CHAIR'S REPORT

Where we said we would be

Two and a half years ago, we set out a plan to improve the long-term profitability of The Warehouse Group by fixing our retail fundamentals and investing in the Group's digital future. Over that time, we have been focused on delivering results rather than promises, and being transparent about the progress we are making and the challenges we face.

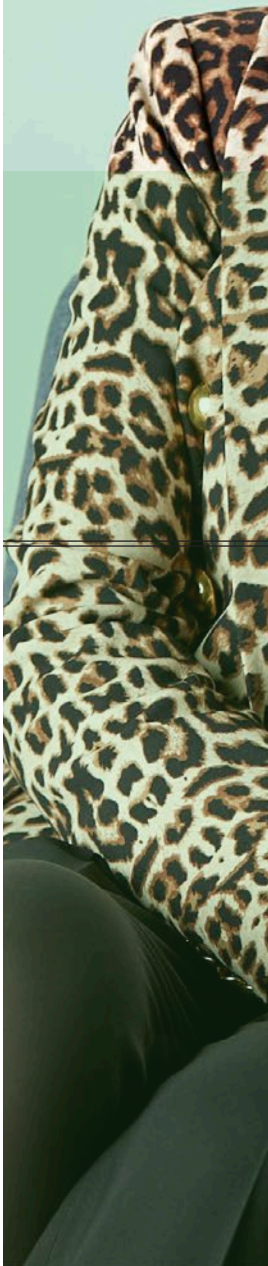
I am pleased to report that the evidence of our transformation is starting to become apparent throughout the business. We are seeing progress in our relationships with customers, our impact on the environment, and now in our financial results with one of our strongest profit results for some years. Our adjusted Net Profit After Tax (NPAT) result of $74.1m for this financial year provides comfort that we are on the right track.

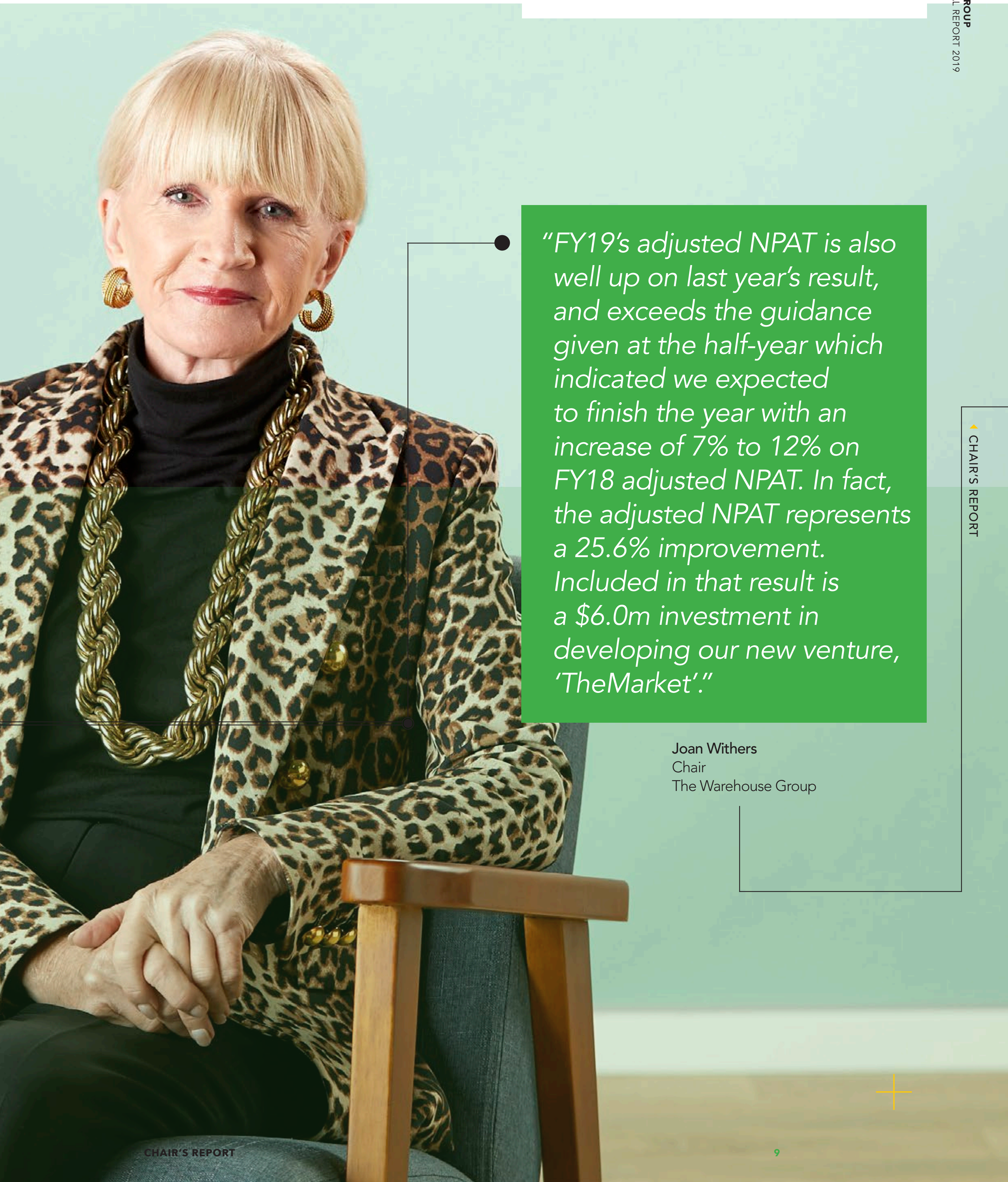
Given the overall performance in the retail market over the last 12 months, the Board is heartened by our progress. We see trading momentum and incremental improvements which augur well for that progress to continue.

