



**Supporting
New Zealand's
Communities
and Environment**

welcome

Welcome to our 10th Community and Environment Report. The report illustrates our efforts to fulfil the community and environment commitments described in The Warehouse Core Purpose Statement and Sustainability Charter.

This Community and Environment Report relates only to the operations of The Warehouse Limited and unless otherwise stated covers activities for the financial year 3 August 2009 to 1 August 2010. Throughout the report the numbers 2010, 2009 etc refer to our financial reporting years.



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CEO and Managing Director's Report



Welcome to this our 10th Community and Environment Report. The commitment to utilise our resources in a manner that supports communities and the environment is embedded in The Warehouse core purpose statement.

Although we are very focused on our commitment to make the desirable affordable for our customers, we recognise that we also need to extend our conscience beyond immediate commercial objectives. We believe that this is good for business, and for the long-term interests of our shareholders and other stakeholders.

In spite of the challenging economic environment over the last two years, our community and environment efforts have not been reduced. It is pleasing to be able to report our continuing progress in this report.

It was another year of improved performance and significant investment in the talents and capabilities of our people. We have great depth and breadth of skills among our personnel. Our pipeline of talent and our ability to continue to develop our people and provide rewarding careers will ensure we can remain agile and responsive to business needs.

Despite tight financial times, The Warehouse, with the support of its customers and suppliers, raised and distributed over \$2.3 million to New Zealand community service groups and national charities during the year. This was a significant increase

of around half a million dollars compared with last year.

Demand for plastic check-out bags has fallen by 82% over the past three years and now only about 14% of transactions include the purchase of a lightweight check-out bag.

Customers tell us they want better quality and more sustainable products that last longer. This year we have strengthened our quality control and assurance, both here in New Zealand and at source in China, and improved the co-ordination of these activities across different categories. To improve the environmental footprint of our stores we continue to implement initiatives such as our energy-efficient T5 store lighting.

For the last three years we have driven a concerted campaign to reduce waste arising from our store operations resulting in a decrease of almost 50%. We have further broadened the scope of our ethical sourcing programme which focuses on labour standards in our Asian supply chain. We are making a difference and encouragingly audit findings show our programme can generate steady improvements for workers in unison with the efforts of other brands and local governments.

Looking across the international retail landscape it is inspiring to see the sustainability programmes of leading retailers gathering momentum. This year we have intensified our benchmarking against best international practice. Despite the variations in scale and operating model we believe we compare very favourably in many areas.

We will continue to invest in and develop our people and combine efforts with our customers and suppliers to fund-raise and support local and national charities. It is essential that we pursue ethically sourced products, seek more sustainable product offerings and improve our environmental efficiencies.

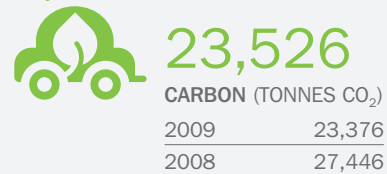
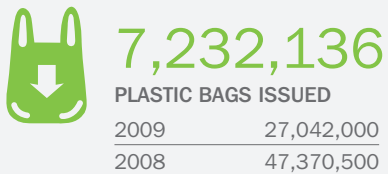
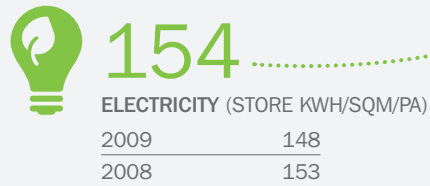
I would like to thank our team, suppliers and customers for their ongoing support. We invite you to read on and welcome your feedback. 🏡

Ian R Morrice

Ian Morrice
GROUP CHIEF EXECUTIVE OFFICER
AND MANAGING DIRECTOR

25 NOVEMBER 2010

Supporting New Zealand's Communities & Environment



1
BEST ONLINE SHOPPING SITE NETGUIDE'S PEOPLES CHOICE WEB AWARDS



Company Profile

The Warehouse is New Zealand's largest general merchandise retailer with approximately 7.6% market share of the non-food retail sector and 40% of the department store sector. We are part of The Warehouse Group Limited, a publicly listed limited liability company.



THERESA STOWERS FROM THE WAREHOUSE MANUKAU.

Our Presence and Reach

The Warehouse New Zealand now has 88 stores nationwide carrying general merchandise, apparel and grocery products. Around 95% of the country's population lives within a 30-minute drive of a Warehouse store. The chain serves 58 towns and cities, giving it unrivalled coverage in New Zealand non-food retailing. Over one-and-a-half million New Zealanders shop with us every month.

Business and Financial Performance

Our sales for the year were \$1.48 billion, a 3.6% decline on the previous year which reflects our exit from fresh, frozen, and chilled food, and liquor categories and the very challenging trading conditions due to the slow recovery from the economic recession of the past two years. While we were able to achieve growth in a number of

categories such as Footwear, Health and Beauty, Sporting and Jewellery, this was insufficient to offset flat consumer sentiment and declines in the Music and DVD category. More detailed information and commentary on The Warehouse's financial performance can be found in the [2010 Annual Report](#). 🏠

FINANCIAL PERFORMANCE¹

	2010	2009	% CHANGE
Sales (\$m)	1,476	1,531	-3.6 ²
Operating Profit (\$m)	112.7	120.2	-6.2
Stores	88	86	1.2
Retail Space (m ²)	470,156	467,596	0.5
Operating Assets (\$m)	326.6	347.7	-6.1
Return on Assets (%)	34.5	34.5	0.0

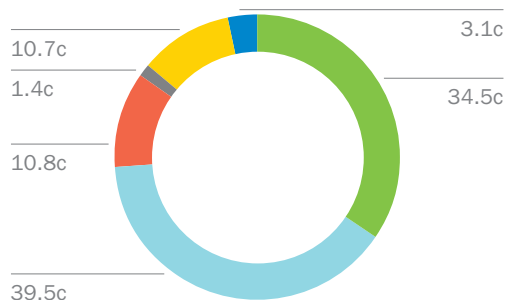
¹ For the financial reporting years 2010 and 2009. 2010 represents a 52 week trading year compared with 53 weeks in 2009.

² When adjusted for category withdrawals and the additional trading week in 2009 this decline reduces to -1.3%.

The Warehouse Dollar and Sourcing Profile

The Warehouse 'Dollar' is a reporting tool we have developed to illustrate our economic impact and the way in which our revenue is distributed across some readily understood segments.

