

THIS WAY
FORWARD >

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

society and environment report 2005

Our Report to You

The Warehouse Society and Environment Report for 2005 is our fifth¹ report about our progress towards business sustainability. For us business sustainability means that along with our financial objectives, we also seek to monitor and improve our social and environmental impacts.

The Global Reporting Initiative² continues to guide the way we present this report along with our own view of the social and environmental issues most relevant to our stakeholders. Components of our reporting such as company Financial Statements, information on Corporate Governance, Shareholders, and our business profile and commercial strategy can be found in The Warehouse 2005 Annual Report³ along with a summary version of this report. Our 2005 Society and Environment report pertains only to the operations of The Warehouse Ltd New Zealand.

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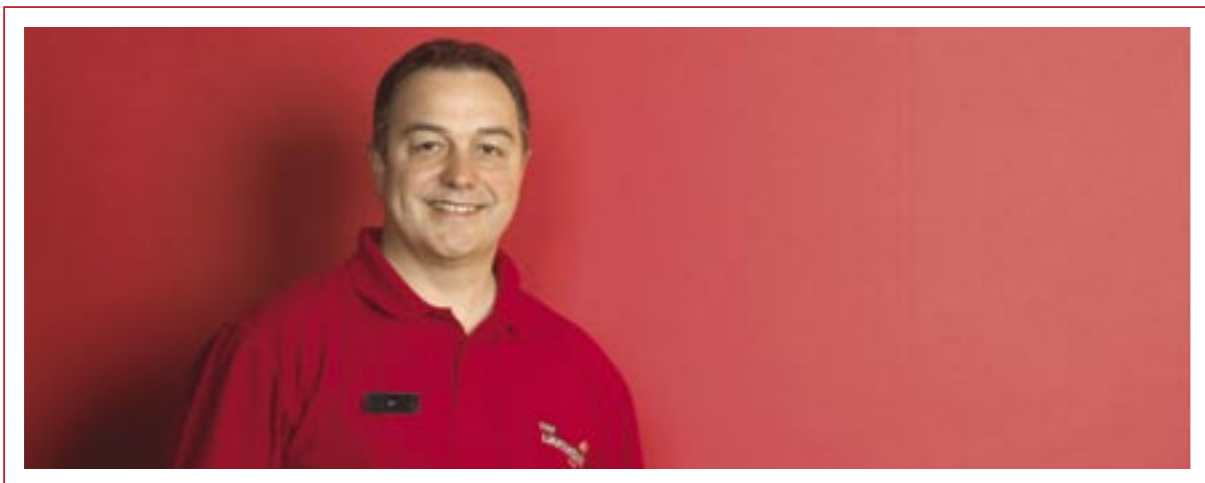
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¹ Previous years reports were published as "Triple Bottom Line" reports and are archived on www.thewarehouse.co.nz.
² Global Reporting Initiative : set of internationally referenced guidelines for sustainable development reporting.
³ Printed copies available on request.

What we're thinking...



The Warehouse New Zealand has undertaken a three year programme to refresh its offer, from source of supply to experience in stores. This programme is framed around four principal themes: Sourcing Great Product; Leveraging our Scale; Developing our Brand; and Improving our Stores. From a Society and Environment perspective we have retained the sustainable development platforms introduced in 2004, however, there has been some change of emphasis.

Our factory working conditions programme has received additional focus and resources and we have stepped up our efforts to understand our global warming impacts by using an internet based reporting tool to enable more timely and accurate reporting of our carbon emissions. We have not undertaken any further community impact surveys this year, in part because previous surveys indicate that the impact of a new The Warehouse store in a small town is neutral to positive, but also because our property expansion plan is now focused on larger urban stores. The Enviro-mark program which we piloted with several New Zealand suppliers is no longer sponsored by The Warehouse; however, we have incorporated many of its principles into our day to day environmental management.

Several external events this year underline for us the value of our Society and Environment programmes. Rapidly escalating oil prices, and the spectre of much higher future energy costs highlight the importance of our energy savings and carbon reporting programmes. International trends towards greater transparency in social reporting, along with a heightened local interest in free and fair trade issues, reinforce the importance of our efforts to better understand labour practices in our own supply chain. Several New Zealand local bodies passed bylaws signalling their intention to more tightly regulate and levy commercial wastes. Our Ministry for the Environment recently released a discussion paper on Product Stewardship - a indicator of increased waste management responsibilities for retailers in categories like electronics.

Most importantly we're strengthening our customer focus, and listening to what our customers tell us about the products they want and what they think of The Warehouse. This is flowing through into decisions we are making about the way forward for The Warehouse.

