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2006 Annual Meeting - Chairman's Address.

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

CHAIRMAN'S ADDRESS (Keith Smith)

Welcome to the annual meeting of The Warehouse Group Limited.

I am pleased to report to you that The Warehouse Group Limited has delivered a solid performance for the year ended 30 July 2006. The year has seen the company record the highest ever profit after adjusting for the pre-tax loss of \$88.8 million arising from the sale of the Australian business assets. Inclusive of the Australian disposal costs, the reported net profit after tax was \$29.3 million.

While the loss on the sale of the Australian operation is obviously disappointing, I think we are beginning to now demonstrate that focusing the Group's resources on developing its New Zealand businesses is the responsible way to continue generating attractive outcomes for shareholders.

Both The Warehouse New Zealand and Warehouse Stationery achieved improvements in sales and operating profit, showing that we are making demonstrable progress in our three year plan to reinvigorate the Group. Ian Morrice covers these matters in more detail in his report to you.

Improvements from source to shelf

During the past twelve months, Ian and his team have continued to strengthen the foundations of the business across all areas from source to shelf. In particular, The Warehouse brand was successfully refreshed, The Warehouse Extra format was launched, a full grocery, liquor and pharmacy offer was introduced and improvements continue to be made in sourcing, supply chain and store operations.

The company has made early but strategically important investments in developing two new categories within the Group - Warehouse Cellars and Warehouse Pharmacy. By the end of this month, five Warehouse Cellars stores will be operating and three Warehouse Pharmacy outlets.

One part of the business that we perhaps overlook when commenting on the Group results is Warehouse Stationery. Warehouse Stationery under its new management team has also undergone major changes with further refinement in the product range, improving operating disciplines and the development of a new store format that will be the template for future store rollouts.

For those shareholders who have yet to visit our Sylvia Park Extra store or the new format Warehouse Stationery store at Wairau Park, I urge you to do so after the annual meeting, so you can judge for yourself the progress being made in both businesses.

Ownership

I would like to take the opportunity to comment in brief about developments concerning the ownership of the company. There has been a lot written about the approach by Stephen Tindall to privatise The Warehouse and the actions of the independent directors during this process.

The annual meeting gives me a rare opportunity to set the record straight on a few matters.

When Stephen approached the board with thoughts on privatising the company, the board permitted due diligence being granted given the lack of competitive risk associated with him doing so and the potential benefits to shareholders from receiving a proposal. The board formed a committee of independent directors, appointed external advisors and assisted management with the due diligence process.

Throughout this process, until notice of the intention to consider making a proposal was received from Stephen, the board believed strongly that there was nothing to disclose as the matters (including the likelihood that any proposal would in fact be received, and its terms) were entirely speculative.

There has also been comment that there has been a "lack of information" from the independent directors. We reject these claims. Stephen's announcement to the market was made at a comparatively early stage in the process (when he had decided to make an offer in the near future, rather than when an offer was formally made), and the board and the independent directors responded with advice to shareholders as soon as possible after his announcement. The company during this period acted promptly and in accordance with its continuous disclosure obligations.

As it transpires, the board has never received a proposal from Stephen and his associated parties.

Regardless of how the current ownership matter plays out, as a board, our commitment to shareholders will be to consider any proposal regarding ownership of the the company on its merits and to act at all times in the best interest of all shareholders.

Capital management and expenditure

A key role for your board is to review both where we invest capital in the business for growth and how we fund this growth.

Reflecting increased confidence in the strategic direction of the company, the board has approved a significant increase in capital expenditure on the previous year. This investment is necessary to help us press home our advantages and cement further operational efficiencies in both The Warehouse and Warehouse Stationery.

The board is mindful that the gearing of the company has materially improved following the sale of the Australian business and improved returns from the New Zealand operations. However with further growth plans likely to be developed by management in the coming year, the board is comfortable with the current capital structure of the company and is satisfied that management is making effective use of the capital invested in the company.

Governance and Board matters

Turning now to corporate and board matters.

During the year, Ian Tsicalas resigned as a Director of The Warehouse Group Limited when the Group announced the sale of its Australian business assets. On behalf of the board, I wish to thank Ian Tsicalas for the many insightful and important contributions he has made during his tenure, and to wish him well for the future.

Three of our directors are standing for re-election at today's meeting.

Rob Challinor and John Avery have and continue to make significant contributions to the success and governance of your company and the board unanimously endorses their re-elections.

Janine Smith was appointed a director of the company in August 2006 and she offers herself for re-election, again with unanimous board endorsement. Janine Smith is a professional director and Principal of The Boardroom Practice Limited. She brings to the company a strong marketing and governance perspective.

An important part of my role as chairman is to ensure that the board is well structured with the appropriate mix of skills and experience to support the development of the company.

The directors are aware of the need to maintain an appropriate balance of skills around the board table to ensure that management are receiving the most appropriate and relevant input to assist in their delivery on the strategy of the company while ensuring that best practice governance standards continue to be met.

Your board has systems to monitor, review and provide feedback on director performance and we are satisfied that we have the right balance needed to deliver positive outcome for shareholders.

Executive Employee Scheme

Normally at this annual meeting you would have been presented with resolutions to consider and approve further financial assistance in respect of the ongoing operation of the long-term incentive plan for executive employees that shareholders approved in November 2004. Because of the timing of the notification from the Stephen Tindall Consortium that it intended to submit a proposal to privatise the Company, your Directors considered that it was not appropriate at this stage to put forward shareholders resolutions for further financial assistance to be given in respect of senior executives under the Executive Share Scheme.

Following notification on 30 October that the Stephen Tindall Consortium is not to proceed with the foreshadowed offer, it is the board's intention to call a meeting in the new calendar year to consider approval for such financial assistance in respect of the Executive Share Scheme.

Distribution

A further sign of board confidence is reflected in the Directors' decision to declare a final dividend of 5.5 cents per share, up 1.5 cents per share on last year. This meant dividends increased this year from 14.5 cents per share to 16.0 cents per share, with the payout ratio for the 2006 year representing a 50.5 percent payout on earnings, adjusted for the divestment of the Australian business assets. This is in line with our stated dividend policy.

Dividends are however only one part of the overall return for shareholders. So it is pleasing that after several years of mixed share price performance, The Warehouse share price is finally reflecting both the benefit of focusing investment in its New Zealand assets and the option value created in the development of the Extra store format.

Developments in terms of projected ownership have caused the recent upsurge in the share price; the presence of the two grocers on our share register suggests we are not alone in seeing further ongoing potential to generate value for all shareholders.

Conclusion

Earlier this month The Warehouse Group Limited reported first quarter sales 2006 of \$382.4 million, up 1.6 percent on the corresponding period last year. Sales in The Warehouse New Zealand were ahead 1.5 percent while Warehouse Stationery sales were up 2.4 percent.

The sales for the first quarter reflect the patchy but overall flat consumer demand that we signaled in our annual result presentation on 8 September. The flat consumer demand that was observed in the first quarter has continued through the month of November 2006.

As the Christmas trading season is such an important part of our sales and profitability, we will not be in a position to give earnings guidance for the full year until we release our interim result in early March 2007

Finally on behalf of the board I would also like to formally recognise and thank the management teams and all the staff at The Warehouse New Zealand and Warehouse Stationery for their commitment and energy over the past year.

The hard work you have invested is reflected in the results you have achieved.

The improving results in New Zealand shows that our transformation programme is starting to work and gives us confidence that, with the right support and prudent investment, our opportunities for sustainable growth continue to increase.

K R Smith
Chairman
24 November 2006

ENDS

Web cast

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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