THE WAREHOUSE DOLLAR 2010



BASIS OF CALCULATION:

- **New Zealand Goods and Services 34.5 cents** – The direct costs of local products sourced in New Zealand and resold through The Warehouse; the purchase of non-trade New Zealand goods and services; depreciation expense and the estimated value of locally retained margins in instances where we purchased an imported product through a New Zealand wholesaler. All costs include goods and services tax (GST).
- **Overseas Product 39.5 cents** – Comprises the cost of products manufactured outside of New Zealand including freight, commissions and royalties paid overseas. Includes an estimate of the money going offshore in instances where The Warehouse has purchased an imported product through a New Zealand wholesaler. All costs include GST and exclude New Zealand customs and duty.
- **Wages and Salaries 10.8 cents** – The direct cost of wages and salaries paid to Team Members of The Warehouse Limited (excluding related employer and employee taxes).
- **Group Contribution 1.4 cents** – The amount of residual profit retained and used to fund other group activities.
- **Taxes and Duties 10.7 cents** – Includes corporate taxation, GST, custom duties payable on direct overseas-sourced product, PAYE and ACC levies paid by The Warehouse.
- **Dividends 3.1 cents** – Represents the amounts of ordinary dividends paid to shareholders, excluding any special dividends.

This year, 34.5 cents in every Warehouse sales 'Dollar' was spent on New Zealand goods and services; 39.5 cents went to overseas manufacturers and suppliers. Wages and salaries accounted for a further 10.8 cents, enabling us to employ 7,800 staff¹; 10.7 cents was passed to government as taxes and duties; and 3.1 cents in each sales Dollar was paid to shareholders by way of ordinary dividends – a significant local impact as most shareholders reside in New Zealand.

In addition, a special dividend of \$15.6 million has been announced to be paid in November 2010. The special dividend is not included as part of The Warehouse 'Dollar' set out alongside.

Sourcing Profile

As the table to the right illustrates, China is the largest country of origin for products sold in The Warehouse, especially for clothing and footwear which make up a significant share of our business. New Zealand's trading relationship with China has strengthened further in the wake

of New Zealand's free trade agreement and the relatively high level of the New Zealand dollar seen in recent years. Behind China, we still retain a significant volume of New Zealand-made merchandise in categories that remain competitive. The Warehouse takes special steps to ensure the integrity and quality of imported merchandise including the maintenance of the Ethical Sourcing and Quality Assurance functions within our Shanghai Representative Office.

Decline in New Zealand made sales reflects our progressive exit from Food and Liquor categories over the past three years, as well as continued pressure on New Zealand-made suppliers due to the high New Zealand dollar.

The low share of other Asian economies reflects the fact that, to date, none can match the sophistication, scale and degree of integration within the Chinese supply chain. We are, however, continuing to investigate opportunities in these other sourcing environments. 🏡

COUNTRY OF MANUFACTURE SHARE OF SALES (%)

	2010	2009	2008
China	60.27	57.72	56.50
NZ made	12.35	13.87	14.20
Australia	7.88	7.70	7.70
USA	6.87	7.07	6.80
United Kingdom	1.28	1.42	1.70
Thailand	1.25	1.48	1.40
Pakistan	0.96	1.12	1.20
Malaysia	0.96	0.93	0.80
NZ assembled	0.94	1.35	1.60
India	0.78	0.63	0.59
Denmark	0.69	0.53	0.46

NEW ZEALAND-MADE SALES

	\$ MILLION
2010	182.6
2009	212.5
2008	220.0

¹ 4,709 full-time equivalents

The Warehouse People



KRISHNA SIVA FROM THE WAREHOUSE WESTGATE.

OVERALL RETENTION RATE 2010



It was another year of significant investment in the talents and capabilities of our people. This focused investment over recent years is paying dividends to the business. We have excellent depth and breadth of skills among our staff.

Our source of talent and our ability to continue to develop our personnel and provide rewarding careers will ensure we can continue to be efficient and adaptable to business needs.

We have continued to invest in leadership development through a number of programmes. The senior leadership development programmes that focus on commercial acumen, strategic thinking and effective leadership have been offered to more of our senior team from multiple disciplines and throughout the business. All merchandise teams have now completed category management development training which ensures a consistent approach using international best practices. The Store Manager Development programme continues to provide a pool of talent for our management roles. This year we promoted two graduates of the programme into Store Manager positions.

The number of internal appointments to senior roles has almost doubled from two years ago, and internal recruitment increased right across the business. A total of 45% of

Store Support Office roles and 40% of Store roles were filled by internal hires. These improvements helped us reduce recruitment costs by 30% and equip us well for the future through retained skills and organisational knowledge.

We recognise that, within our current Team Members, we have a high proportion of young people and students who have the potential to be the leaders of the future. To encourage this capability, we held a further five regional Career Fairs following on from this very successful initiative started last year. The Career Fairs aim to help Team Members from different parts of the organisation and in different locations to discover what other departments and disciplines are accomplishing, and what future opportunities exist for them.

We also ensure that our Team Members receive the recognition that they deserve for doing a great job. Our regional conferences are key to this acknowledgement. This year 4,852 Team Members attended one of our 10 conferences across New Zealand.

The conference awards recognised 169 Team Members for their long service and/or outstanding performance.

Our overall retention rate has been very high this year, at 85%. While some of this is due to the economy, we have also been working hard to educate our managers about their role in keeping a strong focus on activities which drive engagement and retention.

A great example of high retention is in our distribution centres – an exceptional rate of 98%. The teams here have been focusing on improving both productivity and engagement, coupled with the roll-out of new leadership and technical development programmes.

Our annual engagement survey drew a record 94% response rate, informing us that our people like us to hear what they have to say. The survey results indicate that we have a significant number of engaged Team Members across many business areas.

CONTINUES OVER

The Warehouse People

CONTINUED



RICHARD CURRIE FROM THE WAREHOUSE SYLVIA PARK.

Richard has progressed from a Christmas temp at the old Glenfield store, to managing one of our largest stores at Sylvia Park, Auckland.

Our managers are responsible for implementing post-survey engagement activities tailored to the needs of their stores, regions or business units. In addition, we continue to implement broader initiatives with an engagement focus throughout the year such as involvement in community activities.

