastercard and all issuers of Visa and Mastercard, including The Warehouse Financial Services Limited, for alleged breaches of the Commerce Act 1986 in relation to credit card interchange fees and scheme rules. The Commerce Commission alleged that the setting of interchange fees and rules amount to price fixing, or have the effect of substantially lessening competition. The Commerce Commission and The Warehouse Financial Services Limited settled this matter in September 2009.

The Warehouse Australia

In November 2005 the Group sold the business assets of The Warehouse Australia to Australian Discount Retail (ADR). In accordance with the sale and purchase agreement, the Group provided certain warranties and indemnities to ADR. Most of those warranties and indemnities have been settled or have expired. However, a number continue and, as such, provisioning has been made in the financial statements where it is probable that a liability exists from these obligations.

There are still potential residual exposures for unknown claims arising from the Group's ownership of The Warehouse Australia business prior to November 2005 that cannot be quantified. Under commercial arrangements associated with the sale process in November 2005, the Group retained guarantees to certain landlords in respect of rental payments by ADR after November 2005. In January 2009 ADR was placed in receivership; until this process concludes it remains uncertain whether the existing status of the Group's contingent liabilities will change.

Other contingent liabilities

Other contingent liabilities arise in the ordinary course of business. The likelihood and value of any future outflow relating to these liabilities are uncertain.

The parent had no contingent liabilities.

37. COMMITMENTS

(a) Capital commitments

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

GROUP	2010 $ 000	2009 $ 000
Within one year	**14,927**	2,965

The capital commitments at balance date includes costs to complete a retail development in Gisborne of $10.381 million.

(b) Operating leases

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

GROUP	2010 $ 000	2009 $ 000
Future minimum rentals payable		
0 to 1 years	**52,696**	56,186
1 to 2 years	**42,775**	45,250
2 to 5 years	**69,134**	81,489
5+ years	**15,335**	28,070
	179,940	210,995

The parent has no capital or lease commitments.

38. ADJUSTED NET PROFIT

GROUP	NOTE	2010 $ 000	2009 $ 000
Adjusted net profit	34	**83,196**	85,213
Unusual items			
Gain on disposal of property	25	**–**	315
Changes in fair value of financial instruments	4	**(282)**	(1,698)
Fresh food and liquor decommissioning costs	12	**–**	(10,661)
		(282)	(12,044)
Income tax relating to unusual items		**85**	3,613
Income tax relating to change in building depreciation	13	**(22,814)**	–
Net profit attributable to shareholders of the parent		**60,185**	76,782
Earnings per share based on adjusted net profit			
Basic earnings per share		**27.0 cents**	27.6 cents
Diluted earnings per share		**26.8 cents**	27.6 cents

39. RELATED PARTIES

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

(a) Shareholdings

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

	SHAREHOLDING		DIVIDENDS RECEIVED	
	2010	2009	2010	2009
	000	000	$ 000	$ 000
Beneficial interest				
R L Challinor	**2**	2	**1**	1
G F Evans	**11**	11	**4**	2
I R Morrice (refer sub-note (b))	**1,289**	1,199	**101**	42
J H Ogden (appointed August 2009)	**11**	–	**4**	–
K R Smith	**12**	12	**4**	3
Sir Stephen Tindall (refer sub-notes (b) and (c))	**84,058**	84,358	**27,365**	17,715
Other key executives	**297**	103	**74**	26
Non beneficial interest as trustees of the Group's employee share plans				
I R Morrice, K R Smith and L N E Bunt as trustees of The Warehouse Management Trustee Company Limited	**1,769**	1,771	**574**	372
G F Evans and K R Smith as trustees of The Warehouse Management Trustee Company No.2 Limited	**1,031**	1,396	**366**	294

Other key executives are detailed in note 14.

R L Challinor also holds a $50,000 (2009: $Nil) face value interest in the Group's fixed rate senior bond.

(b) Share deed

Sir Stephen Tindall (Director) maintains an interest in 1,000,000 shares sold to I R Morrice (Director) as a guarantor of a put option in favour of the holder (exercisable at any time on or before 25 November 2010) and a holder of a mortgage over the shares to secure the debt. Under this arrangement dividends received on these shares are paid to Sir Stephen Tindall as mortgage interest. The dividends of $325,000 (2009: $210,000), which were received on these shares, are only included in the table above as dividends received by Sir Stephen Tindall. As both Sir Stephen Tindall and I R Morrice have a beneficial interest in the same 1,000,000 parcel of shares, these shares are included in the shareholdings of both directors in the table above.

(c) The Tindall Foundation

Sir Stephen Tindall (Director) is a trustee of The Tindall Foundation. The Tindall Foundation is an incorporated charitable trust and as such it is recognised as having a separate legal existence. This differs from unincorporated trusts, which have no separate legal existence apart from their trustees. For the purposes of stock exchange disclosures, the trustees of The Tindall Foundation do not have a disclosable interest in the shares held by The Tindall Foundation. At balance date The Tindall Foundation held and received dividends on 66,323,220 shares (2009: 66,323,220 shares) in the Group. Dividends of $21.555 million (2009: $13.928 million) were received on these shares during the year.

(d) Share transactions by directors

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

(e) Related party directorships

Keith Smith, the Group's chairman, was appointed as a director of Mighty River Power Limited (MRP) in May 2009. MRP is a supplier of electricity to the Group. During the year, the Group paid $9.695 million (2009: $6.074 million) to MRP to purchase electricity on an arm's length basis at normal commercial rates.

J H Ogden is a director of the Group and was, until April 2010, a director of Kiwibank Limited. The Group has a $20.000 million debt facility with Kiwibank, which forms part of an overall debt facility of $358.000 million (2009: $305.000 million – refer note 4). The Group uses the Kiwibank debt facility as part of its day to day cash management. Fees incurred on the facility are on an arm's length basis at normal commercial terms.

39. RELATED PARTIES (CONTINUED)

(f) Parent

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

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

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

(i) Loans from the parent to subsidiaries $316.149 million (2009: $217.062 million).

