
The Warehouse Group Limited Shareholder Presentation

September 2004



Agenda.

1. Introduction from Keith Smith, Chairman.
2. A perspective from Stephen Tindall.
3. Presentation from Luke Bunt, CFO.
4. Comments from Ian Morrice, Managing Director.
5. Questions and discussion.

**Copies of the presentation are available on
www.thewarehouse.co.nz or by emailing
investor@twl.co.nz**



Board Structure.

- Ian Morrice appointed Managing Director.
- Currently engaged in structured induction.
- Commences duties from 1st October 2004.
- Neil Plummer retired as a non-executive director.
- Stephen Tindall to take up non-executive directorship.



F04 Highlights.

- Completed senior executive appointments.
- Opened first large format Red Shed store in Whangarei.
- Introduced the MEGA store concept for Stationery.
- Commissioned the Apparel DC.
- Better aligned structure to strategy in Red Sheds.
- Introduced limited dry grocery category.
- Achieved market share gains in New Zealand.
- Established positive momentum in Australia during H2.



The Warehouse Group Limited

Shareholder Presentation

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Agenda

- Financial Overview.
- Environment and strategy - New Zealand.
- Environment and strategy - Australia.



Financial Highlights

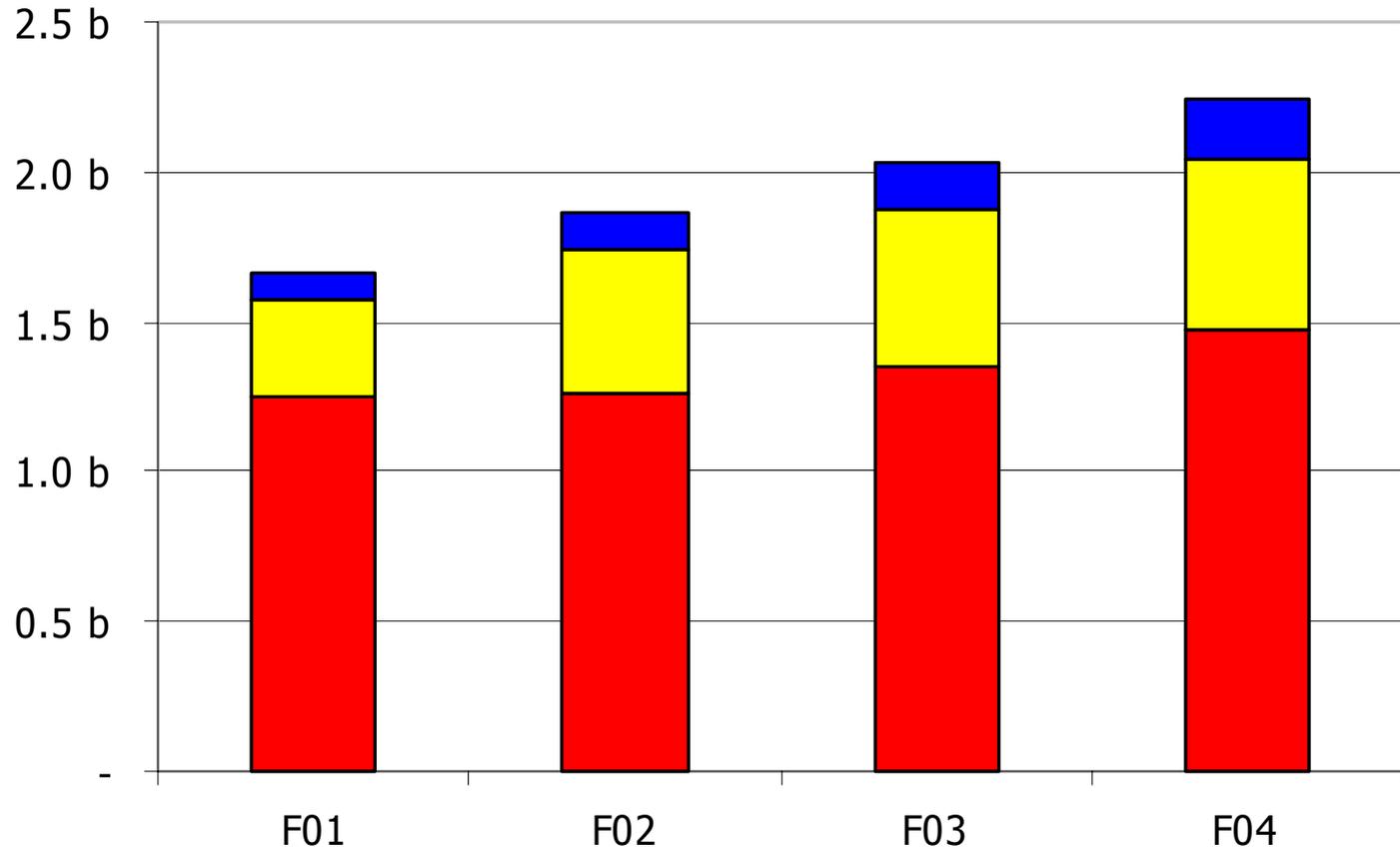
Overall group trading results for F04 were disappointing.