Our Lost Time Injury Frequency Rate (LTFIR) has decreased by one third thanks to our ongoing focus on workplace safety and well-being. In June 2010, we were audited by ACC and retained tertiary status for the fifth year running.

During the year, the company worked with both unions that represent our Team Members. We are currently working collaboratively to improve our work practices and training and make The Warehouse an even better workplace for our people.

Retail Careers

We know retail offers an exciting and stimulating business career. We offer a range of career paths within and across the business. This results in many Team Members having a number of different roles within a long tenure with us. Richard Currie is one example. He commenced employment as a Christmas temp on the checkouts at the old Glenfield store in Wairau Park on Auckland's North Shore while studying at University. Whilst achieving his formal qualifications he was steadily acquiring all the skills to set him on the path for a successful retail career.

Richard has hands-on experience from cashier to ticket writing, sales, floor supervisor and training. He has led sales teams, managed stores and opened our new-look Milford store. This experience has ensured he understands his customers and his team's needs. The challenge and inspiration for him lies in the continual evolution of the business and changing customer needs, ensuring no day is ever the same. Richard now manages one of our largest stores at Sylvia Park, Auckland.

The Warehouse on Facebook

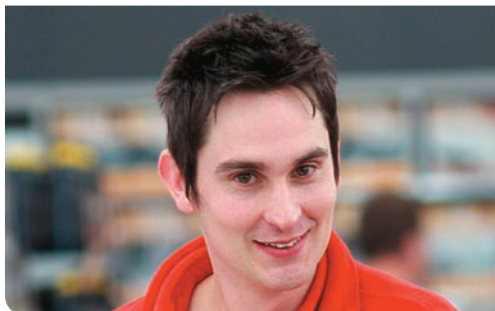
The Warehouse is currently researching ways in which we can use online channels for recruitment and attraction, internal team member communication, marketing, and learning and development.

The Warehouse has an official Facebook fan page with over 12,500 friends. These include customers and Team Members (current and past). 🏠

Employment Statistics



SIA TIIMALU FROM THE WAREHOUSE SYLVIA PARK.



PETER WARD FROM THE WAREHOUSE SOUTH CITY.

EMPLOYMENT STATISTICS

	2010	2009	2008	2007
Full-Time Equivalents	4,709	4,967	5,259	5,385
Headcount	7,805	7,632	8,001	8,126
Retention Rates	84.80%	78.80%	67.10%	67.80%
Union Membership (% of Permanent Workforce)	44.80%	48.20%	29.30%	34.60%
Lost Time Injury Frequency Rate (LTIFR)	12.75	18.44	21.08	19.3
Total Injury Rate	41.38	43.42	44.41	44.9
Working Days Lost to Illness	24,675	29,592	26,782	26,103
OSH Prosecutions	nil	nil	nil	nil
Workplace Fatalities	nil	nil	nil	nil
ACC Accreditation	tertiary	tertiary	tertiary	tertiary
Employee Assistance Programme – Users	191	202	203	195
Workforce Diversity	2010 MALE	2010 FEMALE	2009 MALE	2009 FEMALE
Store Managers	75%	25%	74%	26%
Assistant Store Managers	44%	56%	53%	47%
Senior Managers – Support Office	68%	32%	72%	28%
Middle Managers – Support Office	55%	45%	44%	56%

TEAM MEMBERS 2010

 7,805

Putting the Customer First



“Our customers have a right to know that not only can we provide great value but their purchases will be fit for purpose and manufactured to appropriate quality and ethical standards.”

 **THE WAREHOUSE**
SUSTAINABILITY CHARTER

Quality Assurance

In recent years we have improved quality across many of our categories as a result of stringent requirements for product testing in areas such as fabric testing for wear and tear, and quality control carried out before products leave their country of origin. Improvements have been made throughout our Apparel, Footwear, Manchester and Homeware categories and many of our Home products now come with a two-year guarantee.

This year we consolidated all facets of our Quality Assurance (QA) programme into one business unit and broadened its scope to encompass Footwear, Soft Goods Food and General Merchandise, and to include our China-based Quality Assurance and Quality Control teams. This ensures consistency in the application of our policy and practices across all categories, domestically and internationally.

We now approve shipping samples at source in our Shanghai Representative Office for many of our China-based

suppliers. The Shanghai Quality Control centre is scheduled for expansion in the coming year and at that time we will implement statistical assurance or Acceptable Quality Level (AQL) inspections on all outgoing orders ex-Shanghai port.

We are on target to roll out our QA programme, standards and testing regime into our General Merchandise category before the end of 2010. Further improvements are under way in our Electrical, Gardening Equipment and Sports categories alongside enhancements in sustainable packaging design and presentation. Our customers' quality perceptions are also influenced by our store environment and product presentation. Our in-store teams have clear performance measures to ensure that the customers' shopping experiences reinforce these upgrades.

Our Money-Back Guarantee continues to be a strong point of difference to our customers and shows that we stand by the quality of our products.

Customer Satisfaction

This year we refreshed the way we manage and measure performance in our stores, especially those areas directly affecting customer experience. Independent assessors provide objective and timely feedback on the new measures. We use the same assessors to interview up to five customers as they leave the store. This will generate over 10,000 interviews across the country in the coming year, helping us identify ways to continue to improve the customer experience.

All results are accessible online so managers can monitor performance and are an important component of each store's performance scorecard and incentives.

CONTINUES OVER



*Details of our Money-Back Guarantee are available on our website.


Putting the Customer First

CONTINUED

THE WAREHOUSE ONLINE

 **10,000**
PRODUCTS

ACROSS 20 CATEGORIES

 **1** BEST ONLINE SHOPPING SITE NETGUIDE'S PEOPLES CHOICE WEB AWARDS

 **500,000**
MONTHLY VISITS

TO OUR ONLINE STORE

The Warehouse Online

In June 2009 we relaunched our website with the capability for online shopping. Kiwis took to The Warehouse's new online channel with six million visits in the 2010 financial year, resulting in the site consistently ranking amongst the top shopping sites in New Zealand. We also know that many of our website visitors ultimately shop in-store, using the website to research first.

A year after launching the new site, we now carry more than 10,000 products across 20 categories including some that are available only to online shoppers, for example, good-quality floral bouquets and hampers.