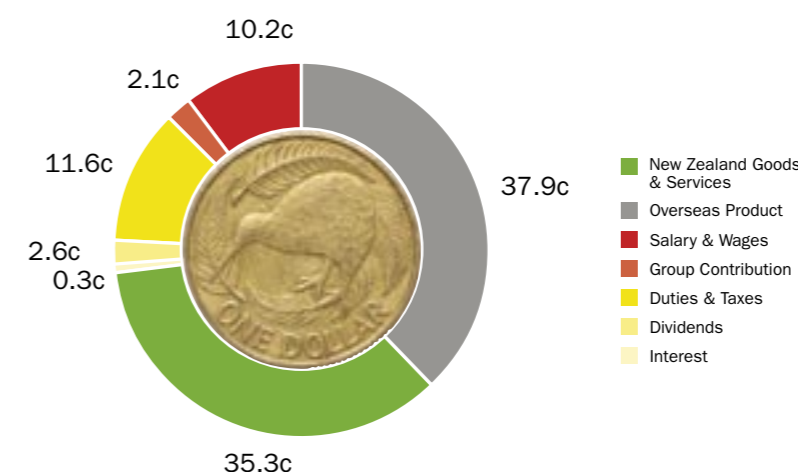
Balancing the three pillars of financial, social and environmental performance is not easy. The realities of global sourcing in multiple categories add challenging complexities not faced by specialist businesses. Our standing as one of New Zealand's most loved and successful companies is a privilege we do not take for granted. We are proud of our efforts to contribute to a more sustainable society and invite your continued support and feedback.

Ian

Ian Morrice
Group Chief Executive Officer
and Managing Director

The Warehouse Dollar 2005 - Where Your Money Goes!

When you spend a dollar at The Warehouse New Zealand you may pause to wonder where it goes. This year 35 cents in The Warehouse "Dollar" was spent on New Zealand goods and services. Our wages and salaries bill accounted for a further 10 cents enabling us to employ 7,483 permanent and 982 temporary staff; 11 cents was passed to Government as taxes and duties; 38 cents went to overseas manufacturers and suppliers. Our shareholders received dividends of 2.6 cents for every customer dollar and we were able retain 2 cents as our contribution to the larger Warehouse Group.



Basis of calculation:

Overseas product - the costs of products manufactured outside New Zealand including freight, commissions and royalties paid overseas - excludes NZ customs and duties and GST.

New Zealand goods and services - the direct costs of local products sourced in New Zealand and resold through the Warehouse; the purchase of non trade NZ goods and services; and the estimated value of locally retained margins in instances where we purchased an imported product through a New Zealand wholesaler. These costs include GST

Interest - the internal allocation of group interest attributable to The Warehouse Limited based on its level of inter company borrowings

Dividends - the value of intercompany dividends paid by The Warehouse Limited to The Warehouse Group Limited and used to fund external dividends paid to shareholders

Duties and Taxes - includes corporate taxation, GST, GST and custom duties payable on direct overseas sourced product, PAYE and ACC levies paid by The Warehouse Limited

Group contribution - the amount of profit retained by The Warehouse Limited.

Salaries and Wages - the direct cost of wages and salaries paid to team members of The Warehouse Limited, excludes related employer and employee taxes

Team Members

Our aspiration: to attract and retain the best people to achieve our business objectives.

Health and Safety

Our continuing vision is to create a place of work where no one is injured. For the year to June the rolling lost time injury frequency rate for The Warehouse declined by 19 percent and the number of work related accidents requiring medical attention also declined. There were no prosecutions under the Health & Safety in Employment Act. The Warehouse continues to be an accredited member of the ACC Partnership Programme which means we take responsibility for the cost, management and rehabilitation of workplace injuries. We now have tertiary level status (the highest possible rating).

Remuneration and Benefits

In addition to a market-competitive fixed pay and incentive programme, permanent team members can also access a range of benefits including:

- A discounted group medical scheme - more than 500 team members participate.
- Free personal financial planning advice.
- Long service leave after 10, 20 & 30 years - 223 people took long service in the past 12 months.
- Team member purchase discounts.
- Sports leave to represent New Zealand in a sporting event. Six team members qualified during the year in review.
- Employee Assistance programme - 196 team members used this in the past 12 months.
- A paid day off on a team member's birthday.
- Wellness support for extended absences due to sickness or injury.

High Potential

The Warehouse Performance and Potential programme is our process to recognise the capability of talented leaders and identify capability gaps. The aim is to develop a pool of leaders and focus on their development in line with their individual development plans. During 2005, we extended this process to include Assistant Store Managers and Assistant Buyers.

The People First Survey

The People First survey is our tool to measure team member engagement levels. The survey is conducted anonymously by an external company to ensure team members' responses remain confidential. For the 2005 financial year our overall engagement score remained constant at 47 percent.

