



2004
TRIPLE BOTTOM LINE REPORT

OUR REPORT TO YOU

This, our fourth triple bottom line¹ report, is a companion report to The Warehouse annual report for the year to 1 August 2004.²

The triple bottom line report provides summary information about our financial performance but is primarily aimed at enabling stakeholders — including the public, our customers, team members, suppliers and our shareholders — to monitor our progress towards business “sustainability”³ in which we seek to assess, and actively improve, the social and environmental characteristics of our business. This is a goal to which we are strategically committed and which we seek to integrate more fully into our day-to-day operations in New Zealand as well as Australia where we are at an earlier stage of our journey into “sustainability.”

The Global Reporting Index⁴ continues to guide the manner in which we have presented this report. Details of our reporting against the GRI are provided in Appendix ix at the rear of this report.

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¹ Triple Bottom Line Report / Sustainable Development Report: seeks to assess and report on the social and environmental performance of a business in addition to its financial performance.

² Electronic versions of both reports are published on The Warehouse website www.thewarehouse.co.nz in the investor section.

³ Sustainable Development: most often defined as "...development that meets the needs of the present without compromising the ability of future generations to meet their needs."

⁴ Global Reporting Index: set of internationally referenced guidelines for sustainable development reporting.

MANAGING DIRECTOR'S STATEMENT



Dear Friends, welcome to this our fourth Triple Bottom Line report, the last from me as acting managing director.

As many of you know, I have a strong interest in this aspect of our company's performance. I believe that, along with excellence within our core commercial competencies, a company conscience that understands and acts upon its social and environmental responsibilities is indispensable to our long term success.

In this regard then I am especially pleased to introduce you to Ian Morrice, our group chief executive officer of The Warehouse Group Limited. Ian's background is presented in our annual report, and later in this report, but let me highlight here Ian's recent experience as managing director, commercial, for United Kingdom-based B&Q Plc, the number one DIY retailer in Europe and number three DIY retailer world-wide. Not only is B&Q a very successful retailer but as part of the Kingfisher Group it is a leading proponent of what I call "sustainable retailing". We look forward to Ian's influence in developing this agenda further within our company.

In reviewing this year's report I am particularly pleased to see, in The Warehouse New Zealand section, a real breadth of activity and reporting beginning to emerge across our key sustainable development platforms. Fundraising and charitable activities have attained a new coherence under our cause related marketing strategy. Our efforts to bring together various literacy organisations under the umbrella of the Literacy Network will enable us and our supporters to dramatically strengthen this important work. We have also tabled findings from an important study we co-sponsored into working conditions in China along with our plans to better assess the factories in China and elsewhere that supply us. Greenhouse gases may be seem a remote issue for many business but with the Kyoto Protocol looking closer to ratification, along with an associated carbon tax regime, we felt it timely to develop a better understanding of our own greenhouse gas emissions and we have tabled this for your interest.

Our colleagues in Australia and Warehouse Stationary have also been active especially in their efforts to engage with their local communities.

However, we have all only just begun the journey towards being a more sustainable company and, as a retailer bringing goods and services from all over the world, it will always be a major challenge. But in my role as founder I will continue to put this challenge to our people in a search for continuous improvement. Indeed, I truly believe in the genius of "and" in the sense that we can continue to make a positive difference to New Zealand and Australia by making the desirable affordable, **and** we can continue to improve our practices, **and** use our influence, to make a positive difference to the lives of many people in both our countries, **and** I believe we can work with others to leave our environment in better shape for the next generation.

Thank you to all of you who have inspired me personally and the company to pursue a broader vision of business success. It's great to see The Warehouse values taking root in Australia and New Zealand and making a difference. As always we welcome your comments and feedback.

STEPHEN R TINDALL
FOUNDER AND ACTING MANAGING DIRECTOR
9 SEPTEMBER 2004

THE WAREHOUSE NEW ZEALAND

SUMMARY

The Warehouse New Zealand is the founding company within The Warehouse Group. We are a leading retailer with a business based on offering value for money to our customers in New Zealand and Australia.

The Warehouse New Zealand recorded a 9.3 percent increase in sales while operating earnings, before interest, taxation and unusual items, rose 0.3 percent to \$151.3 million. Same store sales (a measure that removes the sales impact of new stores) was 5.7 percent higher than a year ago.

The operating margin was lower at 10.2 percent versus 11.2 percent in the corresponding period last year. This contraction was caused firstly by the growing strength of the New Zealand dollar lowering retail selling prices (price deflation) meaning more products had to be sold to achieve the same dollar sales level and, secondly, by increased logistics and store costs associated with these higher unit volumes, plus higher shrinkage, increased overheads and inflationary pressures (wages, rents, electricity, international freight rates and building costs).

Red Sheds also made considerable progress in its store rollout strategy opening eight new stores, five replacement stores and three new location stores while three existing stores were extended.

Category management was also refined during the year. Red Sheds will focus its category development on five key areas: apparel, the home, health and lifestyle, entertainment and technology and finally grocery.

Supply chain initiatives continue to be a focus for the business. Red Sheds commissioned a purpose-built 18,000 square metre apparel distribution centre. This owned and operated facility enables storage of up to 2.5 million hung garments and releases North Island distribution centre capacity for general merchandise distribution.

Aside from investment in physical distribution assets, Red Sheds continues to invest heavily in supply chain research. How product is sourced, stock flow from supplier to store shelf, reducing investment in inventory, minimising lost sales and reducing mark-downs, for example, all present opportunities for improvement.

KEY ISSUES FOR 2005

The Red Shed strategy for the coming year continues to be focused on market share growth. In supporting this core strategy Red Sheds has a range of initiatives which include:

- Leveraging scale to maintain price leadership.
- Continuously improving the quality of house branded products.
- Establishing an efficient supply chain.
- Leveraging expertise in property.
- Ensuring superior customer experience.
- Balancing opportunistic buying with a structured approach to category development.
- Offering value-added services.

KEY ISSUES

The key issues in the coming year will be the changing sales mix in Red Sheds (and its impact on margins), continued deflation in retail prices, and higher operating costs as a result of cost inflation and higher volume throughput. While Red Sheds expects some pressure on operating margins in the 2005 financial year a key objective for the following year will be to stabilise margins.

	The Warehouse New Zealand		Warehouse Stationery		The Warehouse Australia	
Financial Year	2004	2003	2004	2003	2004	2003
Sales (\$m)	1,477.3	1,352.2	199.1	164.5	567.3	519.4
Operating profit (\$m)	151.3	150.9	7	9.4	-36.5	-13.3
Operating margin (%)	10.2%	11.2%	3.5%	5.7%	-6.4%	-2.6%
Stores	83	80	42	39	126	130
Retail Space (m ²)	401,547	360,055	56,145	45,918	252,994	238,470
Operating assets (\$m)	323.0	320.1	75.5	55.3	201.5	192.6

WAREHOUSE STATIONERY

SUMMARY

Warehouse Stationery focuses on both general retail and the domestic small-office/home-office (SOHO) and small-to-medium size enterprise (SME) markets.

The company recorded a 21.0 percent increase in sales, to \$199.1 million, during the year. However, operating profit fell a disappointing 25.7 percent to \$7.0 million.

The margin pressure in Blue Sheds was due partly to the difficult trading environment as well as an over-reliance on computer sales. The 2.2 percentage point fall in operating margins, to 3.5 percent, was the result of a changing sales mix resulting in higher sales of lower margin business machines, and the cost of developing the new MEGA store format described below. Blue Sheds is currently re-balancing its merchandise mix to reduce reliance on computers and other business machines.

Six stores were opened in the year with new stores in Thames, Papanui and Upper Hutt while three stores were replaced. Total retail footprint increased 22 percent.

A key enabler to future growth was the commissioning of a new Warehouse Stationery distribution centre. This facility, located in South Auckland, will provide specialist supply chain processes for the retail and business to business (B2B) marketing channels. Improved supply chain processes will enable more efficient purchasing procedures while improved retail stock turns are expected in the medium term.

KEY ISSUES FOR 2005

After recording nine years of double-digit sales growth the focus for Blue Sheds in 2005 will be a period of consolidation to support long-term objectives. The key issues for the year include proving and refining the MEGA store format while the retail business will undertake a re-balance of its merchandise portfolio to enhance gross margins.

THE WAREHOUSE AUSTRALIA

SUMMARY

The Warehouse Australia recorded sales of \$A500.5 million (\$NZ567.3 million), an increase of 8.0 percent over 2003. An operating loss of \$A32.3 million was incurred compared with a loss of \$A11.9 million a year ago. In February 2004 the company signalled that the Australian business would produce an operating loss of between \$A30 and \$A40 million because of issues with stock and merchandising. Since then Ian Tscicalas 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 the poor result 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 a 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 sustainable and improving sales density by improving the consistency of the offer, achieving higher levels of in-stock availability, and improving promotional tie ups.

CORPORATE GOVERNANCE AT THE WAREHOUSE¹

The Warehouse strives to continually develop governance systems and routines to ensure that they are consistent with emerging international best practice.

This year The Warehouse received an eight-out-of-ten rating for its governance as measured by GovernanceMetrics International (www.gmiratings.com). GovernanceMetrics International considers all companies that score eight or higher have above average governance profile, and it ranks The Warehouse in the top twenty percent of 2,600 companies it reviewed in 2004.

THE WAREHOUSE APPROACH TO CORPORATE GOVERNANCE

Corporate governance is concerned with how companies are directed and controlled and, in particular, with the role of the board of directors and the need to ensure a framework of effective accountability and transparency.

The 2004 annual report contains full details of how governance is managed at The Warehouse. In summary the main elements of governance are:

- Providing clarity and responsibility for managing the company; these are provided by the board charter.
- Setting appropriate limits for management; these limits are recorded in the formal delegations to management.
- Ensuring the composition of the board is appropriate both as to levels of independence and to the competencies required to enable the board to fulfil its responsibilities.
- Maintaining high levels of personal behaviour as detailed in the code of ethics and code of general business principles.
- Managing risk.

COMPLIANCE WITH ASX CORPORATE GOVERNANCE BEST PRACTICE RECOMMENDATIONS AND NZX BEST PRACTICE CODE

Because The Warehouse is listed on the New Zealand and Australian Stock Exchanges it is subject to governance rules in each country. Under NZX listing rules The Warehouse is required to include within its annual report a statement disclosing the extent to which it has followed NZX Corporate Governance Best Practice Code for the reporting period. The Warehouse considers its governance practices comply with the NZX Code in its entirety for the year ended 1 August 2004. The Governance Table in the Appendices section (page 37) details our compliance with the NZX, ASX and NZ Securities Commission guideline or codes.

The Warehouse is also required to include in its annual report a statement detailing the extent to which it has complied with ASX Corporate Governance Council Best Practice Recommendations. The company considers that it complies with all Best Practice Recommendations apart from recommendation 9.1.



IAN MORRICE GROUP CHIEF EXECUTIVE OFFICER

Ian Morrice recently joined The Warehouse as group chief executive officer and managing director formally taking over the reins from Stephen Tindall on the 1 October 2004.

Ian's previous role was as managing director,

commercial, for United Kingdom-based B&Q Plc, the number one DIY retailer in Europe and number three DIY retailer worldwide. B&Q is widely known as a leading retail proponent of Social Responsibility and has been an important influence on The Warehouse's developing program. Prior to B&Q Ian was retail director of Woolworths' chain of 800 stores in the UK, a general merchandise retailer. Ian has an MBA from the respected Cranfield University School of Management.

¹ A full report on Corporate Governance may be found in The Warehouse Annual Report for 2004 or in electronic form at the company's website (www.thewarehouse.co.nz) in the "Investor Centre" section under "Governance".

SHAREHOLDERS

DIVIDENDS ON ORDINARY SHARES

The Warehouse has paid dividends on its ordinary shares every year without interruption since its incorporation in 1994. The Board is proposing a final dividend of 4 cents, to give a full year dividend in respect of 2004 of 14.5 cents per share, the same payout as the 2003 dividends. The level of future payments will depend upon the cash earnings of The Warehouse and the intention to maintain a conservative gearing ratio.

The dividends (including interim dividends) declared for each of the last five financial years were as follows:

Cents per share	2004	2003	2002	2001	2000
Interim	10.5	10.5	9.5	8.5	35.0*
Final	4.0	4.0	4.0	4.0	4.0
TOTAL	14.5	14.5	13.5	12.5	39.0

*includes 18 cent special dividend.

