

YELLOW SHEDS BRAND REPORT



The Warehouse Australia	2004	2003
Sales (\$m)	567.3	519.4
Operating loss (\$m)	(36.5)	(13.4)
Operating margin (%)	(6.4%)	(2.6%)
Stores	126	130
Retail space (m ²)	252,994	238,470
Operating assets (\$m)	201.5	192.6

SUMMARY

The Warehouse Australia recorded sales of A\$500.5 million (NZ\$567.3 million), an increase in Australian dollar terms of 8.0 percent over 2003. An operating loss of A\$32.3 million was incurred compared with a loss of A\$11.9 million a year ago. In February 2004 the company signalled that the Australian business would produce an operating loss of between A\$30 and A\$40 million because of issues with stock and merchandising. Since then Ian Tsicalas and his team have been working to reduce the level of loss in the short term and at the same time simplifying reporting structures to improve accountability in merchandising.

POSITIVE SIGNS EMERGING

The stock, merchandising and general management issues that were the chief contributors to poor results in the 2004 financial year are being addressed, and towards the end of the financial year positive signs were emerging in merchandising - not yet reflected in the figures - including:

- Substantially improved ranges, with better customer pricing and better margins, as a result of the completion of detailed reviews of all merchandise departments and a re-tender of many core ranges.
- Improved accountability as a result of a review and simplification of reporting structures in merchandising and other parts of the business.
- A significantly strengthened buying team as a result of the restructure of the buying department and the development of targeted graduate, recruitment and development programmes.

These initiatives have resulted in improvements in inventory management and range planning and significant gross margin improvements in the latter part of the financial year. The challenges for the coming year therefore include ensuring that the margin recovery is sustained, improving sales density by improving the consistency of the offer, achieving higher levels of in-stock availability and improving promotional tie-ups.

The company remains committed to succeeding in Australia and expects a significant reduction in operating losses in the 2005 financial year.

WHAT IS THE STRATEGY?

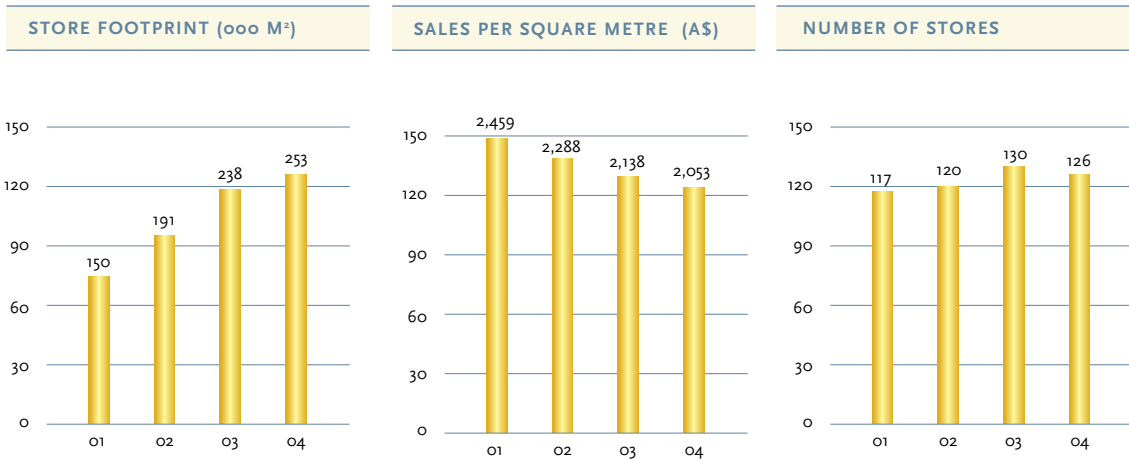
Continue development of 3,000 square metre destination-style retail outlets in Queensland, Victoria, South Australia and New South Wales. Progressively increase stock load and thereby improve sales density as measured by sales per square metre. Leverage capability for developing and sourcing house branded ranges.



Pictured (top) is the new Australian support office in Rydalmere, near Parramatta in Sydney's west. Kelly Threfall (above right) is a supervisor in the new The Warehouse store at Moorabbin Airport which is pictured on the opposite page.

This new store at Moorabbin Airport, south-east of Melbourne, was opened in June 2004 and is one of thirteen new format stores opened during the 2004 financial year.





GROWTH DRIVERS	Fo4	Fo3	CHANGE	STRATEGY	PROGRESS IN Fo4
Same store sales growth	(0.4%)	2.3%	(270bp)	<ul style="list-style-type: none"> Improve same store sales growth through improved ranging, marketing and brand awareness. Same store sales growth is a key focus in Fo5. 	<ul style="list-style-type: none"> Same store sales fell during Fo4 as a result of stock and buying issues.
Store footprint (m ²)	252,994	238,470	+6.1%	<ul style="list-style-type: none"> Continue the development of 3,000 square metre destination-style retail outlets in Queensland, Victoria, South Australia and New South Wales. Up to eight new format stores will be opened in Fo5. 	<ul style="list-style-type: none"> Footprint increased by 6.1% to 252,994m².
Sales per square metre (A\$)	2,053	2,138	(4.0%)	<ul style="list-style-type: none"> Increase sales density per square metre by attracting new customers and increasing average basket size. Increase the core “every day” merchandise range in each category. Improve stock availability and reduce current levels of out-of-stocks. Improvements in sales density especially in the new format stores is a key focus for Fo5. 	<ul style="list-style-type: none"> Sales per square metre fell 4.0% to A\$2,053. Core “every day” ranges have changed as a result of the extensive range review processes. This has resulted in a range: <ul style="list-style-type: none"> more targeted to customer needs; and which has greatly improved in-store availability.

GROWTH DRIVERS	Fo4	Fo3	CHANGE	STRATEGY	PROGRESS IN Fo4
Average basket size (A\$)	\$16.87	\$15.07	+11.9%	<ul style="list-style-type: none"> Grow basket size through improved ranging, marketing and in-store availability. Strategies have been developed to arrest the fall in foot traffic experienced in Fo4. These include increased marketing, higher levels of in-stocks and improved core ranging. 	<ul style="list-style-type: none"> Basket size rose again as customers responded to improvements in the offer.
MARKET/CUSTOMER POSITION	Fo4	Fo3	CHANGE	STRATEGY	PROGRESS IN Fo4
Branding				<ul style="list-style-type: none"> Operate one single brand across the network. Improve marketing effectiveness and brand profile. Building brand awareness using a range of media in key markets is a focus for Fo5. 	<ul style="list-style-type: none"> During the year the mailer format was revamped. The "look" is now cleaner with better reinforcement of the deep discount offer with stronger themes. The dominant distribution frequency of mailers remains weekly.
New/converted stores as a percentage of the total store numbers	63%	60%	+3%	<ul style="list-style-type: none"> Replace older format stores with new large format Warehouse style stores. 	<ul style="list-style-type: none"> Thirteen new large format stores opened and seventeen old format stores closed.
Australian retail sales	8.3%	6.4%	+190bp	<ul style="list-style-type: none"> Grow market share across all categories. 	<ul style="list-style-type: none"> Australian retail sales for the year ending July 2004 rose 8.3% to A\$194.0b compared with an 8.0% rise in Yellow Sheds. Department store sales rose 6.4% (2003: 7.2%), clothing and soft goods retailing were up 6.4% (2003: 5.8%) while household goods retailing increased 8.5% (2003: 7.0%).
Yellow Sheds retail sales	8.0%	7.6%	+40bp		