(\$millions)	F04	Change
Operating Revenue	2,258.5	+10.1%
EBITA	120.6	-12.8%
%	5.4%	-160bp
Attributable Profit	61.2	-18.9%
Operating Cashflow	88.6	+6.6%
Capital Expenditure (Net)	111.8	+17.3%



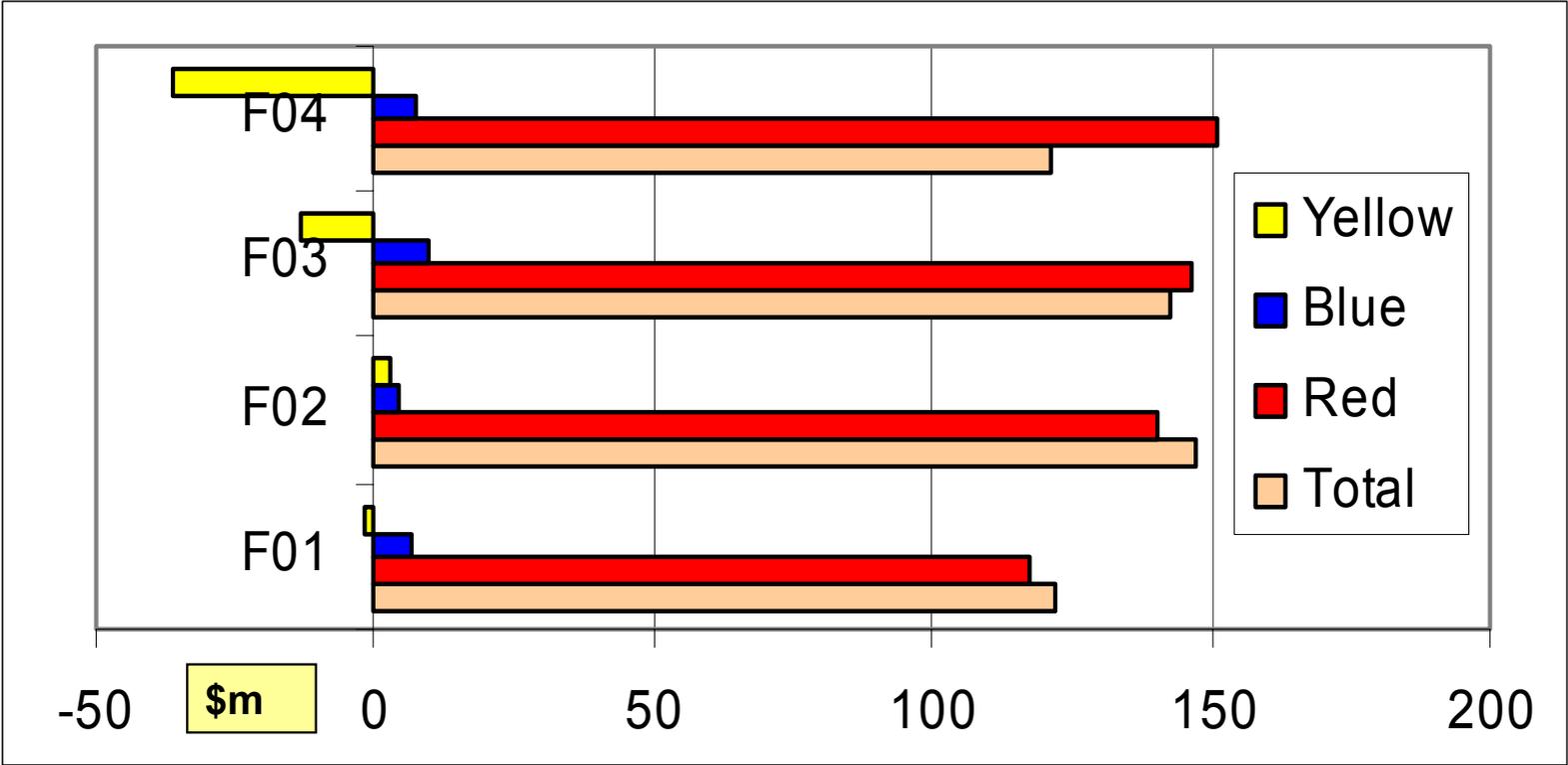
Sales: 2001-2004

F04 sales up 10.3% to \$2.24 billion.



