



dear shareholders

I am pleased to present my second annual report as chief executive officer of The Warehouse Group Limited (“the group”). As has become traditional for The Warehouse, the year was full of milestones and achievements.

The group achieved an audited tax-paid profit for the twelve months ended 31 July 2002 of \$82.2 million. This profit result is \$21.8 million (36.1 percent) above the \$60.4 million achieved last year.

Profit growth has been driven largely by a combination of strong sales growth and margin improvements in The Warehouse New Zealand (“Red Sheds”). Dividend growth resumed with annual dividends up 8.0 percent from a year ago, to 13.5 cents per share.

In the last twelve months we have focused on improving the quality of earnings. This has been reflected in this year’s result with both improved operating margins and very strong operating cash flows.

Overview

Group sales rose 11.9 percent to \$1.862 billion with group operating margins as a percentage of sales increasing to 7.9 percent due largely to Red Shed’s margin management.

The Warehouse Group Limited	2002	2001
Sales (\$m)	1,862.0	1,664.7
Operating profit (\$m)	147.0	122.1
Operating margin %	7.9%	7.3%
Stores - New Zealand	114	108
- Australia	120	117
- Total	234	225

The year under review saw a number of significant developments in our logistics supply chain with the announcement of a new distribution centre in Rolleston (Christchurch) and another in Brisbane. A new apparel distribution centre at Wiri (Auckland) is also planned for completion in mid-2003.

These investments are required to underwrite future growth in the South Island, Australia, and in our New Zealand apparel business.

As you will note in the summary of each of the three main businesses, we continue to make significant investments in new stores and information systems as well as in our talented team members.

The Warehouse New Zealand

The Red Shed operation recorded increased sales of 8.1 percent to \$1,262 million with annual same-store sales (a measure that removes the sales impact of new stores) 4.2 percent higher than a year ago.

The Warehouse New Zealand	2002	2001
Sales (\$m)	1,261.6	1,166.7
Operating profit (\$m)	140.1	117.1
Operating margin %	11.1%	10.0%
Stores	78	75

The Warehouse New Zealand operating margins rose to 11.1 percent compared with 10.0 percent for the corresponding period last year. Higher margins in the Red Sheds arose from increased operating leverage, cost control, and our significant investment in merchandise planning and

What is “Prompt”?

Software that automates the replenishment of stock from distribution centres and local suppliers to stores.

How does it work?

Based on sales patterns at each individual store, it resets minimum and maximum stock-holding levels for thousands of products every day.

What are the benefits?

It allow buyers to focus on buying and not replenishment, and improves margins by reducing out-of stocks and over-stocking of stores.

forecasting tools. The “Prompt” merchandise planning tool has now been rolled out across our hard-goods range and we expect to complete the soft-goods roll out later this financial year.

There remain significant opportunities to deliver both sales growth (through store roll out, category improvement and market share capture) and margin improvement in the Red Sheds business.

Property

In the last year The Warehouse New Zealand opened three new stores, all in new locations (South Dunedin, Motueka and Wainuiomata). Five stores were extended (Levin, Hornby, Feilding, Morrinsville and Gore) and eight stores were refurbished. At the end of July 2002 the retail chain consisted of seventy-eight stores representing 330,343 square metres of retail space, an increase of 7.7 percent over July 2001.

The Warehouse New Zealand plans to open three new stores before Christmas 2002: a replacement store for Alexandra, in September, and stores in two new locations (Fraser Cove, Tauranga, and Bell Block, New Plymouth). Five stores (Kaikohe, Cambridge, Papamoa, Taupo and Oamaru) are due to be extended by December 2002.

Meanwhile, the business is under-represented in large parts of Auckland and Wellington, and there are still significant growth opportunities in many provincial towns and cities. Over the next three-to-five years, store numbers are expected to increase from the present seventy-eight stores to more than ninety. This increase will add 120,000 square metres of retail space to the Red Sheds chain bringing the total to 450,000 square metres.

