

MANAGING DIRECTOR'S REVIEW

Dear Friends...

Once again it's a pleasure to be able to report on another satisfying year in the history of The Warehouse. And this year, for the first time, we can report sales of more than one billion dollars. A remarkable achievement.

We also have the exciting news of our launch into Australia, and the wonderful opportunities it will provide for everyone including our new team members there. They will be reading a Warehouse annual report for the first time so I'd like to take this opportunity of welcoming them on board.

This is the sixth opportunity I've had, since the group went public in 1994, to present the year's results in this way, and it's gratifying to know that some of you have been here from the very beginning. I'm sure that, like many others, you'll be surprised and pleased by how far we've come since then. Interestingly, shareholder numbers have nearly doubled since 1994 so I must also welcome all the new people who have joined us in the last year. I'm sure you'll discover that, while the past has been successful and interesting, the future promises even more of the same.

THE SUCCESS OF THE JULY 2000 YEAR

Key highlights of the year to July 2000 – our first 'billion dollar year' – include:

- * Group sales of \$1.075 billion, up \$142 million or 15.3 per cent on the 1999 year which was itself 24.3 per cent up on 1998.
- Of the total sales figure:
- * \$1.012 billion came from The Warehouse stores (up 14.1 per cent) with same-store sales – a measurement that excludes sales from newly-opened and replacement stores – up 10.1 per cent.
 - * \$63 million came from Warehouse Stationery stores (up 37.4 per cent) with same-store sales up 23.3 per cent.

- * Operating earnings before interest and tax (EBIT) were \$111.3 million. This is \$26.1 million (30.7 per cent) above that achieved in 1999. Importantly, the EBIT margin rose once again to 10.4 per cent from 9.1 per cent in 1999 and 8.3 per cent in 1998.
- * Profits (after tax) again rose strongly to \$70.1 million compared with \$54.1 million in 1999; that's a 29.6 per cent increase in profits.
- * Apparel sales were up 30 per cent. Other highlights: green garden sales up 23 per cent; books up 18 per cent; barbecues and related products up 31 per cent.
- * A busy real estate year including:
 - The opening of five new Warehouse stores – two new locations (Cambridge and Mount Wellington) and three larger replacement stores (Porirua, Wanganui and New Plymouth).
 - Fourteen store refurbishments.
 - One store extension.
 - Two small old-format stores in Auckland (Panmure and Papatōetoe) were closed, their roles having been overtaken by much larger stores nearby.
 - The opening of six new Warehouse Stationery stores (Mount Wellington, Napier, Wanganui, Kilbirnie, Porirua and Papanui).The sum of all this activity was:
 - A 5.5 per cent increase in retail space (to 253,717 square metres) for The Warehouse.
 - A 40 per cent increase in retail space (to 29,062 square metres) for Warehouse Stationery.

That means that as at the end of July we were operating sixty-nine Warehouse stores and twenty-four Warehouse Stationery stores. And a lot more new stores, replacement stores, refurbishments and extensions are planned for the 2001 year.





Managing Director's Review

SUCCESS FOR ALL OUR STAKEHOLDERS

This time last year I placed a lot of emphasis on our five stakeholder groups – our customers, team members, suppliers, community and shareholders – and how our success was a direct result of focusing on their needs. This record-breaking year has been no different, and all stakeholder groups have benefited from the results.

Customers: Customers continue to respond to the experience, merchandise and prices available at more and more Warehouse stores throughout the country. Same-store sales figures are ample evidence of that, confirmed by our traffic surveys which show that weekly foot traffic increased to 1.5 million per week, of which 750,000 were paying customers, and that the value of the average sale went up 3.2 per cent to \$26.07.

As well as researching customer needs, and sourcing the right product for the

team members agree that 'The Warehouse is where people come first'. That's up from 82 per cent last year.

Much of this satisfaction comes from our training programmes which I referred to last year and which are becoming more and more important. The foundation programme, the Achievers Certificate, received a recent 'face-lift'. Now, using self-paced workbooks, all team members can learn for themselves about merchandising, health and safety, loss prevention and customer service. Extensive time and effort are also invested in the future, and we now have twenty-eight cadet managers and fifty-one trainees. The existing management team also receives leading-edge training, all with an emphasis on leadership and our 'people first' philosophies.

