

Chairman's Address

To The Warehouse Group Limited Annual Meeting

28 November 2008

Welcome to the Annual Meeting of The Warehouse Group Limited.

Result Overview

This was a tough year to be a retailer in New Zealand, and arguably perhaps a retailer in many other countries around the world. Despite a challenging trading environment The Warehouse Group achieved a net profit after tax of \$90.8 million compared to \$114.8 million last year, on sales of \$1.74 billion, which were down 1.5 per cent on the previous year. Net profit after tax excluding unusual items was \$80.9 million compared to \$97.5 million in F07.

The results, whilst below those of last year, need to be viewed in light of the slow-down in economic activity in New Zealand. Trading conditions in the last two quarters were especially challenging with the New Zealand economy in recession and households struggling with dramatic increases in the prices of food and petrol and falling property values.

I am not aware of any retailer who fully predicted the extent of the slowdown, but I am confident that we were one of the few who anticipated a shift and were already making changes which ensured we strengthened our business fundamentals for future growth. Across the business we are efficient, more customer focused and our people are more engaged and committed to delivering increased sales, service and profitability.

Extra

In October the board took the decision to withdraw from our food offer in Extra stores. The company embarked on the strategy knowing the risks involved including those around the ability to create buying leverage in a competitive grocery market. The primary driver was to create a halo effect so that when people were buying food, they also bought more higher margin general merchandise and apparel.

The concept was trialled in three stores to assess the ability to achieve this critical halo effect. Whilst a halo effect was achieved in each of the three stores, it was significantly below that required to achieve the necessary level of returns. As a consequence of this, the strategy was considered not capable of meeting our investment criteria, and hence the decision .

This trial rigorously tested the supercentre format and whilst there will be a write down this year of \$10-\$12 million, annualised earnings will improve by around \$9 million per annum from F09.

I would like to acknowledge the management team for their efforts and the professionalism with which this strategy was managed.

Dividend

During the year the board made the decision to increase the dividend payout ratio from 50 per cent to 75 per cent of adjusted earnings. As a result the Directors declared a final fully imputed dividend of 5.5 cents per share bringing the total dividend for the year to 21.0 cents per share, up 20 per cent on the previous year. We aim to continue delivering a high return to shareholders. As a company we have always endeavoured to maintain our dividend rate despite the variability in earnings over the years.

Capital Management

The Warehouse Group is continuing to manage its capital structure with the intention of maintaining a conservative gearing ratio. During the year the company advised the market that in the absence of any major acquisition opportunities it would consider undertaking capital management activities in the 2008 calendar year. The board and management have revised this position in light of current economic conditions and their direct impact on economic activity and given present uncertainty in debt and equity markets. We consider it prudent to defer capital management activity at this time and will defer any decisions or announcements until next year.

Outlook

We at The Warehouse expect consumer spending and trading conditions to remain subdued for some time. The business is in a strong financial position and is well placed for future growth.

The first quarter has seen difficult trading conditions but sales were on plan for the quarter with margins being held at levels similar to last year. There has been a slowdown in volumes especially larger ticket items impacting Warehouse Stationery in particular. But we continue to see positive sales results in our apparel, entertainment and consumables offer which is very encouraging in the current environment. The first quarter has seen a solid start to the year.

Of course as always, the December and early January months are the most important period of the year, and therefore our year end result is dependent on trading outcomes during this time.

As a business we are committed to future growth through investment in capability and in improving our customers' experience and by doing so, we will improve shareholder returns. We will continue to deliver on our core value proposition and productivity improvements across the business.

I am confident our management team are prepared for the challenging conditions ahead and are already delivering on the strategic initiatives for this new financial year.

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. I extend my thanks also to our loyal shareholders for your ongoing support.

ENDS