

THE WAREHOUSE INTERIM REPORT 2007

report



Contents

The Warehouse Core Purpose
Managing Director's and Directors' Report

1 Financial Statements
3 Directory

8
IBC

The Warehouse Core Purpose

We set out with one simple concept in mind. To put the customer first and let everything else, every business activity and consideration, flow from that principle. Within The Warehouse itself we all work together and our team spirit comes through because we enjoy being successful and we aim to keep our customers satisfied. We regard employees as our greatest asset; they choose to stay with us because we care and we take time to recognise individual qualities. The Warehouse is a way of life for countless New Zealanders. We make a difference to people's lives, especially family life, by making the desirable affordable.

Highlights

+2.0%

Sales from continuing operations up 2.0% to \$951.7 million

+2.6%

EBITDA from continuing operations up 2.6% to \$112.5 million

+\$69m

Reported after-tax profit \$61.0 million compared to a loss of \$8.0 million after the divestment in Australia in 2005

+3.1%

On an adjusted basis, NPAT of \$61.0 million, up 3.1% (H106 \$59.2 million adjusted for divestment of The Warehouse Australia)

-27.9%

Net debt down 27.9% to \$91.3 million

+14.3%

Interim dividend of 12.0 cents per share – up 1.5 cents per share or 14.3%



men's
changing
room

The Warehouse.
It's Kiwi for
'Bargain'

1982
stoping
soon

16

22

23

24

25

McDonald's

McDonald's

McDonald's

Managing Director's and Directors' Report

Dear Shareholders, The Warehouse Group Limited ("Group") achieved an unaudited tax-paid profit for the half-year ended 28 January 2007 of \$61.0 million. This profit compares with an \$8.0 million loss achieved for the corresponding period ended 29 January 2006 when the company incurred a pre-tax charge of \$88.8 million as a result of the divestment of the Australian business assets.

This solid result has been achieved through improvements in both brands and continued improvement in sales growth and earnings. Operating earnings from The Warehouse were up 3.4 percent to \$95.2 million while Warehouse Stationery recorded operating earnings of \$3.5 million up 9.1% from a year earlier.

Group operating performance

Revenue

Group trading revenue for continuing operations for the half-year ended 28 January 2007 rose 2.0 percent to \$951.7 million, comprising of \$849.7 million from The Warehouse stores and \$101.3 million from Warehouse Stationery.

Operating earnings

Group EBITDA for continuing operations was \$112.5 million, 2.6 percent ahead of the same period last year. Group EBITA (earnings before interest, unusual items and taxation) for the period was \$95.6 million. This is \$0.9 million or 1.0 percent above that achieved for the corresponding period last year.

Tax-paid profit

The reported tax-paid profit for the period under review was \$61.0 million before minority interests compared to a tax-paid loss of \$8.0 million a year earlier. Adjusting for the divestment of The Warehouse Australia in 2005, net profit after tax was up 3.1%.

Segmental results

The Warehouse

The Warehouse retail stores recorded a 2.2 percent increase in sales in the half-year ended 28 January 2007 with same store sales for the 26 weeks up 0.9 percent. First quarter was down 1.0 percent while the second quarter same store sales were up 2.1 percent.

The Christmas season was the best in three years but still below our expectations. Good sales and contribution performance from dry grocery, confectionery, home décor, health & beauty and homewares but disappointing from apparel and outdoor furniture.

Operating earnings rose 3.4 percent to \$95.2 million with the EBITA margin up 0.10 percentage basis points.

Positive customer reappraisal of The Warehouse brand during the past six months is evidenced by the number of customer visits over the period as well as an increase in customer spend per visit. These positive trends show the progress on our strategy as we continue to drive price leadership through a structured communication programme.

The Warehouse remains committed to the philosophy of "low prices every day", but recognises that its customers want more choice and we have continued to improve the product offer with the introduction of

The Warehouse New Zealand	28 January 2007	29 January 2006	Change
Sales (\$ million)	849.7	831.1	+2.2%
EBITA (\$ million)	95.2	92.1	+3.4%
EBITA to sales	11.2%	11.1%	+10 basis points
Operating assets (\$ million)	377.3	305.6	+23.5%
Funds employed (\$ million)	233.6	177.1	+32.0%
Stores	85	85	No change
Retail space (m ²)	461,746	449,180	+2.8%

branded products such as Wiltshire, RCA, Bonds and Levene Paints to broaden the offering at Warehouse prices.