SHARE PRICE HISTORY

The following tables show the high and low sale prices for the ordinary shares during the periods indicated, based on mid-market prices at the close of business on the New Zealand Exchange for the following periods:

(i) Four most recent financial years			(ii) The six most recent months		
Ordinary Shares	High	Low	Ordinary Shares	High	Low
2004	6.03	3.89	September 2004	4.65	4.13
2003	7.55	3.96	August 2004	4.67	4.38
2002	7.90	5.30	July 2004	4.46	4.01
2001	6.85	5.25	June 2004	4.34	4.24
			May 2004	4.46	4.18
			April 2004	4.48	4.27

Distribution of Ordinary Shares as at 30 September 2004				
Size of Shareholding	Number of shareholders	Percentage	Number of shares held	Percentage
1 - 1,000	8,536	45.87%	5,118,893	1.68%
1,001 - 5,000	8,145	43.76%	19,849,448	6.50%
5,001 - 10,000	1,210	6.50%	9,156,928	3.00%
10,001 - 100,000	660	3.55%	14,740,423	4.82%
100,000 and over	60	0.32%	256,623,176	84.00%
TOTAL	18,611	100.00%	305,488,868	100.00%

Registered Address of Shareholders				
	Number of shareholders	Percentage	Number of shares held	Percentage
Auckland and Northland	5,776	31.04%	190,692,275	62.42%
Waikato and Central North Island	4,281	23.00%	10,586,729	3.47%
Lower North Island and Wellington	3,523	18.93%	74,327,277	24.33%
Canterbury, Marlborough and Westland	2,124	11.41%	6,851,708	2.24%
Otago and Southland	1,318	7.08%	3,386,151	1.11%
Australia	1,398	7.51%	19,079,951	6.25%
Other Overseas	191	1.03%	564,777	0.18%
TOTAL	18,611	100.00%	305,488,868	100.00%

SHAREHOLDER SURVEY

Results from our 2003 Annual Meeting Shareholder Survey : see page 36

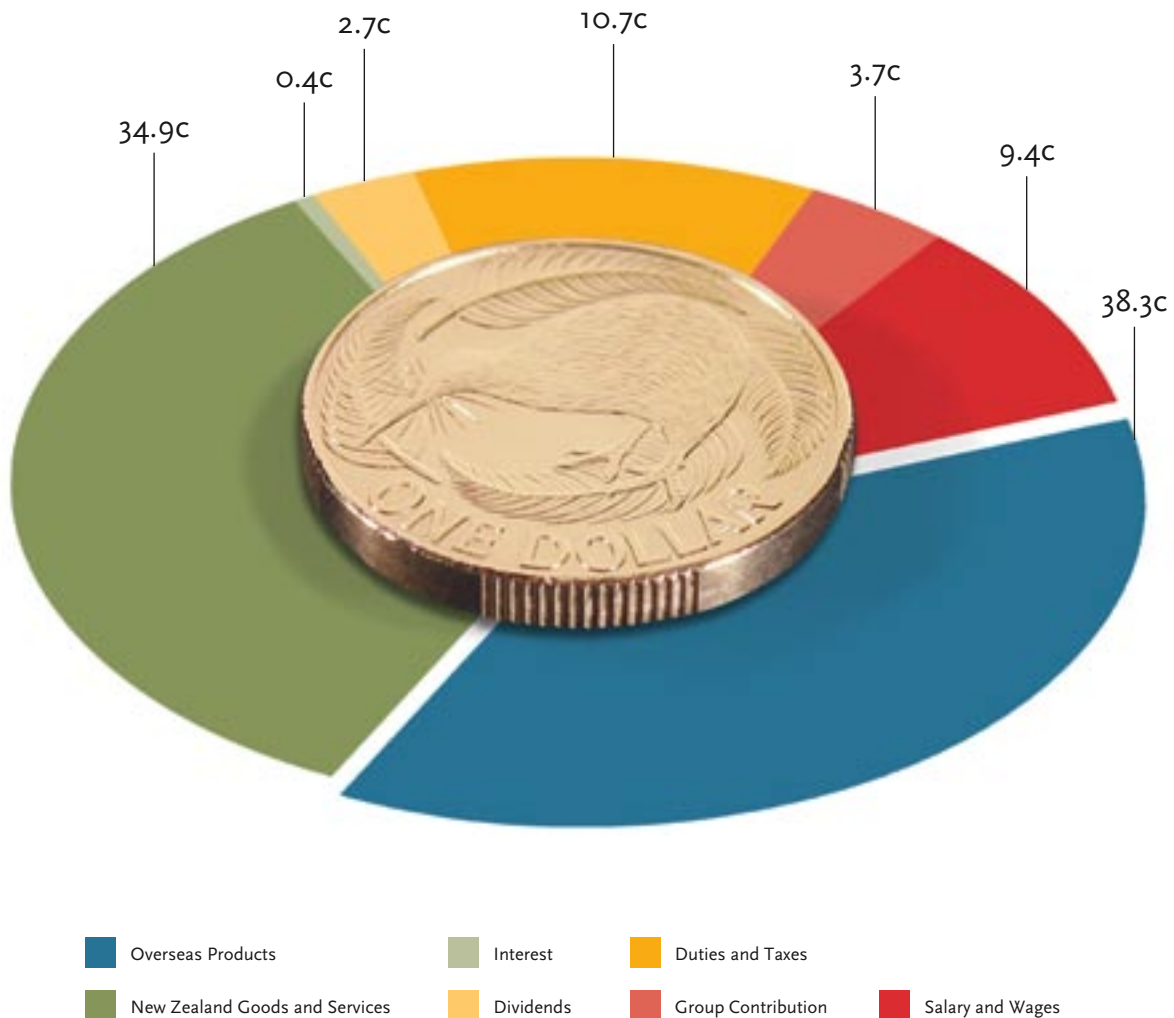
THE WAREHOUSE DOLLAR¹ 2004

Where your money goes!

When you spend a dollar in one of our Big Red Sheds you might have wondered where it goes.

This year 34.9 cents in The Warehouse "Dollar" was spent on New Zealand goods and services (including New Zealand made products we sell). Our wages and salaries bill accounted for a further 9.4 cents enabling us to employ 7,349 permanent and 1,057 temporary staff (at July 2004); 10.7 cents were passed to Government as taxes and duties; 38.3 cents found their way to overseas manufacturers and suppliers. Our shareholders received dividends of 2.7 cents for every customer dollar and we were able retain 3.7 cents as our contribution to the larger Warehouse Group.

This is a very similar profile to last years "Dollar" with a slight decrease in dividends and taxes and a small increase in group (The Warehouse Group) contribution.



¹ We developed The Warehouse "Dollar" as a simple illustration of how we convert our profits on the sale of The Warehouse "bargains" into economic activity within the larger NZ economy. Figures in The Warehouse "Dollar" are derived from our financial statements for 2004, internal data on NZ Made sales, direct overseas purchases, and locally retained agents' commissions and importers' margins.

WE'VE BEEN THINKING....

The Warehouse New Zealand's sustainable development strategy.

An important task we set ourselves this year was to develop a coherent strategic framework within which to pursue the vision of sustainable development reflected in our three company values: "Where everyone gets a bargain", "Where people come first", and "Where the environment matters".

We reviewed all the social and environmental impacts associated with our business from the origin of goods in the supply chain down the product lifecycle to the moment when our customer disposes of packaging or the product itself at the end of its useful life.

To simplify this complex web of interconnected social and environmental relationships we identified eight platforms or key areas of impact that we would frame our sustainable development management within:

- Waste
- People and communities
- Global warming
- Property
- Packaging
- Factory working conditions
- Products
- Greener suppliers

A new position has been created — Sustainable Development Manager — with responsibility for collaborating with other team members in the case of existing programmes of work, and for developing new programmes such as the factory working conditions programme we introduce later in this report.

In prioritising and developing our programmes of work we looked at a matrix of factors such as:

- Likelihood that this is an issue affecting us now or within five years.
- Severity of impact on brand equity.
- How easy is it to manage or effect positive change?
- Is there a legal compliance dimension now or within five years?
- Our own capacities and available resources?
- Scale of potential financial impact: positive or negative.

We hope that the summary of our activities and outcomes that follows provides an interesting overview of our maturing efforts to extend The Warehouse values more deeply into our operations and interactions with society. We continue to use the Global Reporting Index to guide the formatting of our report but have also tried to illustrate how the strategic framework outlined above works in practice.

Several organisations have assisted us develop our sustainable development capacities:

- **The Packaging Council of New Zealand** has facilitated the development of the multi-sector Packaging Accord signed with the government in August this year. The Warehouse is a retail sector representative on the governance board of the Packaging Accord. www.packaging.org.nz
- **Verité International** has been assisting us with our factory working conditions programme and conducting research on our behalf. www.verite.org
- **Landcare Research** provided a critical review of last year's report, facilitated our supplier Enviromark programme, and, more recently, has been assisting us develop our carbon emission reporting through the EBEX (Emissions/Biodiversity Exchange) tool. www.landcareresearch.co.nz or www.ebex21.co.nz
- **Compass Consulting** has continued the community impact studies begun by Social Audit New Zealand.
- **The Robin Hood Foundation** helped us develop our cause related marketing strategy which culminated in the creation of the Literacy Network. www.robinhood.org.nz
- **The New Zealand Business Council for Sustainable Development.** www.nzbcسد.org.nz



TEAM MEMBERS

Our aspiration: to attract and retain the best people to achieve our business objectives.

The labour market in which The Warehouse operates is undergoing significant change and our communities are becoming increasingly diverse. Populations are ageing and the drivers for different generations — when looking at jobs or careers — are becoming similarly diverse.

Additionally the workforce is becoming increasingly mobile, and, with low unemployment, the supply of skilled and unskilled labour is becoming scarce. Thus, when dealing with existing and potential team members, the “one size fits all” approach is no longer appropriate.

We have therefore focused on ensuring that we maximise the opportunities change brings using strategies and plans to attract and retain the best people.

HEALTH AND SAFETY

Our continuing vision is to create a place of work where no one is injured. To that end we continue to improve our health and safety processes and have extended our health and safety training to team leaders and supervisors. We have also revised our training for in-store fire wardens. Managers continue to be assessed and rewarded on their health and safety performance while “Worksafe” teams in each Warehouse store meet monthly to discuss health and safety issues.

Our measure of lost time injury frequency rate (LTIFR) — which is the number of work-related injuries resulting in time lost from work per 100,000 hours worked — has continued to show improvement decreasing from 2.2 in for the year ending July 31st 2003 to 1.6 for the year ending 1 August 2004. There have been no prosecutions in the financial year under the Health and Safety in Employment Act, 1992.

The Warehouse and Warehouse Stationery have continued together as an accredited employer at secondary level as a member of the ACC Partnership Programme which not only reflects our commitment to high standards of health and safety management but also enables us to directly facilitate the quick and safe rehabilitation and return to work of any injured team member.

REMUNERATION AND BENEFITS

The objectives of our remuneration strategy are to:

- Recognise and encourage performance that delivers superior results.
- Enable The Warehouse to attract and retain the right people to achieve our business objectives.

- Ensure all components of remuneration support the achievement of our key business drivers and values.
- Provide the tools and information necessary to enable managers to make appropriate remuneration decisions.

Attracting and retaining talented team members in an ever-increasingly competitive labour market continues to be a key focus for us.

Permanent team members may participate in short-term incentive programmes while senior team members also participate in a long-term programme. Both programmes have been designed to help in the retention of skills and talent and focus effort on the creation of long-term shareholder value.

In addition to a market-competitive fixed pay and incentive programme permanent team members can also access a range of benefits developed to support our People First culture including:

- A discounted group medical scheme in which more than six hundred team members participate.
- Free personal financial planning advice including budgeting, retirement saving, insurance plans, managing debt, and saving for something special.
- Long service leave after ten, twenty and thirty years service.
- Team member purchase discounts.
- Sports leave for team members chosen to represent New Zealand in a sporting event. Fifteen team members have been supported in this way during the year in review.
- Employee counselling programme (up to three free independent counselling sessions).
- Annual staff conference for all permanent team members who work more than twenty hours a week, and their partners.
- A paid day off on their birthday.
- Wellness support for extended absences due to sickness or injury.





TEAM MEMBER OWNERSHIP

Permanent team members who work more than twenty hours a week are eligible to purchase Warehouse shares through our team member share purchase scheme. Under this scheme team members are provided an

interest-free loan of up to \$2,340, for up to five years, for the purchase of shares.

Currently, forty-one percent of team members hold Warehouse shares.

THE PEOPLE FIRST SURVEY

The People First survey is a tool to measure team member engagement levels. The survey, in its current form since May 2003, is conducted anonymously by an external company, Hewitt Associates. This anonymity provides confidence to the team members that their opinions will remain confidential.

In the survey everyone is asked questions related to a range of issues including how they feel about leadership at different levels, their career opportunities, whether they feel valued and recognised, and how they feel about resources, pay and benefits.

For the 2004 financial year our engagement score was forty-seven percent. The areas proven to be the most important to our team members, are: feeling as if they have career opportunities, feeling recognised for a job well done, and feeling that team members' issues are addressed.

Following receipt of the results our leadership teams develop an action planning process to ensure that the results are interpreted accurately and that the most important issues and concerns raised in the survey are addressed.

HIGH POTENTIAL

The Warehouse Performance and Potential programme is a process designed to recognise our stock of talented leaders, identify future capability gaps, and so develop a pool of leaders and accelerate their individual development. In 2003 and 2004 a total of thirty-three senior managers, including eleven women, took part in the programme.

DIVERSITY

The Warehouse is about to implement a diversity strategy aimed at ensuring that all team members are given the opportunity to maximise their potential.

The principal parts of this strategy are to:

- Monitor progress against goals and international best practice.
- Ensure there is no systemic discrimination in recruitment, remuneration and progression.
- Encourage older workers to stay with or join the company.
- Ensure part time workers are not discriminated against in terms of access to benefits and progression in the company.
- Encourage women to progress to senior roles.
- Facilitate and encourage women to return to work after parental leave.
- Eliminate all forms of harassment from our business.
- Provide an appropriate work/life balance for our team members.

WOMEN IN THE WORKFORCE

The increasing participation of women in the labour force has been one of the most significant employment trends of the post-World War II period. At December 2001 labour force participation by women was 59.4 percent compared with 74.8 percent for men.