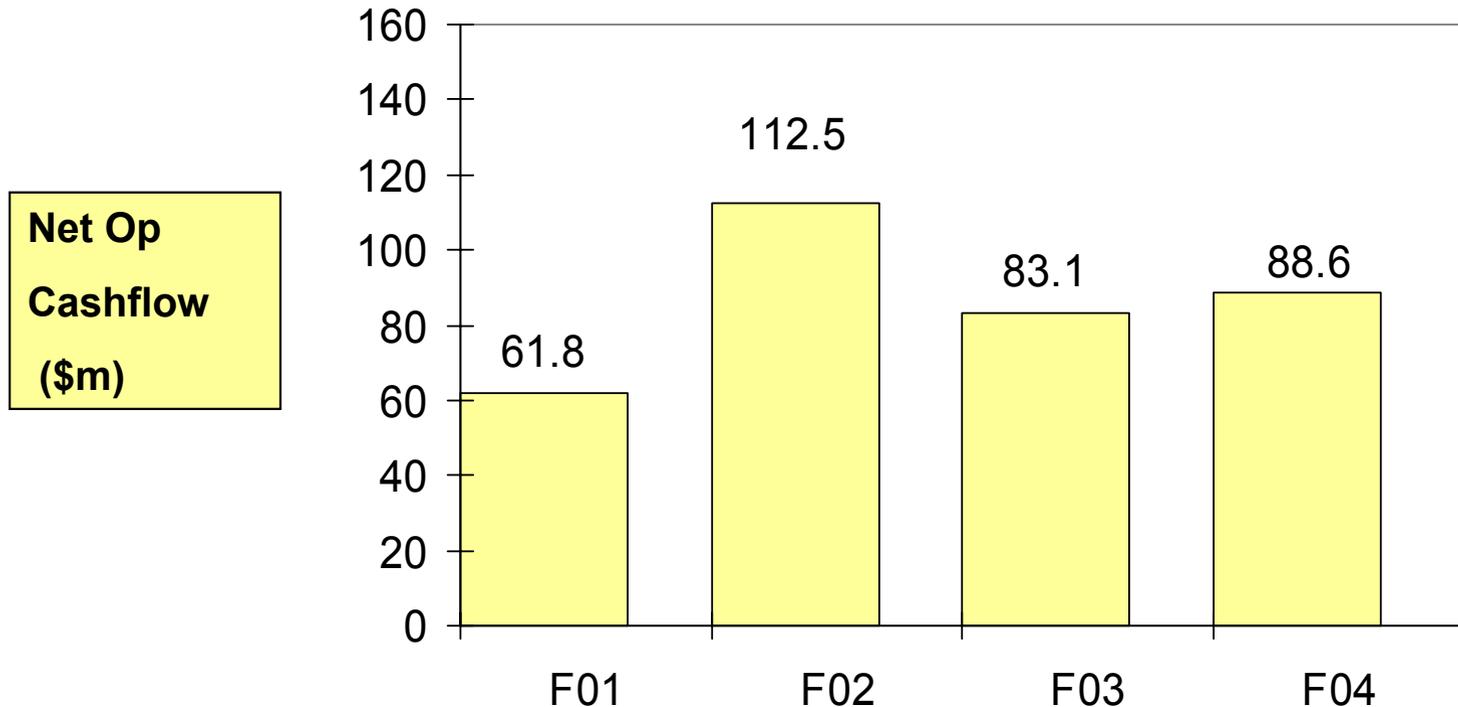
Operating Profit: 2001-2004

F04 operating profit down 15.1% to 121.2m



Net operating cashflow: 2001-2004

Overall improvement in cash realisation reflecting focus on working capital.

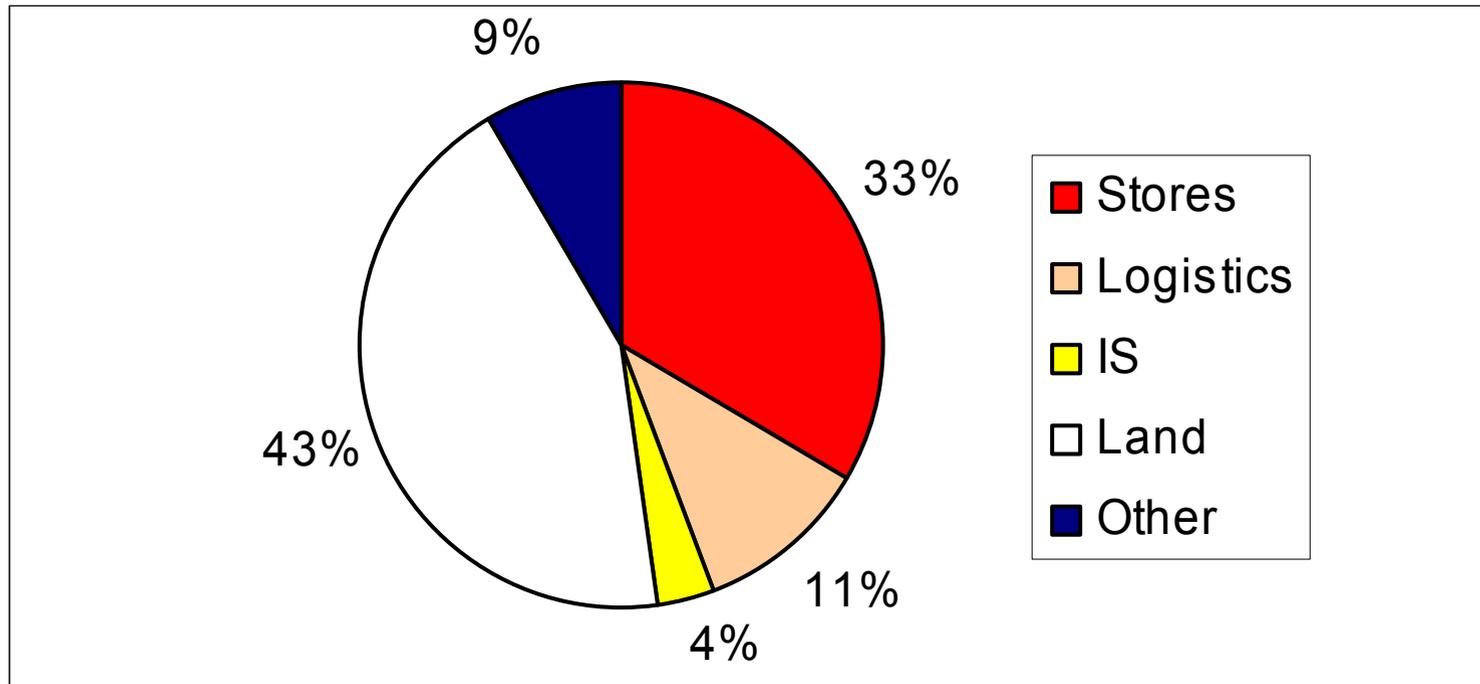


Further improvement in cash generation expected in F05.



Capital Expenditure By Asset

F04 gross capex \$133.6m – up 15.7%.



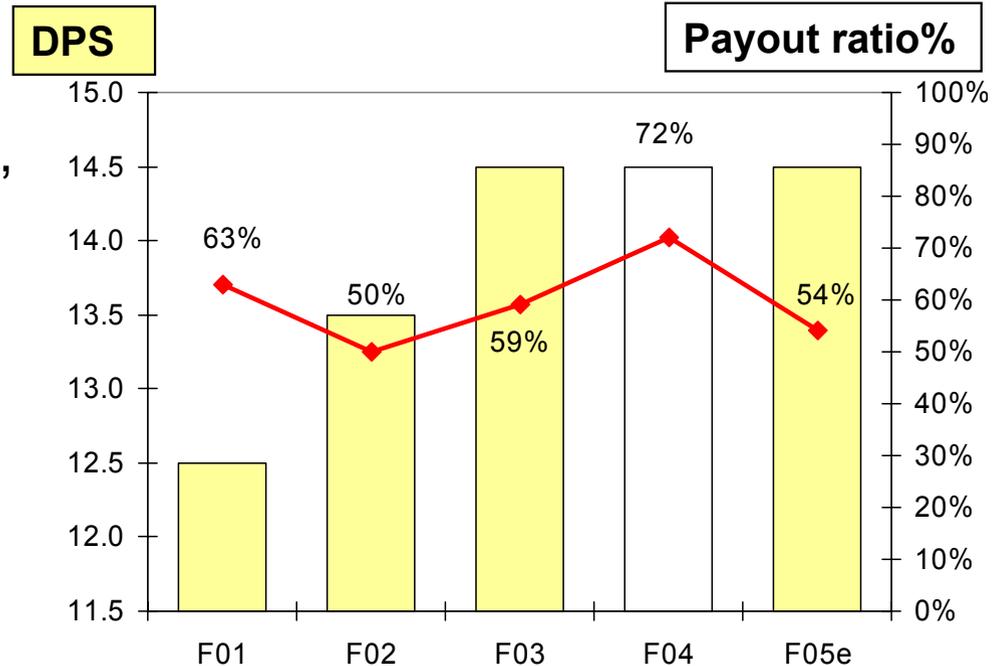
Most of the capex was spent on Red Sheds.