Net profit attributable to shareholders for the year was $65.4m, a significant improvement on last year. In line with previous reports, this bottom line result includes a number of one-off items, which is why we use adjusted NPAT for guidance; this metric shows the underlying performance of the business.

FY19's adjusted NPAT is also well up on last year's result, and exceeds the guidance given at the half-year which indicated we expected to finish the year with an increase of 7% to 12% on FY18 adjusted NPAT. In fact, the adjusted NPAT represents a 25.6% improvement. Included in that result is a $6.0m investment in developing our new venture, "TheMarket". Backing that investment out from the result would show that the underlying performance improvement in the retail group on a like for like basis is a 31.1% improvement year on year.

The Board has confirmed a final dividend of 8.0 cents per share. Added to the interim dividend of 9.0 cents per share, fully imputed, that was paid in April, this brings the total dividend pay-out for the year to 17.0 cents per share. This equates to a pay-out ratio of 80.5% on adjusted NPAT for the second half, and 79.6% for the full year. Combining dividends paid with the change in share price, the total shareholder return for FY19 is 20.2%.





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Joan Withers
Chair
The Warehouse Group

CHAIR'S **REPORT**

Customer behaviours changing quickly

It is difficult to overstate the extent and speed of change in the retail market. As I pointed out at the half year, customer shopping behaviour has changed and will continue to do so at a rapid pace. At the same time, the arrival of global retailers is altering the options for shoppers, bringing new ways of retailing to our already competitive market and pushing us to examine our range and offering as never before.

We have a leadership team with tremendous knowledge and understanding of the global context of retailing, and the Board is confident that we are in a strong position to understand the implications and opportunities of the competitive environment and to respond accordingly. That is starting to come through in our results. The Warehouse, Warehouse Stationery, and Noel Leeming have all reported increases in gross profit, reinforcing our belief that we know how to compete in an intensifying retail environment.

Considerable transformation

Twelve months in, our transformation programme continues to add rigour and discipline to how we work and to enable us to explore greater efficiencies through integrating and improving our systems, streamlining our processes and taking greater control of our brands. So far, we have delivered 175 initiatives across merchandise, store performance, logistics, non-trade spend and other workstreams.

I am impressed that we have been able to sustain the level of intensity in terms of the execution of our transformation over this period. Such programmes depend on strong people engagement. Our people have stepped up and faced tremendous shifts in their day to day working with courage and determination. Not only are we already seeing tangible financial benefits but the transformation has also provided tools and resources that have become embedded as our way of delivering.