Part of 'putting people first' is the provision and maintenance of a safe working environment. To gauge our performance in this respect we use a standard

system of measuring time lost due to work-related injuries. Known as the 'lost time injury frequency rate' (LTIFR) it rose to 2.94 hours per 100,000 hours worked this year, compared with 1.64 hours for the previous year. The increase in LTIFR despite continued efforts to improve workplace safety is of concern to us. We remain committed to our health and safety vision and the elimination of injuries of all kinds.

Suppliers: Our record sales over the last year brought obvious benefits to our growing list of **New Zealand suppliers**. In fact, orders raised from local suppliers increased 26 per cent to \$176 million. New Zealand suppliers also benefited from our cross-docking capabilities – existing streamlined distribution from our own distribution centres to our own stores – which relieve participating suppliers of distribution worries and costs allowing them to sharpen their prices accordingly. This year, 62 per cent of our local suppliers took advantage of our cross-docking systems.

Now, as we enter a new era, **New Zealand and Australian suppliers** will potentially be able to supply both the Australian and New Zealand markets through a combined buying group that they know can provide them with a vast and growing base of customers every week of the year. The future does indeed look bright for our suppliers.

As usual, in late August, our suppliers gave wonderful support to the annual Bob Tindall classic golf tournament and charity dinner, raising \$350,000 for Surf Life Saving New Zealand. Our thanks go to them all.

The Community: Again this year every Warehouse store was encouraged to be vigorous in its own **community**, where its customers live and upon which it depends for its very existence and success. Last year our team members' collective efforts raised more than \$2.3 million for local charities, sporting and community groups. A wonderful achievement.

SHE LOVES me...
She loves me not!
whatever the case I LOVE
THE WAREHOUSE
for gifts.

right price, we are constantly driven to improve efficiencies – especially at check-out – to reduce queues and speed up the entire sales process for the benefit of every customer. The gradual roll-out of our 'Sprint' check-out systems aims to improve customer interaction and reduce transaction time by more than thirty per cent. In this respect we continue to find ways to look after our customers better.

Team Members: This year I would like to offer a special vote of thanks to our **team members**, working within our Warehouse and Stationery stores throughout New Zealand, and our **management team**. Together they not only turned in a marvellous result – of which they can all be especially proud – but they also laid the groundwork for a new era for their company. Interestingly, while they were being so busy they also recorded record high levels of satisfaction, with our latest 'People First' surveys showing that 86 per cent of





And The Tindall Foundation, a registered charity and major shareholder of The Warehouse, also made grants to community, educational and environmental groups – from its dividend income – of \$7.4 million.

Shareholders: For **shareholders**, the group has maintained its policy of paying half its earnings in the form of ordinary dividends. The directors have declared a fully imputed final dividend of 4 cents per share. That means, after adjusting for the March 2000 one-for-one bonus issue, ordinary dividends for the



**GOT
Pooh Bear
AND he helped me choose...
the boogie board,
SKATEBOARD,
AND TENNIS BALLS FOR
THE KIDS.**

Now, help me find the big kids' presents for

CHRISTMAS!

year total 12.5 cents per share, or 32 per cent above the 9.5 cents per share paid last year.

In addition to the 12 cents per share special dividends paid last year, a further special dividend of 9 cents per share was paid in the current year (after adjusting for the 1:1 bonus issue).

Like our staff shareholders, our private shareholders are also recognised as a special Warehouse group. Some of them, we know, have been with us since 1994. If you count yourself in that exclusive club then you deserve our appreciation for your loyalty and your enthusiastic support for the company, its culture and its aims. We know you have been rewarded financially, and it is my belief that, as the company enters its new era, the security and value of your shareholding will continue to increase and bring you the reliable rewards you deserve each year.

THE SUCCESS OF THE LAST DECADE

Having looked back over the last year I think it's also timely to take a quick look farther back – say over the last decade – to see just where we've come from and how our successes and milestones have laid such a strong foundation for the new century. Because, for The Warehouse Group, the year 2000 marks a genuine transition: the end of one era, the dawning of another.