At the same time, house brand development continues with a very encouraging customer response to the new apparel house brands Match (for men) and Maya (for women).

Inventory values are higher than last year due to stocking of higher value items (such as electronics), new product ranges including increased stock weight in grocery and home, and increased average unit prices. As a result, calendar days stock on hand was up 11 days or 12.8 percent. Reductions in inventory levels are planned in the second half of the financial year.

The programme for developing the liquor and pharmacy business within The Warehouse has continued with the opening of three Warehouse Cellars in the first half of the year, bringing the total number of Warehouse Cellars outlets to five. At the same time, three Warehouse Pharmacy outlets opened in the period under review bringing the total number of outlets to four.

Good progress continues to be made in improving our stores and store efficiency.

Improved staff scheduling and operational changes resulted in significant store labour productivity improvements, sales per full time equivalent team member improving by 5.4 percent in the past six months. At the same time the installation of new point of

sale equipment in all stores pre-Christmas 2006 reduced the time to process customer transactions and queuing times.

The development of Warehouse Extra stores continued during the past six months, with the opening of the second Warehouse Extra in Whangarei at the end of November 2006. While the store has only been operating for four months, the initial customer response to the converted Whangarei store has been excellent with early signs of improved sales density from this store. A third Warehouse Extra at Te Rapa (Hamilton) will open before Christmas 2007 and include further refinements to the format.

The Warehouse store estate continues to be improved and during the period under review, one new replacement store was opened in Ashburton and two stores were refitted in Nelson and Newmarket (Auckland).

Project Pulse, a low capital cost, store improvement programme was successfully trialled and is being extended to a further 18 Warehouse stores. Project Pulse is designed to achieve a store facelift and includes a minor relay of shelving and improvements in overall customer service.

The Warehouse retail chain now operates 85 stores, representing 461,746 square metres of retail space, an increase of 2.8 percent over January 2006.

Transformation Programme – Update

With The Warehouse now two years into a three year transformation programme, this interim report gives us an opportunity to outline what the programme is achieving.

For our shareholders this journey is one of increasing both earnings and return on assets to deliver improved shareholder returns. We have continued to make steady progress in this area over the past two years.

For our team members, the transformation is about learning new skills and developing our collective capability. These changes are necessary to enable the business to grow and move forward.

Two years ago we outlined the four priorities we have set for The Warehouse: developing our brand, sourcing great product, leveraging our supply chain and improving our stores.

We have made considerable progress against each of our four priorities and below we outline just some of the key developments that have taken place so far.

“The Warehouse” branding has been successfully updated in all stores and new customer communication put in place to reinforce our improving value and price leadership. We have seen, and continue to see measurable improvements in customer perception and feedback and importantly this has been translated into higher average basket spend per customer.

Our customers have been asking for an improved choice of products and solutions from us. We have responded through introducing vast improvements in co-ordination, style and quality in our house brands. The introduction of Red Stamp

as the value setter in the market and the introduction of a number of internationally acclaimed brands to our line-up have helped to cement these improvements.

The Shanghai Representative Office continues to be instrumental in delivering improved supplier performance both in terms of quality and on-time delivery and improving both the flexibility and performance of our supply chain.

Improving the availability of merchandise to customers remains a key focus in our business from source to shelf. The successful development of the Shanghai Representative Office and the appointment of an international logistics operator to improve inbound stock and order visibility are key drivers to improve the availability of product for our customers.

Our investment in improving our stores for our customers is the final priority and one where good progress has been made. Shareholders who have visited one of the new format stores or an Extra store would agree that these are modern, bright stores laid out in a very customer-friendly manner. Our aim is to make all our stores easier to shop and improve customer service.

Significant investment in our existing store estate will continue in the next year.

The financial result for this period includes significant costs associated with launching and managing new formats, new categories and increased distribution capacity. This investment in capacity and capability is important to our overall strategy and will ultimately lead to improved sales and earnings, but in the short term, these costs represent a significant charge to reported earnings.

Warehouse Stationery	28 January 2007	29 January 2006	Change
Sales (\$ million)	101.276	100.135	+1.1%
EBITA (\$ million)	3.544	3.248	+9.1%
EBITA to sales	3.5%	3.2%	+30 basis points
Operating assets (\$ million)	76.4	60.0	+27.2%
Funds employed (\$ million)	54.7	40.3	+35.9%
Stores	43	43	No change
Retail space (m ²)	59,648	60,432	-1.3%

Warehouse Stationery

Warehouse Stationery sales were 1.1 percent ahead of the same period last year, with operating earnings (EBITA) up 9.1 percent to \$3.544 million.