However, the pattern of women's participation by age is quite different from that of men especially in the 25-34 year age bracket and between the ages of 55 and 64 years. The former covers the prime childbearing age, when many women withdraw temporarily from the labour force, while the gender disparity among 55-64 year olds reflects the tendency for women to retire from the labour force at an earlier age than men.

In The Warehouse our male/female breakdown is:

	Male %	Female %
Total team	35	65
Assistant store managers	70	30
Trainee managers	50	50
Store managers	84	16

The age breakdown of team members is:

Age	Male %	Female %	Total %
15-20	42	58	31
21-30	37	63	27
31-40	31	69	20
41-50	25	75	13
51-60	35	65	7
61+	49	51	2

HIGH FLYING WOMEN AT THE WAREHOUSE

As at January 2004 the number of female executives in the Red Sheds had increased over the past three years. However, the female executives proportion of all executives has remained stable at between 10 and 13 percent while in the Blue Sheds the percentage of female executives has increased from 12.5 percent to 31 percent. In Yellow Sheds there has been some fluctuation; the January measure showed 19 percent of executives were female, down from 28 percent twelve months before.

Some of the female senior managers in The Warehouse are:

DEBBIE COLLINS, STORE MANAGER RANGIORA

Debbie began her retail career at sixteen when she started working in a Four Square grocery store. Since joining The Warehouse six years ago, as a fast track manager, Debbie has moved up through roles as support manager, senior support manager and acting manager. For the last three years she has been a store manager.

As a successful manager Debbie relishes the challenge of working with people, both with customers and team members. She enjoys coaching and developing the team, and helping them move up into new roles. One area of expertise she has developed is as an operational facilitator formally running internal courses.

Debbie was The Warehouse Store Manager of the Year in 2003.

KATHY KRAMER, FINANCIAL CONTROLLER

Kathy studied accountancy through school at Otahuhu College and went on to complete a Bachelor of Commerce. She started her career with Lion Nathan and undertook a number of roles from assistant accountant to finance director. After a break for parental leave Kathy decided she wanted to work at The Warehouse because she wanted to work for one of New Zealand's top companies.

Since joining the company her role has changed to include strategic planning, business development work and change management (in terms of allocation of change resources).



"I have fun and enjoy coming to work everyday. The main reason for that is because I work with some great people, I do something which I enjoy, I find it challenging and I get personal satisfaction from the work that myself and my team do."

Kathy Kramer comments about working at The Warehouse.

Kathy says she is motivated by the people she works with, a strong sense of commitment to her team and the organisation, and a genuine belief that what she and her team do is valued and does make a difference.

HUMAN RESOURCES INFORMATION SYSTEMS

During the year in review we launched labour scheduling in all Red Shed stores. It's our own system designed to better enable store managers to plan their staff roster based on predicted sales and actual labour costs, and allows managers to test rostering options and compare them with the previous year's rosters to determine optimum staffing levels.

Over the next few months our focus will be on further enhancing our human resources information systems (HRIS). At first our focus will be on:

- Enhancing our management of health and safety, in particular the main causes of harm to team members.
- Building on our management and delivery of team member learning and development opportunities.
- Strengthening our remuneration and benefits information delivery.
- Supporting the business with a robust position management structure.

Our key objectives are to provide managers with the tools and information they need to gain a better understanding of their people, identify their strengths and development opportunities to achieve enhanced business performance.

EMPLOYEE COUNSELLING PROGRAMME

During the year in review 184 team members used the service with an average 2.59 sessions each while two percent of users utilised more than three sessions. The employee assistance programme also attended five in-store critical incident sessions such as death or robbery.

UNION MEMBERSHIP

The Warehouse People Union (WPU) has a total of 2,300 members in The Warehouse and Warehouse Stationery. At the end of June 2004, 179 unions were registered under the Employment Relations Act 2000 of which WPU was the twenty-second in size.

During the 2004 financial year we successfully renegotiated collective employment agreements with the WPU for both The Warehouse and Warehouse Stationery. Negotiations during the year complied with the provisions of the Employment Relations Act 2000.

The WPU also played a key role in a major revision of The Warehouse Way which is an introduction to the company, its culture, philosophy, team benefits and policies.



Team member attrition rates in Red Sheds	
Year	%
2001	30.40
2002	23.50
2003	27.40
2004	28.50

Employment profile (at 1 August 2004)	Permanent	Casual/Temporary	TOTAL
Warehouse Stationery	1,071	105	1,176
The Warehouse New Zealand	7,349	1,057	8,406
The Warehouse Australia	1,644	4,651	6,295
TOTAL	10,064	5,813	15,877

Geographical split	
New Zealand	9,582
Australia	6,295
TOTAL	15,877

Full-time equivalents	2004	2003	2002
Warehouse Stationery	848	685	578
The Warehouse New Zealand	5,446	5,147	4,670
The Warehouse Australia	2,450	2,173	2,109
TOTAL	8,744	8,005	7,357

Main reasons for leaving	TWA	TWNZ	WHS
Personal	21.20%	37.60%	44.10%
Career progression	39.40%	21.30%	35.30%
Family	6.10%	12.70%	5.90%
Travel	3.00%	3.00%	8.80%

COMMUNITY FUNDRAISING AND SPONSORSHIP

Our aspiration: to connect with our communities in ways that support our financial goals and express our values.

As in previous years The Warehouse has utilised its personnel and resources to raise more than \$2.5 million for charity. Support for the community is an important part of The Warehouse dashboard (see page 9) reflecting the importance the company places on making a difference to the communities of which we are a part. A strategic review was conducted during the 2004 financial year. As a result all our fundraising and sponsorship activities are now structured under our Cause Related Marketing strategy. Within this strategy are a number of ways we support our communities locally, regionally and nationally.

FOUR WAYS THE WAREHOUSE SUPPORTS THE COMMUNITY



COMMUNITY PARTNERS

This is our most important charity relationship.

Community partner organisations are selected by the marketing department, as a result of a rigorous evaluation, for the way their values match those of The Warehouse and for their proven ability to contribute to The Warehouse's vision of helping people to overcome their limitations and feel proud of themselves. Funds are raised through a combined golf day and charity auction attended by representatives of the company's suppliers.

For the last two years our community partner has been Parenting with Confidence Inc., a not-for-profit community organisation founded in 1994 by Ian and Mary Grant. 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.

The 2003 golf day and charity auction raised \$400,000 for this organisation which was used to help achieve some of its goals including:

- The purchase of a building that will become a parenting "one-stop-shop" called the Growing Great Kids Centre.
- The establishment of offices in Wellington and Tauranga to support growing demand for the group's "ToolBox" programme.

The Warehouse also supports Parenting with Confidence by selling, and providing marketing support for, the "Red Plate" which is a dinner plate, beautifully designed and produced especially for The Warehouse, used by families as a mealtime presentation to symbolise recognition for any achievement, large or small, by any member of the family, old or young. On-going royalties from Red Plate sales continue to provide support to Parenting with Confidence.



NATIONAL CAMPAIGNS

Five times a year we conduct nation-wide fundraising campaigns for charities chosen by the marketing department for their suitability and fit with The Warehouse's values. These campaigns usually take the form of selling a small item — such as a badge or scratch-and-win ticket — in all stores with all the proceeds going to the selected charity. The total raised during the year in review was \$583,655. Support included Variety — The Children's Charity, Starship Foundation, Canteen, The New Zealand Breast Cancer Foundation, and KidCare Foundation.

Some highlights from national fundraising undertaken during the 2004 financial year:

- The KidCare Foundation: funds were raised through sales of scratch-and-win tickets. The result was extremely gratifying: \$266,526 for the foundation to spend on counselling for sixty to sixty-five children a month who are affected — emotionally or physically — by abuse or neglect.
- The Starship Foundation: The Warehouse has been a keen supporter of Starship since its inception in 1992 and we were delighted to raise \$151,000 for it this year. As a result of this success the foundation will be able to help Starship Children's Health to purchase a Heart Bi-plane x-ray machine for the new Starship heart unit as well as a range of other equipment for the Starship hospital.

REGIONAL CAMPAIGNS

In the periods between national fundraising campaigns regional groups of stores support charities working in their region whose values match those of The Warehouse. These campaigns usually take the form of selling a small item — such as a badge or a scratch-and-win ticket — in all stores with the proceeds going to the selected charity. The area manager may also donate the proceeds of the stores' collection boxes.

One of the regional highlights of the 2004 financial year was the scratch-and-win campaign for Hearing Dogs for Deaf People New Zealand which raised \$223,000. This money provided the organisation with the confidence and financial security to open a South Island office to provide support to a South Island team of recipients, speakers and volunteers as well as more hearing dogs to the area.

The in-store campaign provided nationwide exposure for this young charity which says it has received "...immeasurable feedback from the public regarding knowledge of [our] service".



STORES IN THEIR COMMUNITIES

As part of its community involvement The Warehouse helps raise funds for local charities and community groups. Fundraising methods include store barbecues, raffles, and coin collection boxes at all our checkouts.

Through these locally-organised fundraising activities our stores raised \$1.4 million for their local communities. Recipients included sports teams, schools, cultural groups, churches and health organisations.

“Red Shirts ‘n Schools”

Fifty-four The Warehouse stores are actively participating in our Red Shirts ‘n Schools programme which is a partnership between



The Warehouse and local schools that aims to make learning “real” for students. Red Shirts ‘n Schools enhances the school curriculum by providing “real life” examples of curriculum topics in practice. It is also a positive learning experience for our team members who can develop their leadership, team-work, and planning

and organising skills through participation in the programme. The activities of Red Shirts ‘n Schools are being celebrated with team members through the bi-monthly internal newsletter Red Shirt Rave. Red Shirt Rave has been reviewed and refreshed to provide stores with helpful information and tips on how to form successful partnerships with their local schools.

LOOKING FORWARD

One in four New Zealanders can not read or write as well as they need to. This lack of skills — critical tools for effective social interaction — prevents these people from realising their full potential in modern life and work. But when a person overcomes a literacy problem a whole new world of positive experiences can open for them and for the people around them.

Beginning in the 2005 financial year our community partner will be The Literacy Network, a collaboration of three leading literacy organisations proudly brought together by The Warehouse. The Literacy Network aims to work collaboratively to tackle the increasing literacy problems in Aotearoa.

www.literacynetwork.co.nz



Summary of fundraising and sponsorship activity during the 2004 financial year		
Fundraising	Golf Day and Charity Auction, Parenting with Confidence, August 2003	\$400,000
Sponsorship	Clean Up New Zealand, September 2003	\$50,000
Sponsorship	Red Shirts ‘n Schools	\$50,000
Fundraising	Parenting with Confidence, Red Plate	\$50,949
Fundraising	Stores; barbecues	\$798,506
Fundraising	Stores; other	\$603,374
National Campaigns		
Fundraising	Starship Foundation, Star Bears, August 2003	\$35,033
Fundraising	The New Zealand Breast Cancer Foundation, Pink Ribbon Pins, October 2003	\$22,920
Fundraising	CanTeen Bandannas, October 2003	\$102,173
Fundraising	Variety – The Children’s Charity, Gold Hearts, February 2004	\$40,649
Fundraising	Starship Foundation, Scratch and Win Tickets, April 2004	\$116,354
Fundraising	KidCare Foundation, Scratch and Win Tickets, June 2004	\$266,526
TOTAL		\$2,536,484

CUSTOMERS AND PRODUCTS

Our aspiration: to make a difference to New Zealand by making the desirable affordable.

“We set out with one simple concept in mind. To put the customer first and let everything else, every business activity and consideration, flow from that principle.”

The number of customer visits to The Warehouse grew again, during the year in review, to just over fifty three million, a seven percent increase on the 2003 year. Three new stores and five replacement stores were opened while three existing stores were extended.

The average retail price across the entire business fell slightly to \$8.43 reflecting a determination to hold prices and pass on efficiency gains, and the benefits of a stronger New Zealand dollar, to customers. In fact excluding computers and audio visual, the average price fell even further from \$8.35 in 2003 to \$7.94 in 2004.

Financial Year	2000	2001	2002	2003	2004
Average Retail Price	\$8.48	\$8.61	\$8.76	\$8.55	\$8.43
Average Sale	\$26.29	\$27.20	\$27.41	\$27.13	\$27.74
Paying Customer Count (Millions)	38.80	42.70	45.80	49.70	53.20
Publicly Notified Recalls*	4	3	3	0	1

*One safety advisory notice was issued after heaters incorrectly assembled by customers were implicated in two fires.

The key customer perceptions of The Warehouse — “Always happy with the price I pay” and “Is good value for money” — have actually strengthened in the past year.

Agreeing with the statement	2003	2004
Always happy with the price I pay there	69%	73%
Is good value for money	67%	71%
Always has low prices	82%	81%
Is a store for everyone	73%	79%
Is New Zealand	69%	68%
Sample Size: 300 per quarter	Average for all quarters	

Our expansion into new categories continued with the introduction of Dell computers. This was a first for both Dell — traditionally a direct seller — and The Warehouse. This launch was coupled with a new hire purchase facility, another first for The Warehouse, which was introduced in December 2003.

The 2004 year saw a steady increase in the range of grocery offerings all accompanied by their own unique Warehouse branding. Another collaborative first was the introduction of The Warehouse Community Foods range of cereals manufactured by Sanitarium. Each sale of a Warehouse Community Foods product is accompanied by a donation to Project K, a youth development organisation founded by New Zealand mountaineer Graeme Dingle.