A decade's growth at a glance First, a brief look at where we were at the March end of the 1990 financial year compared with the financial year to July 2000. For anyone looking ahead another decade, the figures make interesting reading:

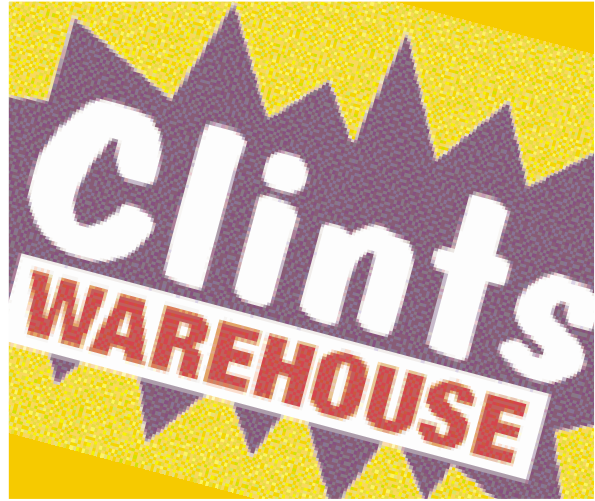
	1990	2000	INCREASE
Sales	\$65.4 million	\$1.075 billion	More than \$1 billion
Operating earnings	\$4.6 million	\$111.3 million	\$106.7 million
Net profit after tax	\$3.0 million	\$70.5 million	\$67.5 million
Operating margin	7.1%	10.4%	3.3%
Shareholders' equity	\$7.5 million	\$179.3 million	\$171.8 million
Total assets	\$15.9 million	\$374.4 million	\$358.5 million
Number of Warehouse stores	27	69	42
Number of Warehouse Stationery stores	0	25	25
Number of NZ towns and cities served	11	47	36
Number of staff	1,200 (approx)	7,264	6,000 (approx)
NZ-sourced product	\$19 million	\$176 million	\$157 million