Material transactions between the parent and its subsidiaries were:

(ii) The parent entered a $100.000 million loan agreement with a subsidiary on terms aligned to finance the interest and principal commitments of the Group's fixed rate senior bond.

(iii) Interest received by the parent from its subsidiaries $2.269 million (2009: $Nil).

(iv) Dividends received by the parent from its subsidiaries $101.139 million (2009: $65.351 million).

(g) Subsidiaries

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

	PRINCIPAL ACTIVITY	EQUITY HOLDING 2010 %	2009 %
Guaranteeing subsidiaries			
New Zealand subsidiaries			
The Warehouse Limited	Retail	100	100
Boye Developments Limited	Investment	100	100
Eldamos Investments Limited	Property owner	100	100
The Warehouse Nominees Limited	Investment	100	100
Waikato Valley Chocolates Limited [1]	Chocolate factory	50	50
Warehouse Stationery Limited	Retail	100	100
New Zealand employee share plan trustees			
The Warehouse Management Trustee Company Limited [1]	Share plan trustee	100	100
The Warehouse Management Trustee Company No.2 Limited [1]	Share plan trustee	100	100
New Zealand non-trading subsidiaries			
The Warehouse Card Limited		100	100
The Warehouse Cellars Limited		100	90
Eldamos Nominees Limited [1]		100	100
Non-trading Australian subsidiaries			
TWGA Pty Limited [1]		100	100
TWL Australia Pty Limited [1]		100	100
Non-guaranteeing subsidiaries			
New Zealand subsidiaries			
TWNL Projects Limited	Store development	50	50
TWP No.1 Limited	Retail	49	49
TWP No.2 Limited	Retail	49	49
New Zealand non-trading subsidiaries and joint ventures			
Farran Nine Limited		50	50
Lincoln West Limited		50	50
The Warehouse Investments Limited		100	100

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

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Auditors' Report

To the shareholders of The Warehouse Group Limited

We have audited the financial statements on pages 17 to 63. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the 52 week period ended 1 August 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 23 to 28.

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

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 1 August 2010 and their financial performance and cash flows for the 52 week period ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors of the financial statements and providers of other assurance and advisory services.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

(b) the financial statements on pages 17 to 63:

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

   (ii) comply with International Financial Reporting Standards; and

   (iii) give a true and fair view of the financial position of the Company and Group as at 1 August 2010 and their financial performance and cash flows for the 52 week period ended on that date.

Our audit was completed on 9 September 2010 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants, Auckland

5 Year Summary

	NZ IFRS 2010 $ 000	NZ IFRS 2009 $ 000	NZ IFRS 2008 $ 000	NZ IFRS 2007 $ 000	PREVIOUS NZ GAAP 2006 $ 000
CONSOLIDATED INCOME STATEMENTS					
The Warehouse	**1,476,219**	1,531,114	1,533,625	1,546,238	1,507,654
Warehouse Stationery	**193,599**	187,167	199,471	213,538	211,677
Other group operations	**8,107**	8,419	7,611	8,913	8,101
Inter-segment eliminations	**(5,230)**	(5,945)	(5,677)	(7,303)	(6,953)
Revenue	**1,672,695**	1,720,755	1,735,030	1,761,386	1,720,479
The Warehouse	**112,664**	120,238	112,744	136,609	134,400
Warehouse Stationery	**8,044**	1,596	5,070	9,394	9,248
Other group operations	**3,341**	3,118	3,326	3,276	4,198
Operating profit	**124,049**	124,952	121,140	149,279	147,846
Equity earnings of associate	**2,808**	3,220	3,037	3,162	4,198
Changes in fair value of financial instruments	**(282)**	(1,698)	2,126	167	–
Discontinued operations – operating profit	**–**	–	–	–	1,034
Gain / (loss) on disposal of property	**–**	315	1,176	(542)	1,591
Release of warranty provisions	**–**	–	7,208	5,939	–
Gain / (loss) on disposal of business operations	**–**	(10,661)	–	17,432	(88,801)
Earnings before interest and tax	**126,575**	116,128	134,687	175,437	65,868
Net interest expense	**(7,409)**	(6,837)	(6,394)	(6,467)	(10,127)
Profit before tax	**119,166**	109,291	128,293	168,970	55,741
Income tax expense	**(58,626)**	(32,295)	(37,350)	(53,834)	(26,165)
Profit after tax	**60,540**	76,996	90,943	115,136	29,576
Minority interests	**(355)**	(214)	(174)	(302)	(259)
Profit attributable to shareholders	**60,185**	76,782	90,769	114,834	29,317
Adjusted net profit	**83,196**	85,213	80,897	97,467	95,124
SEGMENT INFORMATION					
The Warehouse (%)	**7.6**	7.9	7.4	8.8	8.9
Warehouse Stationery (%)	**4.2**	0.9	2.5	4.4	4.4
Operating profit margin (%)	**7.4**	7.3	7.0	8.5	8.6