In August 2010, 200,000 consumers in the NetGuide People's Choice Web Awards chose thewarehouse.co.nz as the Best Online Shopping Website and Best Relaunch/Innovation. We were also a finalist in the 2010 Australasian Online Retail Awards. 🌱

 thewarehouse.co.nz



Fund-raising and Community Support

“People in the communities surrounding our stores have needs that cannot always be met via their own resources or by government. We believe that the voluntary and charitable sectors of society are vitally important. The Warehouse will continue to actively support charitable and community causes both large and small.”



We are passionate about supporting as many people as possible through our store network with our philosophy of giving a ‘hand up’ rather than a ‘hand out’. Individual stores support a variety of organisations within their local communities through point-of-sale coin collection boxes and other fund-raising activities. This financial year almost \$930,000 was raised and distributed locally.

We also provide groups across the country the opportunity to use our community barbecues to hold sausage sizzles. Nearly every weekend of the year, customers can find community and sporting groups working hard to raise funds for their activities.

The Warehouse, with the support of its customers and suppliers, raised and distributed over \$2.3 million to New Zealand community service groups and national charities during the year.

We continue to proudly support selected national charities which have wide appeal and reach, and the potential to significantly benefit a large number of people.

Our national fund-raising partners are chosen for their alignment with our selection criteria. Our partners must be national organisations and able to provide wide benefit to as many New Zealand families as possible.

FUND-RAISING 2010

Local Fund-raising

Plastic Bag Sale Donations	431,614
Barbecues	411,388
Coin Boxes	87,374

National Fund-raising

Variety the Children’s Charity	181,634
NZ Breast Cancer Foundation	437,425
Surf Life Saving	231,144
Starship Foundation	116,438
Mental Health	157,846
KidsCan	216,698
Samoa Tsunami	44,749
Donation to Habitat Humanity	20,000

Total Fund-raising \$2,336,310

Community Support

Each year, our team at Support Office, located on Warehouse Way, Northcote, Auckland, conducts a variety of activities to fund-raise, provide products, manpower, or just generally help out local groups. This year 48 groups received a range of support from the provision of magazines, clothes, DVDs, fax machines, CD players and funding. Organisations supported included Dress for Success, De Paul House, KidsCan and Auckland City Mission, among others.

Bags for Good – Horowhenua

An example of a community group that has benefited from our ‘Bags for Good’ initiative is the Horowhenua Community Health Shuttle. They received two donations from The Warehouse Levin store toward the purchase of automated external defibrillators. Store Team Members have the opportunity to put forward local groups they would like to support with the profits from the sale of check-out plastic bags. After deliberation the team chose the community shuttle due to it providing a vital service that can be accessed at any time by any member of the community.

An automated external defibrillator is a portable device that diagnoses potentially life-threatening cardiac conditions and treats the patient through defibrillation, or the application of electrical therapy to re-establish an effective heart rhythm.

Funds were presented to Trustee Peter Shaughnessy who reflected that the donations may help save local lives. He said, “We now have defibrillators in each of our three shuttles. Our thanks to The Warehouse and its customers for the donations.”



FRANKIE WEBB, HOROWHENUA CHRONICLE.

2010 Supplier Awards and Charity Dinner

Each year in August, The Warehouse recognises outstanding suppliers at its Supplier Awards and Charity Dinner. Ticket sales for the dinner and the accompanying auction proceeds raised \$400,000 for the Starship Foundation.



JEAN-DOMINIQUE DE RAVIGNAN AND JENS ANDERS OF L'OREAL NEW ZEALAND RECEIVE THE SUPREME AWARD FROM RICHARD LEWIS AND IAN MORRICE OF THE WAREHOUSE.

This year we revised our award categories slightly in order to provide a broader base of recognition both for individuals, and enterprises – large and small. Our chosen national charity this year was Starship Foundation, the charity associated with Auckland's national children's hospital – Starship.

The Warehouse's supplier base ranges from large multinational corporations to small domestic manufacturers and also includes importers and buying agents, and suppliers associated with our Shanghai Representative Office.

We have approximately 2,000 trade and non-trade suppliers. We conservatively estimate that this group of businesses has around 10,000 New Zealand employees, many of whom are closely associated with The Warehouse due to the scale of our business with them. Further afield we have indirect relationships with many supplier factories throughout Asia. 🏡

The Warehouse 'Supplier of the Year' – Supreme Award

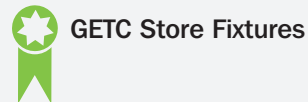


L'Oréal New Zealand

This award recognises the supplier who in our estimation has delivered the greatest overall comparative value to The Warehouse in the past year through sales success, customer and market insight, design-led product development, superior account management, and support for our ethical and environmental standards.

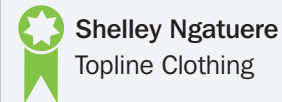
This year's category winners were:

The Warehouse Supplier 'Innovator of the Year' Award



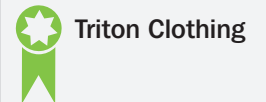
Our Innovator of the Year award recognises the supplier with the most successful product or service innovation in the past year.

The Warehouse Supplier 'Representative of the Year' Award



This award recognises an individual supplier representative whose personal qualities, values and behaviours epitomise excellence in account management and service to The Warehouse.

The Warehouse Supplier 'Small to Medium Enterprise of the Year' Award



This award recognises all-round supplier excellence from a privately owned, New Zealand-based, small to medium-sized enterprise.

Ethical Sourcing



“In a world of open markets The Warehouse and our customers have benefited from access to cheaper goods from developing economies. We have a responsibility to ensure that factories manufacturing for The Warehouse protect workers’ rights and uphold basic labour and environmental standards.”



Our Ethical Sourcing programme gives life to our Sustainability Charter commitments by promoting our Supplier Factory Workplace Standards policy throughout our Asian supply chain.

In factories manufacturing for The Warehouse the policy is enforced via our monitoring programme, the results of which are used to inform sourcing decisions.

This year our programme captured more factories and suppliers than ever before. We developed new processes and information systems to strengthen our programme going forward. To assist factories in avoiding unnecessary cost and audit fatigue, we now offer suppliers an audit waiver if they can provide a verifiable third-party audit report. This year 31 suppliers successfully applied for an audit waiver.

We completed 107 inspections in the year, recording a slight increase in the factories’ average scores to 78.1%, up from 75.1% for the previous year.