Our customer call centre is the point of telephone contact for all customer queries, complaints, and web-based enquiries. A specialist team manages all these contacts through to resolution.

The call centre received an average of 4,174 contacts a month during the reporting year.

Our customer research provides insight into how we might improve customers experience in stores. Improvements we are currently trialling include scanning stations for customers where they scan items and verify prices themselves and improved in store directional signage and in store maps to help customers find what they want faster.

WASTE

Our aspiration: to develop a system to minimise landfill and maximise recycling at the lowest cost.



We continue to pursue our goal of minimising waste, especially landfill, and encouraging recycling and the use of recovered materials. However we have ceased using the term “zero waste” to describe our programme as the term contradicts the amount of waste and landfill we inevitably generate.

LANDFILL

As an outcome of the review discussed in last year’s report we have placed landfill skips back in stores instead of freighting landfill back to our recycling centres where it was simply landfilled in any case. In partnership with our service provider, Waste Management Limited, we have introduced strict rules around the use of the skips and from May onward provide monthly reports to all stores on their landfill performance. Each store’s landfill volume is expressed in relation to sales so we can begin to establish a national benchmark for best practice, and so individual stores can assess their performance against their peers. Our goal for the coming year is to reduce the spread between our best and worst performing stores. Presently we have a wide variation which indicates we have yet to establish uniform waste management behaviours across our business.

Company performance 2004*	May	June	July
Average cubic metre landfill per \$1m sales at store	6.61	5.67	8.79

*Source: monthly landfill disposals.

CARDBOARD RECYCLING

Another change we made in our Auckland stores during the 2004 financial year concerned the recycling of cardboard. We estimate that, in New Zealand, The Warehouse recycle’s more than 7,000 tonnes of cardboard each year. By placing new pneumatic balers in our Auckland stores, to bale waste cardboard, our service provider, Full Circle, has not only been able to provide us a better return per tonne of recovered cardboard but has also reduced the number of truck kilometres required to transport the recovered board to the Penrose card recycling plant.

OTHER RECYCLING

The other main material types we sort and separate at stores are: plastic (shrink) film, hard plastics (derived from broken plastic products), other soft plastics (such as plastic bags), paper, plastic polypropylene strapping, expanded polystyrene, and consumer cans and glass bottles.

Even though we are able to separate materials at store, and forward them to our recycling centres, not all regions have been able to develop recovered materials markets for all the materials we send them.

The accompanying table shows the functioning status of recovered markets by region. Our goal for the coming year is to secure markets for all materials in all regions.

Store recycling 2004*	Region		
	Upper North Island	Lower North Island	South Island
Material Type			
Cardboard	✓	✓	✓
Plastic Film	✓	✓	✓
Hard Plastics	x	x	✓
Other Soft Plastic	x	x	✓
Can/Glass Bottles	✓	✓	✓
Asst Paper	✓	✓	✓
Polypropylene Plastic Strapping	x	x	✓
Polystyrene	x	✓	✓
Clothes Hangers	✓	✓	✓
Key			
Recovered markets functioning	✓		
Recovered markets not functioning	x		

*Source: Regional Recycling Providers.

PACKAGING

Our aspiration: to improve the environmental characteristics of our packaging.

Over the past year the company has been working with other major retailers and the New Zealand Retailers Association to develop the Brand Owners' and Retailers' Sector Action Plan of the New Zealand Packaging Accord¹. A guide to the accord may be found in Appendix iii of this report while the sector action plan pertaining to retailers is available from the supplier section of The Warehouse's own website².

The accord was signed by the Minister for the Environment, Marian Hobbs, on 10 August 2004. Although it contains specific goals and expectations it is a voluntary agreement and is not legally binding upon its signatories. This attracted criticism from some environmentalists who believe the accord's objectives would be more readily achieved through regulation.

A specific goal within the accord is for retailers to progressively reduce the volume of shopping bags distributed by a minimum of 20 percent by 2008. To fulfil this and other commitments under the accord The Warehouse intends to undertake further packaging audits to identify opportunities for improvement, to engage its customers in its shopping bag reduction programme, and to work more closely with the recycling sector to find more recovered materials markets for waste packaging.

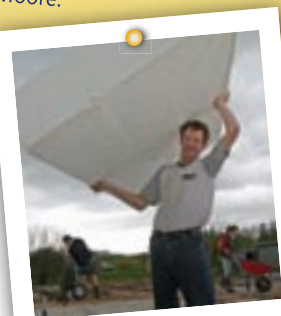
A USEFUL LIFE FOR WASTE POLYSTYRENE

A Porirua City Council-backed recycling enterprise, the "Poly Palace", has found an interesting application for waste polystyrene collected by its regional recycler, Mana Community Enterprises, from Wellington The Warehouse stores.

Recycling entrepreneur Richard Moore has developed a unique method of reforming the polystyrene packaging waste into under-floor insulating "pods" which can be used as insulation in new concrete floors, for the life of the home.

Traditionally, cold concrete floors, cooled by moisture in the ground below, are covered with carpet. By insulating under the slab, the "thermal mass" of the concrete absorbs warmth during the heat of the day and, as the temperature drops at night, releases it back into the home.

"It heats your house with the heat of the sun at night, creating locked-in energy savings for the home owner," explains Mr Moore.



¹ www.packaging.org.nz

² www.thewarehouse.co.nz



Pictured above Richard Moore installing recycled polystyrene under floor insulation.

GLOBAL WARMING

Our aspiration: to link efficiency gains in transport and energy to greenhouse gas reductions.

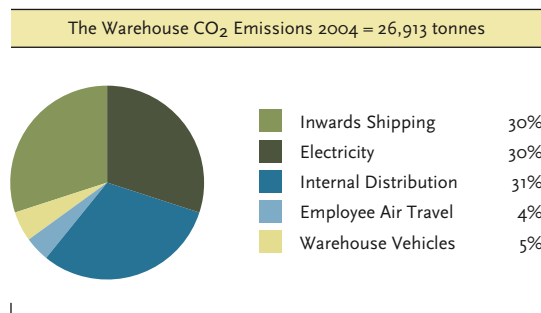
The business case for measuring and reporting greenhouse gas emissions may seem remote to most businesses. Yet as this report was being written there were indications that Russia was likely to ratify the Kyoto Protocol. Should this agreement come into force the New Zealand government will introduce a tax on the carbon content of fossil fuels effective from 2007. It is estimated that this may increase the price of fuel by six cents a litre and the price of electricity by up to seven percent.

We estimate that in the 2004 financial year The Warehouse (Red Sheds) operations will have generated 27,000 tonnes of CO₂. Based on a projected carbon tax rate of \$25.00 per tonne that's a potential tax liability of \$675,000 for the year.

Measuring and reporting on our emissions highlights opportunities for efficiency gains and cost savings which also improve environmental outcomes. A small example of this kind of initiative is our increased use of video-conferencing for trans-Tasman business communications instead of air travel.

Rail is our preferred method of distribution and we are currently researching the feasibility of diverting all our Auckland port-to-distribution centre container trucking to rail via a purpose-built siding at our Wiri site. From a greenhouse gas emissions perspective rail is more efficient than road by a factor of 2.5 to 3.5.

2004 Tonnes CO ₂ Emissions Profile – The Warehouse New Zealand*				
Emission Source	Description	Methodology	Exclusions	mt CO ₂
Inwards Shipping	The Warehouse direct imports from overseas mostly China & Asia.	Emissions were based on distance applied to the average tonnage moved over a 12 month period between ports. Emission factor was based on United Nations Environment Programme (UNEP) Guidelines.	NZ wholesalers inwards shipping.	8,140
Internal Distribution	Road,rail & Ferry movement of stock from NZ ports to our distribution centres and out to stores. Includes reverse logistics - freight from stores back to distribution centres .	Emissions were based on fuel consumption. Each carrier was allocated a fuel efficiency rating in order to calculate total fuel consumption. Emission factor was sourced from Intergovernmental Panel on Climate Change (IPCC).	Freight to stores and distribution centres from from NZ based wholesalers.	8,479
Employee Airtravel	Domestic and International Employee Airtravel.	Emissions for air travel were based on land miles covered for short, medium & long haul flights. Emission factors were sourced from Department for Environment Food and Rural Affairs, (DEFRA) UK.		1,032
Warehouse vehicles	Company owned short hall trucks,cars, staff business Mileage claims ,staff rental car kms, and lpg powered hoist activity.	Car mileage emissions were based on distance traveled by a vehicle that does 10.2L per 100km. Emissions from hoists were based on lpg consumed and the emission factor was sourced from IPCC guidelines. Trucks refer internal distribution.	Excludes staff commuting kms	1,219
Electricity	Power to all operating units - stores, DC's and administration centres.	Emissions factor is based on average grid emissions as recommended by the Energy Efficiency and Conservation Authority (EECA) & the Ministry of Economic Development.		8,043
Total Emissions mt CO₂				26,913



* Source published by the World Business Council for Sustainable Development.



ENERGY MANAGEMENT

Our aspiration: to build greener buildings.

Managing the group's energy use, experimenting with energy-saving technology, designing and engineering better energy systems, and logging and monitoring the cost of energy and comparing it with past performance, are all part of the continuous drive for maximum energy efficiency with minimum environmental impact for the lowest possible price.

It's a complex and endless task given that the principal consumers of energy within the group — the stores themselves — are constantly increasing in both number and size, are open for business longer and are therefore using more night hours for stock replenishment. Even so, with the help of improved energy-management software in the 2004 financial year, the stores managed to maintain average power consumption at 117Kw/m² (kilowatts consumed per square metre), the same level as last year. The accompanying table illustrates absolute electricity consumption trends for past five years along with a figure expressing this relative to sales (per \$1M) and units (per 1M individual items sold)

Some examples of projects and progress during the year in review:

- Working in collaboration with a New Zealand manufacturer the company's energy department developed and installed a completely new design of 90 kilowatt roof-top air conditioner using a refrigerant that is more ozone-friendly than that which it is replacing. All new and extended stores in New Zealand opened during the year had this new air conditioning unit installed, as will all future stores. Existing obsolete units — known as R22s — will gradually be replaced.

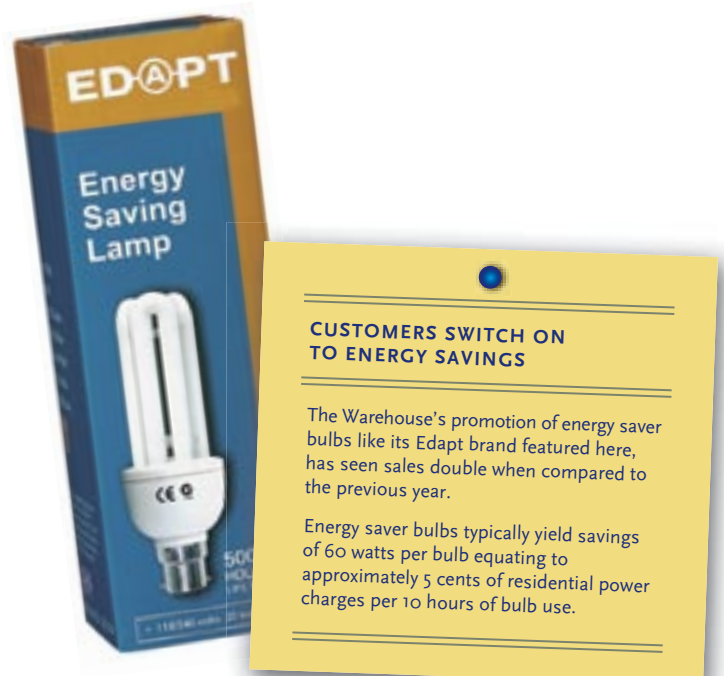
All new stores are also being fitted with energy-efficient electronic ballast to all fluorescent light fittings to further improve energy savings.

- As new buildings are built and opened in the lower North and South Island a higher specified insulation is being installed, in recognition of the region's colder winters, to reduce heat loss and so create energy cost savings. While the saving of energy under this policy is certain, the precise amount to be saved, and its cost, will not be known until the end of the 2005 winter.
- The development of the new Brisbane and Christchurch distribution centres provided the

opportunity to develop energy-management software especially for these facilities. Energy-efficient lighting was also installed.

The North Island distribution centre saved \$80,000 this year on the cost of energy after the installation of its own specially-designed energy-management software.

The company routinely continues to roll out energy management software and equipment in all new stores in both Australia and New Zealand. For example, as the stores are getting larger, innovative energy-efficient store designs are being evaluated. The new Te Rapa Warehouse and Warehouse Stationary stores, with a combined area of 15,000 square metres, will be air conditioned with a central chiller capable of making ice at night. The ice will then be discharged through the day, often without using the chiller, thereby reducing day-time energy consumption. This will not only help reduce energy cost but will shift energy demand from day to night reducing the maximum demand on the local and national power lines and generators.



Electricity Consumption (Red Sheds)	2000	2001	2002	2003	2004
Total Kw	33,502,922	40,182,458	43,565,081	48,389,720	53,695,702
KW per \$1M sales	32,738	34,399	34,603	35,324	36,594
KW per 1M units sold	246,807	263,176	269,382	268,568	274,067

GREENER SUPPLIERS

Our aspiration: to promote better environmental standards within our supply chain.