Distributions

Final dividend of 4cps, unchanged from F03.

- Final dividend 4cps,
- Total dividends for year 14.5cps.
- F04 payout 72%.



Similar dividend (14.5cps) expected in F05, 54% of consensus earnings forecast.



Environmental Review and Strategy

New Zealand



Environmental review – NZ Market

Unabated competition, inflationary pressure on cost of doing business and deflationary pressures on selling prices.

Competitive trends

- Increased emphasis on in store experience.
- Category killers remain strong - still our most dangerous competition.
- Targeted pricing tactics.
- Consolidation and convergence.

Cost pressures

- Skilled labour, construction costs, rents and freight.

Deflationary pressures

- Across the entire range of general merchandise and apparel.

Assume more of the same in F05 but Red Sheds well positioned to compete

Environmental review – NZ economy



Both positives and negatives for retail sales going forward.

Negatives

- Rising interest rates
- Firm petrol prices
- Slowing net migration
- House price stability?

Positives

- Tight labour market
- Booming residential construction
- Wages growth
- High commodity prices
- Firm consumer confidence

Expectation that retail spending will slow down in the coming year.



Red Sheds Strategy

Strategy centres around widening the view of available customer spend
 - share of wallet vs. share of department store.

NZ Retail	Made up of...	Warehouse has...	But only...
Total Market \$53 billion. Warehouse “compete” is \$17 billion.	Food	23%	8.3% share of retail market we compete in
	Clothing/footwear	5%	
	Department Stores	6%	
	Furniture/floorings	3%	
	Appliances	4%	
	Hardware	2%	
	Recreational Goods	4%	
	Other	10%	
	Restaurants/takeaways	6%	
	Accom., hotels & liquor	8%	
	Motor vehicle sales/serv.	<u>29%</u>	
	<u>100%</u>		



Red Sheds: market share objective

Market share gains are achieved by:

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

and being true to The Warehouse brand values.



Red Sheds Market Share

F04 saw positive momentum maintained in terms of increased share of wallet.

	F04	F03	Change
Market share of WHS compete *1	8.3%	7.9%	40bp
Market share of department store sector	44.8%	44.7%	10bp

*1. Total NZ retail excluding food, vehicles, meals and accommodation .

Twelve months ended June 2004



Red Sheds: Category Development

Structural approach to category development will focus on:

- Head to Toe
- The Home
- Health and Lifestyle
- Entertainment and Technology
- Grocery

Will mean new ranges, expanding SKU width and more non-conveyable bulky goods.

Investment in information technology required to support these initiatives.



Red Sheds: customer experience

The customer experience objective has many components but is basically about reinforcing retail fundamentals.

- The location is convenient for me.
- I can find what I'm looking for.
- I always get what I came for.
- I enjoy coming to the store.
- The services provided met my needs.
- I trust the warehouse brand.



Red Sheds: Supply Chain

Supply chain initiatives focussed on several opportunities for improvement.

1. How we view the business
2. How we source product
3. How stock flows from supplier to shelf
4. How physical logistics supports the business
5. How we reduce investment in inventory
6. How we minimise lost sales and reduce markdowns
7. How we reduce overall supply chain costs

... to benefit both customers and shareholders.



Red Sheds Apparel DC Update

Apparel DC an enabler to continued growth in this category.

Apparel DC (Wiri) at NIDC site

- Base footprint
18,000m²
- Storage capacity
of 2.5 million hung
garments
- Two automated
sortation systems



Red Sheds Focus for F05

In working towards increasing share of wallet, key areas of focus are:

- Entry into the technology category.
- Rollout of limited dry grocery.
- Targeted investment in footprint.
- Investment into in-store technology e.g. RF price checking.
- Introduction of consumer finance and continued development of financial services.



Red Sheds Whangarei Update

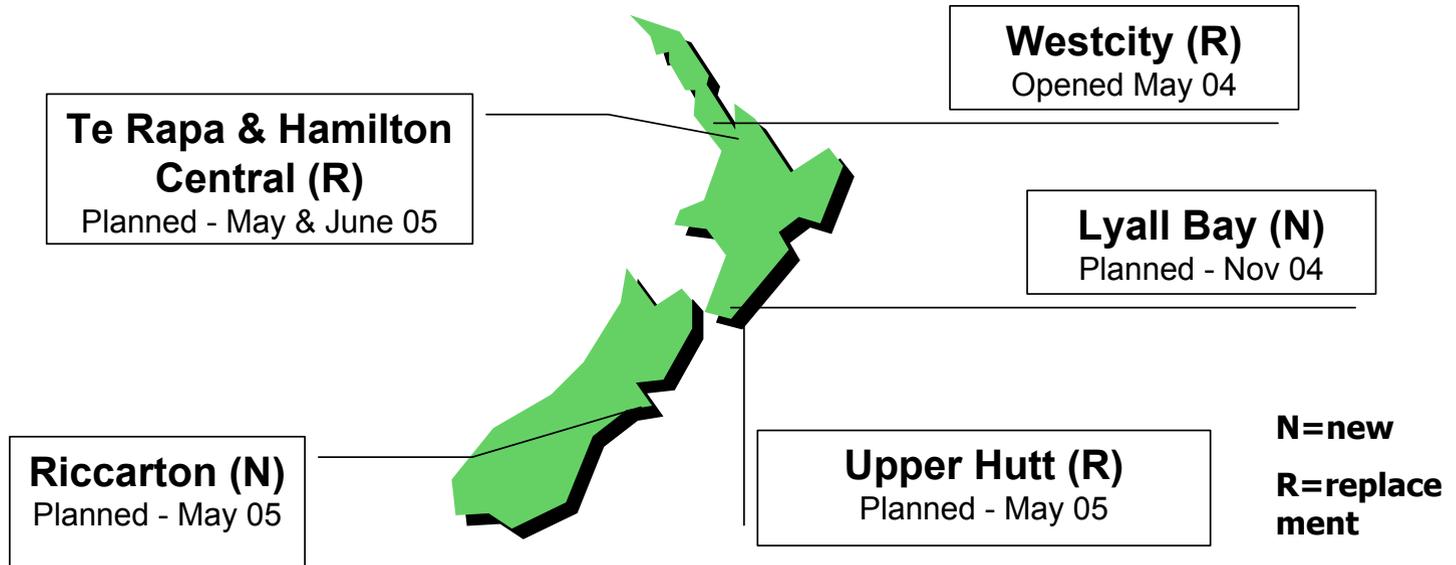
New Whangarei store opened October 2003 (12,788m²).