Team member attrition rates in The Warehouse New Zealand

2001	2002	2003	2004	2005
30.4%	23.5%	27.4%	28.5%	32.1%

NB: With the low unemployment environment we are experiencing increasing staff mobility

Main reasons for leaving TWLNZ

	2004	2005
Personal Illness/Injury	37.6%	8.3%
Career progression	21.3%	16.6%
Change in career path	n/a	30.1%
Family	12.7%	2.6%
Travel	3%	9.6%
Higher Remuneration	n/a	5.2%

From Dec 04 'reasons for leaving' have been altered to allow more meaningful analysis i.e. 'career progression' and 'change in career path' have been separated out as above.

	Permanent	Permanent	Casual/ Temporary	Casual/ Temporary	Total	Total
Employment profile (at 1 August 2005)	2004	2005	2004	2005	2004	2005
The Warehouse New Zealand	7349	7483	1057	982	8406	8465
Geographical Split					2004	2005
New Zealand					9,582	9,562
Australia					6,295	5,839
Total					15,877	15,401
Full-time equivalent		2002	2003	2004	2005	
The Warehouse New Zealand		4,670	5,147	5,446	5,562	

Human Resources and Information Systems

We have enhanced some of our reporting, providing a faster solution for data distribution to our stores, via our intranet, this means that Store Managers have critical data 1-2 days earlier than before. We have developed new reports to assist managers with signing off labour data to minimise errors and give better visibility of labour costs. We have also developed more efficient systems of synchronising pay data between software platforms, improving accuracy of data and significantly minimising workload.

Diversity

The following outlines key priorities in our Diversity Strategy against progress over the past year.

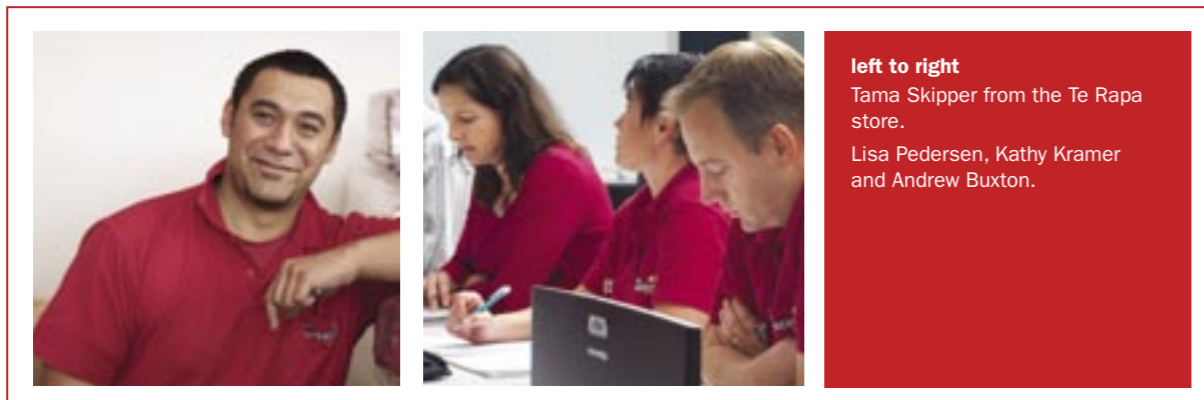
- To put in place measures to monitor progress against goals and international best practice. KPI measures are now formally collected giving us data on gender, age, parental leave and salary issues.
- To ensure there is no systemic discrimination in recruitment/remuneration/ progression. Applicants for key roles are tracked in terms of gender and age. No obvious discrimination or preference has been highlighted.
- To ensure part time workers are not discriminated against in terms of access to benefits and progression in the Company. Analysis shows part timers continue to move through to senior roles.
- To encourage women to progress to senior roles within the Company. A comparative analysis shows women are not moving through to middle and senior management roles.

Senior Executive	Jul 04	Apr 05
% of female employees in band	18%	17%
% of female average salary compared to male	94%	94%

Middle Management	Jul 04	Apr 05
% of female employees in band	18%	17%
% of female average salary compared to male	94%	94%

Customer Insight

Our aspiration: to make a difference to New Zealand by making the desirable affordable.



left to right
Tama Skipper from the Te Rapa store.
Lisa Pedersen, Kathy Kramer and Andrew Buxton.