Logistics

Two major logistics investments are planned for The Warehouse New Zealand.

A new South Island distribution centre is under construction in Rolleston, Christchurch. The 33,000 square metre facility will be leased, and will replace an existing smaller distribution centre in Christchurch. Work is expected to be completed in April 2003 and at peak times the distribution centre is expected to employ up to one hundred people.

The second project is the construction of a \$16 million specialised apparel distribution centre at Wiri (Auckland). The new facility has a base footprint of 18,000 square metres with two mezzanine storage floors of 11,000 square metres each. The facility will have a combined winter storage capacity of 2.5 million units, and includes two automated hung-garment sorters.

This investment is necessary to support the continued growth of the apparel business. The facility will be built alongside the existing North Island distribution centre and is expected to be operational by August 2003.

The Warehouse New Zealand	2002	2001	2000	1999
Number of paying customers (million)	46.0	42.9	38.3	35.2
% Increase	7.3%	12.0%	8.8%	
Average sales per customer (\$)	27.41	27.20	26.07	25.22
% Increase	0.8%	4.3%	3.4%	

New Zealand manufacturers

The Warehouse New Zealand recognises the special role played by its New Zealand suppliers.

Since 2001 the company has been actively measuring and reporting on the sales and performance of New Zealand-made products compared to imports. This enables our buyers to identify the areas of competitive advantage for local suppliers.

An outstanding example of this is a range of previously imported storage containers. Following an initiative from our buyer, this product is now manufactured by Papakura plastics manufacturer, Perroplas One, with the advantage of local supply (in terms of availability of stock and faster replenishment times) having seen a significant increase in sales.

In the past year our purchases of New Zealand-made and assembled product has increased 8.1% to \$222 million.

KiwiMade

In June 2002 The Warehouse New Zealand launched a special KiwiMade logo to identify New Zealand-made goods sold and advertised within our business. This is available at no cost to qualifying suppliers who are now beginning to incorporate the logo in their packaging. Through a special facility in our point-of-sale software, KiwiMade purchases are highlighted to our customers by printing the logo on the sales receipt.

Warehouse Stationery

Warehouse Stationery’s phenomenal growth story continued in 2002 with sales up 33.0 percent to \$124.4 million.

Warehouse Stationery focuses on the domestic small-office and home-office market, of which it has an estimated 18.0 percent market share.

Warehouse Stationery	2002	2001
Sales (\$m)	124.4	93.5
Operating profit (\$m)	4.2	6.5
Operating margin %	3.4%	7.0%
Stores	36	33

Warehouse Stationery recorded an operating margin of 3.4 percent compared with 7.0 percent a year earlier. This is attributable largely to start-up costs in the new Business to Business (B2B) venture launched in October 2001.

Excluding the B2B result, the Warehouse Stationery operating margin was 6.9 percent versus 7.0 percent a year earlier. Warehouse Stationery margins have also been temporarily depressed due to twelve store openings in the

last twenty-four months. New Warehouse Stationery stores can take up to three years to make a positive earnings contribution.

Warehouse Stationery added three new stores in the year and the chain now has thirty-six stores nation-wide representing 40,406 square metres of retail space, an increase of 9.9 percent over July 2001. Warehouse Stationery has the potential to grow to sixty stores and is well placed to expand into other markets and enhance existing categories.

During August 2001 the Hewlett-Packard range of computers was introduced in the business with great response from customers. This has further secured the branding position of Warehouse Stationery and it now stocks every major brand available in the market across its core range of products.

In June 2002 Warehouse Stationery launched a revised marketing programme with extensive television advertising and a revamped mailer. This has had the effect of improving customer awareness of the brand and offer. During the year major advances were also made on logistics and information-system functions to improve business productivity and processes. These will be completed during the next twelve months and rolled out to the business.

The business has also undertaken a number of sustainability initiatives including zero-waste-to-landfill, now operating in all stores, customer recycling centres for printer cartridges, plastic and tin, and First Foundation sponsorship in Wellington and Auckland.

