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2006 Annual Meeting - Group CEO's speech.

Set out below is an edited version of the Group CEO's address from The Warehouse Group Limited Annual Meeting, held today in Auckland.

Group CEO Speech (Ian Morrice)

Thank you, Keith. Welcome shareholders, Board, media, and team members.

A great deal has happened at The Warehouse since we were at last year's Annual Shareholders Meeting. This has resulted in the recent climb in our share price to today's level, and it is interesting to notice that other retailers clearly see more value in the company than the market was reflecting until their interest was declared. If a company's value is significantly discounted by the market to the extent that The Warehouse was only 6 months ago, then as the strategy unfolds and begins to gain traction the opportunities ahead for the group have aroused the interest of fellow large scale retail groups.

During the year we sold our Australian operations and I believe that we divested the business elegantly, having recovered the performance in TWA to break-even, and for the right reasons strategically, which is to focus our management attentions and capital investment on developing our New Zealand businesses.

Today I'd like to talk to you about some of the progress we are making in the transformation of The Warehouse, then I will hand over to Gary Rohloff who will update you on the progress and plans for Warehouse Stationery, before I return with the Group focus for the next two financial years.

The Warehouse Core Purpose

So, starting with The Warehouse New Zealand...

Once again, we begin with our core purpose. Putting the customer first has been the driving force behind many of the improvements we've made in The Warehouse this financial year.

From our Core Purpose, we developed four clear and consistent priorities, and, as outlined in the video you just saw, we've made sound progress against each of these this year.

Develop Our Brand

The first priority is the development of our brand.

This year we launched our modernised logo, which has been positively received by customers and team members. Almost all stores have now been rebranded, creating a strong visual statement giving customers a signal of the changes taking place inside.

Significant work was done this year to rationalise and consolidate our own or house brand offer, especially in apparel. The Marketing and Merchandise teams worked to identify exactly what different customers were looking for, and then developed own brand labels to fulfil those needs and offer exciting value fashion options. You can see examples of Match and Maya here, good quality, fashionable clothes at great Warehouse prices.

For its basic range of everyday goods, The Warehouse developed the value retail label Red Stamp, which runs across different departments. Red Stamp is the brand customers can rely on for the lowest price for those items in the market, and has won immediate acceptance from our customers, measured by volume sales of entry price level products.

Source Great Product

The second priority is to source great product – product we can be proud of...

The Warehouse has continued to improve its product range across all categories. This year we introduced a full fresh grocery offer in The Warehouse Extra. This was a natural expansion of the existing dry grocery offer, and customers have been responding positively to the concept.

We have also introduced new categories, selling beer, wine, and spirits in The Warehouse Cellars in five stores, and offering customers a full pharmacy service with Warehouse Pharmacy, which is already in three stores. Both of these concepts are planned to be rolled out to more stores next year.

Another achievement in the past year has been the introduction of additional well known brands such as L’Oreal, Bonds, Wiltshire, Apple iPod, IBM and many others, delivering on our core purpose of making the desirable affordable and allowing customers across New Zealand to access international brands at cheaper prices.

Leverage Our Supply Chain

The third priority is to leverage the scale of our supply chain.

The Shanghai Representative Office continues to add significant value to the business by driving supplier performance, as seen in improved quality, better delivery metrics, and improved supply chain efficiencies which strengthen our competitive advantage in this area.

The Shanghai office allows us to get closer to the source of products, giving us greater control of our stockflow, as well as access to ever improving products from Asia. Apparel was the first category we used to leverage the direct sourcing benefits of the office, and has resulted in measurable improvements in quality and supplier performance.

Our partnership with international freight forwarder Kuehne + Nagel continues to strengthen, providing increased visibility over our supply chain from factory source to shelf.

Our supply chain has been facing significant cost pressures due to the increase in petrol prices. We are pleased to have achieved productivity improvements despite these increased costs. In stores, there have also been further advancements in inventory management, illustrated by the reduction in stock holdings on a per store basis.

Improve Our Stores

Our fourth priority is to improve our stores.

There has been considerable activity in refreshing and developing store formats this year, in order to improve the shopping experience for customers and make The Warehouse an easier, more attractive place to shop.

The opening of the first Warehouse Extra in Sylvia Park in June marked a significant step in Australasian retailing, as it was the first store of its kind to open in the region. As you saw in the video, customers have responded well to the concept.

