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Market Information Services Section  
New Zealand Exchange Limited

Company Announcements Office  
Australian Stock Exchange Limited

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26<sup>th</sup> November, 2004

**Chairman's Speech  
to The Warehouse Group Limited  
Annual Shareholders' Meeting**

**Introduction**

Ladies and Gentlemen, fellow shareholders. Thank you for joining us for the tenth Annual Meeting of The Warehouse Group, which I now declare open.

Before we move to today's business, for those that do not know me I am Keith Smith, Chairman of The Warehouse Group and I would like to introduce you to those with me on the stage:

Firstly our non executive directors.

Joan Withers is chairman of the remuneration, talent and nomination committee, she is also a director of Auckland International Airport, Tourism Holdings Limited, Feltex Carpets Limited and Meridian Energy Limited. Joan is standing for re-election this year.

John Avery chairs Eldamos Investments Limited, the property owning division of The Warehouse. John is a partner and chairman of law firm Hesketh Henry and holds a number of directorship in private companies.

Graham Evans is chairman of the governance committee, a former managing director of Woolworths NZ with more than 40 years experience in the NZ retail sector and director of Tatura Co-operative Dairy Company. Graham is standing for re-election this year.

John Dahlsen is an Australian based director he is also a director of ANZ Banking Group and Southern Cross Broadcasting Limited.

Robert Challinor is chairman of the audit committee. He chairs Mighty River Power Limited and Kingfish Limited and is also a director of the Ports of Auckland Limited. Rob is standing for re-election this year.

Stephen Tindall, Founder and now a non-executive director of the Group

And our executive directors, Ian Morrice – Group CEO, Glen Inger – CEO of The Warehouse NZ and finally Ian Tsicalas – CEO of The Warehouse Australia.

The outline for today's meeting is as follows:

1. Address from the Chairman.
2. Address from Ian Morrice, Group Chief Executive Officer.
3. Questions & discussion on financial performance.
4. Resolutions together with questions on those resolutions.
5. Concluding comments from Stephen Tindall.
6. Refreshments.

## **Performance and direction**

### **Financial performance**

The directors are disappointed to report that The Warehouse Group Limited ('The Warehouse') achieved an audited tax-paid profit for the year ended 1 August 2004 of \$61.2 million. This profit result is 18.9 percent below the \$75.4 million achieved for the prior corresponding period.

The lower operating result reflected weak trading performance from The Warehouse Australia which incurred a loss of A\$32.2m compared to a loss of A\$11.9m in 2003.

Group sales rose 10.1 percent to \$2.258 billion with EBITDA down 6.4 percent to \$177.0 million. Group operating margins as a percentage of sales declined to 5.4 percent from 7.0 percent principally due to the loss incurred in Australia.

Operating cashflow rose 6.6 percent to \$88.6 million while net capital expenditure rose 17.3 percent to \$111.8 million.

Total dividends paid for the year was 13.5 cents per share, the same as that paid in the 2002/03 year.

While the financial result for the year is disappointing, there were a number of operational highlights achieved during the year including:

- Opening the first large format Red Shed store in Whangarei.
- Introducing the MEGA store concept for Stationery.
- Commissioning the Apparel Distribution Centre at Wiri, Auckland.
- Better aligning structure to strategy in Red Sheds.
- Introducing a limited dry grocery category into Red Sheds.
- Establishing positive momentum in Australia during the latter part of the 2003/04 financial year.

## **Direction**

While the recent short term performance of the company has been unsatisfactory, your board is tasked with setting the medium to long term direction of the company.

The board is confident that each of the three operating units, The Warehouse NZ, Warehouse Stationery and The Warehouse Australia continue to have sound prospects for achieving the right financial outcomes for shareholders. As would be normal with the appointment of a new Group CEO, Ian Morrice is currently reviewing all parts of the business, focusing on the long term strategy and direction.

While each business has its own set of unique challenges, we are confident that we have the leadership, both at a group and brand level to deal with these challenges.

## **Leadership changes**

A key part of that leadership has been the recent appointment of Ian Morrice as Managing Director and Group Chief Executive Officer of The Warehouse Group Limited who commenced duties on 1st October 2004. Ian was previously Managing Director, Commercial for United Kingdom-based B&Q Plc, the number one DIY retailer in Europe and number three DIY retailer worldwide.

He took over the reins from Founder Stephen Tindall who had been acting Managing Director since May 2003. Stephen will remain on the Board of Directors as a non-executive director.

Glen Inger, who will be familiar to many shareholders, became Chief Executive of the Red Sheds business in the latter part of the financial year, Glen is a sixteen year veteran of the company and has previously held senior roles in operation, merchandise and property.

## **Governance**

In the area of governance, the Board continues to review how it operates to ensure that governance policies and more importantly the implementation of those policies delivers sound governance.