B2B

In October 2001 Warehouse Stationery launched its B2B business.

The B2B offer is available to customers from Whangarei to Tauranga, and further geographic coverage will be extended in a staged manner. The B2B offer allows the business to access the small-to-medium-size enterprise market via the internet, a call centre or a Warehouse Stationery sales representative.

Since the launch, B2B has grown its customer base to more than three thousand. The B2B market has an estimated market size of \$650-700 million and represents an exciting opportunity to continue to grow the overall Warehouse Stationery business.

B2B recorded an operating loss of \$4.0 million in its start-up year. Current expectations are that the B2B business will break even by July 2004.

Key4Free

Last year Warehouse Stationery became a partner with four of New Zealand's leading polytechnics to provide free computer training. Under these partnerships, classrooms are set up in Warehouse Stationery stores. The launch of

Key4Free (free, self-paced



training, now in ten locations) has been received very positively by

consumers, and more than five thousand people have been through this facility to date.

The Warehouse Australia

The year under review has seen continued progress in the transformation of the Australian business into a format similar to that of the Red Sheds in New Zealand.

In Australian dollar terms, revenue grew 23.2 percent to \$A394.4 million while same-store sales increased 4.9 percent.

The cost of the transformation continues to be a drag on earnings in Australia as the business absorbs the short-term costs of increased management skills, new information-systems, new stores, and expanded logistics resources necessary to build the long-term capability of the business. Operating profit was \$2.6 million or 0.6 percent of sales compared with a loss of \$1.5 million a year earlier.

The transformation process for Australia will continue through to 2005 with five key strategies being executed: store re-branding; re-engineering the supply chain; expanding the merchandise range; new store rollout; and trading with two store-formats (the larger new format stores and the smaller legacy stores).

The Warehouse Australia	2002	2001
Sales (\$m)	476.0	404.5
Operating profit (\$m)	2.6	(1.5)
Operating margin %	0.6%	(0.4%)
Stores	120	117

Stores

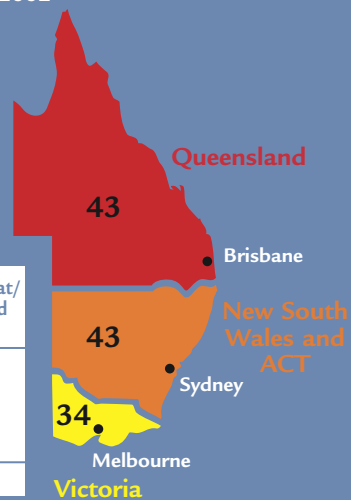
The store roll out programme continued throughout 2001/02 with the opening of twenty new-format stores. We plan to open twenty to twenty-five new-format stores in each of the next three years.

Total store numbers are expected to increase modestly as many of the new-format stores will replace existing smaller legacy stores. The new-format stores look very similar to the Red Shed stores of New Zealand although, at 3,000 square

The Warehouse Australia store rollout
Store profile: July 2002

44% of the chain is now in the new format or converted format

	Legacy stores	New format/converted stores
QLD	26	17
NSW	25	15
VIC	15	19
ACT	1	2
	67	53



The Warehouse Australia

Comparison of customer spend and items per basket for new and legacy stores

Year ended July 2002	New format stores that have traded over one year	New format and converted stores	Legacy stores
Store numbers	13	53	67
Average sales per customer (\$A)	19.01	17.42	11.36
Items sold per customer	5.6	5.2	4.7

Notes: Store numbers at 31 July 2002: 120. Of the 53 new and converted stores, 13 are new format stores that have been trading for over 12 months.

metres, they are smaller than traditional Red Shed stores which now average 4,235 square metres.

Currently 44 percent of the chain is in the new or converted store format. The intention is to have 95 percent of stores in the chain operating as new-format stores by 2005. The new-format stores continue to generate strong revenue and experience higher sales-per-customer and items-sold-per-customer than the legacy stores, which gives us confidence that the new store format is appealing to customers.