The stationery market continues to remain difficult. While same store sales for the six months were 1.9 percent up on a year earlier, second quarter sales were down 0.6 percent reflecting a market that continues to be highly competitive.

Warehouse Stationery remains in a consolidation phase and continues to develop and improve infrastructure, refocus on its core merchandise offer as well as continuing to develop the store network strategy.

In October 2006 Warehouse Stationery implemented a new Oracle merchandise system. The system includes centralised purchasing, replenishment and financial reporting as well as an integrated warehouse management system. The introduction has caused some disruption to performance during the period under review and is expected to continue to have an impact on the business for the remainder of the year.

The reformatted Wairau Park store (Auckland) sales performance is ahead of the brand average with good growth in basket size and sales per square metre.

During the period under review one new format replacement store opened in New Plymouth. Two new format replacement stores are scheduled to open before the end of the 2007 financial year.

As at 28 January 2007 Warehouse Stationery consisted of 43 stores representing 59,648 square metres of retail space (a decrease of 1.3 percent over January 2006).

Other Group Operations

During the period, the EBITA contribution from other Group operations fell \$2.5 million to (\$3.1 million) due to a lower contribution from the financial services joint venture of \$1.5 million (H106 \$2.1 million) as a result of increased debt provisioning in compliance with changed standards under NZIFRS and higher Group costs associated with long term incentive plans.

The contribution from property divestments was down \$1.3 million from a year earlier.

Group Financial Position

Assets employed

Total assets increased \$58.4 million to \$715.1 million (H106 \$656.7 million) mainly as a result of the higher inventory levels. The investment in stock increased to \$308 million.

Total gross capital expenditure increased \$1.8 million to \$32.1 million (H106 \$30.3 million). Previous guidance for net capital expenditure for the 2007 year was \$90.8 million. Due to timing of the merchandise initiatives and store development programme the 2007 year capital expenditure programme will now be between \$65 million and \$70 million.

Net cashflow from operating activities for the period was down 31.1 percent to \$60.4 million due to higher investment in inventory.

Borrowings

The first half result underpinned the strong financial position of the Group. Total debt, less cash on hand at 28 January 2007 was \$91.3 million, 27.9 percent lower than the prior comparable period.

Debt to debt plus equity decreased to 18.9 percent from 27.7 percent a year earlier. Net interest cover for the period was a strong 19.8 times (the comparable 2006 period was 12.6 times adjusted for the Australian divestment) while fixed charge cover was 4.3 times, unchanged from a year ago.

With a strong balance sheet, the Group is well positioned to fund future investment from internal cashflow.

Capital management

The Board of Directors is reviewing capital management options in recognition of the company's low gearing, the forward view on capital expenditure and the significant imputation balances available. In the absence of any developments on corporate activity, the Board will update shareholders on this matter towards the end of the financial year.

Dividend

The Directors have declared a fully imputed interim dividend of 12.0 cents per share, up 1.5 cents per share.

Books close for entitlement to the interim dividend on 18 April 2007 with the payment to be made on 26 April 2007.

International Financial Reporting Standards

The Group will prepare financial statements under the New Zealand equivalent to International Financial Reporting Standards (NZIFRS) for the year ending 27 July 2008, including comparative financial information for the year ended 29 July 2007.

The Group expects to update shareholders before the end of July 2007 on both progress in its NZIFRS implementation and details of areas of significant difference for the Group which are expected to arise on transition to NZIFRS.

Outlook and challenges ahead

While trading conditions since January 2007 have been firm, retail conditions are expected to remain challenging for the balance of the year, especially in the light of the recent increase in the Official Cash Rate.

Our plans for The Warehouse Group are designed to improve medium and long-term performance and restore and enhance our strong market position. Feedback from stakeholders suggests they understand and support what we are doing. We would like to thank all of our team members, suppliers, customers and shareholders for their continued support.



