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The Warehouse Group Limited

2007 Results and Strategy Update

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Financial Results

Year Ended 29 July 2007

Overview of the 2007 Financial Year

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- Sales from continuing businesses up 2.4% to $1.76 billion.
- Profit attributable to shareholders $115.5 million compared to $29.3 million in F06.
- Net profit after tax, excluding divestment of Te Rapa and TWA, up 1.8% to $97.9 million, a solid result given difficult trading environment.
- Return to positive same store sales growth in TWL, but EBIT reflects strategic investment in format and category start ups - fresh food, pharmacy and liquor in particular.
- Second Warehouse Extra (Whangarei) opened in November 2006, third Warehouse Extra (Te Rapa) opened in August 2007.
- Investment continued in store upgrades, systems infrastructure and supply chain.
- Continued progress in brand introduction, own label development and improving service and quality credentials with our customers.
- Community, environmental and ethical sourcing initiatives continue to be recognised.
- Positive momentum in the business reflects focus and commitment of team members across New Zealand during a time of uncertainty.

Financial Highlights – Consolidated Group

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$NZmillions	2007	2006	*Change*
Trading Revenue	1,761.7	1,882.9 *1	-6.4%
EBIT	153.1	153.1	-
EBIT Margin	8.7%	8.1%	+60bps
Net Profit After Tax	115.5	29.3 *2	nm
Return on Equity *3	30.8%	8.5%	nm
Operating Cash Flow	129.6	153.1	-15.4%
Final Dividend	5.5cps	5.5cps	-
Total 2007 Ordinary Dividend	17.5cps	16.0cps	9.4%
Special Dividend	35.0cps	-	-

- F07 NPAT includes $11.7 million profit on divestment of Te Rapa and $5.9 million recovery on divestment of TWA.
- F07 adjusted NPAT $97.9 million, up 1.8% on F06 $96.2 million. *0
- Final dividend 5.5 cps bringing total dividend for the year to 17.5 cps, up 9.4% (F06 16.0cps).
- $108.8 million return of capital by way of fully imputed special dividend.
- Total payout to shareholders in 2007 calendar year $163.2 million.

*0 Adjusted for TWA pre divestment earnings.

*1 Includes TWA pre divestment sales $162.4 million

*2 Includes TWA pre divestment earnings $0.7 million and loss on divestment of $67.6 million

*3 Based on average of opening and closing shareholders equity

Summary of Results – Continuing Operations

$NZmillions	2007	2006	*Change*
Sales	1,761.7	1,720.5	2.4%
EBITDA	188.5	183.4	2.8%
Depreciation	35.4	31.4	12.7%
EBIT	153.1	152.0	0.7%
EBIT Margin	8.7%	8.8%	-10bps
Funds Employed	457.8	424.4	7.9%
Return on Funds Employed*1	34.7%	35.9%	-12bps

*1 **Based on average of opening and closing funds employed**

- TWL sales up 2.6%, same store sales up 2.0%.
- WSL sales up 0.9%, same store sales up 2.2%.
- EBIT margin affected by increase in Group costs mainly related to long term incentive plan, and reduction in contribution from Financial Services.

Segmented EBIT – Continuing Operations

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$NZmillions	2007	2006
The Warehouse NZ	147.2	143.5
Warehouse Stationery	9.5	9.3
Financial Services	3.2	4.2
Other Group	(6.8)	(5.0)
Total EBIT	153.1	152.0

- TWL EBIT up 2.6%.
- WSL EBIT up 2.2%.
- Financial Services F07 interest revenues impacted by dividend payment at end F06. One off benefit from change to debt provisioning included in F06.
- Cost of long term incentive plan included in Group.
- Total EBIT flat for the year.
- Total EBIT for H2 $57.4 million ($57.2 million F06).

The Warehouse New Zealand

$NZmillions	2007	2006	*Change*
Sales	1,546.6	1,507.7	2.6%
EBITDA	175.6	168.3	4.3%
Depreciation	28.4	24.8	14.5%
EBIT	147.2	143.5	2.6%
EBIT Margin	9.5%	9.5%	-

- Same store sales up 2.0% (-1.4% F06), and 3.4% in H2.
- Good sales growth in Homewares, Health & Beauty and Confectionery.
- Modest growth in apparel and footwear in a very difficult market.
- Both gross and EBIT margins maintained despite change in sales mix, category start up costs and investment in capability.
- Strengthened merchandise team now in place.
- Second Warehouse Extra store opened in November, third opened in August 2007.
- Three full store refits and one relocation completed.
- Thirteen "Pulse" upgrades completed.
- Major investments made in point of sale, demand forecasting, in store price checking and grocery distribution.