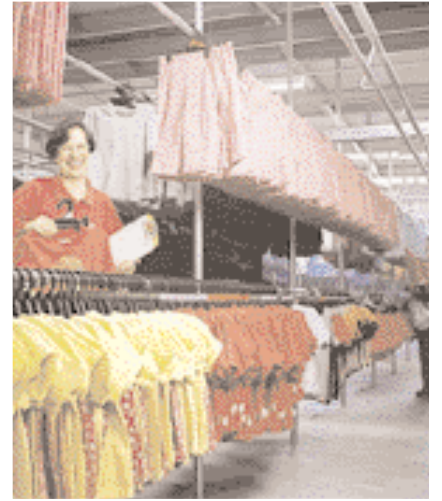
TEN YEARS OF MILESTONES

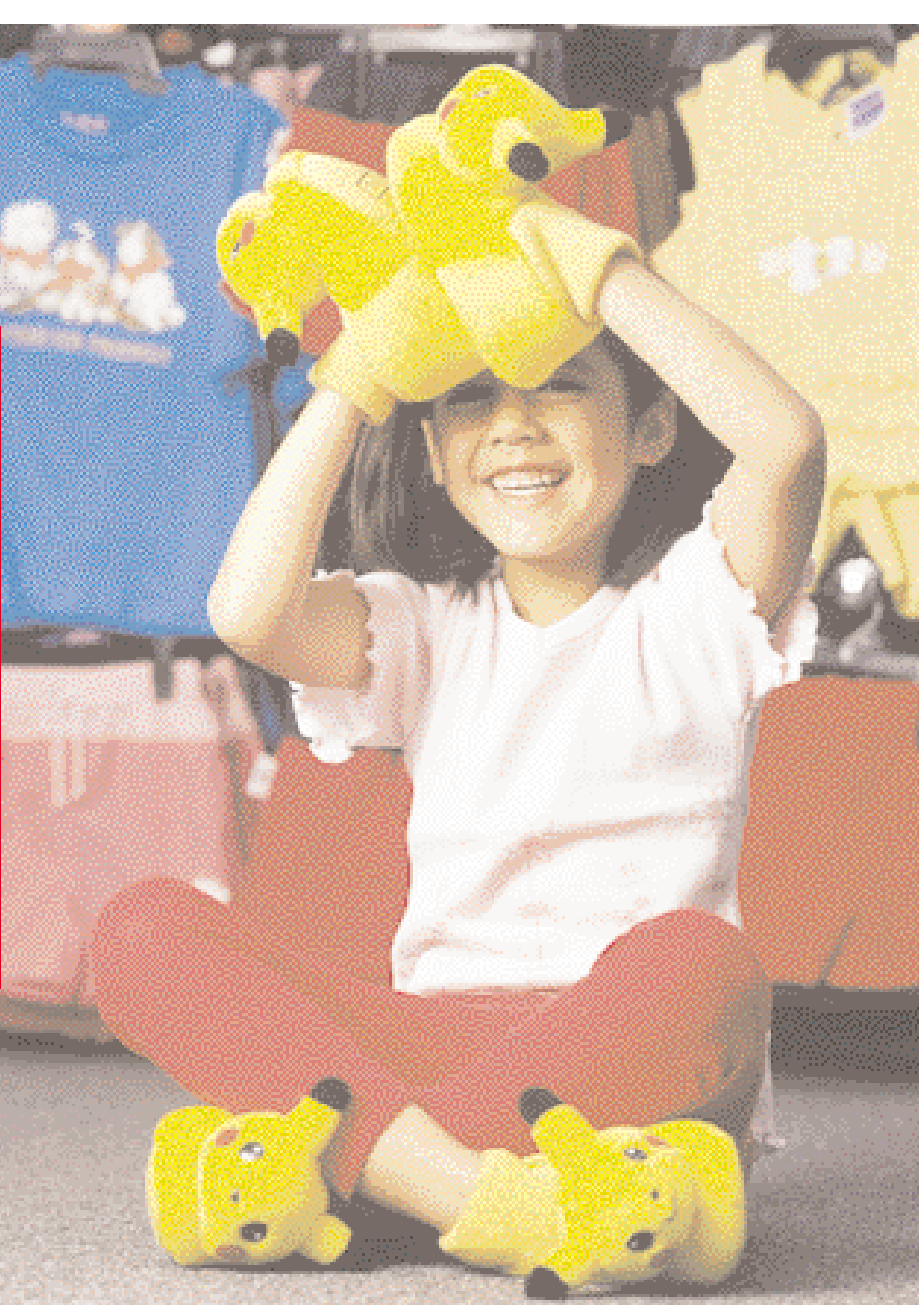
And here are just a few of the milestones we can look back on with pride:

* First nationally-distributed advertising mailer	1990
* Sales exceed \$100 million	1991
* Launching of Warehouse Stationery with just one store	1991
* Opening of first store of 25,000 square feet (2,322 m ²) (hyperstore) in Manukau	1992
* Public float and listing on New Zealand Stock Exchange	1994
* Launching of The Warehouse card	1994
* Opening of South Island Distribution Centre	1994
* Opening of first store of 50,000 square feet (4,645 m ²)	1994
* The Warehouse added to NZSE40 index	1995
* Launch of the revolutionary (and somewhat controversial) TUI computer stock system which continues to serve the company well today	1995
* Introduction of green gardening department	1995
* Opening of North Island Distribution Centre	1996
* Opening of new support office in Northcote	1996
* Introduction of the major AEG brand	1996
* Opening of first large format Warehouse Stationery store	1997
* Opening of first store of 75,000 square feet (6,967 m ²)	1997
* Introduction of apparel as a major department	1998
* First shipment of parallel imported product	1998
* Launch of first Warehouse Stationery priced catalogue	1999
* Market capitalisation in excess of \$1 billion	1999
* The Warehouse added to NZSE10 index	2000
* Introduction of Gateway Computers to Warehouse Stationery	2000
* Sales exceed \$1 billion	2000
* Opening of first store of 100,000 square feet (9,290 m ²)	2000
* Offshore expansion into the Australian retail market	2000









