

corporate governance

Role of the board

The board of directors (“the board”) of The Warehouse Group Limited (“the company”) is elected by the shareholders to supervise the management of the company and its subsidiaries.

The focus of the board is to enhance the interests of shareholders and other key stakeholders and to ensure the company is properly managed. The board draws on relevant best practice principles of corporate governance to assist and contribute to the company’s performance.

The functions of the board include:

- Setting, reviewing and approving corporate strategies and the annual budget.
- Overseeing and monitoring organisational performance and the achievement of company strategic goals and objectives.
- Monitoring management’s performance relative to these goals and objectives having delegated day-to-day management of the company to the chief executive officer.
- Monitoring financial performance including approval of the annual and half-year financial reports, and liaison with the company’s auditors.
- Appointment of, and the annual assessment of the performance of, the chief executive officer and the members of the senior executive team against objectives.
- Ensuring there are effective management processes in place, and approving major corporate initiatives.
- Identifying and ensuring that the significant risks facing the company and its subsidiaries have been identified, and that appropriate and adequate control, monitoring and reporting mechanisms are in place.
- Reporting to shareholders.

Board operations and membership

The composition of the board is determined in accordance with the following principles and guidelines:

- It should comprise at least seven directors of whom a majority should be non-executive. (As at the signing of the annual report the board consisted of two executive directors and seven non-executive directors.)
- The chairman must be a non-executive director.
- The directors should have an appropriate range of qualifications and expertise.

- The board should meet at least nine times a year, and follow meeting guidelines set down to ensure all directors are made aware of, and have available, all necessary information for them to participate in an informed discussion of all agenda items.

The company constitution sets out policies and procedures on the operation of the board including the appointment and removal of directors. The board supports the concept of the separation of the role of chairman from that of the chief executive officer. The chairman’s role is to manage the board effectively, to provide leadership to the board, and to interface with the chief executive officer.

Terms and conditions of appointment and retirement of non-executive directors

The terms and conditions of the appointment and retirement of any new non-executive director are set out in a letter of appointment which prescribes:

- Remuneration.
- Term of appointment, subject to shareholder approval.
- Expectation of the board in relation to attending and preparing for all board meetings and board committee meetings.
- Procedures for dealing with conflicts of interest.
- Availability of independent professional advice.

Retirement of directors

The company constitution specifies that in each year one third of the directors, or if their number is not a multiple of three then the nearest number to one third, shall retire from office and may offer themselves for re-election each year at the annual meeting. The directors to retire shall be those who have been longest in office since they were last elected or deemed elected.

Board performance review

On an annual basis the chairman assesses the performance of individual directors, whilst directors also assess the collective performance of the board and the performance of the chairman.

Board committees

The board has three formally constituted committees: the audit committee, the remuneration committee and the disclosure committee.

Audit committee

It is the board's responsibility to ensure that an effective internal control framework exists within the business.

Accordingly, the board has established an audit committee which operates under a charter approved by the board. The charter was reviewed in June 2002.

The members of the audit committee are:

- R L Challinor, chairman
- K R Smith
- J Withers
- G F Evans
- J R Avery
- J C Dahlsen
- S R Tindall

The main responsibilities of the audit committee are to:

- Review and report to the board on the annual report and the half-year financial report.
- Assist the board to review the effectiveness of the organisation's internal control environment covering:
 - Effectiveness and efficiency of operations.
 - Reliability of financial reporting.
 - Compliance with applicable laws and regulations.
- Determine the scope of the internal audit function and ensure that its resources are adequate and used effectively, including co-ordination with external auditors.
- Oversee the effective operation of the risk management framework.
- Recommend to the board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, and the scope and quality of the audit.
- Review and approve, within established procedures and before commencement, the nature and scope of non-audit services being provided by the external auditors.

In fulfilling its responsibilities the audit committee receives regular reports from management and the internal and external auditors. It also meets with the internal and external auditors at least three times a year. The internal and external auditors have a clear line of direct communication at any time to either the chairman of the audit committee or the chairman of the board, both of whom are non-executive directors. Apart from Stephen Tindall ("the founder"), all the members of this committee are non-executive directors. The committee met four times during the year.

Remuneration committee

The board is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer, and the executive management team. The board has established a remuneration committee to advise the board on these matters.

The members of the remuneration committee are:

- K R Smith, chairman
- R L Challinor
- J Withers
- G F Evans
- J R Avery
- J C Dahlsen
- S R Tindall

Apart from Stephen Tindall, all the members of this committee are non-executive directors. The committee met four times during the year.

Disclosure committee

The board firmly believes that shareholders, and the investment market generally, should be promptly informed of all major business events that influence the company.

Following the company achieving a full Australian Stock Exchange ("ASX") listing on 28 June 2002, the company revised its continuous disclosure policy in July 2002. The policy outlines a formal procedure for dealing with potentially price sensitive information ("disclosure information") and involves referrals to a disclosure committee.