Keith R Smith
CHAIRMAN



Ian R Morrice
MANAGING DIRECTOR

8 March 2007



Financial Contents

Consolidated statement of financial performance	9	Reconciliation of operating cashflow	13
Consolidated statement of movements in equity	10	Segment information	14
Consolidated statement of financial position	11	Notes to the financial statements	15
Consolidated statement of cashflows	12	Accountants report	20

Consolidated Statement of Financial Performance

	Half year ended 28 January 07 (Unaudited)	Half year ended 29 January 06 (Unaudited)	Year ended 30 July 06 (Audited)
	\$ 000	\$ 000	\$ 000
Sales revenue	951,719	1,095,388	1,882,902
Other revenue	10,874	11,524	23,336
Operating revenue	962,593	1,106,912	1,906,238
Operating expenses	(871,995)	(1,017,886)	(1,761,696)
Operating surplus before tax and Australian asset disposal	90,598	89,026	144,542
Loss on the disposal of Australian assets	–	(88,844)	(88,801)
Operating surplus before income tax	90,598	182	55,741
Income tax	(29,637)	(8,157)	(26,165)
Net surplus/(deficit) for the period	60,961	(7,975)	29,576
Net surplus attributable to minority interest	25	15	(259)
Net surplus/(deficit) attributable to parent shareholders	60,986	(7,960)	29,317
Operating surplus before tax and Australian asset disposal comprises:			
Operating surplus from continuing activities	90,598	89,777	145,293
Operating deficit from discontinued activities	–	(751)	(751)
	90,598	89,026	144,542
Earnings per share	19.9 cents	(2.6) cents	9.6 cents

The accompanying notes form part of these financial statements.

Consolidated Statement of Movements in Equity

	Half year ended 28 January 07 (Unaudited)	Half year ended 29 January 06 (Unaudited)	Year ended 30 July 06 (Audited)
	\$ 000	\$ 000	\$ 000
Net surplus/(deficit) for the period, comprising:			
Parent shareholders' interest	60,986	(7,960)	29,317
Minority interest	(25)	(15)	259
	60,961	(7,975)	29,576
Foreign currency translation movement	–	(1,561)	(3,175)
Total recognised revenues and expenses	60,961	(9,536)	26,401
Share options exercised	13,879	–	–
Dividends paid to parent shareholders	(16,935)	(12,219)	(44,296)
Movement in minority interest	(101)	(67)	(202)
Purchase of treasury stock on market	(1,261)	–	–
Share scheme amortisation	756	89	990
Forfeited ESOP shares repurchased as treasury stock	(28)	(462)	(578)
Movement in equity for the period	57,271	(22,195)	(17,685)
Equity at beginning of year, comprising:			
Parent shareholders' interest	333,917	351,659	351,659
Minority interest	279	222	222
	334,196	351,881	351,881
Equity at end of the period, comprising:			
Parent shareholders' interest	391,314	329,546	333,917
Minority interest	153	140	279
	391,467	329,686	334,196

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

	As at 28 January 07 (Unaudited)	As at 29 January 06 (Unaudited)	As at 30 July 06 (Audited)
	\$ 000	\$ 000	\$ 000
Current assets			
Cash balances	37,561	16,446	21,443
Receivables	28,208	29,870	18,761
Inventories	270,984	223,158	212,043
Goods in transit	36,873	22,191	35,484
Land held for sale	–	3,731	–
Income tax	5,638	45,381	37,610
Total current assets	379,264	340,777	325,341
Non-current assets			
Receivables	–	153	–
Investments	6,349	12,528	4,889
Property, plant and equipment	315,334	290,314	305,625
Deferred taxation	14,146	12,970	11,255
Total non-current assets	335,829	315,965	321,769
Total assets	715,093	656,742	647,110
Current liabilities			
Bank overdraft	–	–	184
Payables and accruals	159,935	156,073	128,322
Goods in transit creditors	17,188	15,518	30,079
Borrowings	–	1,800	9,600
Total current liabilities	177,123	173,391	168,185
Non-current liabilities			
Borrowings	120,000	135,636	120,000
Borrowings - secured	8,856	5,601	7,081
Provisions	17,647	12,428	17,648
Total non-current liabilities	146,503	153,665	144,729
Total liabilities	323,626	327,056	312,914
Equity			
Share capital	232,855	218,976	218,976
Employee equity-settled benefits	1,010	89	990
Treasury stock	(7,656)	(7,512)	(7,628)
Foreign currency translation reserve	–	(1,454)	(3,068)
Retained earnings	165,105	119,447	124,647
Parent shareholders' interest	391,314	329,546	333,917
Minority interest	153	140	279
Total equity	391,467	329,686	334,196
Total equity and liabilities	715,093	656,742	647,110

The accompanying notes form part of these financial statements.