5 Year Summary – continued

	NZ IFRS 2010 $ 000	NZ IFRS 2009 $ 000	NZ IFRS 2008 $ 000	NZ IFRS 2007 $ 000	PREVIOUS NZ GAAP 2006 $ 000
CONSOLIDATED BALANCE SHEET (Condensed)					
Inventories	**254,606**	257,943	275,581	254,770	247,527
Inventory creditors	**(87,351)**	(102,626)	(92,276)	(80,471)	(95,584)
Net investment in inventory	**167,255**	155,317	183,305	174,299	151,943
Trade and other receivables	**19,021**	24,466	26,599	25,530	18,761
Other creditors and provisions	**(86,990)**	(94,893)	(71,005)	(80,161)	(80,465)
Working capital	**99,286**	84,890	138,899	119,668	90,239
Fixed assets	**293,385**	280,680	294,507	305,154	305,625
Investments	**5,921**	7,376	7,191	8,908	4,889
Funds employed	**398,592**	372,946	440,597	433,730	400,753
Taxation (liabilities) / assets	**(16,947)**	25,401	26,550	23,529	48,865
Derivative financial instruments	**(5,982)**	(29,955)	7,117	(14,080)	–
Capital employed	**375,663**	368,392	474,264	443,179	449,618
Net debt	**72,417**	47,248	139,608	42,996	115,422
Equity attributable to shareholders	**302,906**	320,893	334,465	399,888	333,917
Minority interest	**340**	251	191	295	279
Source of funds	**375,663**	368,392	474,264	443,179	449,618
CONSOLIDATED CASH FLOW (Condensed)					
Operating EBITDA	**164,986**	166,792	160,774	184,688	184,862
Change in trade working capital	**(10,864)**	50,329	(11,658)	(32,299)	(440)
Income tax paid	**(22,181)**	(19,108)	(40,427)	(17,537)	(20,733)
Net interest paid	**(7,023)**	(7,743)	(9,273)	(8,046)	(13,353)
Share based payment expense	**2,609**	2,600	2,720	2,219	990
Net (gain) / loss on sale of plant and equipment	**1,624**	1,589	422	537	1,735
Operating cash flow	**129,151**	194,459	102,558	129,562	153,061
Capital expenditure	**(57,280)**	(37,103)	(45,694)	(60,505)	(62,577)
Proceeds from divestments	**401**	1,489	17,134	40,460	92,829
Dividend received from associate	**4,263**	3,035	4,754	–	9,687
Dividends paid	**(101,543)**	(65,580)	(176,327)	(55,368)	(46,112)
Bond adjustments	**(243)**	–	–	–	–
Share options exercised	**–**	–	961	26,716	–
ESOP settlements	**82**	(3,940)	2	(8,439)	278
Net cash flow	**(25,169)**	92,360	(96,612)	72,426	147,166
Opening debt	**(47,248)**	(139,608)	(42,996)	(115,422)	(269,436)
Effect of exchange rate movements	**–**	–	–	–	6,848
Closing debt	**(72,417)**	(47,248)	(139,608)	(42,996)	(115,422)

5 Year Summary – continued

	NZ IFRS 2010	NZ IFRS 2009	NZ IFRS 2008	NZ IFRS 2007	PREVIOUS NZ GAAP 2006
HISTORICAL DIVIDEND DISTRIBUTIONS					
Interim (cents per share)	**15.5**	15.5	15.5	12.0	10.5
Final (cents per share)	**8.5**	5.5	5.5	5.5	5.5
Ordinary dividends (cents per share)	**24.0**	21.0	21.0	17.5	16.0
Special (cents per share)	**6.5**	10.0	–	35.0	–
Total (cents per share)	**30.5**	31.0	21.0	52.5	16.0
FINANCIAL RATIOS					
Net debt / net debt plus equity (%)	**19.3**	12.8	29.4	9.7	25.7
Net debt / EBITDA (times)	**0.4**	0.3	0.8	0.2	1.1
Interest cover (times)	**17.1**	17.0	21.1	27.1	6.5
Fixed charge cover (times)	**3.4**	3.2	3.6	4.3	2.2
Capex / depreciation (times)	**1.4**	0.9	1.2	1.7	1.7
Earnings per share (cents per share)	**19.5**	24.9	29.4	37.5	9.6
Return on Equity (%)	**20.0**	23.4	24.7	31.2	8.5
Adjusted payout ratio (%)	**89.8**	76.7	80.8	55.8	51.2
OPERATING STATISTICS					
Retail stores at balance date					
The Warehouse	**87**	86	85	85	85
Warehouse Stationery	**47**	46	43	43	43
Average sales per store					
The Warehouse	**17,065**	18,004	18,084	18,208	17,735
Warehouse Stationery	**3,811**	3,710	4,034	4,232	4,155
Retail area at balance date					
The Warehouse	**470,156**	467,596	465,530	455,361	459,594
Warehouse Stationery	**56,101**	56,388	56,532	58,165	58,890
Same store sales					
The Warehouse (%)	**(2.2)**	(0.4)	(1.2)	2.0	(1.4)
Warehouse Stationery (%)	**7.8**	(7.1)	(4.5)	2.2	4.4

Corporate Governance

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

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

This governance statement outlines the company's main corporate governance practices as at 9 September 2010. During the year, the board reviewed and assessed the company's governance structure to ensure that it is consistent, both in form and substance, with best practice.

Compliance

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

The company considers its governance practices complied with the NZX Corporate Governance (NZXCG) Best Practice Code in its entirety for the year ended 1 August 2010. The company complies with the majority of ASX Corporate Governance Council (ASXCGC) Corporate Governance Principles and Recommendations currently in operation, and continues to make collective disclosure of the key executives' remuneration.

The structure of this section of the Annual Report reflects the requirements of the New Zealand Securities Commission's Governance Principles and Guidelines.

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

Principle 1 – Ethical Standards

Directors observe and foster high ethical standards.

Code of Ethics and Code of General Business Principles

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

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

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

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

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

Trading in The Warehouse's Securities

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

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

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

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

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

Principle 2 – Board Composition and Performance

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

Board Size and Composition

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

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

Director Independence
The board has adopted the definition of independence set out in the ASXCGC Corporate Governance Principles and Recommendations. A non-executive director is considered to be 'independent', providing that director:

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

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

The board does not believe that any director has served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company. The board considers that directors retain independence of character and judgement regardless of length of service. Qualifications and experience of individual directors are detailed on page 7.

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

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

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

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

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

Board Access to Information and Advice
The board has established a procedure whereby directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman is required.

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

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

Nomination and Appointment of Directors

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

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

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

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

The committee believes that a potential director should:

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

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

Letter of Appointment

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

Directors' Induction and Education

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

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

Retirement and Re-election of Directors

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

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

Board Performance Review

The Chairman, with the assistance of appropriate internal and external advisors, assesses the performance of individual directors whilst directors also assess the collective performance of the board and the performance of the Chairman.

Principle 3 – Board Committees

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

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

The current committees of the board are:

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

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

Audit Committee

Membership is restricted to non-executive directors, and the majority must be independent. The chairman of the committee must also be independent and must not be the chairman of the board. The committee includes members who have appropriate financial experience and an understanding of the industry in which The Warehouse operates.