- * The Clint's/Solly's group has 115 stores and six distribution centres. However, the stores are much smaller than New Zealand Warehouse stores, averaging 1,100 square metres compared with The Warehouse average of 3,677 square metres.
- * The comparisons are therefore interesting:

AT 31 JULY 2000	THE WAREHOUSE (EXC WAREHOUSE STATIONERY)	CLINT'S/SOLLY'S
Number of stores:	69	115
Average store size:	3,677 m²	1,100 m²
Total sales:	\$NZ1.012 billion	\$A310 million
Average sales per store:	\$NZ14.6 million	\$A2.7 million
Number of staff:	6,817	2,500
Average sale per customer:	\$NZ26.07	\$A11.00

* The upfront purchase price is \$A105 million subject to audited accounts with a potential for an additional payment of up to \$A24 million if the operation achieves \$A30 million EBIT in July 2003. Settlement is in a combination of cash and shares.

A similar group with a similar history... The Australian business evolved from a family business which was founded in 1978. It has a similar 'people come first' philosophy to ours, as well as similar values and culture. Indeed, in many respects, including merchandise and business-systems policies, it is familiar to us, recognisable as The Warehouse of about seven years ago.

In other words there is a natural 'fit' with the Clint's/Solly's stores.

- * They operate in the bargain store retail sector which we understand.
- * It's the fastest growing general retail category in Australia, and is one in which the Clint's/Solly's stores already have a significant share.
- * In a country with a thriving economy and about six times more people than New Zealand.

...and a marvellous potential I believe these factors, combined with what we can add to the business, suggest a marvellous potential that will deliver big benefits to the new era Warehouse Group.

It's a potential that will be built on:

- * Our New Zealand experience with larger stores combined with Clint's/Solly's experience in the Australian market.
- * A business mass – trading profitably now – to give us entry into Australia's three key states.
- * The vast long-term opportunities in the three eastern states, let alone the rest of the country.
- * Our expertise in logistics, information technology and merchandising.
- * Economies of scale – particularly in buying, management, finance and distribution technologies – to benefit both the New Zealand and Australian operations, and therefore The Warehouse Group Limited as a whole, and all its stakeholders.

MANAGEMENT IN THE NEW ERA

The current Chief Executive in Australia, Dave Rickards, a co-founder of Clint's, will continue to lead the Australian operations, reporting to Greg Muir in New Zealand.

In addition, Greg Foran has stepped in as Chief Operating Officer in Australia. Greg is a senior Warehouse executive with more than twenty-one years retail experience across New Zealand and Australia.

IMMEDIATE PROSPECTS

Over the next couple of years, as we consolidate our understanding of the Australian business and market, and as we gradually consolidate our own plans to improve infrastructure and systems, we are expecting no more than a natural and modest growth and return from the Australian operation.

However, after that establishment period I am confident you will see an

AFTER THIS

weekend

My **GARDEN** will be

the talk

of the neighbourhood...

THE WAREHOUSE
THE WAREHOUSE LIMITED
MASTERTON SHOPPING CENTRE
Tax Invoice includes GST # 414-82354
DK: 80764 SP:MOHANA 15/10/00 11:00am
07820113 GLV 2.47 1 2.47
GARDENING GLOVES COLOURED 3 PK 7.99 1 7.99
4007871029471 EMUF 14.99 1 14.99
TRT EAR MUFFS STONEBRIDGE 39.99 1 39.99
5018227020290 LOPP ANVIL 28IN
LOPPERS CENTERLEVER JKT 39.99 1 39.99
2000002031246 JKT
JKT MN STRETCH PU NAVY S
Total 65.44

acceleration in growth of store size, sales and profits, all of which will be reflected in The Warehouse Group's bottom line.

The company also plans to list on the Australian Stock Exchange later in 2000. This will provide Australian investors, and our Australian team members, with the opportunity to follow their company and participate locally.

SEEING THINGS IN A NEW WAY

As the coming year unfolds you will, of course, read about our Australian progress in our interim and annual reports which will consolidate the results of the Australian and New Zealand operations.