- To encourage women to return to work after parental leave. On average, seven team members apply for parental leave each month. To encourage them to return and ensure they still feel part of the team we have begun a regular newsletter which is sent to everyone on parental leave. We also track those who do not return to find out why.
- To eliminate all forms of harassment from our business. Policies on sexual, racial and other forms of harassment have been revised, and a new policy on workplace bullying has been distributed.
- To provide appropriate work/life balance for our team members. This year The Warehouse has trialled a Well Women's Service which women team members are able to access during work time. Team members are also encouraged to utilise the range of benefits the Company offers.
- To attract and retain the best of the young people entering the job market for the first time. A major review of the employment agreements for store operations saw a revision of the rates paid to young workers. There are now just two rates for workers aged 17 and under. There are no youth rates for supervisors and specialist team members.

Women in the Workforce

The Warehouse New Zealand - general	Male %	Male %	Female %	Female %
	2004	2005	2004	2005
Total team	35	35	65	65
Assistant Store Managers	70	66	30	34
Trainee Managers (4)	50	100	50	0
Store Managers	84	83	16	17

Employee Assistance Programme

In the past year 196 team members used the service with an average of 2.59 sessions per team member. Two percent of users utilised more than three sessions. EAP also attended five critical incident sessions in stores.

Employment Relations

The Warehouse People Union has 2,276 members. At the time of writing we were negotiations with the union over The Warehouse Limited collective agreement. Major changes to pay scales to meet the needs of the team and the business were agreed. Negotiations during the year complied with the provisions of the Employment Relations Act.



left to right
Customers viewing some of this season's new Spring apparel ranges.
Customers interacting with Playstation 2 at the Te Rapa store.

At The Warehouse, we're strengthening our customer focus, and listening to what our customers tell us about the products they want and what they think of The Warehouse. This has seen an increase in the resource and people in the Customer Research department.

We have also implemented a nationwide price checking program to monitor and compare competitors' prices to ensure that The Warehouse always has the best prices for our customers.

10 separate research projects were completed in last nine months covering our brand perception, our communications strategies, and our in store shopping experience. Findings from these projects have helped shape our store format at our laboratory store in Te Rapa, our communications and advertising content such as price rollback, the new look mailers and new TV commercials, and our decision to refresh our brand.

Quotes

- "The shop is too cluttered and I can't get around"*
- "It's hard to find things"*
- "It's often difficult to find the prices"*
- "It's not a very stylish logo, it's very loud"*
- "It looks like they outlined it with a vivid marker"*

Financial Year	2000	2001	2002	2003	2004	2005
Average item retail price (dollars)	8.48	8.61	8.76	8.55	8.43	8.36
Paying customer count (millions)	38.80	42.70	45.80	49.70	53.20	53.40

Agreeing with the statement	2003	2004	2005
Always happy with the price I pay there	69	73	69
Is good value for money	67	71	71
Always has low prices	82	81	79
Is a good store for everyone	73	79	75
Is New Zealand	69	68	68

Sample size 550 per quarter

New Zealand Made Results

This year sales of New Zealand made goods within The Warehouse declined for the first time since we began recording this in 2000. Sales for FY05 were \$222,145,521 compared to \$230,361,579 for FY04. Actual NZ made unit volumes increased for the year, however, retail prices declined slightly reflecting the need for local producers to remain competitive and our policy to pass these savings on to customers.

NZ made categories which showed volume growth were fine jewellery, heating appliances and our developing grocery sector.

The difficulties facing the NZ manufacturing sector were compounded by a further appreciation in the value of the New Zealand dollar and were also reflected in a decline in the New Zealand Performance of Manufacturing Index (PMI) from 57.5 for July 2004 to 48.2 for July 2005 .

Customers still view products made in NZ as having a special significance for them. In a survey conducted this year more than 63 percent of respondents said that The Warehouse's efforts to identify New Zealand made products was important to them.

Financial Year	NZ Made Sales (\$)
2001	186,882,758
2002	199,558,928
2003	216,953,985
2004	230,361,579
2005	222,145,521

How important is it to you that The Warehouse makes a special effort to identify products that are NZ made? Would you say its ...

Extremely important	23%
Very important	40%
Somewhat important	26%
Not all that important	5%
Not important at all	4%
Don't know	2%

Weeks: 22 May 2005 - 05 Jun 2005
Sample Size 151

This table illustrates our top ten countries by country of manufacture.

Country of Manufacture	FY 2005
CHINA	54.14%
NEW ZEALAND MADE	14.69%
AUSTRALIA	8.83%
UNITED STATES	4.26%
UNITED KINGDOM	2.78%
MALAYSIA	2.63%
NZ ASSEMBLED	1.36%
THAILAND	1.22%
HONG KONG	1.15%
INDONESIA	1.01%





MDF scotch chest supplied by Compac Furniture Dargaville, New Zealand.

Kiwi Books, Music and Film



left to right
These six top selling kiwi music artists contributed to overall New Zealand music sales of \$7.5 million.
David Lange's 'My Life.'