Logistics

During the year the company consolidated its southern region logistics operations from a number of sites at Footscray into a single site at Somerton in Melbourne. This is part of a major multi-year project ("Project Leapfrog") that will deliver significant operational and supply chain improvements ultimately reducing logistics costs and improving speed to market.

In August 2002 we announced the second stage: the construction of a \$A30 million high-tech distribution centre at the Port of Brisbane. The new distribution centre is approximately 50,000 square metres in size, located on a ten-hectare site with a further six hectares set aside for future development. The new distribution centre will be operational in mid-2003 and will replace the existing distribution facility in Hemmant (Queensland).

Merchandise

The original Clints/Solly's merchandise offer was heavily opportunistic in nature with a limited range. The merchandise mix in Australia is now being transformed with increased core "every day" ranges in each category while still allowing room for opportunistic merchandise. As the new stores grow in size, the number of products - or stock keeping units (SKUs) - will increase. In the last year the core range increased by 120 percent, and in the coming year it is expected to grow from 5,000 to 9,000 SKUs. The total number of active SKUs is expected to increase to 22,500 by July 2003.

Trading with two formats

While the focus is on rolling out new stores, the legacy stores will continue to be an important feature of the business for a number of years. These smaller stores continue to make a positive contribution to earnings, and a programme to increase the contribution of the legacy stores has been under way during the last year.

Branding

Part of increasing the branding profile of the business will be the updating of racking and signage - internal and external - in all stores. The Warehouse Australia has also increased its catalogue mailer production as well as the use of radio and television advertising. A major personality of the branding process will be Kookie the Kookaburra. Kookie will represent a guarantee of quality and our money back guarantee.



These shelves of IQ brand electrical products in the Strathpine (Queensland) store exemplify the transformation taking place in Australia where the emphasis is on core "every day" ranges as well as increasing the number of stock keeping units (SKUs).



Triple bottom line

Last year The Warehouse issued its first triple bottom line report; a report which looked at the social, economic and environmental impacts of our activities on the wider community. This year our second report provides an update on what has been achieved in the last twelve months.

Highlights for the year include:

Warehouse in the community

The Warehouse continued its active involvement in local communities.

Red Sheds' activities

In the past year the company and its team members were involved in a range of activities, supporting groups at both a national and local level. The Red Sheds raised directly - or assisted other groups to raise - \$2.57 million in the last financial year.

Parenting with Confidence

During 2002 the company, on behalf of its suppliers, chose Parenting with Confidence as its sponsored charity for the next two years. Parenting with Confidence Inc. is a not-for-profit community organisation founded by Ian and Mary Grant in 1994. It is dedicated to improving the lives of New Zealand families through the provision of parenting and relationship-based seminars. Its aim is to encourage parents



to establish self-nurturing, self-governing families, and to inspire and equip adolescents to become great future parents.

Clean Up New Zealand

The Warehouse New Zealand was again a major sponsor of Clean Up New Zealand with most stores taking an active part in encouraging the 150,000 volunteers that turned out for this event this year.



The school partnership programme

The Warehouse New Zealand has also adopted the school partnership programme in which stores adopt a neighbourhood primary, intermediate or secondary school. In this unique two-way programme team members get to engage with the partner school, faculty and students, and refine their people- and communication skills such as presenting and public speaking. Meanwhile the school's students are encouraged to participate in and learn first-hand about the activities of a major local business. More than twenty stores are currently involved with this programme.

Sustainable retailing; think global, act local

We have undertaken a number of small steps on our efforts to "think global and act local".

Packaging and terms of trade

During the year The Warehouse New Zealand issued new packaging guidelines to suppliers designed to reduce the amount of packaging, and support suppliers in changing to recyclable packaging materials.

In September 2002 new terms-of-trade were established for

Property Programme 2001/2002

Over the past year, we have opened twenty-six new stores, nineteen in new locations and seven replacement stores. Six stores have been extended.

