

## **Chairman's Address**

### **To The Warehouse Group Limited Annual Meeting**

### **30 November 2007**

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Welcome to the Annual Meeting of The Warehouse Group Limited.

Before we continue, I'd like to take a minute to recognise that this year is the 25<sup>th</sup> Anniversary of The Warehouse.

In fact, 25 years ago this month, on the 20<sup>th</sup> of November 1982, Stephen Tindall opened a small store at 97 Wairau Road on Auckland's North Shore. As he's fond of saying, "It looked like a warehouse, so we called it The Warehouse." The company's first ad, in the *New Zealand Herald*, announced a range of deals and carried the words for which The Warehouse would quickly become famous: "Where everyone gets a bargain".

The retail world has changed greatly since 1982. New Zealand's population has grown from three to four million, bringing with it many more shoppers, and more retailers and shopping space to cater for them. Over this same period, one small Warehouse store in Takapuna has become 85 stores across New Zealand in 2007.

The Warehouse has played – and we continue to play – a big part in the lives of many New Zealanders who look forward to seeing what bargains we'll have in the mailer each week.

At the same time, we've made a difference in New Zealand's communities, employing tens of thousands of New Zealanders along the way, and raising millions of dollars for hundreds of charities in our 25 year history.

2007 was no exception, as our community, environmental and charitable activities continue to be recognised. Ian Morrice will tell you more about these programmes in his report.

#### **Result Overview**

The Warehouse Group Limited's performance continues to improve, with sales from continuing businesses up 2.4 per cent to \$1.76 billion. The total profit attributable to shareholders was \$115.5 million, compared to \$29.3 million in F06.

Excluding the divestment of The Base, a retail development north of Hamilton, and adjustments to warranty provisions from the sale of The Warehouse Australia, net profit after tax was up 1.8 per cent to \$97.9 million.

Whilst same store sales were positive in The Warehouse, up 2.0 per cent, operating profit reflects the strategic investment we have made in category start-ups, such as fresh food, pharmacy and liquor.

Given the trading environment has been difficult, I believe that the Group achieved a creditable result for the year. It has also been a year where the need to focus has been particularly important, given the level of speculation around the future of the company. I would like to thank management and team members for their ongoing commitment and positivity throughout this period of uncertainty.

### **Governance and Board Matters**

During the year, John Dahlsen has advised that he will not be seeking re-election. Mr Dahlsen joined as a director in 2001, following the acquisition of the Australian business. He has provided sound guidance on behalf of the company's shareholders, especially pertaining to the Australian retail environment. We thank him for his contribution, both during our involvement in Australia and subsequently, and wish him well in his retirement.

Two of our directors are standing for re-election at today's meeting. Stephen Tindall and Graham Evans continue to make strong contributions to your company, and your Board unanimously endorses their candidacy.

### **Ownership**

As I stated in the annual report, we did exercise our right to join the Woolworths and Foodstuffs appeals against the Commerce Commission's decision to decline clearance for either party to acquire the company. The Board wished to ensure that the company was appropriately placed to provide such market and other relevant evidence as the High Court may require to determine the appeals. Our advice was that this was best achieved through exercising our statutory right to join the appeals.

As you will be aware, the High Court overturned the Commission's decision yesterday. We have yet to see the detailed reasoning behind the decision, and I am not prepared to comment further at this stage.

### **Dividend**

As a result of improvements in the Group's cash position, a total of \$163.2 million has been distributed to shareholders in dividends for the year.

Proceeds from divestments and employee share options exercised during the period were applied to debt reduction. As a result, net interest costs reduced and all key financing ratios improved significantly.

This allowed the Board to consider and subsequently declare a special dividend of 35.0 cents per share, in addition to the ordinary dividend of 17.5 cents per share.

### **Capital Management**

The Warehouse Group has managed its capital structure with the intention of maintaining a conservative gearing ratio.

Dividend payments are determined by reference to a policy of returning 50 per cent of the net surplus attributable to shareholders, adjusted for the level of cash earnings in any particular period.

In the near term expected operating cashflows are projected to be sufficient to fund the Group's estimated capital investment requirements.

In the absence of any major acquisition opportunity, the company will consider undertaking further capital management initiatives in the 2008 calendar year.

### **Outlook**

Earlier this month, The Warehouse Group reported first quarter sales of \$374.5 million, down 1.7% on the corresponding period last year.

This result has highlighted the unpredictable nature of the current trading environment, and has reinforced earlier expectations that retail spending will tighten as discretionary income comes under pressure from macroeconomic factors.

With the key Christmas and Back to School periods still to come, it is too early to provide specific earnings guidance.

However, at this point we reaffirm the comments made at the time of the annual result announcement that we would not expect F08 net profit after tax to be higher than adjusted net profit after tax achieved in F07.

In conclusion, I would like to thank my colleagues on the Board, management and team members in both The Warehouse and Warehouse Stationery for their commitment and hard work over the past year.

**ENDS**