

CEO Address to AGM November 24th.

Thank you James and thank you to everyone for joining us today.

I would like to take this opportunity to briefly:

- Overview our results for the 2010 financial year
- Outline our key operational achievements during the past financial year
- Update you all on our ongoing growth strategy
- Provide some insight into trading to date this year, and
- Finally, comment on the outlook for the remainder of the 2011 financial year.

FY 2010 Highlights

The 2009/10 year was a milestone in the history of Kathmandu. The highlights were:

- Our successful dual listing on the ASX and NZX on 13 November, 2009. Our transition in the first four months of the year from private to public company, with a dual listing on both the ASX and NZX, was a significant achievement for a company of our size.
- Opening 15 new stores during the year, along with 4 store refurbishments incorporating a new store design and enhanced format.
- Sales of NZ\$245.8m, up 14.0% with a 1.3% increase on a same store sales basis (0.9% increase at constant exchange rates)
- Same store sales results by country were:
 - Australia 0.8%
 - New Zealand 0.6%
 - UK 5.8%
- Improved operating cashflow which in conjunction with the new capital structure provides enhanced investment capacity
- Launched new products and ranges and grew our overall product offering
- Summit Club membership increased to over 400,000 consumers across Australia, New Zealand and UK, which represents an increase of 129% over the past 2 years.
- Successfully commenced online selling via the Kathmandu website in October 2009.
- Introduced third party warehousing and distribution to enable direct to store distribution

FY 2010 RESULTS OVERVIEW

- Market conditions and consumer confidence were stronger in our first half when Kathmandu traded above expectations. In the second half of the year we encountered retail conditions that became far more challenging.
- The market was very price focused and a period of subdued demand for discretionary retail coincided with our most critical trading period; being March to July.
- However we took the actions needed to maximise sell through of winter stock in particular and achieve the optimum outcome between sales, profit, discounting and maintaining brand credibility.

- EBIT and NPAT whilst slightly below prospectus forecast were above last year (after eliminating costs of the IPO) by \$3.8m (8.6%) and \$10.3m (69.1%) respectively.
- EBIT was 5.3% below our prospectus forecast

Operational Review

- Our Store network continues to grow. We anticipated opening 12 stores in FY10, however we exceeded this target and opened 15 stores.
- Total stores as at 31 July 2010 were New Zealand 36, Australia 55 and UK 6 (97 in total).
- New stores opened during the year were:
 - Australia :- Devonport, South Wharf DFO (Outlet), Chapel St, Frankston, Ballarat, Macarthur, Townsville, Fremantle, Tea Tree Adelaide and Adelaide Harbour Town (Outlet)
 - New Zealand: Onehunga (Outlet), Tauranga CBD, Gisborne, Hastings and Timaru
- In addition to the new stores, we commenced a programme of refurbishment and relocations of existing stores. New store design concepts were introduced to these upgrades, improving brand image as well as increasing selling floor space. Projects completed were Kent St in Sydney, Cashel St in Christchurch, Bourke St in Melbourne and Dunedin. Initial trading performance in these locations has been pleasing.
- We successfully launched online selling in October 2009. Trading through this channel has been above expectations in both New Zealand and Australia. We expect this to continue to grow as the range is expanded and specific online promotional strategies are introduced. Trading is equivalent to a small store in each country.
- We grew our product offering by approximately 10%. Continuous innovation of our product offer in terms of new designs and design features, new technology, improved quality and the introduction of new products and ranges is critical to our future growth. Examples of new products that we introduced to the market over the year included:
 - Ultracore added to our thermal range,
 - Extended travel accessories range, particularly the new Transit series,
 - Further substantial expansion of the Kathmandu Kids range.
- We achieved 16.7% total sales growth in the UK and 5.8% on a same stores basis. This was in line with our expectations, but it remains below the level we have targeted. The UK operation remains some way from profitability and a review will be undertaken in the next 6-12 months to decide how best to take the business forward.

Growth Strategy

- Key to Kathmandu's success is our brand, the products we sell and our stores.
- First and foremost Kathmandu is a brand, not just a chain of retail stores. The Kathmandu brand name is our greatest asset, which we must protect and grow. During the year we commissioned in depth research on the brand to ensure we fully understand the value we provide to customers. We plan to apply these learning's and further strengthen our brand identity, through our store environment, packaging and marketing communications.
- Our continued growth in product range has been, and will continue to be a key growth driver. Continuous innovation of new product ranges with a focus on product design, technology and quality will be key to our ongoing success. We have targeted a 30% range growth over the next three years.

- We expect to be celebrating our 100th store opening in Australasia early next year, and our target is to rollout 15 new stores in the next financial year. Our overall target of 150 stores across New Zealand and Australia remains unchanged.
- We have 5 new stores already confirmed in the coming year – Logan, Orange, Wollongong, Whitford Park and Perth Harbourtown and 3 more are in the final stages of negotiation.
- The ongoing programme of refurbishment of existing stores continues with 5 projects underway or complete to date for the coming financial year. The projects underway are New Plymouth, Palmerston North, Sylvia Park (Auckland), Queens St (Auckland) and Innaloo.

Trading Update FY 2011: 16 WEEKS TO 21 NOVEMBER 2010

- Retail conditions have continued to be challenging during the current financial year.
- Total sales for the first 16 weeks are NZ \$51.6m, up 9.3% on the same period last year and up 7.7% at constant exchange rates.
- On a same store basis this is an increase of 2.1% (0.6% at constant exchange rates). This compares to a same store sales increase of 19.2% for the equivalent period last year.
- By market we have seen New Zealand and UK experience a small increase in same store sales and in Australia, a small decrease.
- The first half profit result will as usual be largely dependent on the Christmas and January period.
- Year to date trading performance is reasonable, particularly given the difficult retail conditions.

Trading Pattern

- It is important to highlight the significance of the trading update provided relative to the full year performance.
- Our three major promotion periods (being Winter, Christmas and Easter sales) remain critical to our annual trading – being above 60% of total sales for the 2010 financial year. Last year to this point in time sales were only 18% of total sales for the financial year.
- Margin is also higher in the second half due to the sales product mix in different promotional periods.
- Our first quarter profit represents less than 5% of full year's earnings.

OUTLOOK FOR BALANCE OF FY 2011

- **Kathmandu:**

In looking forward for the remainder of the 2011 financial year, we will continue to focus on the following areas:

- Our store rollout and refurbishment programme
- Product range growth continues. We are targeting 30% growth over the next 3 years



LIVE THE DREAM®

- The Brand refresh programme is underway
- Maintaining gross margins within our target 62% - 64% range.
- **The Market:**
 - There exists much uncertainty and volatility in the economic and retail environment
 - Discretionary retail spend remains under pressure
 - On the positive side, the Australian fiscal stimulus has cycled
- **Summary**
 - Given no further deterioration in trading conditions, Management and the Board believe the business will continue to grow profitability in the year ahead.

I want to thank you all for attending today, and will now pass you back to James for the formal part of today's meeting.