- Largest store in the chain.
- Sales per capita forecast to rise by 32% in year 1.



Red Sheds Property Strategy

Core property strategy is to increase metropolitan exposure. Good progress in F04 and further gains in F05. On track for 450,000 m² by CY05.



Pah Road (Akld), Manukau and Silverdale sites secured for future development. Negotiations underway to secure a presence at Sylvia Park (Akld).



Red Sheds Key Issues

Expect further pressure on operating margins in the short term.

- Change in sales mix.
- Price deflation expected to continue.
- Operating costs remain subject to inflationary pressures.
- Volume throughput continues to increase.
- Short term dip in sales density experienced with larger format stores.

Stabilising operating margins a key objective for F06.

Investment in supply chain will be a major contributor and source of medium term competitive advantage.



Blue Sheds Strategy

Strategy is centred around taking a multi-channel approach to servicing defined market segments.

- Retail - Refine MEGA store format.
 - Office products and solutions.

- B2B - Solution based proposition to SME and SOHO segments.
 - Integrated offering to other definable sectors e.g. education sector.

- B2C - Direct marketing to customer over the long run.



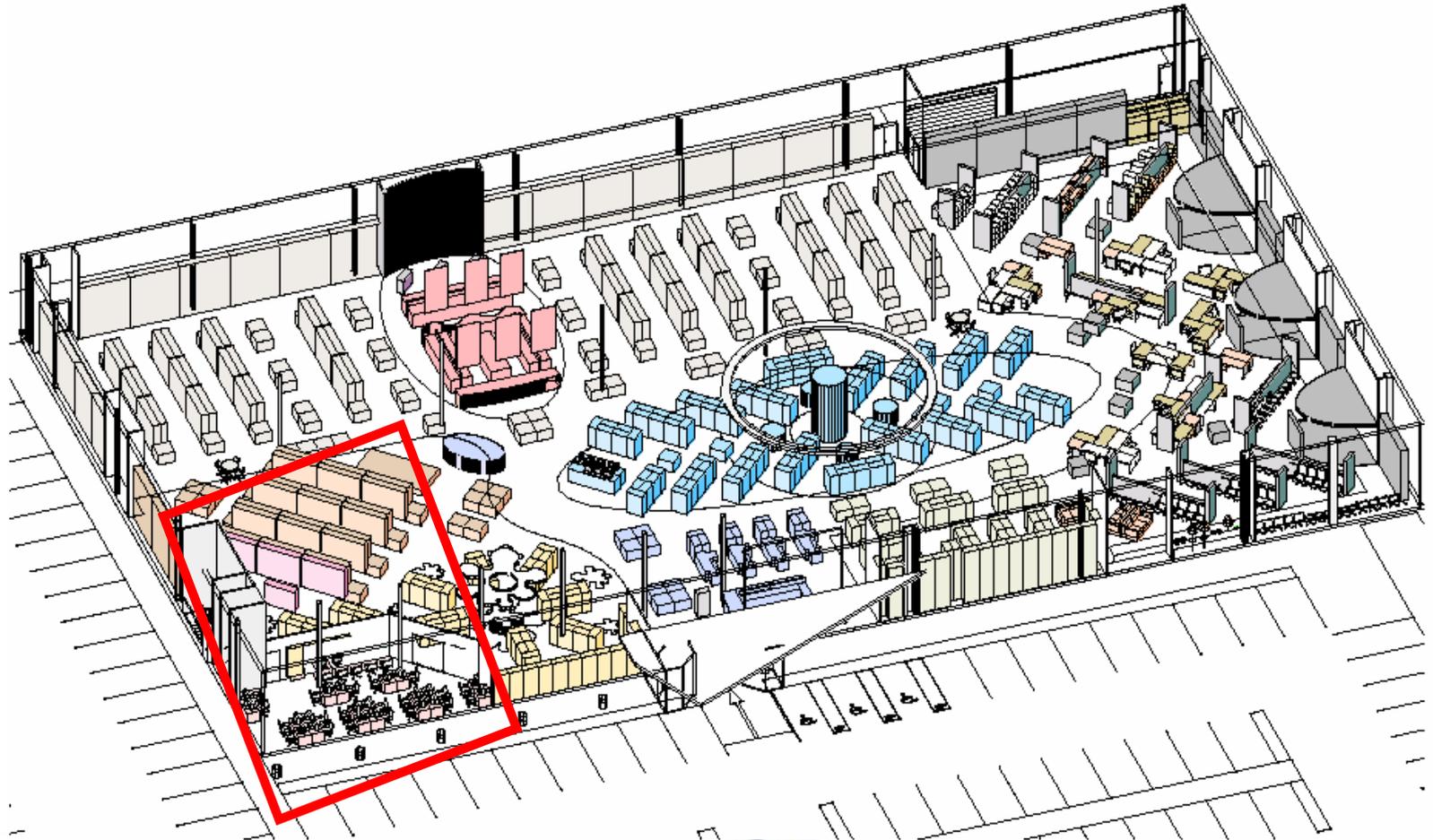
Blue Sheds MEGA store

First MEGA store opened in Whangarei December 03 (4,330 m²).