At The Warehouse, as part of our Kiwi Made campaign, we're proud to be able to provide New Zealanders with Kiwi music, films and books at affordable prices. We define as NZ Made those books, magazines, music CDs, videos or DVDs that are created and produced by NZ artists and authors, regardless of where the CD, video or book itself may be manufactured.

Music

It was another bumper year for Kiwi music, with more than \$7.5 million in sales. The Warehouse is well known for stocking music to suit all tastes from the beautiful voices of Brooke Fraser and Yulia, to the hip hop beat of P Money and Scribe, to the uniquely New Zealand sounds of Prince Tui Teka.

New Zealand Music Sales (Units)

2001	2002	2003	2004	2005
235625	301002	337555	543563	490093

The six top selling Kiwi music artists for the year were Brooke Fraser, Yulia, perennial favourites The Finn Brothers, P Money, Golden Horse and Katchafire.

DVDs

Kiwis love watching kiwi films, and our best sellers this year included classics like Once Were Warriors, blockbusters like Return of the King and new releases like the hugely popular BroTown.

Books and Magazines

New Zealand books keep increasing as a share of total book sales, and it seemed that this year was the year for NZ biographies. Key titles included David Lange's My Life, Justin Marshall, and Sir Peter Blake- An Amazing Life, by Alan Sefton.

Sales Units	Year end	Year end	Year end
	3/08/2003	1/08/2004	31/07/2005
Books and magazines NZ	1264686	1347555	1409250
Books and magazines all	5,282,472	5,063,697	5,040,354
NZ Share	23.9%	26.6%	28.0%

Community Fundraising and Sponsorship

Our aspiration: to connect with our communities in ways that support our financial goals and express our values.



The Literacy Network

The Warehouse created The Literacy Network in 2004. It is not a formal charity, rather a vehicle created by The Warehouse to help three literacy charities to work together, share ideas and benefit from the fundraising activities of The Warehouse. In New Zealand, one in four Kiwis has literacy needs. Having trouble reading or writing can prevent people from achieving their potential, and can make social dealings much more difficult. The Literacy Network donated \$350,000 to the following charities in 2004.



Books in Homes

Books in Homes was started by Allan Duff in 1995. The programme aims to break the cycle of “booklessness” in lower socio-economic homes. Every year Books in Homes provides 80,000 school kids with at least five books to take home.



HIPPY

HIPPY stands for “Home Interaction Programme for Parents and Youngsters”. It’s a home-based programme that works with parents to prepare young children for school, focusing on positive encouragement and creative learning.



Literacy Aotearoa

Literacy Aotearoa has been helping adults with literacy needs since 1982. The charity believes that literacy teaching should be provided at no direct cost to the student. Literacy Aotearoa offers learning programmes in both one-to-one and group settings.

Other Fundraising Highlights

Being part of the community is important for all our stores, and the amount that stores have raised and donated back to their local areas reflects that. The world was shocked by the Boxing Day tsunami, and although it was outside our usual fundraising scope, The Warehouse raised \$375,940 for the Red Cross in response to this urgent humanitarian crisis

Fundraising Table FY05 Aug 04 - Jul 05

fundraising sponsored	Golf Day and Supplier Dinner Aug 04 - The Literacy Network	\$425,293
	Adult Learners Week - Sept 04	\$3,370
fundraising	Parenting with Confidence Jan 2005 Red Plate Sales	\$11,621
fundraising	Parenting with Confidence Jun 2005 Red Plate Sales	\$4,609
fundraising	Stores - BBQs	\$900,496
fundraising	Stores - Other	\$354,277
fundraising	Special Tsunami Donation Campaign	\$375,940
fundraising	Hearing Dogs regional campaign - March 04	\$142,454

National Campaigns:

fundraising	Cancer Society Daffodil Day Aug 04	\$85,058
fundraising	The Literacy Network Add a Dollar Oct 04	\$19,211
fundraising	Meningitis Trust Thunderbirds Badges Oct 04	\$55,893
fundraising	Variety Gold Heart Feb 05	\$53,962
fundraising	Starship Scratch 'n Win Apr 05	\$167,903
fundraising	KidCare Scratch 'n Win Jun 05	\$202,286
Total		\$2,802,373

Factory Working Conditions

Our aspiration: to work with our suppliers to achieve the compliance thresholds we define.

Workers in supplier factories represent a very large but invisible group of stakeholders in our business. The Warehouse first publicly identified factory working conditions as an issue of ethical interest to us and our customers in our 2001 report. We have been progressively increasing our activity since.

This reporting year marked a step change in the both the capability and scale of our Programme. We began in August with the launch of our strengthened compliance policy to key agents and suppliers at a one day workshop. The workshop was facilitated by Verite our labour monitoring NGO partner. We presented a suite of compliance tools and resources for our agents and internal compliance monitoring staff.