There are more than 120 checkpoints in an audit which are grouped into five key areas: employment policies; actual practices in relation to workers’ remuneration and working hours; health and safety systems and practices; any environmental management activity relevant to operations;

and dormitory standards where such accommodation is provided. Each audit generates an overall score and a status which informs our purchasing decisions.

In an international context our orders are relatively small, constraining our influence with suppliers. However, our impact is magnified by the activity of other brands and retailers promoting similar standards. In China the combined Ethical Sourcing endeavours of multiple brands, along with the Chinese Government’s continuing minimum wage increases, have contributed to greatly improving working conditions for millions of workers. A new and powerful trend is to extend this influence on labour standards into the environmental area with the ultimate aim of reducing the carbon emissions associated with global supply chains.

This year we expanded the environmental section of our audit tool, capturing information such as the presence of controls for wastewater or chemical discharges and the quality of energy management systems.

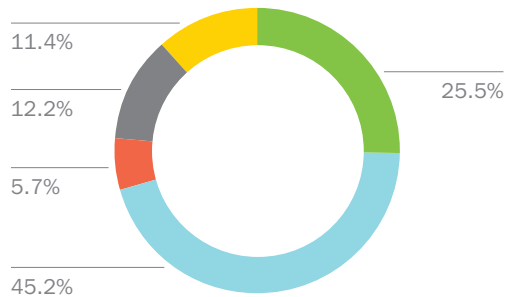
The changeable and highly competitive nature of our sourcing model demands timely information about a given factory’s Workplace Standards status. To address this dynamic we require larger suppliers to pre-register their factories with us (along with any audit waiver application). In the future, orders will be formally associated with pre-qualified factories via an upgrade to our information technology systems.

Looking across the international retail landscape, we see that our larger cousins such as Walmart, Marks & Spencer, and Woolworths Australia have all adopted similar programmes. Increasingly, retailers are sharing data and best-practice solutions. 🏡

Ethical Sourcing

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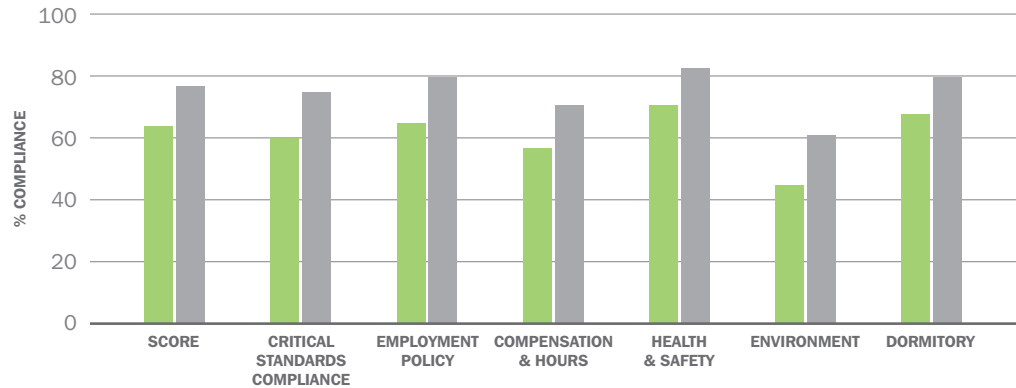
2007–2010 STATUS PROFILE OF ALL INSPECTED FACTORIES



- Accredited
- Probationary
- Discontinued
- Discontinued for commercial reasons
- Waived – 3rd Party Accredited

This chart illustrates the status of all factories captured to date within our programme. Fully accredited factories represent audit findings which indicate full compliance with our standards. Probationary factories reflect findings which exceed our minimum thresholds but still have corrective actions outstanding in relation to some core standards. Discontinued factories have been terminated on the basis of comprehensive and persistent critical standards failure, or for normal commercial reasons. Waived status – equivalent to Accredited – is assigned on the basis of a desktop review and verification of a third party audit report provided by the supplier.

2007–2010 GENERAL IMPROVEMENT OUTCOMES



- Initial Results
- Follow up Results

This chart shows the variance in performance scores between initial audit findings and those at the time of the most recent follow-up audit.

FACTORY INSPECTIONS 2010



FACTORY SCORE AVERAGE 2010



The Environment



Over the last three years, we have driven a concerted campaign to reduce the volume of waste arising from our store operations resulting in a reduction of almost 50%.

Store waste is measured relative to sales and linked to each store's performance scorecard. We will continue to explore further waste reduction opportunities on an ongoing basis.

On the recycling front, we diversified the range of plastic recycling companies with whom we work to improve efficiencies and reduce the transport costs associated with recycling. Approximately 70% of our plastic recovered for recycling is converted into locally manufactured products such as pallets or cable reels; the balance is exported.

We recycle almost all waste paper and cardboard arising from our operations. In the North Island all our paper and cardboard is converted into new products at facilities owned by Carter Holt Harvey at Penrose, Auckland, or Kinleith, Tokoroa. Card and paper from our South Island stores is either sent to the Kinleith plant or exported according to variations in the international commodity price.

From a commercial standpoint, recycling cardboard and soft plastic films is supported by the market value of these commodities. However, the wider assortment of plastic types has much lower value especially when commingled. We have found export markets for these via our recycling partners but, at present, we have to provide an effective subsidy to divert these materials from landfill and transport them to market. In the future we hope that solutions will emerge which convert these lower-value plastics into energy or fuel right here in New Zealand.

In 2009 we were able to reduce our carbon footprint, as a result of implementing transport efficiencies. This year our footprint increased very slightly (0.6%). Increases in energy use, such as the consumption of lighting and air conditioning, were not fully offset by reductions achieved elsewhere. However, the introduction of new energy-efficient T5 lighting is under way and in the coming years we believe we will achieve sufficient scale to offset increased usage.

CONTINUES OVER

WASTE (M³)



TOTAL 2010	
	18,427
2009	22,972
2008	28,851
STORES AVERAGE WASTE (M ³)/\$1M	
	7.4
2009	9.45
2008	13.80

ELECTRICITY



ELECTRICITY (KWH)	
	79,264,541
2009	77,806,871
2008	79,368,076
ELECTRICITY (STORE KWH/SQM)	
	154
2009	148
2008	153

CARBON



CARBON (TONNES CO ₂)	
	23,526
2009	23,376
2008	27,446

Plastic Bags (for Good!)

Our customers' purchases of 10-cent bags have enabled us to distribute a sum of \$432,000 to around 68 community groups over the past year.