Consolidated Statement of Cashflows

	Half year ended 28 January 07 (Unaudited)	Half year ended 29 January 06 (Unaudited)	Year ended 30 July 06 (Audited)
	\$ 000	\$ 000	\$ 000
Cash flow from operating activities			
Receipts from customers	958,034	1,101,726	1,898,613
Interest received	513	421	429
Payments to suppliers and staff	(892,556)	(989,422)	(1,711,466)
Interest paid	(5,425)	(9,183)	(13,782)
Taxation paid	(112)	(15,783)	(20,733)
Net cash flow from operating activities	60,454	87,759	153,061
Cash flow from investing activities			
Proceeds from the sale of property, plant and equipment	458	3,816	5,664
Advances repaid	182	413	674
Purchase of property, plant and equipment	(32,079)	(30,335)	(62,577)
Distribution from associate company	-	-	9,687
Advances and ESOP refunds	(24)	(309)	(396)
Net proceeds from the disposal of Australian assets	-	86,339	87,165
Net cash flow from investing activities	(31,463)	59,924	40,217
Cash flow from financing activities			
Decrease in short term borrowings	(9,600)	(38,064)	(30,265)
Increase/(Decrease) in term borrowings	1,775	(126,267)	(141,961)
Share options exercised	13,879	-	-
Purchase of treasury stock on market	(1,261)	-	-
Dividends paid	(17,482)	(12,702)	(46,112)
Net cash flow from financing activities	(12,689)	(177,033)	(218,338)
Net increase/(decrease) in cash held	16,302	(29,350)	(25,060)
Effect of exchange rate movements	-	223	746
Total movement in cash position	16,302	(29,127)	(24,314)
Cash position at beginning of year, comprising:			
Cash, bank in funds and deposits	21,443	45,742	45,742
Bank overdrafts	(184)	(169)	(169)
	21,259	45,573	45,573
Cash position at end of the period, comprising:			
Cash, bank in funds and deposits	37,561	16,446	21,443
Bank overdrafts	-	-	(184)
	37,561	16,446	21,259

The accompanying notes form part of these financial statements.

Reconciliation of Operating Cashflow

	Half year ended 28 January 07 (Unaudited)	Half year ended 29 January 06 (Unaudited)	Year ended 30 July 06 (Audited)
	\$ 000	\$ 000	\$ 000
Net surplus/(deficit) after taxation	60,961	(7,975)	29,576
Non-cash items			
Depreciation	16,832	19,432	35,982
Share plan amortisation	755	89	990
Movement in deferred tax	(2,892)	15,184	16,899
Share of surplus retained by associate	(1,460)	(2,150)	(4,198)
Total non-cash items	13,235	32,555	49,673
Items classified as investing or financing activities			
Net gain on sale of property, plant and equipment	632	(618)	144
Capitalised interest	–	(119)	(119)
Loss on the disposal of Australian assets	–	88,844	88,801
Other investing and financing activities	445	416	1,614
Total investing and financing adjustments	1,077	88,523	90,440
Changes in assets and liabilities			
Payables and accruals	20,720	(3,112)	(3,347)
Income tax	31,972	(22,254)	(14,485)
Receivables	(7,182)	(3,104)	(139)
Inventories	(60,329)	8,865	5,147
Effect of exchange rate movements	–	(5,739)	(3,804)
Total changes in assets and liabilities	(14,819)	(25,344)	(16,628)
Net cash flows from operating activities	60,454	87,759	153,061

Segment Information

	Half year ended 28 January 07 (Unaudited)	Half year ended 29 January 06 (Unaudited)	Year ended 30 July 06 (Audited)
	\$ 000	\$ 000	\$ 000
The Warehouse New Zealand	849,735	831,074	1,507,654
Warehouse Stationery	101,276	100,135	211,677
Other Group operations	5,372	4,726	8,101
Inter-segment eliminations	(4,664)	(2,970)	(6,953)
New Zealand - continuing businesses	951,719	932,965	1,720,479
The Warehouse Australia - discontinued business	-	162,423	162,423
Sales revenue	951,719	1,095,388	1,882,902
The Warehouse New Zealand	95,202	92,107	143,536
Warehouse Stationery	3,544	3,248	9,345
Other Group operations	(3,106)	(633)	(837)
New Zealand - continuing businesses	95,640	94,722	152,044
The Warehouse Australia - discontinued business	-	1,034	1,034
Total operating profit	95,640	95,756	153,078
(Loss)/gain on property disposals	(235)	1,019	1,591
Loss on the disposal of Australian assets	-	(88,844)	(88,801)
Earnings before interest and taxation	95,405	7,931	65,868
Net Interest	(4,807)	(7,749)	(10,127)
Operating surplus before income tax	90,598	182	55,741