The members of the Audit Committee are:

Robert Challinor *(Chairman)*

Graham Evans

James Ogden

Keith Smith

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

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

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

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

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

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

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

Remuneration, Talent and Nomination Committee

Remuneration, Talent and Nomination Committee Membership is restricted to non-executive directors and the majority on the committee must be independent. The chairman of the committee is an independent director.

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

Graham Evans *(Chairman)*

Janine Smith

Keith Smith

Sir Stephen Tindall

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

Corporate Governance Committee

Membership of the committee is restricted to independent directors.

The members of the Corporate Governance Committee are:

Janine Smith *(Chair)*

Robert Challinor

Graham Evans

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

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

Disclosure Committee

The Disclosure Committee is a committee of the board of directors and management and comprises of the following members:

Keith Smith *(Chairman of the Board)*

Robert Challinor *(Chairman of the Audit Committee)*

Ian Morrice

Sir Stephen Tindall

CFO and Company Secretary

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

Corporate Governance – continued

Board and Committee Meetings

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

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

The main board formally met nine times during the year. In addition, directors met throughout the year on matters of strategy, planning, committee business, and to attend to business between meetings including matters relating to the fixed rate senior bond issued by the company in April 2010. The table below shows director attendance at the board meetings and committee member attendance at committee meetings during the year ended 1 August 2010.

	BOARD	AUDIT	REMUNERATION, TALENT & NOMINATION	CORPORATE GOVERNANCE	DISCLOSURE COMMITTEE
Number of Meetings	**9**	**4**	**5**	**1**	**2**
John Avery*	3	1	1		
Robert Challinor	9	4	1	1	2
Graham Evans	8	3	4		
Ian Morrice	9				1
James Ogden	9	4			
Janine Smith	9		5	1	
Keith Smith	9	4	5		2
Sir Stephen Tindall	9		3		

** John Avery retired as a director 27 November 2009*

Principle 4 – Reporting and Disclosure

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

Financial Reporting

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

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

Management accountability for the integrity of the company's financial reporting is reinforced by certification from the CEO and CFO. The CEO and CFO provided the board with written confirmation that the company's financial report presents a true and fair view, in all material respects, of the company's financial position for the year ended 1 August 2010, and that operational results are in accordance with relevant accounting standards.

Timely and Balanced Disclosure

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

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

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

Principle 5 – Remuneration

The remuneration of directors and executives is transparent, fair and reasonable.

Making sure team members get the rewards they deserve is the responsibility of the Remuneration, Talent and Nomination Committee, a committee of the board. The committee makes recommendations to the board on salaries and incentive programmes and more generally on Group issues, plans and policies relating to people management. The committee is assisted by the Human Resources Director, and by external remuneration advisors.

Non-Executive Directors' Remuneration

The fees payable to non-executive directors are determined by the board within the aggregate amount approved by shareholders.

The board considers the advice of independent remuneration consultants when setting remuneration levels. The current directors' fee pool limit is $650,000 which was approved by the shareholders at the 24 November 2006 annual meeting of shareholders.

Details of the remuneration paid to directors and other benefits provided by way of salaries, bonus and exercising share rights are disclosed in note 14 to the Financial Statements.

Senior Executive Remuneration

The objective of the senior managerial remuneration strategy is to provide competitive remuneration aimed at:

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

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

- **Base or fixed remuneration** – determined by the scope of the role and the level of knowledge, skill and experience required by the individual. The main reference point is the salary at the median of this group although the company is prepared to pay more to secure and retain the right people to deliver what the business needs.
- **Short-term incentive plan** – this comprises an annual incentive, based on percentage of the fixed remuneration, dependent on the achievement of key performance and operating result objectives. For the Executive Team the bonus is generally up to 50% of base salary for 'On Target' performance and is based on a combination of the group reported earnings and each executive's specific objectives.
- **Long-term incentive plan** – a reward for the achievement of long-term shareholder return. Under the share rights plan that has been approved by shareholders, participants may be entitled to ordinary shares in the company if certain share price targets are met. Details of the plan, and the share price targets, are contained in note 15 to the Financial Statements.
- **Cash-based incentive scheme** – this scheme was adopted by the board in May 2009 to compensate executives for the impact of the takeover premium which was included in the share price and which impacted offers of F07 and F08 performance shares (long-term incentives). The cash-based incentive scheme will operate in the event that the performance hurdles are not met for the F07 and/or F08 performance share offers. It will still have a share price hurdle and will reflect the same performance period as in the respective LTIP offers.

Senior executives' objectives are set annually and reviewed informally on a monthly basis, with formal reviews in March and August each year. Objectives are based on a balanced scorecard of financial, people, customer and process/operations. The CEO's objectives are set with the Chairman and tabled to the board annually.

Senior management remuneration is detailed in the wider disclosure made by the company in the team members' remuneration section of the statutory disclosures. Collective disclosure of remuneration paid to key executives is disclosed in note 14 to the Financial Statements.

Principle 6 – Risk Management

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

Approach to Managing Risk

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

The company recognises three main types of risk:

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

Risk Management Roles and Responsibilities

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

CEO and CFO Assurance

The CEO and CFO have provided the board with written confirmation that the company's 2010 financial statements are founded on a sound system of risk management and internal compliance and control, and that such systems are operating efficiently and effectively in all material respects.

Risk Monitoring and Evaluation

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

The board of directors is ultimately responsible for the risk management of the company. The Business Continuity Management (BCM) Group Policy spans the four phases of crisis risk management comprising risk treatment (i.e. mitigation) together with crisis preparedness, response and recovery. Key aspects of the BCM Policy have been audited and in 2010 a comprehensive simulation of a 'disaster' was conducted with the assistance of an independent expert. A Strategic Risk Assessment (SRA) review has identified significant risk to shareholder value and appropriate mitigations. These risks have been reviewed during 2010 and a full review is scheduled for 2011.

Insurance

The company maintains insurance coverage with reputable insurers for relevant insurable risk. The Warehouse retains a $50,000 insurance deductible for any single event loss arising from damage or business interruption to stores, distribution centres or support offices.

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

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

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

Principle 7 – Auditors

The board ensures the quality and independence of the external audit process.

