Chairman's Address

To The Warehouse Group Limited Annual Meeting

25 November 2011

Welcome to the Annual Meeting of The Warehouse Group Limited.

Introduction

This past year has been a year of challenge, and a year of change. Challenge. You may say, so what's new about that? All businesses face challenge, however this past year has seen not only a challenging economy, both internationally and domestically, but also the impact of the Christchurch Earthquake has made for a demanding year on the leadership of The Warehouse.

In a year of change we have seen the resignation of Ian Morrice, our Managing Director for the past six and a half years, and the appointment of Mark Powell who succeeds Ian as Group Chief Executive Officer. Ian led our business through a period of unprecedented change in both the economic and competitive environment. May I refer to the excellent stewardship that he provided during The Warehouse's withdrawal from the Australian marketplace, the establishment of our China Office in Shanghai, along with many other initiatives, including our venture into online retailing. As we have stated before online retailing will continue to be a major thrust for our business going forward.

Finally, as all good CEO's should do, he identified Mark Powell as his successor. Ian, many thanks for your contribution, and we wish you every success in your future endeavours.

So to Mark Powell, appointed on 2 May as CEO, the same day I took over as Chairman, Mark has significant international experience as a retailer. He has held senior executive positions with Tesco and Iceland UK and Walmart in Canada and USA.

Mark's most recent role was as CEO of Warehouse Stationery where he led a team that implemented a new business strategy and created a dynamic culture and very positive financial results.

Already, after six months in his new role, his leadership and knowledge is providing tangible improvement in The Warehouse Red Sheds. Your Board has confidence in the future plans that Mark and his team are implementing. Mark will talk to some of these in his address to you this morning.

Overview

The Warehouse Group is made up of The Warehouse Discount Department Stores generally known as the "Red Sheds", and Warehouse Stationery the "Blue Sheds".

The Warehouse is recognised as an Icon Brand in the NZ retail landscape. It's known to 4.4 million New Zealanders. We are in fact NZ's largest General Merchandise Retailer.

During the past 10 years or so there have been significant changes in the NZ Retail Market Place. Introduction and growth of Big Box Retailers, some from Australia, Category Killers, online shopping and changes in consumer behaviour either driven by socio-economic or demographic influences have changed the retail landscape in New Zealand forever and it will continue to change.

Sir Stephen opened the first Warehouse store in Takapuna in 1982. With the recent opening of a store in Whitianga there are now 89 The Warehouse stores and 51 Warehouse Stationery stores throughout New Zealand.

The Warehouse Group has been trading as a publicly listed company since 1994. Over 17 years as a listed company we have delivered very positive results for investors building the company's market capitalisation from just under $300.0 million when first floated to $1.0 billion today. During this period the company has also delivered significant cash returns to shareholders by way of ordinary and special dividends.

However, in the past two years we have failed to grow our top line sales and market share. This flattening off of sales growth has naturally put pressure on both margins and costs and has led to some modest reductions in net profit.

Whilst the economy and competition have made our life more difficult we have also failed ourselves in the standard of our retail outlets and the quality of our shopping experience. In fact, we haven't measured up to what is expected of a well operated Discount Department Store.

Our key focus is now:
- Improving the customer shopping experience, and
- Investing in our chain of stores.

We believe this will deliver top line sales growth which will in turn improve our profitability and returns to shareholders. Mark will elaborate on these points in his address.

<u>2011 Result Overview and Dividend</u>
Sales for the 2011 year were $1.667 billion compared to $1.673 billion last year.

After adjusting for unusual items such as profits on the sales of non-strategic property, net profit after tax was $76.0 million compared to $83.4 million in F10.

We continue to generate strong operating cash flows. Operating cash flow in F11 was $96.9 million.

A final dividend of 6.5 cents per share has been declared bringing total dividends in respect of the 2011 financial year to 22.0 cents per share. The final dividend was paid to shareholders on 16 November.

<u>Dividend Policy</u>
The Board expects the Group to continue its strong cash flow performance enabling the company to fund its future capital requirements from existing facilities and to retain the current dividend payout ratio of 90% of adjusted net profit after tax.

<u>Capital Management</u>
The Warehouse Group's approach to capital management is set out in our 2011 Annual Report.

With particular reference to gearing, although a significant increase in capital expenditure is planned, the Board's objective is to continue managing capital structure with the intention of maintaining conservative gearing ratios.

Going forward, cash generated from any possible sale of property assets would be applied to debt reduction in the first instance.

<u>Board of Directors</u>
Your Board is comprised of directors with a mix of qualifications, skills and experience appropriate to the company's existing operations and strategic direction.

During the year Ted van Arkel was appointed to the Board as an independent director, and I take this opportunity to welcome Ted to his first shareholder meeting of The Warehouse.

He brings to the Board a strong retail background and governance experience across a broad range of industries. In his election speech Ted will expand more fully on his background and experience. The Board is very pleased to have been able to appoint as director a person with such a broad and relevant range of experience.

Mark Callaghan resigned in July 2011 to take up a full time Chief Executive role.

Rob Challinor retires from the Board at the conclusion of this meeting. Rob has made a significant contribution to the development of the company, particularly in the areas of corporate governance, financial reporting and corporate strategy, including acquisition and divestments. His commercial and technical skills will be greatly missed. On behalf of the Board, management and shareholders I would like to take this opportunity to acknowledge and thank Rob for his significant contribution to the development of the company over the 15 years that he was a director of the company.

Retail Environment

Over the past 12 months underlying non-food retail sales continued to show signs of gradual improvement.

Although New Zealand's general economic outlook supports strengthening consumer confidence a number of factors, both domestic and international, point to ongoing uncertainty and volatility.

We expect consumer spending in the non-food sector to continue improving over the next 12 months but the extent of any underlying growth remains uncertain.

Full Year Earnings Guidance

Earnings are significantly influenced by trading performance over the critical January quarter with guidance usually only provided post Christmas trading. However, having assessed a number of factors including the shorter term impact of the company's strategic plan and reinvestment program, the Board is of the view that earnings for F12 are likely to fall below that achieved in F11.

F12 adjusted NPAT is projected to be in the order of $70 million. F12 reported NPAT is projected to be in the order of $80 million. This includes surpluses expected to arise on the sale of non-strategic property.

Subject to any event or material change in trading conditions that may trigger a continuous disclosure obligation, earnings guidance will be updated at the time of the half year result announcement in March 2012.

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