South Dunedin store



(E) = Extension

(R) = Replacement

The Warehouse New Zealand

Feilding (E)

Gore (E)

Hornby (E)

Levin (E)

Morrinsville (E)

Motueka

South Dunedin

Wainuiomata

Warehouse Stationery

Auckland Airport

Masterton

Penrose

The Warehouse Australia

Airport West (R)

Brimbank Central

Cairns Smithfield

Cairns Raintrees

Coffs Harbour (R)

Deception Bay (E)

Logan Central

Mackay North (R)

Moe (R)

Morayfield

Orange (R)

Rowville

Roxburgh

Southport

Springwood

Strathpine

Sunbury (R)

Sunnybank

Warragul

Warrnambool (R)

Warwick Farm



Strathpine store

suppliers. These included codes in respect of labour and environmental practices for suppliers and factories which supply product to the company. The Warehouse New Zealand also made a commitment to conduct a number of factory appraisals in the next twelve months.

Forest Certification

The Forest Stewardship Council (FSC) is a global foundation for the development of sustainable forest-management standards. Forest Certification is a process by which bodies such as FSC assess the performance of on-the-ground forestry operations against a pre-determined set of environmental and sustainability standards. In 2002 The Warehouse New Zealand expects that about 25 percent of its outdoor furniture will be sourced from a certified FSC source, up from nine percent in 2001.

The Warehouse Group Limited

Balance sheet

As at 31 July 2002 shareholders' equity was \$315.5 million, an increase of \$56.2 million over last year. Operating cash flows rose strongly with an increase of 81.9 percent to \$112.5 million from \$61.8 million a year earlier. Net interest-bearing debt decreased from \$225.9 million to \$201.5 million over the same period as a result of improvements in working capital. The group balance sheet remains strong with improvements in the interest coverage ratio and gearing ratios.

Balance Sheet	2002	2001
Net debt (\$m)	201.5	225.9
Interest cover	12.0x	8.2x
Debt / Equity	63.9%	87.1%
Debt / Debt + equity	39.0%	46.6%

Dividend

The directors have declared a fully imputed dividend of 4.0 cents per share bringing the total dividend for the year to 13.5 cents. Total dividends for the year are 1.0 cent, or 8 percent higher than those declared for the 2001 year.

Outlook

Our view on the trading outlook remains positive. Whilst the global economy may come under pressure over the next twelve months we believe that the group is well placed to continue its growth.

The next twelve months will be significant in terms of major investments in the logistics infrastructure in both New Zealand and Australia. These investments are vital to ensure that we can maintain current and future levels of sales growth while concurrently reducing supply chain costs, especially in Australia.

At the same time the group plans to open thirty new or replacement stores across New Zealand and Australia. The store-opening programme will maintain the sales momentum of the business and, subject to current trading patterns continuing, the group looks forward to another strong year.

Acknowledging our people

It has been another demanding year for all team members, especially the executive teams of each of the brands. Special

thanks are due to our team members on both sides of the Tasman - twelve thousand of them - for their continued focus on, and commitment to, making the group a world-class retailer. Additionally, the support and guidance I have received from my executive team, Stephen and our board, have been most appreciated.

This year's annual report includes a celebration of the twentieth birthday of the group. The first Red Shed store was officially opened in Takapuna on Saturday 20 November 1982. As you will see in the following articles much has happened in the business since that day. However, while there has been change and growth, a couple of things have not changed; our passion for retailing, and our commitment to our customers, suppliers and team members.

A special "thank you" to a few people who have made this annual report possible. It is produced almost entirely by our team at Auckland support office. We design and produce the layout, take most of the photographs, and write or co-ordinate much of the copy. The only major work we can't do is the printing.

Very special thanks, therefore, to Xanthe Prentice, who heads up our design group, and all her team. This is the second annual report they have designed for us and we are very proud of their work.



Greg Muir
Chief Executive Officer

5 September 2002