"Scientific knowledge about the scarcity of natural resources and man's impact on the environment impels us to take greater responsibility for the environmental characteristics of our operations."

THE WAREHOUSE
SUSTAINABILITY CHARTER

When we first signalled our intention in late 2008 to introduce a 10-cent charge on check-out bags we were met with some scepticism in the media. However, our decision was based on a conviction that our customer base would support this initiative and that they understood the drivers behind this move. Plastic bags do not constitute a very large share of the waste stream by volume but the consequence of their indiscriminate distribution is visible to all.

Like switching off an unnecessary light, declining a plastic bag at the time of purchase can be an important personal signal that we care about needless waste. On occasions, though, customers do need to purchase a bag. Our analysis reveals that customers buy a bag in approximately 14% of transactions. This has remained quite constant from the outset and is parallel to findings in other markets.

Our customers' purchases of 10-cent bags have enabled us to distribute a sum of \$432,000 to around 68 community groups over the past year.

When compared to the 2008 baseline, our programme has eliminated nearly 500 tonnes of plastic which would have otherwise gone to landfills! This equates to an 82% reduction in bag volumes. 🌱


Fantastic results, thanks to our customers!

A REDUCTION IN BAG VOLUMES OF

82%

2008–2010

SAVING NEARLY 500 TONNES OF PLASTIC WHICH WOULD HAVE OTHERWISE GONE TO LANDFILLS

	TOTAL NO. ISSUED	TOTAL KG PLASTIC EQUIVALENT
	47,370,500	384,618
	2008	2008
	27,042,000	224,242
	2009	2009
	7,232,136*	48,558
	2010	2010

*10c plastic checkout bags sold in 2010. We now only issue two bag types – the 10c bag, and a discretionary small item bag. Percentage reduction and landfill diversion figures in this report account for all bag types issued since 2008.

Energy-efficient Lighting



Electricity is the most significant component of The Warehouse's carbon footprint, at 51%.

Lighting accounts for about 30% of our electricity demand. Our legacy store design, with Metal Halide Hi Bay lighting, was regarded as highly efficient in its day – however, higher-performance solutions are now available.

This year we successfully trialled two installations of T5 fluorescent lighting. On a per-fitting basis, the T5 fluorescents use 80% of the energy as the existing Metal Halide lights when at full output. During the night-fill period after trading finishes, the T5 fluorescents use 40% of the energy consumed by dimmed Metal Halides. When compared with legacy stores of similar size and location, the T5 refits are conservatively predicted to deliver a 20% savings in consumption.

In addition, the new lighting provides a significant improvement in store ambience for our customers. It provides a much more even spread of more natural light across the store.

Another benefit is that when switched back on after periods of being dimmed or switched off to conserve energy, it immediately returns to full strength – unlike Metal Halides. T5s have continuous variable dimming control compared to full, dim or off control available on the existing Metal Halide lights. This means that the lights are far more responsive to changes in external light and can achieve a more consistent lighting level in the store.

In the coming year, we plan to install 5,000 T5 fittings across our network of stores and distribution centres. Based on the pilot results, we anticipate that this will result in savings of around 1,549,800 kilowatt hours (kWh) per year, or 231 tonnes of CO₂. T5 lighting will be utilised in all new stores going forward and will gradually replace older lighting as our store refit programme progresses. 🏡

T5 FLUORESCENT LIGHTING



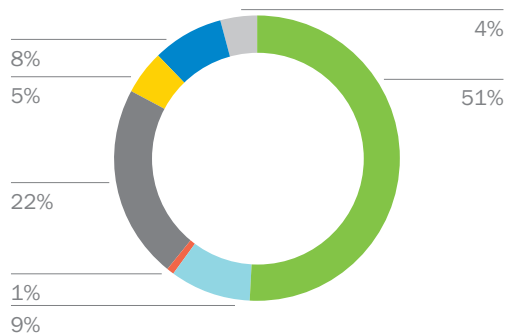
20%

T5 REFITS
PREDICTED
TO DELIVER A
20% SAVING IN
CONSUMPTION

Greenhouse Gas Emissions 2010

This year our carbon footprint increased slightly, from 23,376 tonnes of CO₂ equivalent to 23,526 tonnes.

2010 EMISSIONS PROFILE



- Electricity
- Employee Air Travel
- Rentals Taxis and Private Kms Claims
- Shipping
- Rail Freight
- Road Freight
- The Warehouse owned vehicles and hoists

Although our electricity consumption increased in the year, from 77.8 million to 79.3 million kWh, savings elsewhere restricted overall emissions growth to just 0.6%.

We reduced the number of vehicles deployed to our Store Development team, and completed a major project changing the way we manage store Team Members' hours, reducing demand for vehicles, rentals and internal air travel.

The work we commenced last year on T5 lighting efficiency continues. We anticipate emission savings associated with the expansion of this programme in the coming year. This will be further supported by a new energy-efficiency performance measure for all stores which supercedes the very successful waste-intensity measure we have adopted over the past three years. 🏡

EMISSION SOURCE

	SCOPE	2010	2009	% CHANGE
The Warehouse-owned vehicles and hoists	1	986	1,155	-14.6%
Electricity	2	11,823	11,413	3.6%
Employee Air Travel	3	2,044	2,106	-3.0%
Rentals, Taxis and Private km claims	3	308	394	-21.9%
Shipping	3	5,237	5,128	2.1%
Rail Freight	3	1,233	1,287	-4.2%
Road Freight	3	1,895	1,893	0.1%
Total Tonnes CO₂ Equivalent		23,526	23,376	0.6%

How we calculate our emissions

The Warehouse calculates GHG emissions using e-Manage, a web-based GHG calculation tool developed by Landcare Research. Raw data, either provided to us by our transport and energy providers or extracted from our own financial and freight management systems, is entered into the e-Manage tool, which calculates the CO₂ equivalents according to an internationally and nationally agreed set of protocols and factors. We apply a materiality principle to the completeness, accuracy and consistency of the raw data we collect.

We set reporting boundaries for our greenhouse gas (GHG) emissions in accordance with the standards set out in the Greenhouse Gas Protocol. The organisational boundary consists of The Warehouse Limited – emissions are therefore not reported for other subsidiary or associate companies of The Warehouse Group Limited. We adopt the operational control approach to consolidating emissions data with the operational boundary consisting of emissions categorised into three 'scopes' or groupings. Scope 1 emissions consist of all significant emissions from activities directly controlled by The Warehouse Limited. Scope 2

emissions are those arising from electricity consumption. Scope 3 emissions are generated from sources that are not directly owned by The Warehouse Limited but which we consider are relevant to the operations of our business such as domestic freight and the inward shipping of The Warehouse's direct imports from China. We do not calculate emissions from biologically sequestered carbon (e.g. emissions from burning biomass/bio fuels).