Notes to the Financial Statements

1. Accounting policies

The Financial Statements for the half year ended 28 January 2007 have been prepared in accordance with FRS 24 Interim Financial Statements and should be read in conjunction with the previous annual report.

The accounting policies used are consistent with those used in the previous interim financial statements and annual report. A copy of the previous interim and annual report are available on the company's website.

The financial statements for the half years ending 28 January 2007 and 29 January 2006 are unaudited. The financial information for the year ended 30 July 2006 has been extracted from the annual audited financial statements.

2. Commitments, contingencies and funding lines

The Warehouse Financial Services Limited

The Group has a 49% interest, and Westpac Holdings-NZ-Limited a 51% interest in The Warehouse Financial Services Limited. The Commerce Commission has issued civil proceedings against Visa, MasterCard and 11 financial institutions including The Warehouse Financial Services Limited for alleged price-fixing in relation to credit card interchange fees. Further to the Commerce Commission's allegations, a group of retailers has also brought an action against the same financial institutions seeking damages for the alleged price fixing of the credit card interchange fees. At this time it is not possible to quantify the amount of the liability, if any, that may arise out of these proceedings. No provision has been recognised in the accounts for this potential liability.

The Warehouse Australia

On 24 November 2005 the Group entered into a conditional sale agreement to sell the business assets of The Warehouse Australia. As part of the sale of these business assets the Group has undertaken to indemnify the purchaser against losses associated with the company's property leases as a consequence of the change of ownership, pre-existing issues regarding the zoning of the properties and general warranty claims under the sale and purchase agreement. Where it is probable that a liability will arise, a provision has been taken in the accounts, however there is potentially a residual exposure for unknown claims that cannot be quantified.

The Group has no other material contingent liabilities other than those arising in the normal course of business, being primarily letters of credit issued to secure future purchasing requirements and store lease commitments.

Capital commitments not provided for at balance date amount to \$4,557,000 for the completion of store development.

At 28 January 2007 the Group had unused bank facilities of \$201,305,000.

Notes to the Financial Statements – Continued

3. Trading period

The current half year period is 31 July 2006 to 28 January 2007. Prior half year comparative figures are for 1 August 2005 to 29 January 2006. The previous full year comparatives are for 1 August 2005 to 30 July 2006.

4. Adoption of International Financial Reporting Standards

The Warehouse Group Limited reported in its previous annual accounts that the Group will prepare financial statements under the New Zealand equivalent to International Financial Reporting Standards (“NZIFRS”) for the year ending 27 July 2008, including comparative financial information for the year ended 29 July 2007.

A project team and a Board sub committee has been established to plan for the transition to NZIFRS and identify the impacts of implementation. The project is now in its final stages with issues identified and reported to the Board. To date the project team has identified a number of accounting policy changes that will be required although some of these are subject to interpretation and further review before the impact on the Group is fully understood. The project team examining the implications of adopting NZIFRS has not identified any new issues since those which have been previously reported in the 2006 annual report.

The team is currently preparing the transitional financial information for the year ended 30 July 2006 in compliance with NZIFRS. This work is still incomplete, with further work required to determine the value of sick leave and long service leave liabilities and also to determine the value of the Group’s “make good”, sales return and tax provisions. The areas of significant difference for the Group expected to arise on transition to NZIFRS, and the impacts on the financial statements for the year ended 30 July 2006 identified to date are set out below:

Financial Instruments

- Initial impact on retained earnings on implementation.
- Volatility in future earnings.
- New assets or liabilities to be recognised.

The Group maintains an off-balance sheet portfolio of forward exchange contracts and currency options to hedge the currency risks associated with future purchasing requirements of overseas sourced inventories. The Group also uses financial instruments to manage exposures to interest rate and electricity commodity risks. Under New Zealand Financial Reporting Standards (“NZFRS”) these contracts are accounted for as hedges with any gains or losses deferred and recognised when the hedged transaction occurs.

