

## **Chairman's Address**

**To The Warehouse Group Limited Annual Meeting**

**26 November 2010**

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Welcome to the Annual Meeting of The Warehouse Group Limited.

### **Result Overview**

The 2010 financial year again demonstrated that the Warehouse Group is resilient in difficult times, continuing to deliver reliable earnings and very good cash flows, which is consistent with our stated aim of providing superior returns for shareholders over the long term.

The retail environment remains difficult, with recovery in overall consumption remaining subdued and patchy. This was the main factor contributing to a modest decrease in net profit after tax excluding unusual items of 2.4% to \$83.2 million compared to \$85.2 million in F09. This was on sales of \$1.67 billion.

Operating cash flow was \$129.2 million for the year.

Reported net profit after tax for the 52 weeks ended 1 August 2010 was \$60.2 million including a non-cash charge of \$22.8 million required as a result of government-announced changes to the income tax deductibility of depreciation on certain buildings which is explained in Note 13 of the Financial Statements.

Although the market remains challenging we continue to achieve positive results in key growth areas such as Health and Beauty, Sporting and Jewellery.

In addition, Warehouse Stationery achieved a significant turnaround in sales which reflects an outstanding effort by the team to lift performance.

In light of the global financial crisis, financing the business was an important area of focus in the past year. In issuing a senior fixed rate bond during the year, we were able to achieve diversification in sources of funding and to increase tenor in line with our long term capital investment intentions.

### **Capital Management & Dividends**

The Board undertook a review of capital structure during the year which concluded that it remains appropriate to manage the business with the intention of maintaining conservative gearing and that capital management initiatives that would ordinarily result in a significant return of cash to shareholders were not appropriate.

However, as part of that review the Board felt it appropriate to amend the company's dividend policy. Given the company's ability to continue generating solid operating cashflows the payout ratio was increased from 75% to 90% of adjusted net profit.

It was thus pleasing to deliver a 14.3% increase in total ordinary dividend payout this year, to 24.0 cents per share. Based on today's share price, which has recently averaged \$3.80, ordinary dividends declared of 24.0 cents represents a gross yield of 9.0%, fully imputed at 30.0%.

Due to our very strong operating cash flow and the availability of imputation credits the Directors also declared a special dividend of 5.0 cents per share, bringing the total special dividends for the year up to 6.5 cents per share.

Directors are very pleased that while normalised profit has been relatively stable over the past five years, the total dividend return to shareholders over that period has been 151.0 cents per share.

### **Board Governance**

In appointing our new independent director, Mark Callaghan to the Board in September, we followed on from last year in implementing our Board succession plan to ensure that the Board continues to be a stable and successful Board comprised of directors with the mix of qualifications, skills and experience we believe to be appropriate to the company's current operations and proposed strategic direction.

I take this opportunity to welcome our new independent director, Mark Callaghan to his first shareholder meeting of The Warehouse. He brings to the Board extensive experience of the fast moving consumable goods sector coupled with key strengths in marketing.

In his election speech Mark will expand more fully on his background and experience. The Board is very pleased to have been able to appoint as director a person who fitted the skill-set the Board had determined it wanted to enhance. It is generally difficult for a company of our size to secure the time commitment required for a director appointment from a person so early in their career.

The Board will continue to review the Board's composition and skills to ensure they match the changing environment and strategic direction the company follows.

### **Outlook**

Although we are optimistic about the New Zealand economy in the medium and longer term, we expect trading conditions to remain difficult for a period of time yet.

We anticipate continued inflationary pressure on product and operating costs and we will continue to pursue offsets to these through our cost reduction and productivity initiatives.

We will continue to reinforce our strong price and value proposition across both businesses and we have committed to a long term investment programme in new and existing stores.

**In line with normal practice, specific earnings guidance for F11 will be provided after key Christmas and Back to School trading periods.**

**In conclusion, I would like to thank my colleagues on the Board, management and the highly passionate and committed team players at The Warehouse and Warehouse Stationery for their efforts during the year. I extend my thanks also to our customers, suppliers, business partners and shareholders for their ongoing support.**

**ENDS**