We continue to review the boundary of our Scope 3 emissions to identify additional emissions sources relevant to our business. We have identified one new source. That is our use of couriers for internal transport of documents and the fulfilment of sales from our online store. We have begun working with our Courier service providers to develop a methodology for calculating these emissions and we anticipate being able to report on these in next year's report.

We have restated 2009 emissions slightly to include some additional travel emissions we had not previously captured. These are now included in our 2010 report.

Retail Sustainability – A Growing Trend

The Warehouse’s journey of continuous improvement in sustainability now spans more than 10 years. Our 1999 Annual Report first set out our commitment to environmental responsibility and stakeholder engagement. We are proud of all our subsequent efforts to build on this foundation.



Learn more about retail approaches to sustainability by downloading the above reports.

“We have a leadership role to play also in the wider retail and business community. By sharing our knowledge and vision and collaborating with government and industry we’ll work towards the betterment of New Zealand’s society and environment.”



More recently several international retailers have made significant commitments to improve the social and environmental impacts of their operations. Sustainability programmes are becoming embedded within large retail organisations with the capacity to reach across borders and influence millions of consumers, employees and suppliers. We are pleased to be leading this trend in New Zealand.

The sustainable retailing motive arises from the needs and concerns of stakeholders, whether they be customers enquiring about the ethical attributes of the products they buy, non-governmental organisations focused on a very defined sustainability issue, governments looking to business to assist them meet international commitments, or shareholders wishing to protect and enhance company reputations.

There is a strong business case underpinning all these efforts, especially in the environmental area, where improved efficiencies in energy management and transport can generate significant cost savings and with relatively short return on investment cycles.

On the ethical front, enforcing standards across large and diverse supply chains and product ranges is complex and challenging, even for companies with greater resources than The Warehouse. However, most reputable international retail brands now maintain a labour standards monitoring programme.

Bringing these attributes forward to consumers in the form of products with improved social or environmental features is a rapidly developing trend also.

Three international retailers we look to measure our progress against are Wal-Mart, Marks & Spencer, and Woolworths Australia. Considering our relative revenue when contrasted with these organisations – Woolworths (AUD \$49.6 billion,) Wal-Mart US (USD \$258.2 billion) and Marks & Spencer (UK £9.3 billion) – we believe we compare very favourably in terms of our Carbon intensity, the scope of our Ethical Sourcing programme and our commitment to community fundraising.

Common sustainability themes and initiatives for all three retailers are: the reduction of carbon emissions across their operations including supply chains; the development of “green” or energy efficient new store prototypes; the presence of an Ethical Sourcing programme; the sale of “Fair Trade” branded foodstuffs along with other forms of sustainable certification for categories such as timber products, palm oil derivatives and seafood; waste reduction efforts including sustainable packaging design; various supplier development programmes with an ethical or environmental focus; and finally a variety of community investment and fundraising activities.

These actions are well in advance of any regulatory requirement, illustrating that, as with The Warehouse, these retail leaders are convinced that a comprehensive sustainability strategy is an indispensable element of their future success. 🌱

Governance and Community & Environment

The Warehouse is committed to sound corporate governance that will ensure the company operates as efficiently as possible while providing for the appropriate level of accountability and transparency.



“Our executive and managers have the responsibility to lead us into a more sustainable future and their actions must support our core purpose.”

 **THE WAREHOUSE**
SUSTAINABILITY CHARTER

The primary objective of the Board is to build long-term shareholder value with due regard to other stakeholder interests, including those in the social and environmental spheres. It does this by guiding strategic direction and context and by focusing on issues critical for their successful execution.

The Board delegates management of the day-to-day affairs of the company to the Executive team under the leadership of the Group Chief Executive Officer and Managing Director to deliver the strategic direction and goals determined by the Board.

We seek to follow the best-practice recommendations for listed companies to the extent that they are appropriate to the size and nature of The Warehouse’s operations. The Warehouse Group’s key corporate governance documents are available online from the company website.

The organisation has long recognised the importance of its role as a responsible corporate citizen and is well known for its work in the areas of environment, ethical sourcing and the community.

Leadership within the community and environment is one of the areas of strategic focus captured in The Warehouse’s core purpose statement and elaborated in more detail in the company’s Sustainability Charter. We seek to keep our stakeholders informed about our performance and policies through reports such as this and information available on the [Communities and Environment](#) section of our website.

All managers have community and environment objectives within their performance incentive framework. Key measures are included in formal quarterly management reporting and our performance is communicated more broadly within the

organisation at regular intervals at our monthly Support Office meetings, in strategy updates and at training events.

Reporting on our community and environment and sustainability performance is co-ordinated by our Sustainability Manager, who manages some programmes directly, but in the main these results are the responsibility of line managers. This report has been reviewed and approved by our Group Chief Executive Officer and Managing Director, Ian Morrice, and the Board of The Warehouse Group. 🏡

Report Scope and Boundaries

This Community and Environment Report relates only to the operations of The Warehouse Limited and unless otherwise stated covers activities for the financial year 3 August 2009 to 1 August 2010.



The Warehouse Limited is the largest subsidiary of The Warehouse Group Limited. The Warehouse Limited's sales comprise 88% of the Group's sales. For convenience and clarity the convention used throughout this report is to describe The Warehouse Ltd as 'The Warehouse'.

Community and environment reporting is not provided for other subsidiary companies of The Warehouse Group: Warehouse Stationery Limited and Eldamos Investments Limited; or our partly owned associates: Waikato Valley Chocolates Limited (50%), The Warehouse Financial Services Limited (49%) and Pharmacy at The Warehouse (49%).

In developing this report we have taken account of social and environmental factors of interest to our stakeholders and in part the [G3 Global Reporting Initiative \(GRI\) Guidelines](#). Our adherence to the GRI guidelines is limited and we have therefore not declared an application level for the GRI.