Approach to Audit Governance

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

Corporate Governance – continued

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

- the external auditor must remain independent of the company at all times and comply with the New Zealand Institute of Chartered Accountants' (NZICA) Code of Ethics;
- the external auditor must monitor its independence and report to the board that it has remained independent;
- guidelines in relation to the provision of non-audit services by the external auditor in order that the provision of such services does not impair the external auditor's independence or objectivity;
- the audit firm may be permitted to provide non-audit services that are not considered to be in conflict with the preservation of the independence of the auditor subject to the approval of the company's Audit Committee; and
- the Audit Committee must approve significant permissible non-audit work assignments that are awarded to an external auditor, and the value of non-audit work must be reported at every board meeting.

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

Attendance at the Annual Meeting
PwC, as auditor of the 2010 Financial Statements, has been invited to attend this year's annual meeting and will be available to answer questions about the conduct of the audit, preparation and content of the auditors' report, accounting policies adopted by The Warehouse and the independence of the auditor in relation to the conduct of the audit.

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

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

The role of internal audit is to:

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

Store audits are conducted by the company's internal auditors. For the year ended 1 August 2010, 296 programmed, follow-up, risk-based store audits were conducted by the company's internal auditor (2009: 298 audits). Non-store internal business processes are audited by Ernst & Young also.

Principle 8 – Shareholder Relations

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

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

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

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

The company conducted a Strategy Update for shareholders in major centres during March 2010.

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

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

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

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

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

Principle 9 – Stakeholder Interests

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

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

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

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

The Warehouse's commitment to Communities and Environment is further demonstrated on pages 14 and 15.

Statutory Disclosures

Disclosures of Interests by Directors

General Disclosures

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

Robert Challinor

Chairman, Barramundi Limited
Chairman, Kingfish Limited
Chairman, Marlin Global Limited
Director, CDL Investments New Zealand Limited
Director, Challinor and Associates Limited
JV Committee Member, Copthorne Bay of Islands Resort

Graham Evans

Chairman, Multichem Group Limited and associated companies

James Ogden

Director, Academic Colleges Group Limited
Director, MTA Group Investments Limited and associated companies
Director, Ogden Consulting Limited
Director, Petone Investments Limited
Director, Seaworks Limited and associated companies
Director, Upstart Capital Limited
Director, Vehicle Testing Group Limited
Council Member, Victoria University of Wellington
Independent Member, AMP Capital Property Portfolio Fund (Governance Committee)
Chair, Audit Committee of the Ministry of Social Development
Chair, Value for Money Advisory Board of the Ministry of Social Development
Chair, Wellington City Council, Council Controlled Organisations Performance Committee
Member, Audit and Risk Committee of the Ministry of Foreign Affairs and Trade
Member, Finance and Risk Committee of Crown Forestry Rental Trust
Member, Investment Advisory Sub-Committee for Te Runanga ō Ngai Tahu
Member, Nominating Committee for the Guardians of New Zealand Superannuation

Janine Smith

Chairman, McLarens Young (New Zealand) Limited and associated companies
Deputy Chair, Kordia Group Limited; Director, Kordia Limited
Principal, The Boardroom Practice Limited
Member, University of Auckland New Zealand Governance Centre Advisory Board
Member, Massey University College of Business Advisory Board
Director of other privately owned companies

Keith Smith

Chairman, Goodman (NZ) Limited
Chairman, Healthcare Holdings Limited
Chairman, Mobile Surgical Services Limited
Chairman, Tourism Holdings Limited
Director, Electronic Navigation Limited
Director, Enterprise Motor Group Limited and subsidiaries
Director, Gwendoline Holdings Limited
Director, James Raymond Holdings Limited
Director, Mighty River Power Limited
Director, NZ Farming Systems Uruguay Limited
Director, PGG Wrightson Limited
Director, The Ascot Hospital & Clinics Limited and subsidiaries
Director of other privately owned companies
Member, L.E.K. Consulting (New Zealand Advisory Board)
Trustee, Cornwall Park Trust Board

Sir Stephen Tindall

Chairman, KEA New Zealand
Director, Branches Station Limited
Director, Byron Corporation Limited
Director, Foundation Services Limited
Director, Highland Resorts Limited
Director, K One W One Limited
Director, K One W One (No. 2) Limited
Director, Norwood Investments Limited
Director, Nurture Nature Limited
Director, Sustainable New Zealand Limited
Trustee, New Zealand Institute
Member, New Zealand Business Council for Sustainable Development
Founder, The Tindall Foundation

Mark Callaghan*

Director, Callaghan & Associates Ltd

** Appointed 10 September 2010*

Indemnity and Insurance

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

Statutory Disclosures – continued

Directors’ Security Participation

Directors’ shareholdings as at 1 August 2010

At 1 August 2010 the following directors, or entities related to them, held interests in the company shares:

	BENEFICIAL INTEREST 2010	BENEFICIAL INTEREST 2009	NON-BENEFICIAL INTEREST 2010	NON-BENEFICIAL INTEREST 2009	RELATED PARTY 2010	RELATED PARTY 2009
R L Challinor	**2,394**	2,394	**–**	–	**–**	–
G F Evans	**11,202**	11,202	**1,030,875**	1,396,094	**–**	–
I R Morrice[1]	**1,289,235**	1,198,639	**1,812,602**	1,771,320	**–**	–
J H Ogden[2]	**11,400**	–	**–**	–	**–**	–
K R Smith	**12,000**	12,000	**8,082,677**	8,431,614	**32,800**	32,800
Sir Stephen Tindall	**84,058,283**	84,358,283	**7,165,272**	7,165,272	**9,600**	9,600

[1] *Ian Morrice also holds conditional rights to acquire 589,772 ordinary shares; refer note 14 to the Financial Statements.*

[2] *Appointed 4 August 2009.*

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

- Ian Morrice and Keith Smith held non-beneficially the same parcels of shares 1,769,602 (July 2009: 1,771,320 shares) as trustees of The Warehouse Management Trustee Company Limited.
- Graham Evans and Keith Smith held non-beneficially the same parcels of shares 1,030,875 (July 2009: 1,396,094 shares) as trustees of The Warehouse Management Trustee Company No.2 Limited.
- Sir Stephen Tindall maintains a beneficial interest in 1,000,000 shares sold to Ian Morrice – due to being a grantor of a put option in favour of registered holder exercisable any time on or prior to 25 November 2010 and holder of a mortgage over shares to secure debt.