The company's main initiative in this area continues to be The Warehouse Supplier Enviro-Mark¹ programme, which began in March 2003. Enviro-Mark is a web based step by step environmental management and accreditation programme. At the concluding workshop in June 2004 five companies had achieved gold-level Enviro-Mark accreditations, seven silver and ten bronze while another four had completed gold audits and were completing corrective actions prior to being awarded their gold-level accreditation. A complete report on the programme outcomes is available from Landcare Research².

A general response from most participants was that they were surprised at the linkages between better environmental management outcomes and other business benefits such as savings on energy and material costs and certainty about occupational safety and health compliance. Several companies also reported a positive effect on staff morale as a result of the process, a halo effect perhaps as a result of participating in a socially desirable initiative.

THE RESULTS

Here is a selection of typical material improvements arising from the Enviro-Mark process followed by personal comments by the participants.

AEROSOL PRODUCTS LIMITED

- By repairing these (air) leaks, and maintaining the integrity of the reticulation network via a monthly reporting system, the monitoring programme is estimated to be saving the company 55,000 kWh/year.
- Retuning the (diesel) boiler to operate at higher efficiencies has saved the company an estimated \$2,800 a year in costs, equivalent to 4000 litres of diesel a year.
- Solvent waste of, at times, 200 litres a day has now been reduced to 200 litres a week saving the company \$6,000 a year.

"The level of participation the Enviro-Mark programme has generated resulted in both management and operations staff having a much better appreciation of the process and how their actions contribute to our efficiency and environmental impact. And it certainly shot down any pre-conceived ideas of how good we thought we were."

Doug Hallberg,
Operations Manager, Aerosol Products Limited.

¹ www.enviro-mark.com

² An independent Crown Research Institute www.landcareresearch.co.nz

YORK PAPER COMPANY LIMITED

2004 WINNER "ENVIRONMENTAL SUPPLIER OF THE YEAR"

- The paper waste reduction programme is well on track to make financial savings of at least \$25,000 a year within the paper bag conversion department alone.

"As well as providing us with a vital business system that ensures we are complying with the law, and assures our customers that we are doing so, Enviro-Mark provides a mechanism for us to get on top of the wastage that occurs in our industry. We have already made significant improvements and we are really pleased with how Enviro-Mark has worked for us."

David York,
Managing Director, York Paper Company Limited.

MOLLER'S HOMEWARES

- Installing a separate meter to monitor the trade waste volume showed that Moller's was being significantly overcharged; Moller's has subsequently reduced its trade waste costs by 85 percent.

"Implementing Enviro-Mark has helped us improve our compliance monitoring systems and our production efficiency. Both have added money to the bottom-line. Also the 'feel-good' factor has had a very positive impact on the staff morale and culture."

Brad Graves,
Distribution Manager, Moller's Homewares.

VITA NEW ZEALAND LIMITED

- Solid waste disposal cost savings of 20 percent have been realised; a 50 percent reduction in water use has been achieved.

"...probably the key benefit from my perspective is the value we gained from flowcharting the processes. It is much easier now to identify the links between processes and opportunities for improvement."

Derek Anderson,
Operations Manager, Vita New Zealand Limited.



FACTORY WORKING CONDITIONS

Our aspiration: to work with our suppliers to achieve the compliance thresholds we define¹.

In our 2003 report we wrote about the early work we had done assessing working conditions in our supply chain in Asia, particularly in China.

Our buying team conducted appraisals in thirty-three factories this reporting year including visits from the leader of our apparel quality assurance team. These appraisals usually consist of a “good faith” interview with factory management together with observations made during a factory tour. They do not have the robustness of a complete social compliance audit which may take two or three days — depending on the size of the factory — and involves inspecting factory records, interviewing both management and workers, and an extensive checklist of compliance indicators.

As indicated in last year’s report, this year we engaged Verité, a Massachusetts-based international labour monitoring and research non-governmental organisation (NGO), to undertake a research project into overtime practices in Chinese factories, including those of some of our suppliers, and their impact on worker health and well-being. The results of the study — which was sponsored by several companies including Eileen Fisher, Inc; The Timberland Company; Sears, Roebuck and Co; and The Warehouse Limited — have now been published and we include some excerpts from the executive summary in Appendix iv at the rear of this report.

The Verité results confirm anecdotal information we had and early results from our own assessment programme. Chinese labour law on overtime is quite specific although some aspects can make it quite difficult to determine whether or not a factory is complying. According to the report, working overtime in China in excess of the law is widespread and poorly monitored by regulators. While workers want to work overtime for financial reasons they, along with management, prefer to work fewer overtime hours than is typical. Chinese factory management pointed to better communication with brand owners — their customers — and collaborative production planning in peak periods, as two ways to mitigate this problem.

WHAT DOES THE WAREHOUSE INTEND DOING TO ADDRESS THESE ISSUES?

The Warehouse executive has committed to a strengthened assessment programme focusing on products carrying a brand registered to The Warehouse. This new programme includes a requirement that our buying agents identify the factory of origin of all products carrying a Warehouse brand, that the agents carry

out an agreed programme of assessments in all our key continuity factories, and that the agents’ key staff participate in a social compliance training programme provided by The Warehouse. Indeed, the first such training programme was held in Auckland during August 2004.

In addition, The Warehouse is planning to open its own direct sourcing office in China, in 2005, which will provide a sourcing channel complementary to that of our existing networks of international buying agents and New Zealand-based wholesalers. The new direct sourcing office in China will integrate both core commercial supplier assessment activity and social compliance assessment as parts of its supplier accreditation programme.

Factory assessments carried out by agents and our own staff will be underpinned by a smaller number of external audits using third parties such as Verité or SGS (Société Générale de Surveillance). These will provide valuable information on the effectiveness and credibility of our own assessments.

WHAT ARE THE CHALLENGES FACING OUR FACTORY WORKING CONDITIONS PROGRAMME?

Cheaper labour, and lower compliance costs and standards, are parts of the competitive advantage of a manufacturing giant like China. Our challenge is to ensure that no Warehouse-branded product is sourced from a factory employing illegal, under-age or forced labour, and that we play our part, along with other stakeholders, in leveraging our trading relationships into better outcomes for workers in rapidly developing economies like China.

However, even though ours is a large company in New Zealand it is often only a small client in relation to an overseas manufacturer’s total turnover, limiting our ability to effect positive change. And even identifying a factory of origin can be complicated because “import-export houses” may in fact be supplied by a labyrinth of factories and distribution structures.



¹ See Appendix ii

NEW ZEALAND-MADE RESULTS

Our New Zealand-made supplier base came under increasing pressure this reporting year with the steady appreciation of the New Zealand dollar from .5807 (NZD/USD) at the opening of the financial year to .6360 at the close.

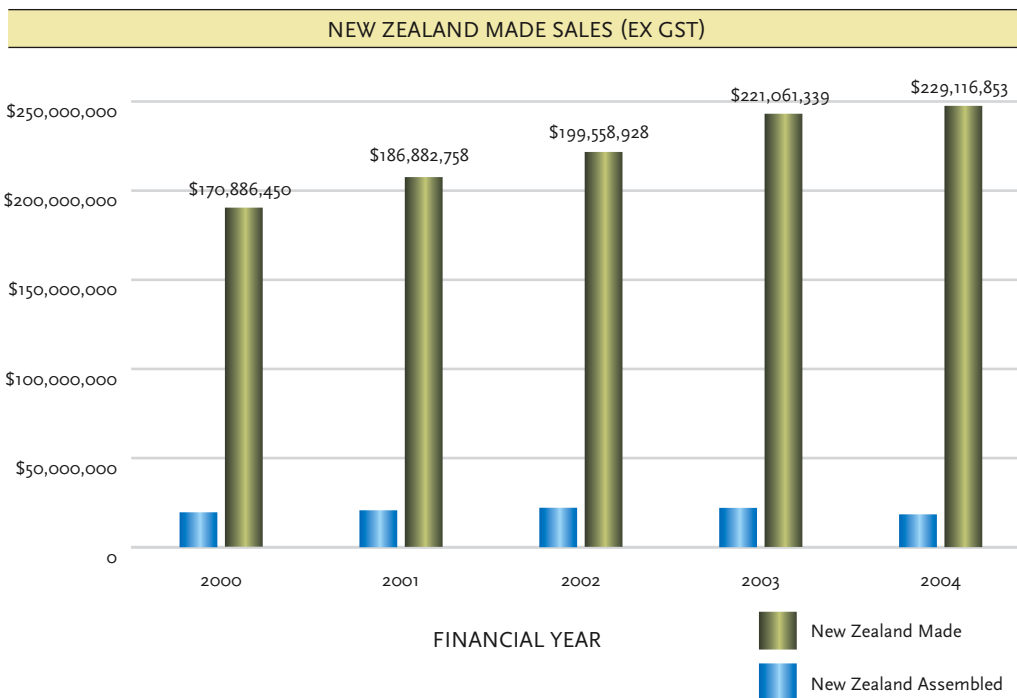
Competition within The Warehouse, from like-imported products, along with external retail competition and the high dollar, depressed retail prices and margins on New Zealand-made goods. Despite this we recorded another pleasing increase in sales of New Zealand products from \$221 million in 2003 to \$229 million for the 2004 financial year.

This July, in an internal Warehouse survey of store, marketing, and merchandise managers, 44 percent of respondents viewed our interest in supporting “KiwiMade”, and making “KiwiMade” merchandise visible to consumers, as important parts of The Warehouse brand, and 34 percent felt we should increase “KiwiMade” promotional activity. Just two percent of the same group felt this activity was not contributing sufficient value to our business.

According to the New Zealand Manufacturing Performance Index (PMI), as reported by both the ANZ Bank and Business New Zealand, the overall New Zealand

manufacturing sector expanded during the year. The PMI reading for July 2004 was 57.5 reflecting stronger growth indicators than the 51.6 reading for July 2003; (a reading above 50 indicates the sector is expanding).

Challenges ahead for our New Zealand manufacturing suppliers include the impact of any eventual free trade agreement with China and the loss of residual protection for the New Zealand apparel and textile sector, and, in a high dollar environment, being able to continue to demonstrate sufficient competitive advantages to offset the lower labour and compliance costs enjoyed by Asian manufacturers.



SOUNDS KIWI

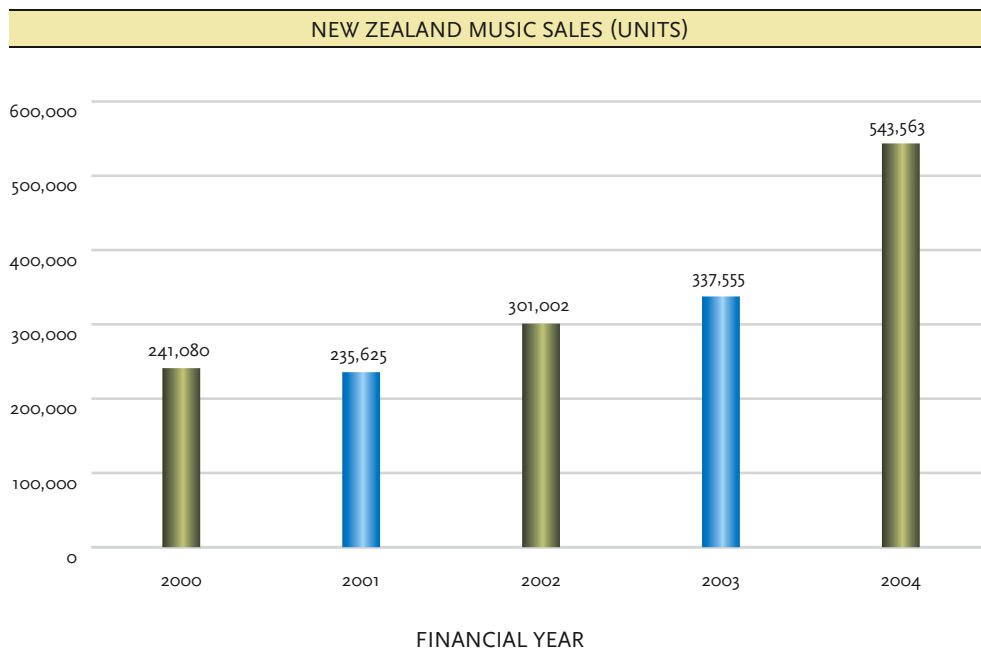
It's been a bumper year for New Zealand music sales at The Warehouse.

Our continued growth as an entertainment destination, our low prices, and the strength of the local music industry, have combined to produce New Zealand music sales of more than \$8.5 million for the 2004 financial year.

This represents a five-year sales increase of 224 percent and accounted for fourteen percent of all music sales at The Warehouse.



The top six selling Kiwi music artists during the twelve months in review were Hayley Westenra, Scribe, Bic Runga, Brooke Fraser, Elemen P, and Katchafire.



THE WAREHOUSE AUSTRALIA

As the younger part of The Warehouse Group, our Australian operation is at an earlier stage of the journey towards business sustainability. This report, prepared by our Australian team members, is the second Australian contribution to the company's triple bottom line report.

The Warehouse Australia has adopted the goal "To make the desirable affordable to Australians every day" as its core purpose.

For its operating values it has adopted those of our New Zealand operation; namely, to be a place:

- Where people come first,
- Where everyone gets a bargain, and
- Where the environment matters.