In January 2005 The Warehouse opened its direct sourcing office in Shanghai. This provides us with a unique opportunity to develop a supplier accreditation model incorporating social compliance criteria from the outset with new suppliers. Social Compliance training for all our Shanghai staff was conducted in March. In July we recruited an experienced auditor to manage the supplier accreditation process for the Shanghai office and to carry out factory assessments for our wider supplier base.

As the end of July we had completed 30 assessments in some of our most important factories and we continue to progress any corrective action plans agreed with these factories.

The assessments were carried out either by our agents or The Warehouse compliance staff with support and training from Verite. We will continue to increase the number of factories assessed in this way in the coming year.

The core of the assessment process is our factory compliance assessment tool. There are approximately 100 checkpoints in the tool and these are answered with information from documents provided by factory management, management and worker interviews and factory and dormitory inspections. The assessment typically takes one day to complete and covers five main compliance sectors: the factory’s policies, actual remuneration and payroll practice, health and safety, environment, and dormitory standards.

The tool generates an overall compliance rating for the factory and identifies any critical failure points. Critical failure points are mandatory standards which must be achieved within an agreed timeframe. To become or remain an accredited supplier to The Warehouse, the factory must attain an overall score of 60 percent or more, and pass all critical standards.

The critical standards are:

1. The factory must maintain a personnel file on every employee which includes age-identification documents and signed employment agreements.
2. The factory must prohibit prison labour, or workers who work under bond, debt or other obligation.
3. The factory must not employ workers under the age of 16, or whatever minimum working age is defined by local law.
4. The factory must enforce policies that prohibit physical, sexual, or verbal abuse or harassment.
5. Workers must receive at least the legal minimum wage.
6. Overtime hours worked must not exceed 32 hours in a six day working week.
7. The factory must maintain a working time clock or equivalent system that enables workers to record their hours worked.
8. Workers must be paid the legal overtime premium - including any workers paid by piece rate
9. Workers must be able to take leave from the factory without unreasonable restriction from management
10. Workers must have one day off in seven

Packaging

Our Aspiration: To improve the environmental characteristics of our packaging.



Ms Qing Zhang of Verite reviews health & safety at a Warehouse supplier factory in China. www.verite.org

Compliance performance in the factories we assessed during the year ranged between 32 and 84 percent. We are working actively with all suppliers beneath our 60 percent threshold to achieve compliance, especially with any suppliers who failed the critical standards. Suppliers who enter our accreditation process must achieve a pass within one year or we cease to trade with them. The most common issues we encountered were excessive overtime, failure to pay penal rates for overtime, and inconsistent application of the one day off in seven rule. No instances of child labour were uncovered.

Improving working conditions in developing world factories is being led by multinational brands. They have the economic leverage to demand compliance and in many cases they represent 100 percent of a factory's production. They are also able to devote resources not merely to policing compliance but developing overall management capacities which lead to better compliance. The challenges for The Warehouse are different. Factories where we command the majority share of production are the exception. We are a multi-category retailer and our supply chain is fragmented across hundreds of factories, some of which are second tier suppliers and not visible to us. In many cases the cost of effective compliance monitoring would exceed the value of the business placed.

Our strategy is to first target those key continuity suppliers with which we do have scale and influence. Below this level we intend to further strengthen the communication of our standards and expectations. As a minimum we will ensure they appear on every purchase order and quotation request. Our longer term vision is to have an integrated supplier accreditation system where all aspects of a supplier's performance (both commercial and social) are visible to us. We look forward to the further progress on this and other aspects of our Strategic Supplier Management programme in the coming year.

Who is responsible?
 "...However valid arguments calling for local government oversight may be, the reality is that, at least in this phase of the supply chain revolution, governments in developing nations are still some years away from the level of control or supervision necessary to effectively prevent social and environmental exploitation. In the end, therefore, the issue is a practical, rather than legal, matter of obligation. The fact is, buying companies are being forced to take on the burden for controlling the misbehavior of regulation or enforcement in developing economies, corporations remain the only party at this point that have the capacity to influence supplier behavior. It may not be fair, but it is reality"
 Extract from "The Supply Chain Imperative" Dale Neef ISBN 0 8144 0783 8.



Preferred packaging using easily recycled moulded paper pulp instead of polystyrene.

The Warehouse is a signatory to The New Zealand Packaging Accord which came into affect on August 10th 2004. One specific goal for retailers within the Accord is to progressively reduce the volume of shopping bags we distribute by a minimum of 20% by 2008. Further to this we have been actively marketing reusable bags and offering consumers a 20 cent rebate if they make use of this bag when making a purchase at the Warehouse. In addition we have increased the recycled content of our standard plastic bag to 50%. Where practicable we encourage customers not to take a bag and mark their purchase with sold tape for security purposes instead.