Share dealings by directors

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

SHARE TRANSACTION	DATE OF TRANSACTION	NUMBER OF ORDINARY SHARES ACQUIRED/(DISPOSED)	CONSIDERATION
I R Morrice	29 September 2009	48,000	on-market purchase of shares at average price of $4.16 per share
I R Morrice	16 October 2009 30 October 2009 20 November 2009	21,350 21,600 47,586	allotment of shares pursuant to executive share scheme
I R Morrice and K R Smith as trustees of The Warehouse Management Trustee Company Limited	various dates	(2,195)	to team members under the staff share schemes
G F Evans and K R Smith as trustees of The Warehouse Management Trustee Company No.2 Limited	various dates	(365,219)	settlement of obligations under the executive share scheme
K R Smith as trustee, non-beneficial interest	30 March 2010	(6,000)	on-market disposal of shares at an average price of $3.78 per share

Directors’ bondholdings as at 1 August 2010

R L Challinor holds a $50,000 (2009: $Nil) face value interest in the company’s bonds.

Statutory Disclosures – continued

Remuneration of Directors

On 24 November 2006 the shareholders approved the directors' fee pool limit of $650,000 per annum.

The fees paid to non-executive directors for services in their capacity as directors during the year ended 1 August 2010 were as follows:

	2010 $	2009 $
J R Avery – *retired 27 November 2009*	**28,000**	84,000
R L Challinor	**79,000**	79,000
G F Evans	**82,000**	82,000
J H Ogden	**–**	–
J L Smith	**72,000**	72,000
K R Smith (Chairman)	**153,000**	153,000
Sir Stephen Tindall	**72,000**	72,000
Total	559,000	573,333

I R Morrice received remuneration in his capacity as an executive director and chief executive officer of the group. Further details of these transactions are given in note 14 to the Financial Statements.

Subsidiary Company Directors

The following people held office as directors of subsidiary companies at 1 August 2010. Those who retired during the year are indicated with an (R).

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

Statutory Disclosures – continued

Team Members' Remuneration

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

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

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

REMUNERATION	NUMBER OF TEAM MEMBERS	
($000)	EXCLUDING SHARE-BASED REMUNERATION	INCLUDING SHARE-BASED REMUNERATION
100 – 110	45	45
110 – 120	51	51
120 – 130	21	21
130 – 140	25	25
140 – 150	13	13
150 – 160	12	12
160 – 170	8	7
170 – 180	7	8
180 – 190	14	14
190 – 200	5	5
200 – 210	11	8
210 – 220	3	4
220 – 230	6	7
230 – 240	4	2
240 – 250	6	7
250 – 260	2	3
260 – 270	2	3
280 – 290	2	–
290 – 300	3	–
300 – 310	1	2
310 – 320	2	2
320 – 330	–	2
330 – 340	1	1
340 – 350	–	2

REMUNERATION	NUMBER OF TEAM MEMBERS	
($000)	EXCLUDING SHARE-BASED REMUNERATION	INCLUDING SHARE-BASED REMUNERATION
350 – 360	1	–
360 – 370	2	–
370 – 380	–	1
380 – 390	2	–
390 – 400	–	2
400 – 410	1	1
410 – 420	1	–
430 – 440	–	2
460 – 470	–	1
480 – 490	1	–
510 – 520	–	1
520 – 530	1	–
550 – 560	–	1
560 – 570	1	–
610 – 620	1	–
630 – 640	–	1
680 – 690	1	1
760 – 770	–	1
810 – 820	1	–
850 – 860	–	1
1,060 – 1,070	2	–
1,170 – 1,180	–	1
1,200 – 1,210	–	1

Substantial Security Holders

According to notices given to the company under the Securities Markets Act 1988, as at 10 September 2010, the substantial security holders in the company and their relevant interests are noted below:

	RELEVANT INTEREST	DATE OF NOTICE
General Distributors Limited (an indirect, wholly-owned subsidiary of Woolworths Limited)	30,548,887	29 May 2007
Wardell Bros & Coy Limited, Cash Wholesalers Limited and Foodstuffs (Auckland) Nominees Limited	30,894,087	23 March 2007
Sir Stephen Tindall	84,141,524	19 March 2004
The Tindall Foundation	66,323,220	19 March 2004

Statutory Disclosures – continued

Twenty Largest Registered Shareholders as at 10 September 2010

	NUMBER OF ORDINARY SHARES	PERCENTAGE OF ORDINARY SHARES
Sir Stephen Tindall	83,058,283	26.69%
The Tindall Foundation	66,323,220	21.31%
General Distributors Limited	30,548,887	9.82%
Cash Wholesalers Limited	10,298,029	3.31%
Foodstuffs (Auckland) Nominees Limited	10,298,029	3.31%
Wardell Bros & Coy Limited	10,298,029	3.31%
National Nominees New Zealand Limited – NZCSD A/c[1]	5,261,288	1.69%
HSBC Nominees (New Zealand) Limited – NZCSD A/c[1]	5,079,889	1.63%
Accident Compensation Corporation – NZCSD A/c[1]	4,475,388	1.44%
Citibank Nominees (New Zealand) Limited – NZCSD A/c[1]	3,879,418	1.25%
Sir Stephen Tindall & K R Smith & J R Avery (as trustees)	3,389,844	1.09%
Citicorp Nominees Pty Limited	3,305,215	1.06%
R G Tindall & G M Tindall & Sir Stephen Tindall (as trustees)	3,100,000	1.00%
AMP Investments Strategic Equity Growth Fund – NZCSD A/c[1]	2,588,188	0.83%
Custodial Services Limited	2,581,725	0.83%
New Zealand Superannuation Fund Nominees Limited – NZCSD A/c[1]	2,559,829	0.82%
Premier Nominees Limited – NZCSD A/c[1]	1,845,226	0.59%
J B Were (NZ) Nominees Limited	1,755,000	0.56%
Citicorp Nominees Pty Limited	1,752,524	0.56%
FNZ Custodians Limited	1,302,819	0.42%
	253,700,830	81.52%

[1] New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to members. As at 10 September 2010, total holdings in NZCSD were 31,127,666 or 10.00% of shares on issue.