THE COMMUNITY

During the year we helped raise more than \$A650,000 through store barbecues, raffles, donations, and the sale of vendor sample stock. These funds went to local charities as identified by individual stores, or to non-profit organisations such as the rural fire brigade. More recently we began disbursing sample lines from the national support office to stores for use in supporting local charitable organisations.

Our stores also support community fund-raising initiatives such as Jeans for Genes day and the breast cancer research campaign as well as individual community and youth groups. Meanwhile team members continue to be involved in community programmes such as Plant a Tree day and Clean Up Australia day.

Company policy is also to allow three days paid leave each year to permanent team members who are part of an emergency services organisation when they are involved in state-wide emergencies.

Objectives around community involvement are set for store operations staff and our philosophies are shared with employees as part of their induction.

The Queensland distribution centre is currently working with local schools and universities on supply chain education and often hosts tours of the site for these groups.

TEAM MEMBERS

We have a corporate health fund account that gives our team members access to a range of discounts on their health insurance cover.

Team members also enjoy purchasing discounts, with permanent team members eligible for up to 15 percent discount off the normal retail price of goods rising to a maximum of up to 25 percent where goods are on sale. Casual team members receive the discount but only in the store in which they work.

Each of the two distribution centres also has a single open day each year for family, suppliers and charities. This event enables charities to undertake fund raising activities, and suppliers to provide an overview of how they fit into our business. They also provide an opportunity for store staff to experience the environment of a distribution centre.

All permanent team members at the Queensland distribution centre are participating in the state and federal governments' competency-based training initiative (Certificate 111, warehouse and transport) fully-funded by the state and federal governments. This training provides participants the opportunity to gain formal warehousing qualifications which are trade equivalent and nationally recognised. The training, which usually takes two years to complete, was completed in twelve months by most of the Queensland distribution centre team members. Team members at the Victoria distribution centre will undertake the same training next year.

During the year occupational health and safety and product compliance training were both carried out in all stores as part of our programme to promote and maintain a safe working/shopping environment and fully comply with the appropriate laws. This periodic training is further supported by ongoing training programmes including induction and The Warehouse management programme, and then reviewed, using the store audit programme, to ensure we are embedding this training in our everyday work practices.

STORE WASTE

We are actively evaluating and conducting trials on ways in which we can minimise waste and recycle materials. All stores and sales support offices have a policy of printing on both sides of paper and recycling all paper waste although, when it comes to cardboard, we have found complete recycling to be cost prohibitive.

ENERGY MANAGEMENT

All team members are encouraged to utilise natural resources efficiently by turning off electricity when it is not required, and by turning off water taps especially as water restrictions apply at many locations. Indeed, the Queensland distribution centre has its own rain-water recycling system — used in the fire and toilet systems — and has been honoured by The Port of Brisbane Corporation for its eco-friendly design.

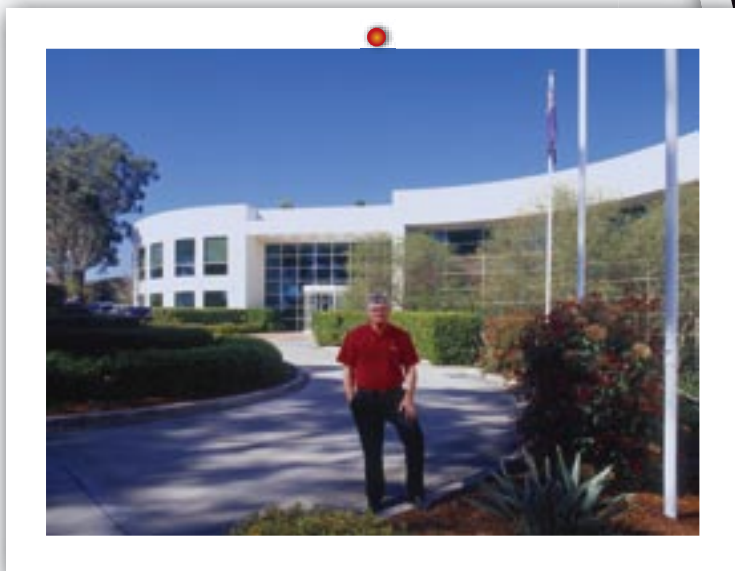
Australian law now requires retailers to reduce the use of plastic bags. Re-usable shopping bags were introduced to The Warehouse last year and while plastic bags are available (for a dollar each) our team members are actively advocating the re-usable approach.

Meanwhile a procurement cost and usage project is being undertaken to reduce waste and associated costs throughout the business.

SUPPLY CHAIN

Throughout the supply chain team members are working to ensure that the materials used — plastic, paper and cardboard — can be recycled, and both the Queensland and Victorian distribution centres have self-funding cardboard and plastic recycling systems. In addition, our purpose-built Queensland distribution centre is state-of-the art with environmentally-friendly lighting.

The implementation of the TUI (Technology Used Intelligently) computer tracking system, at the heart of our New Zealand operations, has also assisted with defining inners and pack sizes, and the tracking of products, to minimise losses and reduce waste. We are also insisting that our suppliers use the appropriate cardboard and stretch wrap packaging.



Pictured above Chief Executive Officer Ian Tscialas outside the new international support office in Rydalmere New South Wales.
Pictured above right Moorabbin store Victoria.

WAREHOUSE STATIONERY

Warehouse Stationery continues to integrate sustainable development principles into its current and future plans. It has a dedicated business sustainability team to deliver the company's key environmental and social activities.



In the 2004 financial year several programmes — such as our waste management programme and support of the KidCare Foundation — were carried over from 2003. We have continued our focus on the education market with the promotion of Key4Free, First Foundation and Gateway.

WASTE MANAGEMENT

Warehouse Stationery recycles all cardboard, plastic film and waste office paper in all locations. We have teamed up with a North Shore-based company, the Toner Recycling Centre, that re-manufactures or recycles used printer and fax cartridges.

GATEWAY

The Gateway programme, administered by the Tertiary Education Commission, provides opportunities for Year 11-13 school students to gain work-place experience while completing their New Zealand Qualification-accredited courses. In the 2004 financial year Warehouse Stationery had five students participating in the programme.



We are also working with the Career Pathways programme, also government funded, which combines work experience with nationally-recognised qualifications in retail and warehousing. We have one student working in our Manukau branch and plan to get more students onto the programme.

KERERU AWHINA PROJECT

Warehouse Stationery recently teamed up with the Kaipatiki Project, based on Auckland's North Shore, in support of its Kereru Awhina (Kereru Care) project which was established in response to waning numbers of urban kereru, New Zealand's only native wood pigeon. Warehouse Stationery funds a resource and response centre for the project and has plans for future fundraising.



"BUSINESS EXCELLENCE" AND "WORK AND LIFE" AWARDS

During the 2004 financial year Warehouse Stationery entered and won a number of business awards including:

- The Business Excellence awards of both the Northland Polytechnic and Enterprise North Shore. In the latter we won two categories:
 - ACC ThinkSafe Workplace Safety.
 - Veritas Employer of Choice.
- The annual Work and Life awards, in the "First Steps" category, which was held by EEO Trust.
- The 2004 CRM Contact Centre awards in which our Business to Business (B2B) business received an award in the Retail/Distribution sector.
- Our IS and T department received Excellence in the use of Information Technology "eBusiness of the Year" award.



Pictured (above left) Nikki Anderton (above) Catherine Jackson (left) and Carly Pannel (right).



KEY4FREE

Key4free is a partnership between Warehouse Stationery and the Tertiary Accord of New Zealand (TANZ) which is a collective of New Zealand polytechnics and institutes. It is a computer training programme, open to any New Zealander over the age of sixteen, designed to help bridge the "digital divide"; it is government funded and administered by Manukau Institute of Technology.

Key4free classes are based on self-paced learning and are proving an excellent starting point for people wanting to polish their computing skills before returning to the workforce or those wanting to acquire such skills before entering the workforce for the first time.

More than 96,000 people have completed Key4free courses in Microsoft Word, Excel, Power Point, Publisher, Typing Tutor and the Internet, and the programme is now operating in eleven Warehouse Stationery stores.

WAREHOUSE STATIONERY KEY4FREE SCHOLARSHIPS, 2004

The success of the Key4free partnership is highlighted each year with The Warehouse Stationery Key4Free scholarships. To qualify for a scholarship requires full-time attendance at a TANZ technical institute. In 2004 we distributed 140 of the TANZ funded scholarships each valued at \$2,000.



Pictured (left to right) Gabrielle Barnett, Joanna Wood and Bev Barnes.

KIDCARE FOUNDATION

The KidCare Foundation (formerly KidSafe) is a registered charitable trust set up to provide counselling and support services for at-risk children. KidCare was again selected to be the principal charity supported by Warehouse Stationery and in the 2004 financial year we raised more than \$150,000 through a charity golf tournament and other fundraising activities.



"Warehouse Stationery is a founding member and key partner of the KidCare Foundation. KidCare is a registered national charity that provides free counselling and support services for at risk children. Each year we undertake a number of activities with Warehouse Stationery to raise the funds we need to continue our essential service. Currently we provide assistance for between 80-100 children each month and the ongoing commitment and support from Warehouse Stationery will ensure the number of kids we are able to help can continue to grow. It is both a pleasure and privilege to work with a team of people who are dedicated to the future of our young people."

Julie Helson,
KidCare Marketing and Relationship Manager



FIRST FOUNDATION

HELPING YOUTH THROUGH OPPORTUNITY AND EDUCATION

The Blue PROP, which was developed during the year in review, is a management tool similar to The Warehouse “Dashboard” enabling us to view the separate pieces of our business and see how they fit together to drive us closer to our vision of being “New Zealand’s preferred supplier of stationery, office products and services to its target markets”.

We have also defined business sustainability as “preparing today for tomorrow”. This includes managing our investment and reinvestment in the environment and the communities in which we operate, as well as in our own people, systems and processes, in such a way to ensure sustainability into the future.

FIRST FOUNDATION

The First Foundation is a scholarship programme that targets successful students, from financially disadvantaged high schools, who need “a hand up, not a hand out”. It’s a combination of the efforts of schools, New Zealand businesses and dedicated individuals, to provide the right tools and environment to help these students succeed.

Student applicants must demonstrate a combination of academic ability, work ethic and the discipline necessary to follow through from college to tertiary level.

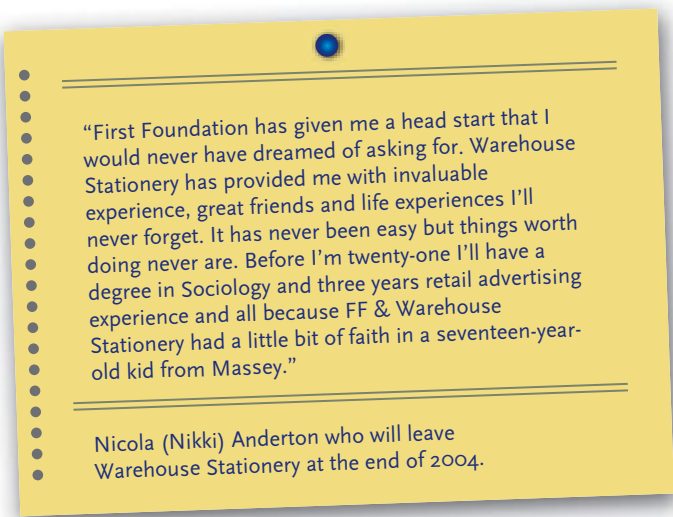
Successful applicants receive scholarship support for three-and-a-half years.

Warehouse Stationery has five First Foundation scholarship students and further supports the foundation by providing office space in our East Tamaki store.

TRAINING

Warehouse Stationery has a dedicated team of human resource and training team members based at our support office in Beach Haven. The past year has seen a number of new initiatives including:

- A four-day voyage on “The Spirit of Adventure” — for selected managers and supervisors — focused on personal growth and team building.
- The 360 degree process in which managers or middle managers can be anonymously assessed by their peers.
- Occupational Safety and Health training to middle management.
- Fire safety for fire wardens.
- The continuation of the Buddy to Boss programme designed to develop next in line management.



TE WAREHARE: WHERE EVERYONE GETS A BARGAIN

During the year in review, and as part of The Warehouse’s ongoing programme of community impact research, the company surveyed several local runanga and iwi organisations in Kaitaia, Kerikeri and Motueka along with members of Maori households and some Maori team members.

Some key findings from the survey:

- The big Red Shed has become affectionately known as the Warehware (whare means house in Maori) by Maori around the country.
- Maori households in the study were much more likely than households of other ethnicities to shop “very regularly” (at least twice a week) at The Warehouse.
- Maori tend to believe, to a greater extent than people of other ethnicities, that The Warehouse impacts beneficially on the towns in which it locates.
- Maori think that the opportunities for advancement within The Warehouse may be better than in equivalent jobs available in other retail or business sectors.
- Maori tend to have lower incomes and larger (extended) families making The Warehouse, with a reputation for low prices and “specials”, particularly attractive.
- One Maori organisation in particular (which built and leased a store to The Warehouse) emphasised the strong connection they perceived between the philosophy of The Warehouse and their own philosophy (team and family focus).
- Maori are also keen Warehouse shoppers through their iwi and marae.

Further key finding from this years community impact studies can be found in Appendix vii



APPENDICES

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ENVIRONMENTAL POLICY

At The Warehouse we understand all business activities have environmental impacts. We seek to conduct our business in such a way as to safeguard our environment for present and future generations especially the regional environments within which we operate and source our merchandise.

