

25th November, 2005

**THE WAREHOUSE GROUP LIMITED ANNUAL MEETING
CHAIRMAN'S REVIEW**

Ladies and Gentlemen,

Overview

The 2005 financial year was one of the more challenging periods in the company's history, so it was particularly satisfying that The Warehouse Group Limited was able to deliver a solid increase in operating earnings, with a net operating profit after tax of NZ\$71.9 million, an improvement of 17.5 percent on last year.

After allowing for a non-cash write-off of goodwill, attributable profit after tax was NZ\$39.0 million.

Under the leadership of Ian Morrice, The Warehouse Group has made the tough decisions required to address the many challenges in our operating model and the company is making significant progress against its strategy. It should be noted that this was the first year in a three-year transformation programme designed to renew our focus on our customers.

An important step in this programme was announced yesterday – the sale of our Australian retail operation for NZ\$99 million. The sale will involve an estimated NZ\$80 to NZ\$90 million pre-tax charge to earnings in the 2005/06 financial year – but more fundamentally, it followed a lengthy and thorough consideration of the options for this business and for The Warehouse Group in total. Your board is unanimously of the view that this is the best course of action in the interests of long-term value creation.

When The Warehouse Group purchased the Australian retail operation in mid 2000 we engaged external advisors to review the opportunity and conducted extensive due diligence of the business, together with analysis of the Australian retail sector. The objective of our entry into Australia was to develop a new growth horizon for the continued expansion of the Group. Entry into this new market was not without risk – but the size of the opportunity, together with the comparatively modest financial commitment in relation to market capitalisation, made the investment case a compelling one at the time.

Our intention for the business was to leverage the scale and replicate the big-box model and systems developed by the company in New Zealand. We have not been able to achieve those objectives for the Australian business for a number of reasons – including structural differences between the New Zealand and Australian retail markets and the competitive response.

While the Warehouse Australia has made significant improvements in the profitability in the past year and our target was to breakeven in the current financial year, our analysis indicated that substantial further investment would be needed in Australia to achieve operating scale and future growth. The Board considers that better total shareholder returns were available from further investment in our core New Zealand businesses.

With this chapter in the company's life now brought to a close, the immediate future now involves a very strong focus on the performance of the New Zealand operations.

The Board is pleased with the progress that Ian and his team have made in the past twelve months. I would like to acknowledge the significant progress that has been made to The Warehouse New Zealand business since the start of the year, this improvement is evidenced by the new branding, new and exciting product, improvements in our stores and changes to advertising.

However it is important to reiterate that the transformation of The Warehouse New Zealand will take up to three years to complete. This transformation is occurring against the backdrop of higher costs and pressures on household spending from increased interest rates and fuel prices – making it that much more necessary, but also much more challenging, to achieve.

Performance

At this point I will briefly summarise our operational performance in the 2005 year. And then I'll move on to talk about other matters.

In the year under review, The Warehouse New Zealand trading performance was weak. While sales grew 0.4 percent, operating profit fell to \$138.6 million from \$151.3 million a year earlier. However much of this reduction occurred in the first half of the year and operating margins stabilised in the second half.

Warehouse Stationery's performance for the year was disappointing, with sales flat and a significant drop in earnings, largely due to inventory write-downs necessary to allow the business to rationalise its category mix.

Warehouse Stationery is refocusing on its core offer of being a stationery specialist. During the year, we appointed Ed Connolly as the new CEO for the division and made a number of management changes during the year. The focus for the current period will be one of consolidation and earnings improvement.

A very pleasing aspect of the 2005 result was the significant improvement in The Warehouse Australia, with last year's A\$32.2m loss reduced to a loss of A\$5.4 million and the business generating a positive operating cash flow of A\$8.0 million.

The company wrote-off the carrying value of the intangible assets attributable to the Australian business in advance of the adoption of International Financial Reporting Standards (IFRS). The \$32.9 million write-off was non-cash and has had no impact on the quantum of dividends paid to shareholders. As a result of the write-off, annual goodwill amortisation of \$6.9 million has now discontinued, effective from the start of the current financial year.

A feature of the 2005 result was the improvement in key balance sheet ratios as a result of an increased focus on inventory management and working capital. Inventory levels declined 2.5 percent despite a 6.5 percent increase in retail footprint. Net debt fell 13.7 percent, while gearing levels decreased from 46.6 percent to 43.4 percent. Net interest cover and fixed charge cover remain at conservative levels, but consistent with what is observed as benchmark for retailers generally.