Shareholders who have read our annual report may note that ten pages are devoted to this topic. Having established good practice policies, arguably the easy part, the challenge for companies is how to demonstrate actual compliance with the governance standards.

Your Board has determined that in future, as part of the internal audit process, it will seek assurance that its governance processes are current and are being applied in all material respects. In this way we can report to you not only on the governance policies but more importantly on how they are operating in practice.

One of the agenda items at today's meeting is a revised constitution for the company. The constitution is a key contract between shareholders and a company, it sets out the formal legal rules by which the company is governed and is a core document defining amongst other things the rights of shareholders to call and attend meetings of shareholders and appoint directors to the board.

In May 2004, significant changes to the listing rules of New Zealand Exchange Limited came into force. These change substantially what is required to be included in the constitutions of listed companies.

One of those changes was to permit constitutions to incorporate NZX listing rules by reference, that is by referring to them and stating that they are to be treated as if set out in full in the constitution.

There has been some debate about adopting NZX rules by reference or what some refer to as the auto-pilot provisions. Your Board has, after consideration, decided to recommend to shareholders that this course be adopted for the following reasons:

1. The listing rules establish standards in addition to those already established by the Companies Act.
2. Every listed issuer such as The Warehouse contracts with NZX to comply with the listing rules as amended from time to time.
3. The NZX listing rules are publicly available rules published by a reputable body and there are benefits and protection offered to shareholders by a regulated listed market
4. Listing rule changes are subject to consultation with market participants. After this they are reviewed by the Securities Commission as part of the statutory process whereby the Minister must assess whether or not to veto those NZX listing rule changes by order in council.

One of the core principles of the NZX Listing Rules is standardisation. All issuers are bound by the same rules and the constitutions of issuers are standardised. Our approach, of incorporation of the Listing Rules into a constitution is in line with this core principle.

Notwithstanding the above, the Board will continue to review any proposed changes made to NZX and ASX listing rules. Where we consider a proposed change is not in shareholders interests we will make submissions to the relevant exchange and consider seeking exemptions from that rule if necessary.

### **Long term incentive plan**

Several items on today's agenda relate to the introduction of a new long term incentive scheme for The Warehouse whereby selected executive employees of the Company will have a right to be transferred ordinary shares in the Company upon the satisfaction of certain conditions. It is intended that the Scheme will operate in both New Zealand and Australia.

The Warehouse has a long tradition of employee ownership and schemes that link company performance with individual reward.

This scheme is part of an overall strategy to align the incentive programs of the business to reward appropriate performance drivers and to provide upper quartile rewards for upper quartile performance. It is part of a remuneration package that includes base remuneration, short term and long term incentives.

We assessed a number of alternatives against key objectives centred around increasing shareholder wealth which we will detail later in this meeting.

The proposed scheme has a number of advantages over previous options based plans:

- 1) it does not dilute existing shareholders, as any shares purchased for the Scheme are purchased on market,
- 2) there is more transparency with the company recognising an earnings charge for the Scheme, whereas under many options schemes such a charge is not recognised,
- 3) there is a robust process around setting medium terms targets for the Award Shares and finally
- 4) the targets for Performance Shares require that we deliver above the cost of equity, adjusted for dividends, for team members to receive these shares.

The length of the notice of meeting today arises from the fact that we are effectively introducing two schemes, and that both schemes are share based. This requires shareholder approvals for the acquisition of shares by certain directors, and the subsequent issue of shares. In addition, we are required to provide an appraisal report to the NZX under Listing rule 1.2.3.

## **Outlook**

On November 9<sup>th</sup> the company reported that unaudited sales for the Group have increased 1.1% in the thirteen weeks ended 31 October 2004, compared with the same period for the previous year.

The Warehouse New Zealand 'Red Shed' retail stores recorded a 1.6% increase in overall sales in the thirteen weeks to 31 October 2004 while Warehouse Stationery recorded a sales increase of 17.3 percent and The Warehouse Australia sales were flat versus the same quarter last year.

While overall sales for the quarter were disappointing, the important quarter for any retailer is the Christmas quarter. Each of the brands is well placed as we move into the busy Christmas and New Year period.

## **Acknowledgements**

On behalf of shareholders I would like to thank the non-executive directors for their contribution over the last twelve months. It has been a very busy year and your Board has and continues to act in a very professional and diligent manner and at all times has acted in the best interests of all shareholders.

During the year, committees of the board were tasked with additional workloads arising from the selection and appointment of a new group chief executive officer and in the selection of a new auditor for the company.

Finally I would also like thank Stephen for his contribution over the last year as acting Managing director. Resuming the managing director role has not been easy on Stephen and his family and his efforts over the last eighteen months have been appreciated by the Board.



Keith Smith  
Chairman  
The Warehouse Limited