- Added art, craft, early learning and expanded furniture range.
- Sales per capita up 82%.
- Average sale up 22%.



Blue Sheds MEGA store



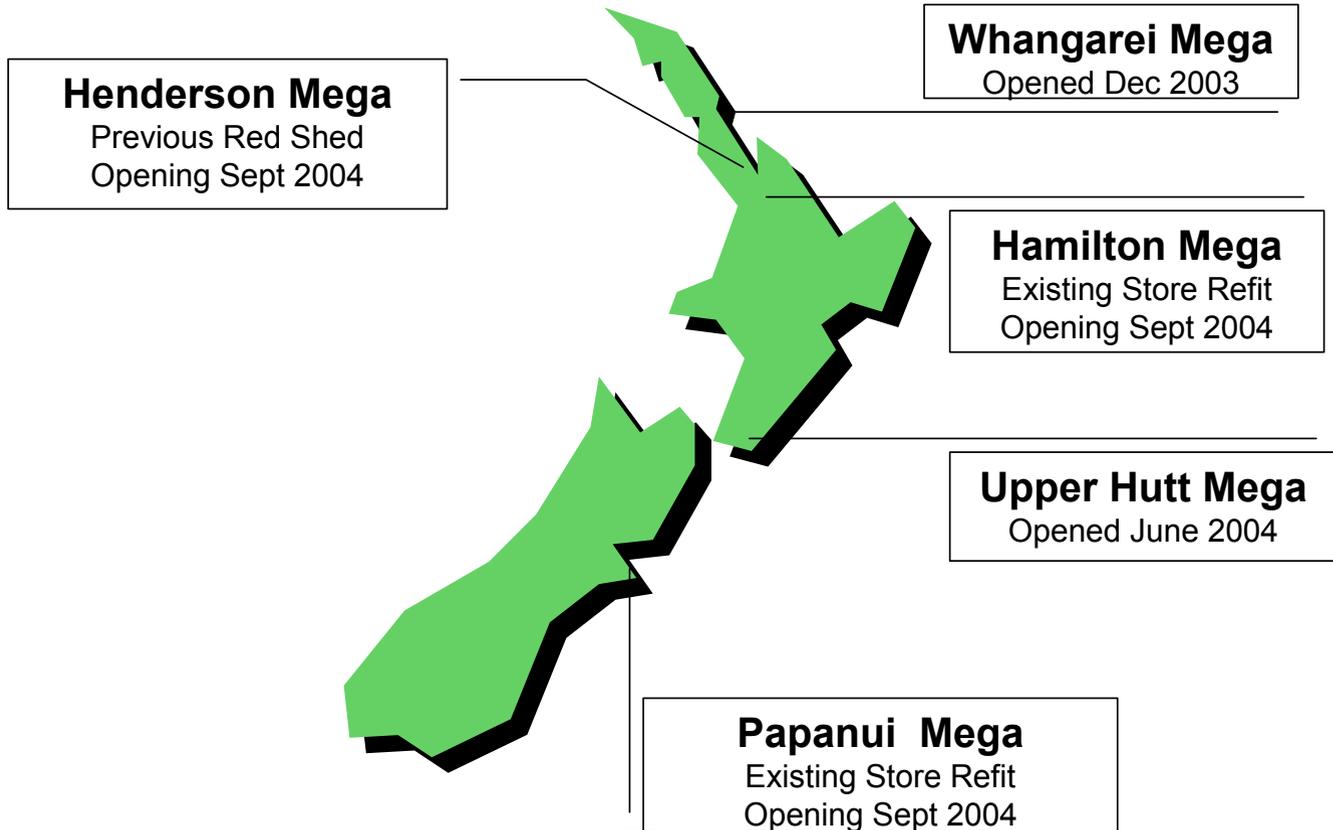
Blue Sheds MEGA store

- Expanded Departments
 - Art and Craft
 - Paper
 - Furniture
 - Luggage
 - Training and Presentation
- Destination categories
 - Copy Centre
 - Business Machines
 - Art and Craft (demo area)
 - Furniture
- New Categories
 - Kids Early Learning
 - Health and Safety
 - Specialty Papers
 - Books and Magazines
 - Storage
 - Technology Enhancements – HP / Microsoft / Kodak / Telecom / Ricoh



Blue Sheds MEGA strategy

Five MEGA stores operating by Christmas 2004.



Blue Sheds Focus for F05

A period of consolidation is needed to support long term objectives.

- Prove and refine MEGA store format.
- Re-balance merchandise portfolio to reduce reliance on business machines and enhance gross margins.
- Invest in new systems infrastructure to support future growth
- Focus on lowering cost of doing business.
- Leverage opportunities between B2B and retail format.

Improving profitability & quality of earnings is a key objective but expect lower sales growth in F05.



Environmental Review and Strategy

Australia



Environmental review – Australian market

Supportive retail conditions but competition remains intense.

- Discount variety seen as two distinct groups – Discount variety (DV) and Discount department store (DDS).
- Deep discount retailing continues to grow strongly and outperform industry average.



Environmental review – Australian economy

Consumption and consumer confidence remains strong but heightened sensitivity to interest rate movements expected despite recent fiscal stimulus.

