



Independent auditor's report

To the shareholders of The Warehouse Group Limited

The financial statements comprise:

- the consolidated balance sheets as at 30 July 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements of The Warehouse Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 July 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out other services for the Group in the areas of treasury policy advice and executive remuneration benchmarking advice. The provision of these other services has not impaired our independence as auditor of the Group.

Our audit approach

Overview



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

Overall group materiality: \$4.2 million, which represents approximately 5% of profit before tax from continuing and discontinued operations, adjusted for the gain on property disposals, restructuring costs and impairment of assets.

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

We have determined that there are two key audit matters:

- Impairment of intangible assets
- Inventory provisioning

Materiality

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

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

Audit scope

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

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

We conducted full scope audit work on two entities within the Group which make up 86% of external revenue and 79% of profit before tax. The remaining entities in the Group were not considered individually significant and depending on our risk assessment were subject to other audit procedures such as testing of key balances or reconciliations, supplemented by analytic review.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of intangible assets</i> The carrying value of intangible assets as at 30 July 2017 was \$127.7 million. Of this amount, \$106.6 million (2016: \$129.3 million) related to goodwill and brands, which are tested for impairment at least annually. During the year, management identified impairment indicators for the Financial Services cash generating unit (CGU) and as a result of their assessment wrote off goodwill of \$22.7 million. Subsequently, as a result of the Board's decision to sell Financial Services on 24 July 2017, an impairment of computer software amounting to \$17.3 million was also recorded. To test impairment of the remaining goodwill and brands, management used cash flow forecasts to value the Noel Leeming, Torpedo7 and TWP No. 3 CGUs and compared the valuations to the underlying carrying amount of the CGUs, including goodwill and brands. The assessment of impairment of the intangible assets was an area of audit focus due to the magnitude of the balances and the judgements applied by management in the assessment of impairment. The key assumptions adopted by management in their impairment assessment are described in Note 9.2.	To respond to the risk of impairment of goodwill and brands, our audit procedures included the following: - Engaged our valuation expert to assist in our assessment of the reasonableness of the key assumptions used by management. In particular, we obtained an understanding of the terminal growth rates used by management and challenged the reasonableness of those rates by comparing them to comparable industry rates. We also compared the discount rate applied by management to the average cost of capital. - Performed sensitivity analyses on the discount rates and terminal growth rates used in the impairment calculations. - Compared cash flow forecasts in the impairment calculations to the latest Board approved budgets. - Assessed the reliability of management's forecasts by performing a lookback analysis of historical forecasts against actual results. - Tested the mathematical accuracy of the underlying model. - Agreed the recognised impairment of computer software by comparing the agreed sales price to the carrying value of the software. - Assessed the adequacy of disclosures in the financial statements. Our procedures did not result in any adjustments to management's impairment assessment.
<i>Inventory provisioning</i> The Group had finished goods of \$457.4 million as at 30 July 2017 (2016: \$469.6 million). The inventory provision associated with finished goods of \$22.5 million	Our audit procedures over the Group's provisioning methodology included the following: - Observed management's stocktake process at selected locations and checked that obsolete inventory items were identified and accounted for. - On a sample basis, tested the net realisable value

(2016: \$19.7 million) was determined based on a combination of an automated system calculation as well as management's assessment of discontinued and clearance items.

This was an area of focus due to the judgements involved in determining the appropriate level of provisioning, including management's expectations for future sales and estimation of inventory write-downs.

Note 8.1 of the financial statements describes the judgements and estimates applied by management in determining the inventory provision.

of finished goods by comparing the supplier invoice against the most recent retail price less cost to sell.

- On a sample basis, reperformed the obsolescence and net realisable value system-generated calculations and tested inputs to detailed inventory listings.
- Held discussions with management to understand and corroborate assumptions used to estimate the inventory provisions.
- Reviewed the inventory aging schedules to check, on a sample basis, whether provisions were recorded for aged stock in accordance with Group policy.
- Compared all inventory provisions for each finished goods category as a percentage of the gross amount versus the prior year and understood the rationale for any changes.

From the procedures performed, we have no matters to report.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the financial statements, if the other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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



Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Leopino (Leo) Foliaki.

For and on behalf of:

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers', written in a cursive, flowing style.

Chartered Accountants
21 September 2017

Auckland