Under NZIFRS all derivative contracts, whether used as hedging instruments or otherwise, will be recognised at fair value in the Statement of Financial Position. If a derivative contract qualifies for cashflow hedge accounting, the effective portion of the fair value movement will be taken to a reserve within equity. All other changes in fair values are recognised immediately in the Statement of Financial Performance. Where the Group is unable to meet NZIFRS hedge criteria this will result in increased earnings volatility.

The project team has documented hedge relationships for all of the Group's forward exchange contracts and interest rate swaps which were in place at and since the date of transition. The effectiveness of these hedges is tested at regular intervals, and where the hedges are shown to be ineffective changes in fair values are required to be recognised in the Statement of Financial Performance.

To ensure the Group achieves a high degree of NZIFRS hedge effectiveness on the foreign currency derivative portfolio the Group changed the way in which foreign currency contracts were selected for settlement, from the date of transition.

During the half year period since the date of transition the Group's forward exchange contracts and interest rate swaps were tested for effectiveness and demonstrated to be fully effective during the period, and as a result changes in the fair values of these derivatives will not be recognised in the Statement of Financial Performance, but as movements through equity.

Asset / (Liability) \$000	Forward Exchange Contracts	Interest Rate Swaps
Fair value as at 30 July 2006	9,427	693
Fair value as at 28 January 2007	(12,065)	2,186

The Group's foreign currency options did not meet the requirements of NZIFRS to qualify for hedge accounting. The fair value of the foreign currency options at the date of transition was \$166,000 (liability). These foreign currency options were used during the period and the Group did not enter any new foreign currency options during the period.

Employee Benefits

- Initial impact on retained earnings on implementation.
- New liabilities to be recognised.

Under NZIFRS, the liability for both vested and non-vested long-term employee benefits, will be recognised in the financial statements at the present value of the expected future obligation. The Group has engaged an actuary to quantify the amount of these provisions.

Share-based remuneration

- Initial impact on retained earnings on implementation.
- Higher expenses.

The Group has issued share options to team members as a form of equity-based compensation in previous years. The Group has not recognised an expense in respect of these share options.

The Group has also issued shares to team members under the "Employee share ownership plan" ("ESOP"). The shares are usually offered to team members at a discount ranging from 15% to 30% of the market price at the time of issue. The Group does not recognise an expense for the discount on the issue of these shares.

Notes to the Financial Statements – Continued

On adoption of NZIFRS the Group will be required to determine the fair value of all share based remuneration, including the discount on shares issued by the ESOP and amortise the expense over the relevant vesting periods. In respect of the options currently on issue to team members the vesting periods occur prior to the Group's intended NZIFRS adoption date, and will result in an expense being recognised as an adjustment to the comparative period and as an adjustment to initial opening retained earnings.

A new share based incentive plan was approved by shareholders at the November 2004 annual meeting and shares rights were allocated to selected executives in October 2005. The Group has recognised a compensation expense based on fair value for share rights granted to executives in accordance with the new incentive plan over the period from the grant date to the earliest vesting date. The accounting treatment for the new plan will comply with the requirements of NZIFRS.

Taxation

- Initial impact on retained earnings on implementation.
- Additional deferred tax assets or liabilities recognised.

Under NZIFRS, deferred tax will be calculated using a "balance sheet" approach which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of balance sheet items rather than the accounting and tax values recognised in the Statement of Financial Performance.

Make good costs

- Initial impact on retained earnings on implementation.
- New liabilities recognised.

The Group has operating leases that require the site to be returned to the lessor in its original condition. The Group currently does not recognise the costs of refurbishment until it is probable that the expenditure will be incurred. NZIFRS requires a provision for make good costs to be recognised over the period of the lease. The provision raised is based on the expected costs of refurbishment at each reporting date.

The project team has not yet finalised the calculation of the make good provision.

Sales returns

- Initial impact on retained earnings on implementation.
- New liabilities recognised.

The Warehouse offers a twelve month money back guarantee on goods sold. The Group accounts for the cost of making good a customer's returned purchase at the time the goods are returned. NZIFRS requires a sales return provision to be raised against revenue at the time of sale where sales returns are deemed to significantly alter revenue.

The project team has not yet finalised the calculation of the sales return provision.