The committee is responsible for ensuring the company meets its disclosure objectives under ASX Listing Rule 3.1 and New Zealand Stock Exchange ("NZSE") Listing Rule 10.1.

The members of the disclosure committee are:

- K R Smith, chairman
- S R Tindall, founder
- G J Muir, chief executive officer
- L N Bunt, chief financial officer
- M J Fennell, company secretary

Information is communicated to shareholders in the annual report and the interim report. The company also discloses, through the ASX and NZSE, a quarterly report on store sales and other announcements to both exchanges.

Shareholders are invited to attend the company annual meeting which is usually held towards the end of November each year. The board encourages full participation of shareholders at the annual meeting to ensure a high level of accountability and identification with the company's strategies and goals. Shareholders are provided with notes on all the resolutions proposed through the Notice of Annual Meeting each year.

Investors can obtain up-to-date information on the company's various activities from its website (www.thewarehouse.co.nz). This site contains recent announcements, presentations and reports, including all major notices to the ASX and NZSE.

Audit independence

In July 2002 the board reviewed its policy and procedures for audit and non-audit work that may be performed by the external audit firm.

The key principles arising from that review, which have been adopted by the company, are:

- The external auditor must remain independent of the company at all times and comply with Professional Standards F.1 (Australia) and ICANZ Code of Ethics and ICANZ EG1 Guide to Objectivity.
- The external auditor must monitor its independence and report to the board that it has remained independent.
- The company will not recruit the audit partner or other members of the external audit firm into finance roles within the company.

The company has developed a set of procedures for the external audit firm and their related firms and has implemented a set of guidelines on what non-audit services are permitted and not permitted by the audit firm in respect of the company.

The audit firm may provide audit and audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. These include audit-related services. Examples include financial audits and audits of regulatory returns and prospectuses.

The audit firm will not provide services that are considered to be in material conflict with the preservation of the independence of the auditor. These include investigations and consulting advice and subcontracting of operational activities normally undertaken by management, and where the auditor may ultimately be required to express an opinion on its own work. Examples include preparing accounting records and financial statements, designing or implementing new information technology systems or financial controls, valuation services and taxation advice.

The audit firm may be permitted to provide non-audit services that are considered not to be in conflict with the preservation of the independence of the auditor, subject to the approval of the company audit committee. The audit committee will specifically confirm activities in this category. Examples include internal audit activities capped at fifty percent of the total internal audit work, advice on appropriate accounting standards, and the review of new legislation and advice on its application to the company.

The company continues to closely monitor developments in the areas of audit and audit independence to ensure its policies and practices are consistent with emerging best practice in these areas.

Independent professional advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the chairman is required.

Treasury policy

Exposure to foreign exchange and interest rate risks is managed in accordance with the company's treasury policy that sets limits of management authority. Derivative instruments are used by the company to manage its business risks; they are not used for speculative purposes. The policy was subject to an external review in August 2001.

Board meetings

Scheduling and selection of agenda items for board

Board meetings are scheduled in advance. The chairman of the board and the company secretary draft the agenda for each board meeting and distribute it in advance to members of the board. Each board member is free to suggest the inclusion of items on the agenda.

Board presentations and access to team members

The board has complete access to any company team member. The board encourages management to schedule presentations at board meetings by managers who:

- Can provide additional insight into the items being discussed because of their personal involvement.
- Have future potential that management believes should be demonstrated to the board.

Trading in company securities

The board has adopted a code of practice modelled on the Securities Amendment Act 1988, and the subsequent Insider Trading (Approved Procedures for the Company Officers) Notice 1996.

In May 2001 the in-house code of practice was further amended to limit directors and senior management to deal in the company's shares, options or other securities only in the six-week period commencing one day after the release of the interim and annual financial results. (In this connection, team members deemed to be senior management are those defined by the chief executive officer from time-to-time.)

All company team members must obtain written consent of the chief executive officer or company secretary or, in the case of directors, from the chairman of the board, prior to dealing in company shares or options at any time.

Directors and senior management are prohibited from short term trading in company shares.

Remuneration of directors

The total remuneration available to non-executive directors is fixed by the shareholders at the annual meetings. The current directors' fee pool limit is \$315,000 which was approved by the shareholders at the annual meeting in November 1999. At that time the company had six non-executive directors.