Warehouse Stationery

$NZmillions	2007	2006	*Change*
Sales	213.5	211.7	0.9%
EBITDA	13.5	13.1	3.1%
Depreciation	4.0	3.8	5.3%
EBIT	9.5	9.3	2.2%
EBIT Margin	4.5%	4.4%	-

- Same store sales up 2.2% (+4.5% F06), up 2.5% in H2.
- Improved profit contribution from B2B.
- Overall performance affected by disruption during implementation of new merchandise system.
- Strategic review underway to address fundamental changes in demand and channel mix.

Abridged Balance Sheet

$NZmillions	F07	F06
Inventory	254.8	247.5
Trade Payables	(70.8)	(84.9)
Net Investment in Inventory	**184.0**	**162.6**
Receivables	25.5	18.8
Other Creditors and Provisions	(79.5)	(91.2)
Working Capital	130.0	90.2
Fixed Assets	305.2	305.6
Investments	8.0	4.9
Funds Employed	**443.2**	**440.7**
Net Tax Balances	15.6	48.9
Capital Employed	**458.8**	**449.6**
Shareholders Equity	415.5	333.9
Minority Interests	0.3	0.3
Net Debt	43.0	115.4
Source of Funds	**458.8**	**449.6**

Increase in grocery inventories

Effect of increased continuity and reduced seasonal stocks

Rebate related trade receivables

TWA warranty settlements

Capital expenditure fully offset by divestments and depreciation

Equity earnings from TWFS

Utilisation of tax losses

Proceeds of asset divestments and exercised options applied to debt reduction

Cash Flow Summary

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$NZmillions	2007	2006
Trading EBITDA	188.5	189.1
Change in Trade Working Capital	(32.6)	-
Taxes Paid	(17.5)	(20.7)
Interest Paid	(8.0)	(13.8)
Other Items	(0.8)	(1.5)
Operating Cash Flow	129.6	153.1
Capital Expenditure	(60.5)	(62.6)
Proceeds from Divestments	40.4	92.8
Dividends Received	-	9.7
Dividends Paid	(55.8)	(46.1)
Share Options Exercised	26.7	-
Purchase of Treasury Stock	(8.7)	-
Other Items	0.7	0.2
Net Cashflow	72.4	147.1
Opening Net Debt	(115.4)	(269.4)
Foreign Currency Adjustments	-	6.9
Closing Net Debt	(43.0)	(115.4)

Cash Conversion Ratio (OCF / NPAT+D+A)	96.8%	115.2%

F06 includes $5.5 million TWA pre divestment profit

Higher receivables and change in inventory mix

Reflects debt reduction

Te Rapa $36.7 million (F07)
TWA $87.2 million (F06)

TWFS dividend

5.5 million options exercised under employee share option plan*1

Shares purchased on market to meet obligations under executive share scheme

*1 **310,961,868 million shares on issue at 29 July 2007**

Summary of Financing Ratios

	2007	2006	2005
Interest Cover*1 (EBIT / Net Interest)	23.6	15.3	7.0
Fixed Charge Cover*2 (EBITDR / R+I)	4.0	3.9	3.6
Net Debt / EBITDA*1	0.2	0.6	1.4
Net Debt / Net Debt + Equity	9.4%	25.7%	43.4%

*1 Normalised for divestment of TWA and goodwill write off's

*2 Continuing operations

- Reflects focus on strategic divestments.
- Opportunity recognised to return cash to shareholders.

Special Dividend

- A special dividend of 35.0 cents per share has been declared paying out $108.8 million to shareholders in addition to a final ordinary dividend of 5.5 cents per share, giving a total payout of $125.9 million or 40.5 cents per share.

- Timetable :

Announcement Date	:	Friday, 7 September 2007
Record Date	:	Friday, 21 September 2007
Payment Date	:	Friday, 28 September 2007

- Dividends will be fully imputed.

