

Dear Friends



Stephen R Tindall
 Founder and Acting Managing Director

A warm welcome to all stakeholders of The Warehouse.

I am pleased to introduce this year's annual report and, in the process, review a year that has had difficult but exciting challenges for the organisation.

Group sales of \$2.035 billion were \$173 million or 9.3 percent ahead of 2002, while reported profit of \$75.4 million was 8.3 percent below last year. After adjusting for one-off costs, primarily in relation to logistics restructuring in Australia, the group normalised tax-paid profit was \$79.7 million compared with \$82.5 million in 2002. The main reason for the reduced profit was that our Australian business did not achieve all the objectives that had been set for it.

Group operating profit – before interest, unusual items, goodwill amortisation and taxation – was \$142.7 million. This is \$4.3 million or 3.0 percent below that achieved for last year.

The Warehouse New Zealand

In Red Sheds, sales recorded a 7.1 percent increase over last year while operating earnings, before interest, taxation and unusual items, rose 4.6 percent to \$146.6 million. Operating margins were slightly lower at 10.9 percent compared to 11.1 percent last year.

Following a weaker than anticipated Christmas we undertook a major revamp of the promotional calendar and our marketing format. The expected improvement in sales has been achieved and I am delighted at how the Red Sheds are now trading. We are confident that the momentum will continue throughout the remainder of the year.

Warehouse Stationery

Warehouse Stationery had another exciting year with sales growth of 32.3 percent and operating profit up 121.7 percent. This business has strengthened its relationships with key brand owners, and, through the successful computer launch with Hewlett Packard's Compaq brand earlier this year, has reinforced its position as a major player in the domestic computer market.

The business-to-business channel – or what we call "B2B" – also achieved major milestones with the customer base growing to more than ten thousand. B2B sales for the year increased to \$16 million, up from \$3 million a year earlier, while operating losses were reduced from \$4.1 million to \$2.9 million.

The Warehouse Australia

Expressed in Australian dollars, The Warehouse Australia achieved a 17.5 percent increase in sales over the 2002 year. However an operating loss of A\$11.9 million was incurred compared with a profit of A\$2.2 million a year ago.

The operating performance of Australia in the last twelve months has been disappointing. We have plans to reverse this loss position which I outline below and are described in more detail later in this report (page 12).

So what has occurred in the last twelve months to result in this operating loss?

Basically we have not been generating the sales to support the cost base we have developed for Australia. Homes in metropolitan Australia can receive up to fifteen retail advertising mailers a week, so if our mailer is not sharper than the others we simply miss out on planned sales in that week. Obviously our weekly mailers did not have the right products at the right prices to attract the necessary number of customers.

Changes, too, have had an impact. In fact the amount of change we have undertaken in Australia over the last year was equivalent to what we would ordinarily undertake over several years. Despite these changes having a negative impact on earnings they have been necessary building blocks for future profitable growth.

We launched Project Urgency in June 2003 with the objective of getting back to retailing basics: quickly turn around the sales decline, bring the cost base into line with sales, improve stock flow and establish a core team to support these initiatives and the business going forward.

Our objective for the coming year is to reduce operating losses. We will do this through a committed and motivated team embracing the distinct Warehouse culture and delivering bargains to our customers. Mark Powell is leading the team in Australia pending the appointment of a permanent CEO for Australia. Mark is being supported by John Journee and myself.

Since it was opened in 1996, this 5,200 square metre stand-alone store in Pukekohe has always been well supported by the residents and surrounding population of this important agricultural/horticultural service town just south of Auckland. The store's size, location and sales history – its sales increased 7.1 percent during the year under review – make it typical of The Warehouse's success in New Zealand's non-metropolitan towns and cities.



There is no doubt in my mind that there is room in Australia for a Warehouse-style store format. This format is typified as a heavily house-branded offer, sited in destination stores, selling great value-for-money product, and supported by excellent buying, logistics and store operations.

Annual report format

The report this year has been designed to give shareholders a clearer picture of the key value drivers in the business. There are separate discussions on each of the three business units as we share with you our strategies and how we measure our progress towards achieving our goals.

People

During the year we have had a number of changes to our management team. Greg Muir (Group CEO) and Paul Hutchinson (CEO, The Warehouse Australia) left the company in July and August 2003 respectively. Both Greg and Paul made considerable contributions to the company and I wish them well for the future. We are currently undertaking an international search for people to fill both roles.

Following Greg's resignation I temporarily assumed the role of acting managing director. While this is not intended to be a long term solution, I am very much enjoying the challenge of leading the team and contributing to the turnaround in Australia while the board undertakes a search for new CEOs.



Most of the Queensland distribution centre's hundred and fifty-strong team who stopped long enough for this historic photograph to be taken as they prepared for opening day. (See page 14.)

Meanwhile Mark Powell and John Journee joined the company in group roles in June 2003. Mark joined us from the United Kingdom where he held a variety of leadership positions in supply chain management within leading retail companies. He has spent the last six months analysing opportunities for supply chain efficiencies for The Warehouse Group. Once an appointment is made in Australia, Mark will be focusing on opportunities to improve supply chain management across the group.

I would also like to welcome back John Journee. John is a ten-year Warehouse veteran who rejoins us after working with a United Kingdom firm consulting to European and American retailers. John is undertaking a group merchandising role to ensure The Warehouse Australia leverage off the proven New Zealand buying capability and at the same time support the development of a trans-Tasman buying capability.

Logistics

In the past year we have made important investments in our supply chain with the opening of new distribution centres in the South Island and in Queensland. These new facilities, together with an apparel distribution centre that is currently under construction in South Auckland, are key enablers to continued sales growth and further supply chain efficiencies.

Sustainability

This year is the third in which we have published our triple bottom line report but the first in which we have included a full printed copy in our mail-out to shareholders. Triple bottom line reporting – on the social, economic and environmental impacts of business activities on communities – is now becoming commonplace in New Zealand in small part due, no doubt, to the efforts of companies like The Warehouse and organisations such as the New Zealand Business Council for Sustainable Development.

As a shareholder and a member of our community I recommend that you take the opportunity to review our triple bottom line report which demonstrates our commitment to sustainability in sourcing, packaging and building design. The report also details our active involvement in the communities in which we operate and our vision of helping to make New Zealand a better place to live.

Thank you

A big "thank you" to all team members for their efforts over the last twelve months. A special thanks, also, to our directors for their wise governance over the year and to the talented executive teams of each of the three businesses. Successful organisations are built upon having great people and I have no doubt that we have the best retail team in Australia and New Zealand.

Finally I would like to wish you all the best for the rest of 2003 and look forward to reporting to you again in March 2004.

Stephen R Tindall

FOUNDER AND ACTING MANAGING DIRECTOR

4 SEPTEMBER 2003



This large-format store in Logan Central, Queensland, is typical of the twenty-two such stores opened recently in Australia where the company now has 130 stores under the single Warehouse brand.