We have been able to implement change, improvements and efficiencies right across the business. This year's performance shows that we have the ability to execute an ambitious and multi-faceted programme while still meeting the needs of the millions of customers who shop with us through our stores and online.

The Group has also transformed our internal way of working, becoming more collaborative and utilising our expertise across all brands. A good example of this is the enhanced use of customer data to provide insights which inform retail decisions such as product design, price and experiences.

Our integrated report shows that using our resources wisely and managing our networks, expertise, people, relationships, responsibilities to the environment and financial capital to best effect is not just about driving financial benefits; it is also about creating benefits across all aspects of the business and our broader stakeholder groups.

Strong capital management

The Board recognises the need to invest in areas where there has been an investment deficit in recent years. Systems is one such area, and we have allocated around $100m over several years to re-platform the business with modern, efficient retail and back-office technologies. This will allow us to innovate our offerings to customers, and provide them with the experiences and services that they deserve.

We are conscious that historically the returns from investments have not always been as strong as anticipated. Considerable work has been done to improve our investment processes and capital allocation to ensure that we drive returns from these investments. Noel Leeming is an example of an investment that has worked very well for the Group. Having acquired the business in December 2012 for $65m, Noel Leeming is now performing at an EBIT margin of 4%, delivering annual EBITDA of $48m.

"Our integrated report shows that using our resources wisely and managing our networks, expertise, people, relationships, responsibilities to the environment and financial capital to best effect is not just about driving financial benefits, it is also about creating benefits across all aspects of the business and our broader stakeholder groups."

Board activity

The Warehouse Group's Board continues to actively support the strategy of the business and as Chair I have been delighted with the commitment of the Directors individually and collectively. We focus on continuing to improve the quality of governance in the Group and look forward to ongoing improvement in the years ahead. Like any evolving organisation though, we remain aware of the need to keep pace with the skills needed for the business in the future. At both board and executive level we are focused on succession planning.

We see the Future Director programme as an important way of staying in touch with both the capabilities available and the next generation of directors. A future director also brings their own perspectives and experiences to the Board, which can be tremendously valuable. We are pleased to announce that Renee Mateparae, who is currently an Agile team leader at Spark, has just been appointed to our Board as a future director. We look forward to working with her over the next 18 months.

Sir Stephen Tindall has decided to take a further year's leave of absence due to his work commitments with the America's Cup and also his private involvements. Robbie Tindall will continue as his alternate, a role that he continues to impress in.

We continued to focus on our Health, Safety and Wellbeing with our board committee chaired by Julia Raue. Julia has done an exemplary job in working with the executive and assisting the whole Board to gain a better understanding of our critical risks and the moves we should be taking to mitigate them.

We recently launched TheMarket, our exciting new foray into the digital retail environment. TheMarket operates as a separate company with its own board. Our interests are represented by Robbie Tindall and John Journee, who are the parent Board's nominees on that subsidiary board.

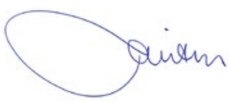
Doing right by our shareholders

We complete the year in an upbeat frame of mind. Of course there is still much work to be done – there always will be, given the changing nature of retail – but progress has been at least as good as we hoped for and probably better than we anticipated given how the wider market environment continues to evolve.

I referred, at the beginning of this report, to our commitment two and a half years ago to focus on doing what we said we would do. It would have been possible at that point to simply have taken cost out of the business in a non-strategic way in order to improve short term results. Instead, the Group has focused on effecting sustainable improvement and doing the right thing for the longevity of the business, for our stakeholders and our shareholders in the long term. The balance sheet is now in excellent shape and the business has some exciting growth opportunities ahead.

Our decision to move to a fully integrated report reflects our commitment to improving transparency and providing shareholders and analysts with the widest possible view of our activities as part of good corporate governance.

On behalf of the Board, we thank Nick Grayston and his executive leadership and all the hard working teams across the Group. We thank our customers for their business, and our business partners for their support. This is a result we can all be proud of. My thanks, too, to my fellow Directors for their commitment and energy and for the support they continue to give me. Finally, thank you to all our shareholders for continuing to invest in our quest to help Kiwis live better every day.



Joan Withers
Chair