- Imputations attached to the final dividend and special dividend total $62.0 million.

Change to Reporting under IFRS

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- F08 will be first year reported under IFRS.
- P & L implications mainly recognition of employee benefit costs, lease make good costs and money back guarantee provisions.
- Balance sheet implications mainly accounting for financial derivatives.
- Systems and processes adopted to achieve hedge effectiveness minimising earnings volatility.
- Opening adjustments disclosed in transition balance sheet.

Strategy Update

Progress F06/F07 - *First Two Years of Transformation*

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- Net Profit After Tax increased to $98 million, up 36%.*1
- Lifted ordinary dividend rate by 20% to 17.5 cents per share.
- Distributed $212 million to shareholders including special dividend.
- Returned core business to positive same store sales growth.
- Divested poor performing Australian business.
- Discontinued Warehouse Stationery Mega Store concept.
- Launched Warehouse Extra format.
- Ten Warehouse stores modernised to develop blueprint for investment.
- Invested in sourcing and systems infrastructure.
- Invested in management talent and capability.
- Commenced brand introduction and quality improvement initiatives.
- Significantly strengthened the Balance Sheet.

*1 Adjusted earnings F07 over F05

The Warehouse - *Significant Reinvestment Ahead*

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- Customer value expectations are changing rapidly.
- We are responding to these changes through:
  - A step change in presentation and shopping experience
  - Tangible improvement in product quality and choice
  - Maintaining our price leadership position
- We will continue to invest in all three areas in a variety of ways:
  - Investment in format modernisation and category specific resets
  - Further brand introductions and accelerated product development
  - Better sourcing and improvement in own label specifications
  - Improved service on the shop floor.
- Customer insight and segmentation analysis key to driving category strategies.
- Given low overall share of wallet, all categories represent opportunity for growth over the long term.
- Important to recognise that long term growth needs to be underpinned by significant reinvestment in the store portfolio. This is planned over the next three years.

The Warehouse Extra - *Early Days*

- Whangarei trading for 9 months with total sales expected to increase by 30% in year one, but below target.
- Overall performance below first year expectations due to sales shortfall and higher start up costs.
- Ongoing market research providing clear focus for improvement, but will take time to build skills and credibility in food retailing.
- Stock availability an issue but investment in auto replenishment will reduce stock outs significantly.
- Halo a critical success factor, too early to assess.
- No further Extra stores planned for F08, focus on improving economic performance and customer proposition.
- Further roll out of the Extra format will be made when the economic potential of the model is proven.

Warehouse Stationery - Poised for Growth

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- Focus is on serving the needs of small business, a growing home office market and families.
- Growth of B2B and B2C to accelerate with development of modern transactional website and extension into the South Island.
- Retail focus is on execution of revised category framework, in-store standards and customer service.
- Store expansion programme planned with 7 to 10 stores expected over the next three years.
- Investment in centralised purchasing and merchandising systems to be leveraged for better ranging decisions, improved availability and increased stock turn.
- Operating margin currently at the low end compared to international benchmarks, targetting increase of 150-200 bps over the next three years.

Outlook and
Earnings Guidance

Outlook

- Retail sales growth likely to slow relative to F07 as discretionary spending comes under further pressure from macro economic factors.
- Sector will remain highly competitive in all categories with space growth continuing to outpace consumption.
- Consumers will continue to demand better quality, better service and more choice at lower prices.
- Inflationary pressures expected to continue in key cost areas.

Sales and Earnings Guidance for F08

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- We are responding quickly to changes in customer expectations and to changes in the competitive landscape.
- We believe we are well positioned to maintain positive momentum in sales growth despite tightening retail spending.
- Too early to provide specific earnings guidance however given expected market conditions, the level of investment planned for the business and increased interest costs we would not expect F08 NPAT to be higher than adjusted NPAT for F07.
- Capital expenditure is projected at $67.5 million.

Capital Management

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- 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% 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 groups estimated capital investment requirements.
- In the absence of any major acquisition opportunity, the company will consider undertaking further capital management initiatives in the 2008 calender year.
- After payment of the final dividend in respect of the 2007 financial year and the special dividend, imputation credits available to impute future dividends is estimated at $61.7 million.