International Financial Reporting Standards

As stated in this year's annual report, the company has elected to adopt New Zealand equivalents to International Financial Reporting Standards (NZIFRS) for the year ending 27 July 2008. The main reason for choosing not to early-adopt NZIFRS was to reduce the risk of an inconsistent application of the new standards compared to other retailers.

As reported in the 2004 annual report, the most significant impacts on the Financial Statements of the company will relate to share-based remuneration, taxation and hedge accounting.

The first comparative that will be prepared under NZ IFRS will be for the 2008 interim result to be released in March 2008. It is possible that the new standards may introduce a higher degree of volatility into the company's reported financial results, particularly in relation to the accounting treatment of hedging contracts for foreign exchange exposures. However, it is important to emphasise that the new accounting rules do not affect the underlying economic value of the company.

Dividend

The dividend for the year was maintained at 14.5 cents per share. After adjusting for the goodwill write-off the payout ratio was 61.6 percent – slightly above our current policy of paying out 50 percent of attributable tax paid profits.

Governance and Board Matters

During the year, two long standing directors, Glen Inger and Joan Withers retired as directors of the company. Joan had been a director of the company for over six years and retired following her appointment as CEO of Fairfax New Zealand. Glen Inger, an executive director, retired following a highly successful 17 year career with the company. Glen has been a passionate contributor to the business' growth and success.

I and my fellow board members thank Glen and Joan for their commitment and enormous contribution to the company.

As reported yesterday Ian Tsicalas resigned as a director of The Warehouse Group Limited following the announcement of the sale of our Australian business. Ian has made a significant contribution to the company since his appointment in November 2003.

A committee of the Board, the Remuneration Talent and Nomination Committee, has the responsibility of identifying and recommending to the Board director candidates, after considering the necessary and desirable competencies for new Board members. The committee, supported by external advisors, is currently engaged in the process of seeking replacement directors with an appropriate mix of skills, experience and personal attributes.

Recently the company completed its annual formal Board and director assessment process. This process includes completion of a comprehensive 360 degree questionnaire incorporating the views of directors. The assessment established that the Board is functioning satisfactorily and in an effective manner.

Three of our directors are standing for re-election at today's meeting and your board unanimously endorses their candidacy.

Leadership and performance

Also at this meeting, shareholders are being asked to approve the granting of financial assistance for the operation of the Executive Share Scheme. The scheme was approved by shareholders last year.

The purpose of the scheme is two-fold. The performance shares issued under the scheme provide a long-term incentive for participating employees based on the performance of the company's share price at the end of a three year period. The award shares issued under the scheme provide a medium-term incentive for participating employees based on a combination of the annual net profit after tax performance of the Group and the operating profit of the particular business unit in which the participant is employed.

Shares issued under the scheme will be acquired on-market and will be expensed to earnings consistent with the requirements of the international accounting standards I have already referred to.

The board wishes to ensure that executive employees are appropriately incentivised to achieve good results in the future, and unanimously endorses resolutions 5 to 8 of today's agenda.

Outlook

On November 7th the company reported that unaudited sales had increased 0.5 percent in the thirteen weeks ended 29 October 2005, compared with the same period for the previous year.

The Warehouse New Zealand retail stores recorded a 3.2 percent increase in overall sales. This sales performance was the most positive same store sales result in five quarters; however sales benefited from higher levels of seasonal clearance activity during the quarter.

Part of the transformation programme in The Warehouse New Zealand involves changing the way merchandise is promoted. In the short term this will mean some volatility in sales, reflecting the necessary changes being made to what was an unsustainable level of promotional activity in the prior year.

In the first quarter, Warehouse Stationery recorded a sales increase of 2.9 percent while The Warehouse Australia sales were down 8.7 percent versus the same quarter last year.

We have indicated that we expect consumer spending to moderate in the coming year and the business has been repositioning its pricing policies to ensure we remain competitive.

In conclusion, I would like to thank my colleagues on the Board, management and staff for their continued efforts and hard work. The improvements in operating earnings and key financial ratios reflect the contribution of all those involved in the success of your company.

It is now my pleasure to introduce Ian Morrice, Group Chief Executive of The Warehouse Group Limited, to provide his view on the company's future prospects.



Keith R Smith
Chairman
25 November 2005

ENDS

Webcast

The annual meeting will be broadcast live on audio cast (listen only) on our website at www.thewarehouse.co.nz with an archived replay of this meeting available on this website within two hours following the conclusion of the meeting

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