Details of the remuneration paid to directors, and other benefits provided by way of salaries, bonuses and exercising share options, are disclosed in note 5 to the financial statements "Directors' remuneration".

disclosure of interest

The following are general disclosures entered in to the interests register pursuant to section 140(2) of the Companies Act 1993:

Mr K R Smith (Chairman)

Chairman

Skellmax Industries Limited
New Zealand Flower & Garden Show Limited
Tourism Holdings Limited
Healthcare Holdings Limited
BDO New Zealand Limited and subsidiaries
Electronic Navigation Limited
Wickliffe Limited

Deputy Chairman

Genesis Power Limited

Director

Lowe Corporation Limited and subsidiaries
Enterprise Motor Group Limited and subsidiaries
Cooper Henderson Motors (1993) Limited
James Raymond Holdings Limited
Gwendoline Holdings Limited

Partner

BDO Spicers

Trustee

The Tindall Foundation

Mr J R Avery

Chairman

Hesketh Henry
Independent Timber Merchants Society Limited
Fund Managers Auckland Limited
NSM Contracting Limited

Director

The Selwyn Foundation
Osterley Nominees Limited
America's Cup Village Limited

Trustee

The Tindall Foundation

Mr R L Challinor

Chairman

Sheffield Limited
Mighty River Power Limited

Director

Ports of Auckland Limited

Director/Shareholder

Northington Partners Limited

Joint Venture Committee Member

Copthorne Waitangi Resort

Advisory Board Member

L.E.K. Consulting (Australasian Advisory Board)

Mrs J Withers

Chairman

Centre for Clinical Research and Effective Practice

Director

Auckland International Airport Limited
Auckland Trotting Club Inc.
Meridian Energy Limited
Tourism Holdings Limited

Trustee

Royal New Zealand Ballet

Mr G F Evans

Director

Tatua Co-operative Dairy Company Limited

Mr J C Dahlsen

Chairman

J.C. Dahlsen Pty Limited

Director

Australia and New Zealand Banking Group Limited
Southern Cross Broadcasting (Australia) Limited
The Smith Family Limited

Advisory Board Member

L.E.K. Consulting (Australasian Advisory Board)

Mr S R Tindall

Chairman

Deep Video Imaging Limited

Director (Company representative)

eVentures New Zealand Limited (In liquidation)

Director

U-Clic Limited
Aspiring Technology Limited
Squishvc Limited
Tindall Family Holdings Limited
Noticeboard Limited
Lake Pupuke Investments Limited
Norwood Investments Limited
K One W One Limited

Trustee

The Tindall Foundation

Mr N R Plummer

Director

Khyber Investments Limited
Anaheim Investments Limited
McDonald Vadco Limited
Melanion Limited

Director/Shareholder

Lady Ruby Properties Limited
Home and Leisure International Pty Limited

Mr P G Inger

Director

Journey's End Limited
Journey's End Number Two Limited
Pukeko Creek Limited
Topuni Holding Limited
Topuni Timber Limited

group executive



Greg Muir
Chief executive officer (CEO)

As CEO, Greg has overall responsibility for The Warehouse Group Limited including The Warehouse New Zealand, Warehouse Stationery and The Warehouse Australia. Greg joined the group as chief operating officer in 1999, before assuming the role of chief executive officer in February 2001.

Before joining The Warehouse, Greg's previous positions included senior management roles in Blue Star Business Supplies, TNT Limited, Enerco and Lion Nathan.



David Wilson
General manager - The Warehouse New Zealand (Red Sheds)

David is responsible for The Warehouse New Zealand, also known as the Red Sheds. David joined the company in February 2001 after 18 years in a number of senior positions in Coles Myer, including general manager of stores for Target Australia.



Robert Smith
General manager - Warehouse Stationery (Blue Sheds)

Robert has overall responsibility for Warehouse Stationery, overseeing both the retail and B2B businesses. He joined the company as national operations manager in 1996 before being appointed general manager in 1999. Before joining Warehouse Stationery, Robert's previous positions included national operations manager and general manager of Countdown Foodmarkets.



Paul Hutchinson
Chief executive officer - The Warehouse Australia (Yellow Sheds)

Paul has overall accountability for The Warehouse Australia. Paul joined the company in October 2001. Before this, Paul's previous positions included senior management roles in Westpac Banking Corporation and National Australia Bank.



Luke Bunt

Chief financial officer - The Warehouse Group

Luke started with The Warehouse in May 2002. A C.A., Luke is responsible for group finance, treasury/risk management and business planning. He has had over twenty years experience in finance, treasury and commercial roles, with his most recent position being with Telecom as the general manager of finance for the sales and service group. Prior to that he was at Feltex Carpets where he was CFO, before being promoted to chief operating officer, responsible for the sales and marketing areas of the business. From 1986 to 1997 he was with the DB Group in a variety of roles including group general manager finance and planning.



Bruce Gordon

General manager - Non-Retail

As general manager - non-retail, Bruce is responsible for new ventures, overseeing investment in The Warehouse Financial Services Limited (a joint venture company with Westpac) and the operations of Gold Mobile. Bruce joined the company in April 2001 and his previous positions include chief executive of E-Loan New Zealand Limited, chief executive of Farmers Financial Services and senior roles in the Bank of New Zealand and National Australia Bank.



Hamish McKenzie

General manager - People Department

As general manager - people department, Hamish is responsible for all the human resources functions across The Warehouse group; including employee relations, learning and development, internal communications and change management, performance management, remuneration and health and safety.

Before joining The Warehouse in January 2001, Hamish held senior human resources positions in a number of companies, including Westpac Banking Corporation, National Australia Bank and Telecom New Zealand.