Our long-term economic goal is to conduct our business sustainably.

We will focus on:

OUR SELVES

By ensuring we comply with all the relevant Environmental legislation and regulations.
By setting and renewing performance objectives against which we seek to continuously improve the environmental characteristics of our business and merchandise and the understanding of our employees.

OUR SUPPLIERS

By clearly communicating our Environmental expectations via our Terms of Trade and related documents and working with them to effect compliance.

OUR CUSTOMERS

By raising their awareness of relevant issues and encouraging them to exercise their choice as consumers in an environmentally positive manner.

We will actively pursue this policy and objectives and openly and honestly report on progress to all our stakeholders on a regular basis.

STEPHEN R TINDALL
FOUNDER AND ACTING MANAGING DIRECTOR
DECEMBER 2003



SOCIAL POLICY FOR SUPPLIERS

COMPLIANCE WITH APPLICABLE LAWS

All suppliers shall comply with the legal requirements and standards of their industry under the laws of the countries in which the suppliers are doing business, including the labour and employment laws of those countries and any applicable New Zealand laws. Should the legal requirements and standards of the industry conflict, suppliers must, at a minimum, be in compliance with the legal requirements of the country in which the products are manufactured. If, however, the industry standards exceed the country's legal requirements, The Warehouse Limited will favour suppliers who meet such industry standards. Suppliers shall comply with all requirements of all applicable governmental agencies. Necessary invoices and required documentation must be provided in compliance with the applicable law. Suppliers shall warrant to The Warehouse Limited that no merchandise sold to The Warehouse Limited infringes the patents, trademarks or copyrights of others and shall provide to The Warehouse Limited all necessary licences for selling merchandise sold to The Warehouse Limited which is under license from a third party. All merchandise shall be accurately marked or labelled with its country of origin in compliance with applicable laws including those of the country of manufacture. All shipments of merchandise will be accompanied by the requisite documentation issued by the proper governmental authorities in accordance with applicable law. The commercial invoice shall, in English and in any other language deemed appropriate, accurately describe all the merchandise contained in the shipment, identify the country of origin of each article contained in the shipment, and shall list all payments, whether direct or indirect, to be made for the merchandise, including, but not limited to, any selling commissions or royalty payments. Backup documentation, and any The Warehouse Limited required changes to any documentation, will be provided by suppliers promptly. Failure to supply complete and accurate information may result in cancellation or rejection of the products.

EMPLOYMENT

The Warehouse Limited prides itself on being a company "where people come first". The Warehouse Limited expects the spirit of this commitment to be reflected by its suppliers with respect to their employees. At a minimum, The Warehouse Limited expects its suppliers to meet the following terms and conditions of employment:

COMPENSATION

Suppliers shall fairly compensate their employees by providing wages and benefits that are:

in compliance with the national laws of the countries in which the suppliers are doing business; or,

which are consistent with the prevailing local standards in the countries in which the suppliers are doing business, if the prevailing local standards are higher.

HOURS OF LABOUR

Suppliers shall maintain reasonable employee work hours in compliance with local standards and applicable national laws of the countries in which the suppliers are doing business. Employees shall not work more hours in one week than allowable under applicable law, and shall be properly compensated for overtime work. We favour suppliers who comply with the statutory requirements for working hours for employees and we will not use suppliers who, on a regularly scheduled basis, require employees to work in excess of the statutory requirements without proper compensation as required by applicable law. Employees should be permitted reasonable days off (which we define as at least one day off for every seven-day period) and leave privileges.

FORCED / PRISON LABOUR

Forced or prison labour will not be tolerated by The Warehouse Limited. Suppliers shall maintain employment on a voluntary basis. The Warehouse

Limited will not accept products from suppliers who utilise in any manner forced labour or prison labour in the manufacture or in their contracting, subcontracting or other relationships for the manufacture of their products.

CHILD LABOUR

The Warehouse Limited will not tolerate the use of child labour in the manufacture of products it sells. The Warehouse Limited will not accept products from suppliers that utilise in any manner child labour in their contracting, subcontracting or other relationships for the manufacture of their products. No person shall be employed:

at an age younger than 15; or,

at an age younger than 14 where the law of the country of manufacture allows; or,

at an age younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

DISCRIMINATION

The Warehouse Limited recognises that cultural differences exist and different standards apply in various countries. However, we believe that all terms and conditions of employment should be based on an individual's ability to do the job, not on the basis of race, creed, politics or other personal characteristics or beliefs.

FREEDOM OF ASSOCIATION

There shall be no unlawful interference with the right of workers to choose, or not to choose, to affiliate with legally sanctioned organisations or associations.

WORKPLACE ENVIRONMENT

The Warehouse Limited maintains a safe, clean, healthy and productive environment for its team members and expects the same from its suppliers. Suppliers shall furnish employees with safe and healthy working conditions. Factories working on The Warehouse Limited merchandise shall provide adequate medical facilities, fire exits and safety equipment, well lit and comfortable workstations, clean restrooms, and adequate living quarters where necessary. Workers should be adequately trained to perform their jobs safely. The Warehouse Limited will not do business with any supplier that provides an unhealthy or hazardous work environment or which utilises mental or physical disciplinary practices.

CONCERN FOR THE ENVIRONMENT

Suppliers should share The Warehouse Limited's concern for the environment. Suppliers shall adhere to their local and national laws regarding the protection and preservation of the environment.

RIGHT OF INSPECTION

To further assure proper implementation of and compliance with the standards set out in these Terms of Trade, The Warehouse Limited or a third party designated by The Warehouse Limited may undertake affirmative measures, such as on-site inspection of production facilities, to implement and monitor the standards. Any supplier which fails or refuses to comply with these standards may be subject to immediate cancellation of any or all outstanding orders and the refusal or return any shipment.

TRANSHIPMENT OF PRODUCTS

The Warehouse Limited prohibits the transshipment of products. All country of origin documentation will accurately show where the products were manufactured. Any supplier which fails or refuses to comply with this requirement is subject to immediate cancellation of any and all outstanding orders, refuse or return any shipment.



REDUCING PACKAGING WASTE A GUIDE TO THE NEW ZEALAND PACKAGING ACCORD 2004

Packaged goods make a huge contribution to the New Zealand economy. Packaging can be vital to the quality, health and safety of goods it contains. It stops perishables going off and makes products attractive and recognisable to consumers. The waste from packaging needs to be reduced along with its impact on the environment. About one eighth of the rubbish we send to our landfills for disposal is used packaging. Each

New Zealander throws away 83 kilograms of used packaging every year. We can reduce our consumption of packaging and we can increase the packaging we recycle. This is where the Accord comes in.

WHAT IS THE PACKAGING ACCORD?

The Accord is an initiative to cut down on wasteful packaging. Those signing it – industry, local and central government – are voluntarily committing to doing what they can to reduce the proportion of packaging in our total waste stream. Accord signatories are aiming to save resources when they design, make and choose packaging and do their best to recover and reuse the materials. This means producers and packaging users will take more responsibility from the beginning to the end of the packaging lifecycle. This is an example of “extended producer responsibility”, a core principle of the New Zealand Waste Strategy 2002, supporting sustainable development. sustainable development includes meeting our needs today without making it harder for future generations to meet theirs.

WHAT IS THE PACKAGING LIFECYCLE?

It starts with designing packaging and choosing the raw materials. Once made, goods are put into packaging in New Zealand or products are imported already packaged. Consumers then decide what to buy, taking packaging into consideration. When the packaging is no longer needed consumers make the decision to send it for recycling (when available) or put it in the rubbish to go to landfill. If the packaging (such as a bottle, or a carton) is recycled, it will be used for more packaging or another product, and the lifecycle continues by “closing the loop” on packaging waste.

WHO IS RESPONSIBLE FOR THE ACCORD?

The Accord’s main signatories are the Minister for the Environment, the President of the Packaging Council of New Zealand, the President of Local Government New Zealand and the Chair of the Recycling Operators of New Zealand. Key packaging sectors involved are steel, paper, plastics, aluminium and glass as well as brand owners and retailers. Around 200 organisations have signed up to the Accord. Leading companies which also helped develop sector action plans include 3M New Zealand, ACl Glass, Carter Holt Harvey, Fisher and Paykel Appliances, Griffins Foods, Lion Nathan, McDonald’s, The Warehouse, and major supermarket chains, Foodstuffs and Progressive Enterprises. Key associations involved include the NZ Food and Grocery Council, NZ Paperboard Packaging Association, NZ Retailers Association, Plastics New Zealand and Steel Cans Association of New Zealand. Each signatory will work to increase the number of companies and organisations that sign up to the Accord.

WHY IS INDUSTRY SUPPORTING THE ACCORD?

Industry groups and business leaders want to address packaging waste. They want their products to appeal to shoppers, and they want to be environmental leaders who take responsibility for the sustainable use of resources.

Developing sector action plans and signing the voluntary Accord means industry can take a lead. Industry is able to plan how it will reduce packaging waste in the design, use and recovery of packaging, as a normal part of business.

HOW CAN MY ORGANISATION JOIN THE ACCORD?

Companies and organisations can join the Accord through one of the four main Accord parties. Those from the packaged goods industry can join the Packaging Council. Smaller companies can choose to join through their sector organisations.

HOW WILL WE KNOW THE ACCORD’S WORKING?

Nine sector action plans have been developed for the Accord’s main parties and key packaging sectors. These detail what each sector will do over the Accord’s five years to improve the design of new and existing packaging when changes take place. Companies will use the Packaging Council Code of Practice. The plans also address the production, use and recovery of packaging materials. This includes finding markets for reused and recovered packaging materials and adopting purchasing policies that assess the packaging lifecycle. Each action plan details the commitments and activities expected to be achieved over the next five years and how the sector will achieve them, both on its own and working with other sectors. Benchmarking activities and progress will take place in the first two years, with measurable improvements expected in years three, four and five. Joint targets include recovering a proportion of the five main packaging materials so they can be used again. Recovery targets for 2008, as a percentage of consumption, by weight, are 65% of aluminium used in packaging, 55% of glass, 70% of paper, 43% of steel, and 23% of plastic. Alongside this, brand owners and retailers are working to reduce the number of plastic checkout bags used. Annual progress reports will be available on the Ministry for the Environment and Packaging Council websites www.mfe.govt.nz and www.packaging.org.nz

WHAT DOES THIS HAVE TO DO WITH ME?

- Everyone can play a crucial part in reducing packaging waste:
- ::
- Look for products with less packaging
- ::
- Choose products in packaging that can be recycled
- ::
- Support responsible brand owners and retailers who are making an effort to reduce packaging waste
- ::
- Look for products labelled Environmental Choice – these are eco-friendly
- ::
- Don’t take a plastic bag at the checkout if it’s not needed
- ::
- Think twice before throwing packaging in the rubbish. Cardboard, paper, glass, aluminium and steel cans and plastics (types 1 and 2) can be recycled. For more information about shopping environmentally, visit www.mfe.govt.nz and search for Packaging Accord.

FOR MORE INFORMATION VISIT:

- Ministry for the Environment www.mfe.govt.nz
- Packaging Council of New Zealand www.packaging.org.nz
- Local Government New Zealand www.lgnz.co.nz
- Recycling Operators of New Zealand www.ronz.org.nz

Published in July 2004 by the Ministry for the Environment Manatū Mō Te Taiao
PO Box 10-362, Wellington, New Zealand ME number: 537



EXCESSIVE OVERTIME IN CHINESE SUPPLIER FACTORIES:



See the full report at www.verite.org.

Causes, impacts, and recommendations for action.

VERITÉ RESEARCH PAPER, SEPTEMBER 2004

About Verité:

Verité is an independent, not-for-profit, social auditing, research, and training organisation based in Amherst, Massachusetts, USA. Verité's mission is to ensure that people world-wide work under safe, fair and legal conditions.

EXECUTIVE SUMMARY EXCERPTS

"Excessive overtime — defined as work hours that exceed legal limits or the 60 work hours per week standard in most corporate codes of conduct — is a widespread and persistent problem in the Chinese export industry. Over 93 percent of 142 Chinese factories audited by Verité for international brands during 2002 and 2003 employed excessive overtime."

PROJECT BACKGROUND

In late 2003 Verité joined with seven corporate partners to illuminate this problem in greater detail. This study explored the use of overtime from the perspectives of workers and factory managers in forty-one export factories in southern China. A total of 768 worker interviews and forty-four interviews with factory management personnel at the forty-one export factories were conducted with the following objectives:

- Provide a picture of overtime use in supplier factories in China, including the reasons according to management that overtime is employed.
- Examine the physical, psychological, economic and social effects of overtime on workers.
- Identify, in conjunction with brands and factory managers, possible measures to reduce excessive overtime.

The study also aimed to contribute to the on-going discussion about the effectiveness and appropriateness of the 60-hour per week work hour limit contained in most multinational company codes of conduct.

FINDINGS

The key findings from this research on worker and management perceptions of overtime in Chinese export factories were:

- Overtime in excess of the legal maximum of 20 hours per week is frequent and widespread in Chinese export factories.
- Workers report that they need to work overtime for

financial reasons. These financial reasons stem in part from illegal pay practices that mean workers are not compensated for all the time that they work.