Distribution of Shareholders and Holdings as at 10 September 2010

SIZE OF SHAREHOLDING	NUMBER OF SHAREHOLDERS	PERCENTAGE	NUMBER OF SHARES	PERCENTAGE
1 – 1,000	4,971	45.29%	2,731,493	0.88%
1,001 – 5,000	4,551	41.46%	11,308,737	3.63%
5,001 – 10,000	810	7.38%	6,262,298	2.01%
10,001 – 100,000	560	5.10%	13,340,409	4.29%
100,000 and over	85	0.77%	277,552,931	89.19%
	10,977	100.00%	311,195,868	100.00%
Geographic Distribution				
Auckland and Northland	4,039	36.79%	245,605,390	78.93%
Waikato and Central North Island	2,027	18.47%	10,035,944	3.22%
Lower North Island and Wellington	1,937	17.65%	25,467,775	8.18%
Canterbury, Marlborough and Westland	1,073	9.77%	14,321,686	4.60%
Otago and Southland	759	6.91%	2,197,011	0.71%
Australia	1,003	9.14%	13,173,216	4.23%
Other Overseas	139	1.27%	394,846	0.13%
	10,977	100.00%	311,195,868	100.00%

Statutory Disclosures – continued

Distribution of Bondholders and Holdings as at 10 September 2010

SIZE OF BONDHOLDING	NUMBER OF BONDHOLDERS	PERCENTAGE	NUMBER OF BONDS	PERCENTAGE
5,000 – 9,999	**289**	15.43%	**1,554,000**	1.55%
10,000 – 49,999	**1,331**	71.07%	**23,910,000**	23.91%
50,000 – 99,999	**155**	8.28%	**8,472,000**	8.47%
100,000 – 499,999	**81**	4.32%	**11,225,000**	11.23%
500,000 – 999,999	**4**	0.21%	**2,477,000**	2.48%
1,000,000 and over	**13**	0.69%	**52,362,000**	52.36%
	1,873	100.00%	**100,000,000**	**100.00%**
Geographic Distribution				
Auckland and Northland	**592**	31.60%	**20,977,000**	20.97%
Waikato and Central North Island	**324**	17.30%	**21,612,000**	21.61%
Lower North Island and Wellington	**444**	23.71%	**29,953,000**	29.95%
Canterbury, Marlborough and Westland	**283**	15.11%	**6,891,000**	6.89%
Otago and Southland	**219**	11.69%	**18,686,000**	18.69%
Australia	**2**	0.11%	**1,386,000**	1.39%
Other Overseas	**9**	0.48%	**495,000**	0.50%
	1,873	100.00%	**100,000,000**	100.00%

Stock Exchange Listing

The ordinary shares of The Warehouse Group Limited are listed on the New Zealand and Australian stock exchanges.

Ordinary Shares

The total number of voting securities of the company on issue on 10 September 2010 was 311,195,868 fully paid ordinary shares.

Holders of each class of equity security as at 10 September 2010

CLASS OF EQUITY SECURITY	NUMBER OF HOLDERS	NUMBER OF SHARES OR RIGHTS
Ordinary Shares	10,977	311,195,868
Share Rights		
– Executive share scheme	43	2,843,000

Rights Attaching to Shares

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

Non-marketable Parcel of Shares

As at 10 September 2010, the number of shareholders holdings less than the marketable parcel of A$500 under the listing rules of the ASX is 628.

On-market Share Buy-backs

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

Share Price History

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

(i) Five most recent financial years

	SHARE PRICE HIGH	SHARE PRICE LOW
	$	$
2010	4.55	3.30
2009	4.05	3.02
2008	6.64	3.77
2007	7.32	4.55
2006	5.13	3.44

(ii) The six most recent months

	SHARE PRICE HIGH	SHARE PRICE LOW
	$	$
September 2010	3.86	3.54
August 2010	3.65	3.43
July 2010	3.65	3.32
June 2010	3.60	3.30
May 2010	3.80	3.41
April 2010	3.90	3.77

Escrow

Apart from the shares held under the employee share plans, the company has no securities subject to an escrow agreement.

Dividends on Ordinary Shares

The Warehouse Group Limited has paid dividends on its ordinary shares every year without interruption since listing on the NZX in 1994. The Group's dividend policy was changed by the board in September 2010. The Group's previous dividend policy was to distribute approximately 75% of adjusted net profit to shareholders. The policy payout ratio was increased to 90% of adjusted net profit commencing from the current year's final dividend to be paid in November 2010.

On 9 September 2010 the directors declared a fully imputed final dividend of 8.5 cents per share, and a special dividend of 5.0 cents per share, bringing the total dividend for the year to 30.5 cents per share. The dividends will be fully imputed at a rate of 30.0% and will be paid on 17 November 2010 to all shareholders on the share register at the close of business on 5 November 2010.

The company's strong cash flow performance in F10, and continued strengthening of its balance sheet, supports the payment of a special dividend to shareholders.

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

Cents per share

DIVIDENDS	2010	2009	2008	2007	2006
Interim	**15.5**	15.5	15.5	12.0	10.5
Final	**8.5**	5.5	5.5	5.5	5.5
Subtotal	**24.0**	21.0	21.0	17.5	16.0
Special	**6.5**	10.0	–	35.0	–
Total	**30.5**	31.0	21.0	52.5	16.0

Statutory Disclosures – continued

Auditors
PricewaterhouseCoopers has continued to act as auditors of the company, and have undertaken the audit of the financial statements for the year ended 1 August 2010.

Disciplinary action
Neither the NZX nor ASX has taken disciplinary action against the company during the period under review.

Donations
In accordance with section 211(1)(h) of the Companies Act 1993, the company records that it donated $121,000 (2009: $88,000) to various charities during the year. In line with board policy, no political contributions were made during the year.