In the first year comparisons with the New Zealand company's immediate past will not be meaningful simply because we will have become an Australasian business. The different natures and sizes of what were two operations – New Zealand and Australia – will quickly become irrelevant as, over the following years, historical comparisons will be made with our group past.





THE END OF AN ERA. A NEW START.

So you see, this year marks more than just the start of a new millennium. It also marks the passing of an era for The Warehouse as a New Zealand retailer, and a fresh start for thousands of people – shareholders, staff, suppliers and their staff, the members of large and small towns and communities – throughout Australia and New Zealand.

The Warehouse has already made a big impact on so many lives, I'm sure that it will continue to do so next year and as far into the new century as it is possible to imagine.

When, in 1982, I started our small Warehouse 'shed' in Takapuna, with the help of my wife, Margaret, and my parents, none of us could imagine just how much would happen in just eighteen years. Now, as we start this new era, it's appropriate that I take another step up, allowing our chief operating officer, Greg Muir, to move closer to the front line. Indeed, as I said in my report and address last year, by the end of the 2001 financial year I will have withdrawn from day-to-day management in what I expect to be a seamless transfer of authority and responsibility to Greg. Greg, as you will see, is a dynamic and professional manager of vast experience, ideally suited to our Australian expansion and the new era.

As Greg takes up the reins I will be retaining my substantial shareholding, and my seat on the Board of Directors, and will therefore be free to concentrate on the strategic direction, management monitoring, people and corporate governance of the group. I will also be devoting time to the Tindall Foundation – which Margaret and I established in 1994 – as well as some private investment and mentoring for some new and innovative kiwi businesses. One way or another I'm sure I will be kept busy.

Meanwhile, after four busy years of sterling service, Philip Brass is retiring from the board, and I'd like to take this opportunity to thank him personally for his contribution. Philip has always worked quietly, behind the scenes, in the interests of the company and the shareholders, and his board colleagues and I have always appreciated his thoughtful approach.

Finally, may I wish you all the very best for the rest of 2000. I look forward to Greg's report to you this time next year when I'm sure we'll all be able to look back on another job well done in both New Zealand and Australia, and the start of our new era as an Australasian retailer.



S. R. TINDALL
Managing Director

A PROFILE OF

Stephen Tindall

After twelve years with retailer George Court & Sons, Stephen Tindall founded The Warehouse, in 1982, with one store and \$80,000 capital. The company remained in private hands until it went public in late 1994. At that time Stephen assumed the role of Managing Director of The Warehouse Group Limited.

From the beginning, Stephen was the architect of the company's culture and philosophy of putting people first, ensuring that *all* stakeholders in the business – customers, team members, suppliers, shareholders and the community – could share in the company's success. It was his belief that growth and continued success could be assured only when all the people involved could see that their contribution was recognised and appreciated.

Stephen's personal and business successes, his charisma and generosity, and the success of the company he founded, have combined to bring him a number of personal awards and notices of recognition including: the 1997 New Zealand Herald Business Person of the Year, the 1998 Deloitte/Management Magazine *Executive of the Year*, and, of course, his naming as *Officer of the New Zealand Order of Merit (ONZM)* in 1997. He has also accepted, on behalf of the company, a large number of other business awards including the National Business Review award for *Best Business in the Retail Category (1993)*, *Most Improved Communicator* award from the New Zealand Society of Investment Analysts (1997) and the 1997 Top 500 award from Deloitte and Management Magazine for *Most Improved Enterprise*.

Stephen Tindall is forty-nine years old. He is married to Margaret, with whom he started the company (in 1982) and founded the Tindall Foundation (1994); they have five children. As well as his love of family, and active sports, he says his special interest is in helping New Zealanders realise their full potential for their own sake and to the overall benefit of the country.

A PROFILE OF

Greg Muir

Forty-two year old Greg has been Chief Operating Officer for The Warehouse since March 1999. He joined the company after many years experience at the top level of New Zealand business including general management or CEO positions in the Lion Nathan Group, Enerco New Zealand, TNT and Blue Star.

Greg, who has both a Master of Business Administration (MBA) and a B.A. from Otago University, is married with two young children. His family is the focus of his leisure time although he also enjoys golf and is a director of the Auckland Rugby Union.