Negatives

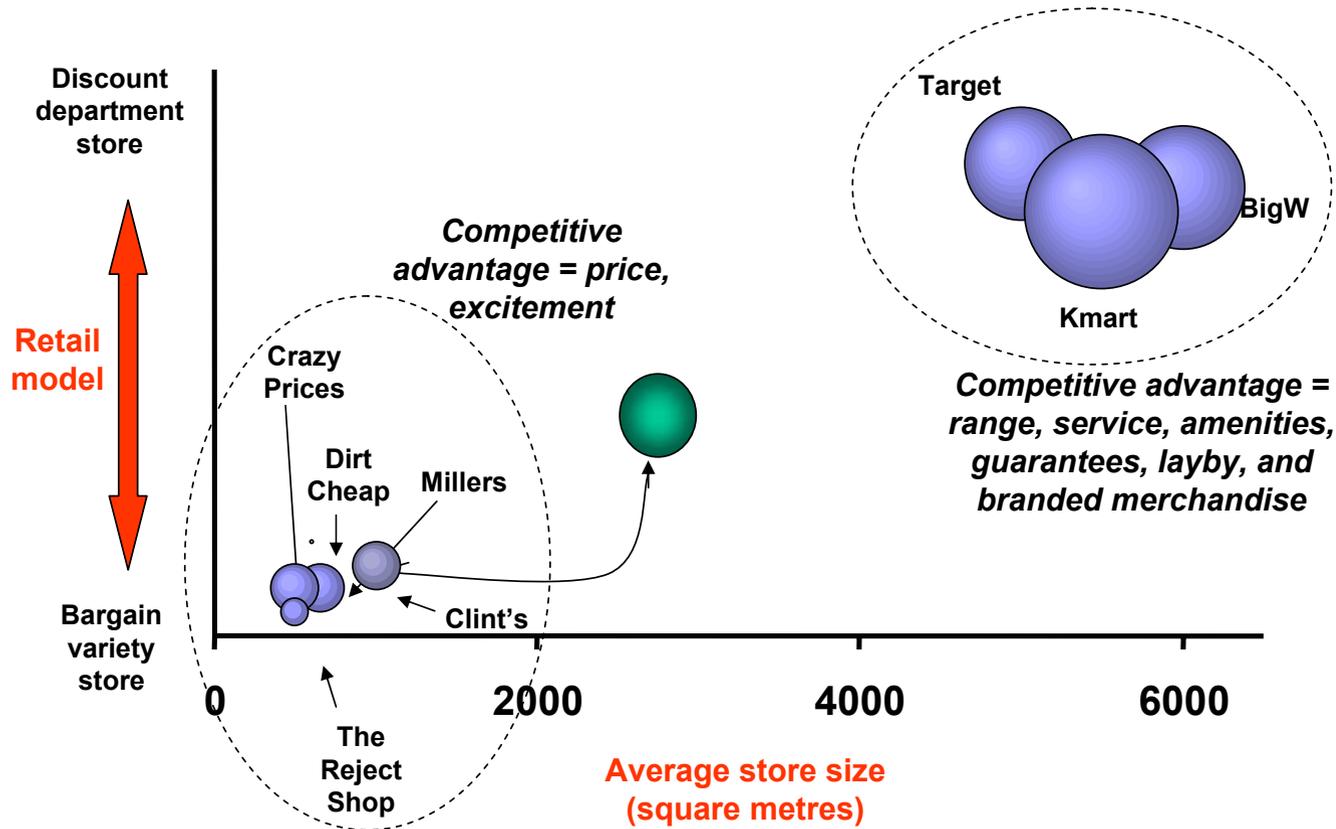
- Rising interest rates
- Federal election
- High petrol prices – up 12%
YOY
- House price stability?

Positives

- Dependent child support payments
- Australian consumer sentiment at 10 year high
- Wages growth



Yellow Sheds- Positioning



Yellow Sheds Strategy

Strategy is simple and unchanged.

- Continue the rollout of 3000m² destination style retail outlets across Queensland, Victoria, South Australia and New South Wales.
- Progressively increase stock load and thereby improve sales density as measured by sales m².
- Where sensible, adopt the same range (heavily house-branded) that has been successful in New Zealand and modify the range to suit particular characteristics of the Australian market.

Execution remains the key.



Yellow Sheds Focus for F05

Execution is the key to profit improvement in F05.

- Same store sales growth through improved ranging, marketing and brand awareness.
- Sustaining gross margin improvement achieved in F04.
- Maintaining tight control over CODB.
- Consistency of offer, improved availability and promotional tie up.

Positive operating cashflow and sustainable improvement in underlying performance are key objectives.