Other impacts on transition to NZIFRS

NZIFRS allows a small number of exemptions to the application of NZIFRS that can be applied to the transition balance sheet. The explanatory comments below include details of the exemptions that apply to the Group.

Property, plant and equipment

The Group can elect to measure an item of property, plant and equipment at its fair value and use that fair value as its deemed cost. The Group has however decided not to revalue any of its property, plant and equipment on transition to NZIFRS and will continue to account for these assets on an historical cost basis.

Restatement of foreign currency translation reserve

As permitted by NZIFRS1, the Group has elected to transfer the consolidated foreign currency translation reserve balance at the date of transition to retained earnings.

The areas identified above should not be taken as an exhaustive list of all differences between NZFRS and NZIFRS. The impacts discussed are based on the project team's current interpretation of the standards which have been released to date. The Group is not yet in a position to quantify the differences that may arise from changes to the current accounting policies. The project team will continue with preparatory work over the coming months to ensure necessary changes to Group accounting policies, procedures and systems are implemented in sufficient time to enable us to understand and comply with the requirements of the Standards. As the Group progresses towards the end of the current financial year the Group will continue to provide users of the financial statements with updated information about the likely impacts of NZIFRS on the Group's earnings, cashflows and financial position.

To the shareholders of The Warehouse Group Limited

We have reviewed the interim consolidated financial statements on pages 9 to 19. The interim consolidated financial statements provide information about the past financial performance and cash flows of the Group for the period ended 28 January 2007 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 15.

Directors' responsibilities

The Company's Directors are responsible for the preparation and presentation of the interim consolidated financial statements that present fairly the financial position of the Group as at 28 January 2007 and its financial performance and cash flows for the period ended on that date.

Accountants' responsibilities

We are responsible for reviewing the interim consolidated financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the interim consolidated financial statements do not present fairly the matters to which they relate.

Basis of opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the interim consolidated financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the interim consolidated financial statements of the Group for the period ended 28 January 2007 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as accountants conducting this review, auditors of the financial statements and providers of general advisory services.

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements do not present fairly the financial position of the Group as at 28 January 2007 and its financial performance and cash flows for the period ended on that date.

Our review was completed on 8 March 2007 and our review opinion is expressed as at that date.



Chartered Accountants, Auckland

Directory

Directors

Keith R Smith – Chairman
John R Avery
Robert L Challinor
John C Dahlsen
Graham F Evans
Ian R Morrice – CEO The Warehouse Group
Janine L Smith
Stephen R Tindall

Place of business

26 The Warehouse Way
Akoranga Drive, Northcote
PO Box 33-470, Takapuna
North Shore City, New Zealand
Tel 64-9-489 7000
Fax 64-9-489 7444

Registered office New Zealand

C/- BDO Spicers
Level 8
Westpac Tower
120 Albert Street
PO Box 2219
Auckland, New Zealand
Tel 64-9-379 2950

Registered office Australia

TWGA Pty Ltd
C/- Allens Arthur Robinson
Level 28
Deutsche Bank Place
Cnr Hunter & Phillip Streets
Sydney NSW 2000
GPO Box: 50, Sydney
NSW 2001, Australia

New Zealand share registrar

Computershare Investor Services Ltd
Level 2, 159 Hurstmere Road
Takapuna, North Shore City
Private Bag 92119
Auckland 1020, New Zealand
Tel 64-9-488 8777
Fax 64-9-488 8787
E-mail: enquiry@computershare.co.nz

Australian share registrar

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney, NSW 2000
GPO Box 7045, Sydney
NSW 1115, Australia
Tel 61-2-8234 5000
Freephone 1800-269 981
Fax 61-2-8234 5450

Shareholder register enquiries and details

Investors with enquiries about transactions, change of address, Inland Revenue Department numbers or dividend payments should contact the appropriate share registrar.

Direct banking of dividends

Direct banking of ordinary share dividends enables investors to have dividends paid directly to their New Zealand or Australian bank account. Further information can be obtained from the appropriate share registrar.

Investor relations

For investor relations enquiries please contact at the above place of business:

Investor Relations Manager
E-mail: investor@twl.co.nz
website: www.thewarehouse.co.nz

Stock exchange listings

New Zealand and Australia (WHS)

Company numbers

A.R.B.N. 094 719 089
NZ Incorporation AK/611207

the **warehouse** // 
where everyone gets a bargain