Plastic checkout bag report	Total kg of bags (HDPE) issued	# Bag's purchased.	# items per bag.
2004	315,667	46,050,500	4.25
2005	331,402	47,965,500	4.16

The Packaging Accord has brought increased attention to the range of packaging types which are accepted for kerbside recycling by local councils and their contractors. We are working with suppliers to ensure our packaging design is increasingly consistent with regional kerbside schemes to improve both the range and volume of materials recovered for recycling from household waste streams. More information on the Accord is available at www.packaging.org.nz.

The Warehouse packaging guide for suppliers is published in the supplier section of our website www.thewarehouse.co.nz

- We have continued to work with several key external organizations in the sustainable development field.
- The Packaging Council of New Zealand - The Warehouse is represented on the Governing Board of the New Zealand Packaging Accord and in the Retailer/ Brand owner sector group. www.pacnz.org.nz
 - Verite International continues to conduct factory compliance audits on our behalf and provide compliance training for our staff and agents. www.verite.org
 - Landcare Research again provided us with a critical review of our sustainable development reporting and developed the web based carbon reporting tool E-Manage www.landcareresearch.co.nz
 - The New Zealand Business Council for Sustainable Development. The Warehouse is a regular participant in Business Council projects and it's Sustainable Development Learning Group. www.nzbcSD.org.nz

Waste and Recycling

Our Aspiration: To minimise landfill and maximise recycling at the lowest cost.



Waste plastic film from The Warehouse stores and distribution centres is sent to one of our recycling contractors, Enviroreel Plastics, who remanufacture it into useful commodities such as underground cable protector strip.

Total landfill despatched from stores for the year was 9,223 cubic metres. We have some true waste minimisation champions among our stockroom staff. Our Alexandra store has consistently led the way, averaging a truly frugal 1.11 M3 per \$1M sales. Getting this kind of performance across all our operating units remains a challenge.

Company performance	2004	2005
Average m3 landfill per \$1M sales at store	7.02	6.33

The main material types we sort and separate at stores are: cardboard, plastic shrink film, hard and soft plastics, paper, polypropylene strapping, polystyrene, cans and glass bottles. Last year we indicated that we had not yet found markets for some of these materials, it's pleasing to note this has improved markedly.

Store recycling 2005	Region		
	Upper North Island	Lower North Island	South Island
Cardboard (approx 6300 tons)	✓	✓	✓
Plastic Film	✓	✓	✓
Hard Plastics	✓	✗	✓
Other Soft plastic	✓	✗	✓
Cans / glass bottles	✓	✓	✓
Asst Paper	✓	✓	✓
Polypropylene Plastic Strapping	✓	✗	✓
Polystyrene	✓	✓	✓
Clothes Hangers	✓	✓	✓

Recovered markets functioning ✓
 Recovered markets not functioning ✗

Energy and Emissions

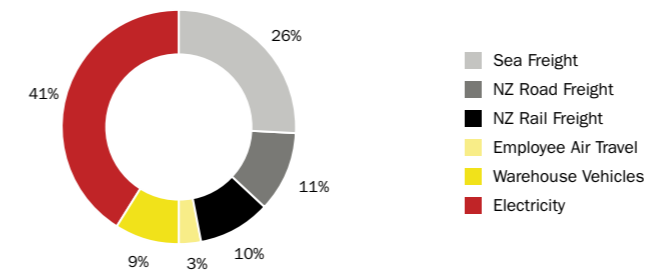
Our Aspiration: To link efficiency gains in transport and energy to greenhouse gas reductions.

At The Warehouse we are actively preparing for the likelihood of carbon taxes and a carbon constrained future by measuring, reporting and forecasting carbon emissions now. We firmly believe in the link between cost savings and emission management. For the 2005 financial year The Warehouse New Zealand's operations generated 24,500 tonnes of CO2. If a carbon tax were to be set at a rate of, for example, \$15 per tonne of CO2 this would translate into a potential indirect tax liability of \$271,500 on those emissions which would be taxable in New Zealand.

Transport

Sea, rail and road freight together represent 47 percent of The Warehouse New Zealand's emissions. We have a policy of maximising rail usage with approximately 80 percent of our internal freight moving by rail. A new supply chain initiative, which reduced emissions in 2005, was an increase of direct imports to our Christchurch distribution centre. Previously only 10 percent of imports were shipped directly into Christchurch, that has increased to 25% with a corresponding reduction in land freight between the North and South Islands.