The information in this report itself is derived from a variety of sources, including our

data warehouse, and sales and inventory, financial reporting, payroll and energy management systems. Specialist third parties, such as our waste and recycling providers and our social auditors, provided information used in this report also. More information about our commercial strategies and financial performance may be found in [The Warehouse 2010 Annual Report](#).

Where relevant, we have provided footnotes explaining how some calculations have been derived.

Assurance

This 2010 Community and Environment Report carries a limited external assurance statement from our auditors PricewaterhouseCoopers. The assurance sought and provided pertains to only the following sections of this report:

- Company Profile
- Ethical Sourcing
- Environment
- Plastic Bags (for Good!)
- Greenhouse Gas Emissions 2010

The assurance statement is published on page 24 this report. Authoring and production of this report was managed by Trevor Johnston, Sustainability Manager at The Warehouse, with copywriting assistance provided by Debbie Teale. The report has been reviewed and approved by our Group Chief Executive Officer and Managing Director, Ian Morrice, and the Board of The Warehouse Group.

Previous Community and Environment or Triple Bottom Line reports can be found in the [Investor section](#) of www.thewarehouse.co.nz. The specialised Communities and Environment section of the website also contains summary information about our community and environment policies and performance. 🏠

GRI Performance Indicator Index

The GRI Reporting Framework serves as a generally accepted framework for reporting on an organisation's economic, environmental and social performance. The framework comprises a set of principles – Inclusivity, Relevance and Materiality, Sustainability Context, Completeness, Balance, Comparability, and Assurability – and a series of Economic, Social and Environmental performance indicators. For more information visit www.globalreporting.org. Additional information on Corporate Governance, Strategy and Financial Performance may be found in [The Warehouse 2010 Annual Report](#) and in the investor section on our [website](#). 🏠

GLOBAL REPORTING INITIATIVE (G3) PERFORMANCE INDICATOR INDEX

REPORT SECTION	PAGE	GRI - PROFILE REFERENCES	GRI - PERFORMANCE INDICATORS
Contents	1		
Sustainability and The Warehouse	2	4.8	
CEO and Managing Director's Report	3	1.1	
Performance Highlights	4		
Company Profile	5	2.1, 2.8	EC1
The Warehouse Dollar and Sourcing Profile	6		EC6
The Warehouse People	7–9	2.8	LA1, LA2, LA4, LA7, LA8, LA13
Putting the Customer First	10–11	4.16	PR1
Fund-raising and Community Support	12	4.14	EC8
2010 Supplier Awards and Charity Dinner	13		EC8
Ethical Sourcing	14–15		HR1, HR2, HR6, HR7
The Environment	16	2.1	EN3, EN6, EN16, EN18, EN22
Plastic Bags (for Good!)	17		EN22
Energy-efficient Lighting	18		EN6, EN18
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Retail Sustainability – A Growing Trend	20		
Governance and Community & Environment	21	4.1	
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Assurance Statement	24		
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Assurance Statement

Independent Assurance Report To the Directors of The Warehouse Limited

We have been engaged to perform a limited assurance engagement over aspects of The Warehouse Limited's 2010 Community and Environment Report ('the Report') for the period ended 1 August 2010. The aspects of the Report for which our limited assurance relates are the:

- Company Profile;
- Ethical Sourcing;
- Environment;
- Plastic Bags (for Good!); and
- Greenhouse Gas Emissions 2010

Management's Responsibility for the Report

Management is responsible for the preparation and presentation of the Report that presents fairly the Company Profile, Ethical Sourcing, Environment, Plastic Bags (for Good!) and Greenhouse Gas Emissions 2010 of The Warehouse Limited ('the Company') for the period ended 1 August 2010. This responsibility includes designing, implementing and maintaining a system of internal control to maintain the reliability of the data; and making estimates that are reasonable in the circumstances.

Our responsibility

Our responsibility is to review the Report presented by the Company and to express a conclusion on the Report as to whether, based on



our work performed, anything has come to our attention that would indicate that the Report does not present fairly the matters to which it relates.

Scope and criteria

The Report presents information about the Company's community and environment commitments for the period ended 1 August 2010.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than audits or reviews of historical financial information. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that causes us to believe that the Report does not comply in all material respects with the criteria. The Report has been evaluated against the following criteria:

- Company profile – consistency with other published financial information such as The Warehouse Group Limited Annual Report;
- Ethical sourcing – completeness and accuracy of the extraction of relevant data used to assess Supplier Factory Workplace Standards against the Company's policy;
- Environment and Plastic Bags (for Good!) - completeness and accuracy of the extraction of relevant data presented in the Report; and
- Greenhouse Gas Emissions 2010 – completeness and accuracy of the extraction of

relevant data used to calculate total tonnes of CO2 Equivalent and consistency of the calculations applied to the relevant data with the calculation methodology presented on page 19 of the report ("How we calculate our emissions").

Summary of work performed

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. The procedures selected depend on our judgment, including the assessment of the risks of material non-compliance of the Report with the criteria. Our limited assurance engagement is limited primarily to:

- Enquiries of the Company's personnel; and
- Detailed testing of data to a level less than that required to support a reasonable assurance opinion

We have no relationship with or interests in The Warehouse Group Limited or any of its subsidiaries other than in our capacities as external auditors and providers of other assurance and advisory services.

Emphasis of matter

Without qualifying our conclusion we draw attention to the fact that the reporting criteria include certain inherent limitations that can influence the reliability of the information. Non-financial data used for Ethical Sourcing,

Environment, Plastic Bags (for Good!) and Greenhouse Gas Emissions data are subject to more inherent limitations than financial data, given both their nature and the methods used for determining, calculating and estimating such data. We have not tested the source data used to compile the Report.

Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the subject matter is materially misstated in accordance with the criteria underlying the basis of assurance procedures performed. Further, nothing has come to our attention, which would lead us to believe that the Report does not comply in all material respects with the criteria as set out in The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard.

Restriction on Use and Distribution

Our limited assurance engagement review has been performed for the sole purpose of expressing an opinion on the Report and may not be suitable for another purpose.

Our review was completed on 25 November 2010 and our review opinion is expressed as at that date.

PricewaterhouseCoopers
Auckland

Memberships



New Zealand Business Council
for Sustainable Development



World Business Council
for Sustainable Development



More information

For more information on our social and environmental policies and previous reports, visit:

www.thewarehouse.co.nz

- Suppliers
- Communities and Environment
- Investors

or contact:

community.environment@thewarehouse.co.nz

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