- There is little understanding of the physical and psychological impacts of excessive overtime on Chinese workers, and few resources devoted to this topic.
- Neither workers nor managers report that they prefer work weeks that exceed 60 hours:
- From a financial perspective, workers report needing to work two to three hours per day of overtime.
- Workers report the preference to limit overtime to two hours per day for health and social reasons.
- Managers report a preference for running three hours of overtime per day.
- Managers report that running excessive overtime shifts carries undesirable financial penalties and inefficiencies.
- Factory managers express a strong willingness to develop mechanisms to avoid the use of excessive overtime.

RECOMMENDATIONS FOR WESTERN COMPANIES THAT OUTSOURCE TO CHINA

- Ensure that workers in supplier factories receive all compensation due to them under Chinese law with regard to regular hours, overtime premiums and benefits.
- Improve factory–buyer communication, and increase support to factory management to ensure compliance with overtime and occupational safety and health standards.
- Provide technical assistance and training to factories on production planning that can help reduce the need to employ overtime.
- Create internal planning mechanisms that decrease the need for overtime, including reduction in frequent and late changes in design specifications.
- Build long-term relationships with suppliers and reward them for compliance improvements.
- Ensure that performance reviews for employees charged with supply chain management and compliance include positive recognition of factories selected on the basis of code compliance.

SHAREHOLDER SURVEY RESULTS

Below is an extract of the results of a survey of shareholders at the 2003 Annual Meeting.

1 HOW SATISFIED WERE YOU WITH THE MEETING?

(1 very unsatisfied, 5 very satisfied)

- a) Overall 4.58
- b) Information given 4.65
- c) Chairman's conduct of proceedings 4.59
- d) Quality of answers given to questions 4.54
- e) Time and location 4.53
- f) Quality of presentations 4.47

Comments (excerpts only)

- Most informative and easily understood.
- A better spread of food and a beer would be appreciated. Always enjoy SRT's presentation.
- Some hot food, ie kebabs and fish, and a beer or two instead of tea and biscuits.
- Auditors should, in my opinion, be separate however a very good report, well presented.
- SRT's presentation was the best we have heard after attending a variety of company AGM's.

SHAREHOLDER COMMUNICATIONS

2 HOW SATISFIED ARE YOU WITH THE WAREHOUSE ANNUAL REPORT?

(1 very unsatisfied, 5 very satisfied)

- a) Overall 4.59
- b) Operational information given 4.55
- c) Financial information and disclosure 4.71
- d) Corporate Governance Statement 4.53
- e) Overall appearance 4.5

3 HOW SATISFIED ARE YOU WITH THE WAREHOUSE TRIPLE BOTTOM LINE REPORT?

(1 very unsatisfied, 5 very satisfied)

- a) Overall 4.44
- b) Disclosure given on team members 4.39
- c) Disclosure on the community 4.28
- d) Disclosure given about our customers 4.25
- e) Disclosure on our suppliers 4.30
- f) Disclosure on our shareholders 4.36
- g) Overall appearance 4.45

Comments (excerpts only)

- A complete waste of money, stick to what's important, ie growing the Company and making it more profitable.
- An excellent initiative.
- Sell all your poorer places in Australia.
- Is it really worth the expense?
- Very important adjunct to overall reporting, TWL are one of the leaders in this area.

4 IN REVIEWING THE STRATEGIC VISION BEING PURSUED BY OUR BOARD AND EXECUTIVE AS COMMUNICATED IN OUR ANNUAL AND TBL REPORTS AND ELSEWHERE, HOW SATISFIED ARE YOU THAT THIS VISION AND ACCOMPANYING INITIATIVES CAN MEET YOUR EXPECTATIONS AS TO SHAREHOLDER VALUE.

(1 very unsatisfied, 5 very satisfied)

- a) Overall 3.95
- b) Developing The Warehouse Australia ("Yellow Sheds") 3.92
- c) Warehouse Stationery ("Blue Sheds") 4.57
- d) The Warehouse New Zealand ("Red Sheds") 4.53
- e) Triple Bottom Line:Community, Environment, Ethics etc. 4.40

Additional Comments (excerpts only)

- The dividends could be more generous.
- Great business achievements – well done.
- Suggestion – electronic delivery of shareholder documents - reduce costs and use of paper.
- Staff very helpful, speak nicely to one another.
- Could buyers look closer at products purchased?
- What about a dividend reinvestment plan for shareholders?
- As a company which espouses integrity and community interests are any qualms felt by directors at the impact of TWL stores on small businesses in areas such as Kerikeri and Tauranga?
- Queensland - think the wrong impression was given to Aussies by taking over SS & CC. They think of it all as inferior merchandise. Hopefully opening in the old Hardwarehouse building and similar sheds on the Gold Coast will give a lift in quality profile.
- I believe that all this stuff about sustainable development etc etc is causing you to take your eye off the ball.
- This is the first time I have ever been at a shareholders AGM of any firm, but am impressed at how The Warehouse do present their reports etc. Their shops, staff etc are always a credit to the firm.

GOVERNANCE AT THE WAREHOUSE

The table below details the company's compliance with:
 The ASX Corporate Governance Council's Best Practice Recommendations¹,
 The NZX Corporate Governance Best Practice Code², and
 The NZ Securities Commission Corporate Governance Principles and Guidelines³.
 See links at the bottom of the page for copies of codes and guidelines

	ASX Corporate Governance Council Best Practice Recommendations	NZX Corporate Governance Best Practice Code	New Zealand Securities Commission Corporate Governance Principles and Guidelines	Compliance	Cross Reference with 2004 annual report page
Responsibilities of board and management					
Formalise and disclose the functions reserved for the board and those delegated to management.	1.1			Comply	32-33
The board should have a formal charter.			2, 3	Comply	33
Board structure					
A majority of the board should be independent directors.	2.1 The company criteria for independence excludes a length of service disqualification		2	Comply	33-34
The chairperson should be an independent director.	2.2		2	Comply	34
The roles of chairperson and MD should not be exercised by the same individual.	2.3	2.1	2	Comply	33-34
The board should establish a nomination committee.	2.4	2.2		Comply	36
Promote ethical and responsible decision-making.					
Establish a code of conduct.	3.1	1.1	1	Comply	39
Disclose the policy concerning trading in company securities.	3.2		1	Comply	39
Safeguarding the integrity of financial reporting					
Require the MD and CFO to state in writing the company's financial report presents a true and fair view.	4.1		4	Comply	37
The board should establish an audit committee.	4.2		3	Comply	35-36
Structure of the audit committee shall comprise: • Only non-executive directors • A majority of independent directors • An independent chairman who is not chairperson of the board • At least one member with accounting/finance background • At least three members.	4.3	3.1, 3.4	3	Comply	35-36
The audit committee should have a formal charter.	4.4	3.2	2, 3	Comply	35-36
Timely and balanced disclosure					
Establish written policies to ensure compliance with Listing Rule disclosure requirements.	5.1		4	Comply	37
Shareholder relations; respecting the rights of shareholders					
Design a communications strategy to promote effective communication with shareholders.	6.1		4, 8	Comply	41
External audit to attend the annual shareholders meeting.	6.2		8	Comply	37
Risk management; recognise and manage risk					
The board should establish policies on risk oversight and management.	7.1		6	Comply	40
MD and CFO should represent that risk management and internal control systems are in place and are operating effectively.	7.2			Comply	40
The board should establish a formal and transparent procedure for sustaining communication with the external and internal auditors.		4.1, 4.2	7	Comply	37
Performance management; encourage enhanced performance					
Disclose the process for performance evaluation of the board, its committees and individual directors and key executives.	8.1	2.9, 3.3, 3.9, 3.12	2	Comply	38-39
Remuneration; remunerate fairly and responsibly					
Provide disclosure in relation to the company's remuneration policies.	9.1 The company does not disclose remuneration of the 5 highest paid officers of the company		5	Substantially Comply	38-39
The board should establish a remuneration committee.	9.2	3.7, 3.10	5	Comply	36
The remuneration committee should have a formal charter.		3.8, 3.11	5	Comply	36
Clearly distinguish the structure of non-executive directors' remuneration from that of executive.	9.3		5	Comply	38-39
Ensure that payment of equity-based remuneration is made in accordance with thresholds approved by shareholders.	9.4		5	Comply	39
Stakeholder interests; recognise the legitimate interests of other stakeholders					
Establish a code of conduct to guide obligations to legitimate stakeholders.	10.1		9	Comply	39

¹ Link to <http://www.shareholder.com/shared/dynamicdoc/ASX/364/ASXRecommendations.pdf>

² Link to http://www.nzx.com/regulation/listed_issuer/newlist_26apr_app16.pdf

³ Link to <http://www.sec-com.govt.nz/publications/documents/governance-principles/handbook.shtml>

THE WAREHOUSE IN SMALL TOWNS IN NEW ZEALAND

In 2004 The Warehouse continued the programme of community impact studies referred to in the 2003 triple bottom line report. The 2004 studies were carried out by Compass Consulting. To date studies have been conducted in: Dannevirke (baseline study in 2001 and follow up in 2003); Wainuiomata (2001); Kaitaia, Kerikeri and Motueka (2004). Additionally, the impact of The Warehouse on local Maori has been undertaken in the three locations studied in 2004.

The majority of consumers interviewed through random telephone surveys in our studies (roughly 1,000 people) considered that The Warehouse has had a positive impact on their towns. Over half those interviewed said they shopped at The Warehouse at least once a month during the previous year. One-in-three of the 250 businesses surveyed believe that the impact of The Warehouse has been positive on their town, higher than the proportion who said it had had a negative impact.

KEY FINDINGS FROM THE MOTUEKA STUDY:

Business perspectives

- 40 percent of Motueka businesses believe that the CBD is doing very well and another 43 percent think it is doing OK.
- Eight out of ten businesses (61 of 80 respondents) believe The Warehouse has had a positive impact on Motueka as a whole. Only eight businesses replied that the impact had been negative.
- 44 percent of businesses (35 out of 80) recorded an increase in sales over the last year indicating a relatively strong local economy.
- Thirty-four businesses (43 percent) said they had expected the opening of The Warehouse to have a positive or very positive impact on their own business. Thirty-seven businesses (46 percent) said the actual impact had been positive or very positive. A third of the respondents saw sales rise over the two-and-a-half years that The Warehouse has been in operation. Only six (8 percent of the sample) experienced a fall in sales since November 2001.
- Eleven businesses (14 percent) both expected and experienced negative or very negative impacts of The Warehouse opening in Motueka.
- Over half of business respondents (55 percent) have been established in the Motueka CBD for more than ten years while 6 businesses surveyed (8 percent) have opened in the last two years.

Household perspectives

- Almost half the households surveyed (45 percent) believe the Motueka CBD is either doing well (19 percent) or very well (26 percent). A further 43 percent of households surveyed believe the CBD is doing OK.
- Almost 4 out of every 5 households surveyed considered that the impact of The Warehouse on Motueka has been either very positive (53 percent) or slightly positive (25 percent). Nine percent thought that it was slightly negative and 6 percent thought that it was neutral.
- Many people suggest that Motueka's The Warehouse store is very much a place to go in town. It is convenient, and a place to meet people and to socialise. Over a third of people in the survey (37 percent) said going to The Warehouse was part of a day out.
- 79 of the 200 household respondents (40 percent) said that they shopped at The Warehouse at least once a week.
- Median income is \$14,500 in Motueka and \$16,100 in Tasman District, significantly lower than the \$18,500 average for all of New Zealand.

2003 REPORT: EXTERNAL COMMENTARY AND RECOMMENDATIONS



The Warehouse 2003 triple bottom line report contained an external commentary provided by Landcare Research¹. A review of the Landcare commentary of last year shows that its key recommendations were that The Warehouse continues to:

1. Monitor and respond to the concerns of staff, suppliers, customers and local communities, and extend this to include shareholders.
2. Appraise working conditions for employees of overseas suppliers and assure itself that employment conditions at New Zealand suppliers are equally fair and equitable.
3. Seek independent commentary on its reporting process and extend this to include third-party verification.

An assessment of the company's activities since the publication of last year's report, in respect of these recommendations in particular, shows that:

1. We have continued to monitor our impacts on, and the perceptions of, staff, customers, and local communities. (A shareholder survey carried out at the time of last year's annual general meeting is published as Appendix v. Findings from the supplier survey highlighted in last year's report were published to suppliers and management although no formal follow up was undertaken to address concerns emerging from that survey.)
2. Our factory working conditions report (see page 23) and the Verité² overtime study of Chinese factories (Appendix iv) illustrate the further development of this monitoring programme. However we have not undertaken similar compliance assessments (with minor exceptions) in New Zealand factories on the assumption that the New Zealand regulatory and enforcement framework is sufficiently mature to ensure compliance with New Zealand labour laws.
3. While, for the reasons stated above, we have not sought any independent commentary this year, key financial information published in this report is derived from the financial statements within the 2004 annual report which has been audited by Ernst and Young. Furthermore, the methodology and systems behind other data and metrics contained within this triple bottom line report are the same as that used for the 2003 report. In addition, some sections, such as Global Warming and Waste, feature new measurement and reporting not undertaken for the 2003 report.

¹ www.landcareresearch.co.nz

² www.verite.org

GRI INDEX

The indicators recommended by the Global Reporting Initiative draft sustainability reporting 2002 have been cross referenced to the pages on this report and The Warehouse Group Annual Report (see www.globalreporting.org for GRI details).

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Margarita Burton and Elsa Grant at the North Island Apparel Distribution Centre.



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