The Warehouse CO₂ Emissions 2005 - 24,500 tonnes



Electricity

This year our power consumption relative to unit and sales volumes increased by around 10 percent. This is partly due to a decline in our sales densities as we build more footprint for future growth and category expansion. It also reflects security concerns which led to lighting the exterior of our distribution centres at night. More hours are being worked at night in stores to stock shelves and we have adjusted our air conditioning to improve comfort for night fill staff in summer months.

Our store improvement programme requires more product focused lighting in stores and a brighter ambience. We are currently researching how best to achieve this while still conserving energy. Our planned Sylvia Park store in Auckland will trial specially coated translucent roof panels which reflect heat while optimizing natural light. All projects highlighted in our 2004 report were successfully implemented.

Electricity Consumption	2001	2002	2003	2004	2005
Total Kw	40,182,458	43,565,081	48,389,720	53,695,702	60,209,682
KW per \$1M sales	34,399	34,603	35,324	36,594	40,603
KW per 1M units sold	263,176	269,382	268,568	274,067	301,584

Employee policies and benefits - extracts from The Warehouse Way Document.

Welcome to our Team at The Warehouse

This booklet is an introduction to our Company - our culture, our philosophy, our staff benefits and lastly our policies.

Beginning with our culture, our Core Purpose is:

To make a difference to New Zealanders by making the desirable affordable.

Our Core Purpose is supported by three Values:

Where people come first

Where everyone gets a bargain

Where the environment matters.

When I founded The Warehouse, I knew that if you treated people right, they would be happier and treat our customers better.

That's why our first value is "Where People Come First".

What does People First mean at The Warehouse? It means:

- You understand the Company's goals
- You understand how your role helps the Company to achieve its goals
- You have clear objectives and accountabilities, and you get regular coaching and feedback on your progress
- You have a development plan in place to help you grow and achieve your next career goal
- You feel valued, recognised and rewarded for you and your team's contribution to the Company's success
- You work in a safe, healthy and fun environment
- You feel encouraged to express your opinions, views and ideas
- You are treated and treat others with honesty and respect

We know that if we put people first, then we have a happy team. A happy team is more efficient, which means that we can give better bargains to our customers and increase sales, leading to profit and a good share price; this gives us money to invest back into the community and society and our team, which makes them more efficient, and so on and so forth.

I hope you enjoy your time with us, and I am sure you will make a recognisable contribution to The Warehouse.



Stephen Tindall

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The Warehouse Ltd Social Compliance Standard for Suppliers

The Warehouse believes that everyone should benefit from trading with The Warehouse.

We require that:

- Products are made in safe and healthy conditions,
- Workers are properly paid and their rights respected
- Factories work to reduce their impact on the environment.

The following minimum standards must also be maintained when manufacturing for The Warehouse:

1. The factory must maintain a personnel file on every employee which includes age-identification documents and signed employment agreements.
2. The factory must prohibit prison labour, or workers who work under bond, debt or other obligation.
3. The factory must not employ workers under the age of 16, or whatever minimum working age is defined by local law.
4. The factory must enforce policies that prohibit the following: Physical, Sexual, or Verbal abuse or harassment.
5. Workers must receive at least the legal minimum wage.
6. Overtime hours worked must not exceed 32 hours in a six day working week.
7. The factory must maintain a working time clock or equivalent system that enables workers to record their hours worked.
8. Workers must be paid the legal overtime premium - including any workers paid by piece rate
9. Workers must be able to take leave from the factory without unreasonable restriction from management
10. Workers must have one day off in seven

The Warehouse may inspect supplier factories in order to monitor their compliance with the above standards. The Warehouse will cease to do business with suppliers who cannot meet these minimum standards within an agreed time frame.

The Warehouse NZ Ltd 2005

The Warehouse Ltd Environmental Policy

At the Warehouse we understand all business activities have environmental impacts.

We seek to conduct our business in such a way as to safeguard our environment for present and future generations especially the regional environments within which we operate and source our merchandise.

Our long-term economic goal is to conduct our business sustainably.

We will focus on:

Our Selves

By ensuring we comply with all relevant Environmental legislation and regulations. By setting and renewing performance objectives against which we seek to continuously improve the environmental characteristics of our business and merchandise and the understanding of our employees.

Our Suppliers

By clearly communicating our Environmental expectations via our Terms of Trade and related documents and working with them to effect compliance.

Our Customers

By raising their awareness of relevant issues and encouraging them to exercise their choice as consumers in an environmentally positive manner.

We will actively pursue this policy and objectives and openly and honestly report on progress to all our stakeholders on a regular basis.



Stephen Tindall

Founder & Acting Managing Director 2003

GRI Index - page references to indicators recommended by the Global Reporting Initiative (www.globalreporting.org)

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