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

Limitations on the Acquisition of Company's Securities
The terms of the company's admission to the ASX require the following disclosure:

The Warehouse Group Limited is incorporated in Auckland, New Zealand. As such, it is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (such as substantial holdings and takeovers). Limitations on acquisition of the securities are, however, imposed on the company under New Zealand law:

(a) In general, securities in the company are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.

(b) The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20% of the voting rights in the company or the increase of an existing holding of 20% or more of the voting rights in the company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of the voting rights in the company.

(c) The New Zealand Overseas Investment Act 2005 and Overseas Investment Regulations 2005 regulate certain investments in New Zealand by overseas persons. In general terms the consent of the New Zealand Overseas Investment Commission is likely to be required where an "overseas person" acquires shares or an interest in shares in the company that amount to more than 25% of the shares issued by the company or, if the overseas person already holds 25% or more, the acquisition increases that holding.

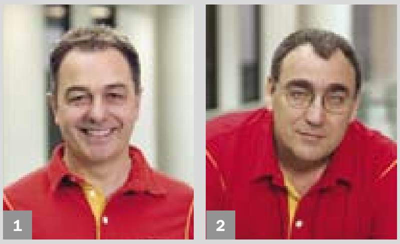
(d) The New Zealand Commerce Act 1986 restricts a person from acquiring shares in the company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

Material differences
There are no material differences between NZX Appendix 1 and ASX Appendix 4E issued by the company on 10 September 2010 for the year ended 1 August 2010 and this Annual Report.

Financial Calendar

	HALF YEAR	FULL YEAR
Balance date	30 January 2011	31 July 2011
Results announced	March 2011	September 2011
Dividends paid	April 2011	November 2011
Quarterly sales announced	November 2010	May 2011
	March 2011	September 2011

OUR SENIOR MANAGEMENT



1 | **IAN MORRICE**
Group Chief Executive Officer and Managing Director

2 | **LUKE BUNT**
Chief Financial Officer

THE WAREHOUSE LIMITED

3 | **AARON GREENE**
Head of Logistics

4 | **ANDREA KENWORTHY**
Head of Head to Toe & Home

5 | **RICHARD LEWIS**
Chief Operating Officer

6 | **OWEN MCCALL**
Chief Information Officer

7 | **DONALD MURRAY**
General Manager Merchandise Support

8 | **KERRY NICKELS**
Company Secretary

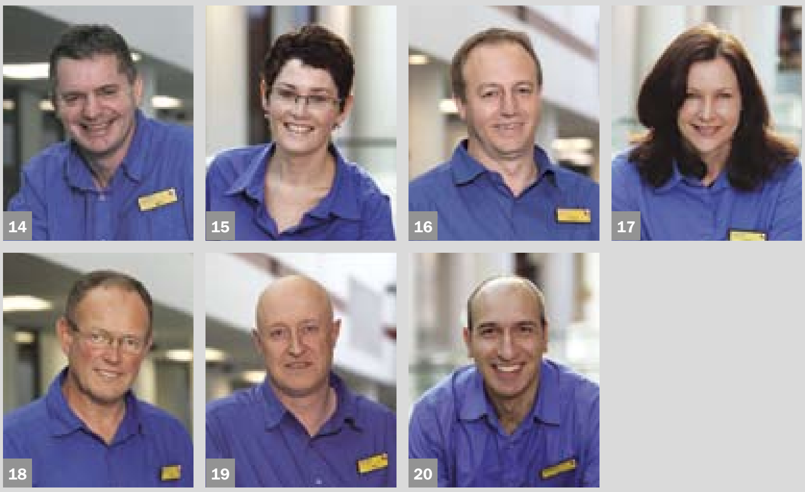
9 | **MARK OTTEN**
Finance Director

10 | **KARL PARKER**
General Manager Operations

11 | **JENNI RYAN**
General Manager Marketing

12 | **NICK TUCK**
Head of Everyday Needs & Leisure

13 | **PAUL WALSH**
Human Resources Director



WAREHOUSE STATIONERY LIMITED

14 | **MARK POWELL**
Chief Executive Officer

15 | **TANIA BENYON**
General Manager Merchandise

16 | **ANDREW BUXTON**
General Manager – Systems, Logistics & Strategy Development

17 | **ANNA CAMPBELL**
General Manager Human Resources

18 | **DES FLYNN**
General Manager Marketing and Business Development

19 | **PAUL JUDD**
Chief Financial Officer

20 | **PEJMAN OKHOVAT**
General Manager Operations & Property

Directory

Board of Directors
Keith Smith (Chairman)
Mark Callaghan
Robert Challinor
Graham Evans
Ian Morrice (Managing Director)
James Ogden
Janine Smith
Sir Stephen Tindall

Group Chief Executive Officer
Ian Morrice

Chief Financial Officer
Luke Bunt

Company Secretary
Kerry Nickels

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

Registered Offices
New Zealand
C/- BDO Spicers
Level 8, 120 Albert Street
PO Box 2219
Auckland 1140, New Zealand

Australia
TWGA Pty Ltd
C/- Allens Arthur Robinson
Level 28
Deutsche Bank Place
Corner of Hunter & Phillip Streets
Sydney NSW 2000, Australia

Auditor
PricewaterhouseCoopers
Private Bag 92162
Auckland 1142, New Zealand

Shareholder Enquiries
Shareholders with enquiries regarding share transactions, changes of address or dividend payments should contact the Share Registrar in the country in which their shares are registered.

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

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

Australia
Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
GPO Box 242
Melbourne VIC 3001
Australia
Freephone: 1 800 501 366 (within Australia)
Telephone: +61 3 9415 4083 (overseas)
Facsimile: +61 3 9473 2500

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

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

Stock Exchange Listings
NZSX trading code: WHS
ASX trading code: WHS

Company Numbers
NZ Incorporation: AK/611207
ARBN 094 719 089

Website
www.thewarehouse.co.nz

New Zealand Business Council for Sustainable Development

The company is a member of the New Zealand Business Council for Sustainable Development (NZBCSD).

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

World Business Council for Sustainable Development

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

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

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