The next Warehouse Extra will open in Whangarei next week. As this Extra is a conversion of an existing store, it will add to our ability to test and refine the new format, and provide comparison data. From now on, the primary focus of the rollout of Extra stores will be on existing store conversions.

The revamped Warehouse format has now been implemented in nine out of 85 stores across the country, meaning that in almost every region customers have the opportunity to experience the latest in-store developments.

All stores are undergoing initiatives to help improve the shopping experience at The Warehouse. One example is Project Pulse, which is a low cost, high impact programme to enhance store layouts and ranges. Combined with new signage and improved operations, all these stores are being revitalized in some way, resulting in genuine improvements for customers.

This store improvement programme is now at a stage where we can accelerate the impact across many more stores over the next couple of years in particular.

Core Purpose

As I said at the beginning of my speech, everything that we're doing at The Warehouse begins with our focus on the customer, and our aim to make shopping easy for them in every way, from in-store experience, to service and value. The Warehouse stands out as the value leader in New Zealand retailing and these developments will provide growth and cement this leadership position.

The Warehouse Stationery

After the last Annual Shareholders Meeting we received feedback that you would like to hear more about the developments in Warehouse Stationery, so I would now like to introduce Gary Rohloff, CEO of Warehouse Stationery.

-- [Gary Rohloff presentation] --

The Warehouse Group

Thank you, Gary. For FY07 to FY09, the Warehouse Group will be focusing on three key areas;

Improving Sales Performance

We will achieve improved sales performance by continuing with our format development programme in both The Warehouse and Warehouse Stationery, and by providing better value to our customers through expanding categories, increasing the choice of branded products, improving house brands, and continuing the growth of new categories such as liquor and pharmacy. We will build on our price leadership position and continue to set the benchmark for value in the categories we operate in.

Improve Margin Performance

To improve margin performance, we will continue driving category management and improving the returns on investment. The overall supply chain from source to shelf will remain a key focus, as we continue to leverage the benefits.

Investing to Improve Customer Service

A key focus of The Warehouse is ensuring customers can easily find the right product in the right place at the right time. This includes providing good, consistent customer service through improving labour scheduling to ensure we have the correct number of team members in the store at peak and slower times. We have invested in incentive and rewards programmes for store managers and team members, and, much to the delight of our store managers, we are replacing POS hardware in all stores. As our EPoS was over 12 years old this was a necessary exercise completed before this Christmas, which will significantly reduce transaction and queue times for customers across the country.

We are already planning the next phase of improvements designed to enable our store teams to consistently deliver better customer service.

Outlook

As I said in the first quarter sales release, we are currently experiencing patchy consumer demand. Spending in some categories, such as homewares, brown goods and grocery, are performing strongly, whilst spending in others, like apparel, have seen slowing demand. This means that accurate forecasting is challenging at this point and is likely to see increased promotional intensity to stimulate demand as the year progresses.

Over the year, across the categories we operate in we expect retail sales to be flat overall.

But I reiterate that our focus remains on driving growth ahead of the market in spite of these more difficult macro conditions.

Thank You to the Team

I would like to take this opportunity to thank the teams in both The Warehouse and Warehouse Stationery.

The new formats and operational changes have pushed everyone to make tremendous changes and adjustments, whilst continuing to run a high volume retail business. Individual responses, and the things we have learned in making those changes, have added enormously to our collective capability.

This is a company that is proud of its people, and committed to supporting them as best we can. It's been hugely satisfying to see people across the organisation rise to challenges over the last 12 months, and do themselves proud.

Conclusion

The Warehouse Group has progressed significantly in the last 12 months and there is an exciting future ahead. I would urge you all to take a look for yourselves at our new store formats in both chains and see what the new Warehouse has to offer. We look forward to seeing you all spending at our checkouts in the next two months over Christmas and Back to School.

For the many shareholders who have remained loyal, particularly through the most recent period of change on our share register, I thank you for your continued support.

I'll now hand back to Keith to continue with the business of the meeting, thank you.

Ian Morrice
Group CEO
24 November 2006

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

Contact details

Investor & analysts contact: Mark Fennell, Investor Relations, The Warehouse, 09 486 9849
Media contact: Kirsten Clokie, Corporate Affairs Department, The Warehouse, 09 490 7000