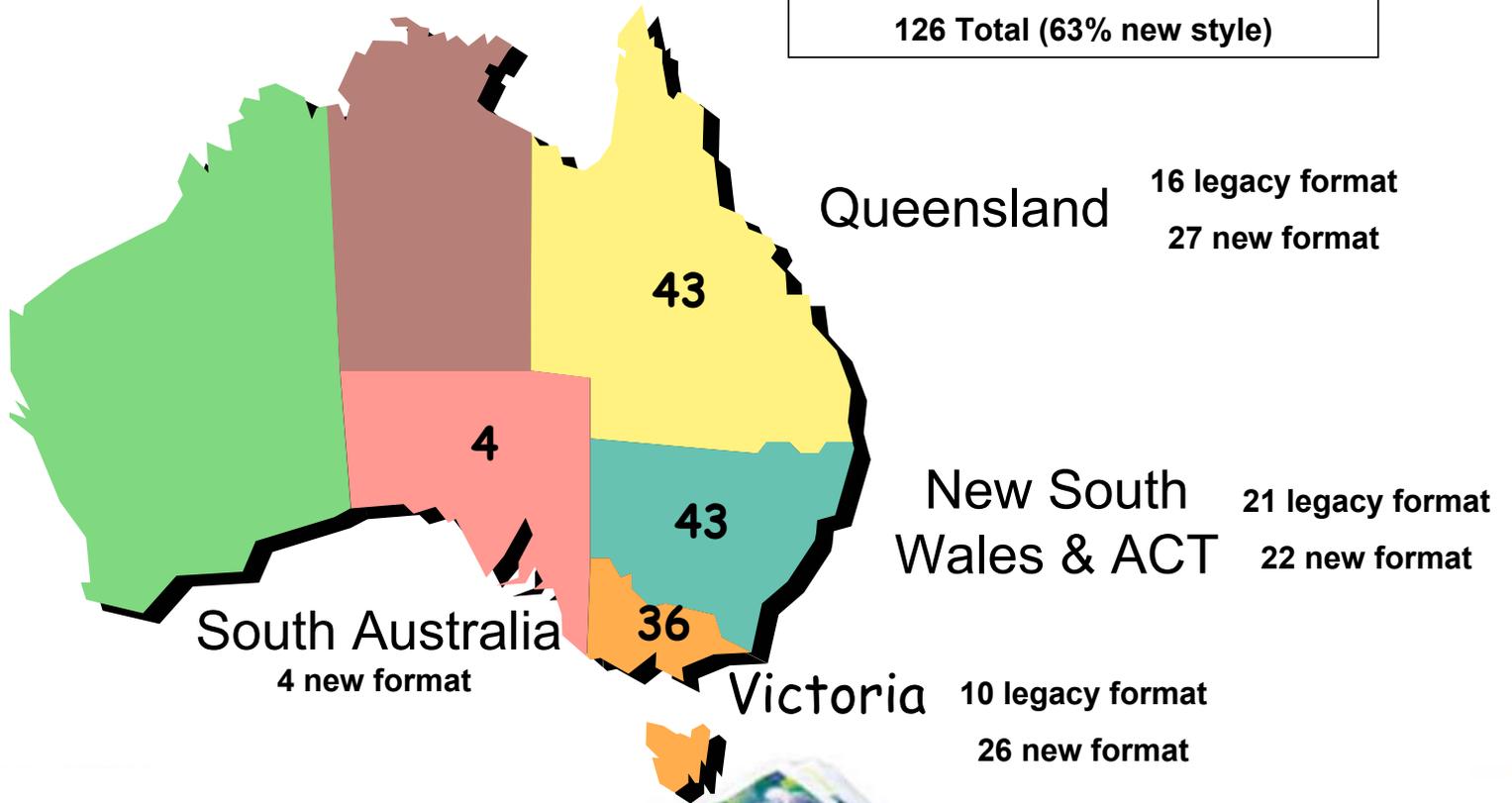


Yellow Sheds Store Profile

Store profile

1 August 04

126 Total (63% new style)



Summary

- **Warehouse NZ**
 - Saturation still a long way off
 - Key is profitable market share growth
- **Warehouse Stationery**
 - Working towards achieving a quantum leap in the sector
 - Period of consolidation needed to improve quality of earnings and create a platform for future growth

Warehouse Australia

- Positive momentum established
- Focus on positioning, awareness and execution



Comments from Ian Morrice, Managing Director



The Warehouse in Hamilton

Replacement Te Rapa due to open June 2005, size: 12,400m²



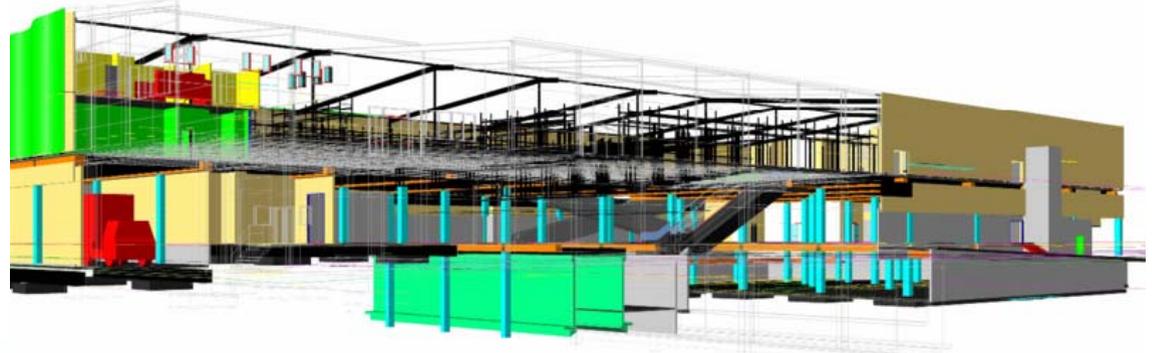
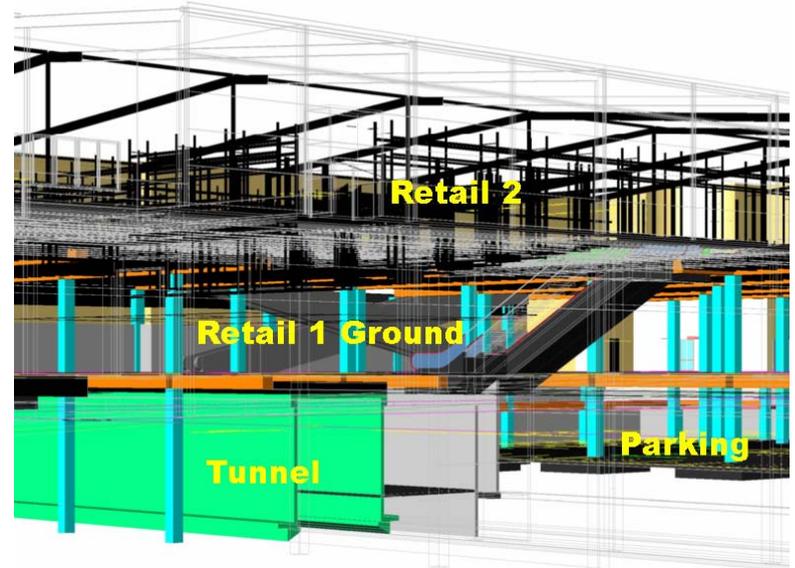
“The Base” retail centre a joint venture between Tainui Group Holdings and The Warehouse



The Warehouse in Hamilton

Hamilton Central

Projected opening 12 May 2005



The Vermaport ~ Hamilton Central



- **New Concept for NZ**
 - **Over 200 worldwide**
- Compared to Travelator:**
- **Steeper angle means:**
 - Faster operation.
 - Less Retail space loss due to shorter length.



The Warehouse in Hamilton



Hamilton Warehouse Stationery to be refitted into a MEGA store late 2004.



Questions and discussion

