

Kathmandu Holdings Limited

CEO Address to AGM November 18th 2011.

Thank you Sandra, and thank you to everyone for joining us today.

I would like to take this opportunity to:

- Overview our results for the 2011 financial year
- Highlight milestones and briefly review our operations during the past year,
- Update you all on our ongoing growth strategies,
- Provide a year to date trading update , and
- Finally, comment on the outlook for the 2012 financial year.

FY 2011 Financial Highlights

The 2010/11 year was a record year in the history of Kathmandu. The highlights were:

- Sales exceeded NZ\$300 million for the first time. Total sales of NZ\$306.1m were up 24.5% with a 15.7% increase on a same store sales basis (12.9% increase at constant exchange rates)
- Same store sales results by country were:
 - Australia up 14.4%
 - New Zealand up 12.3%
 - UK down 7.1%
- Gross margin improvement was a key contributor to the result. A favourable product mix and excellent sales in the key periods of our Easter and Winter promotions helped Gross Margin to improve by 230 basis points to 65.5%.
- The improvement in gross margin was a key contributor to an increase in EBIT margin of 120 basis points.
- EBIT increased by 32% to a record NZ\$64.0m.

2011 Key Milestones

- Our 100th store was opened during the year, total stores were 111 at 31 July this year.
- Summit Club membership increased to over 500,000 customers across Australia, New Zealand and UK by end of FY11. In less than 3 years we have doubled our membership numbers.
- The development of our new brand identity was finalised during 2011 and introduced on 1 September.
- Core systems upgrade project was completed and new distribution and inventory management systems are now operative.

Operational Review

- Our Store network continues to grow. We opened 14 stores in FY11, 11 in Australia and 3 in New Zealand.
- Total stores numbers 31 July 2011 were New Zealand 39, Australia 66 and UK 6 (111 in total). For the first time sales in the Australian market exceeded 60% of total group sales.

- New stores opened during the year were:
 - Australia: Logan, Wollongong, Perth Harbour Town, Whitford City (WA), Belconnen (Canberra), Southport, Toowoomba, Orange, Cairns, Wagga Wagga, Southland (Melbourne).
 - New Zealand: Papanui (Christchurch), Whakatane, Ashburton.
- In addition to the new stores, we continued our 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 we completed included Palmerston North, New Plymouth, Sylvia Park in Auckland and Innaloo in Perth.
- Online trading continued to grow during FY11 and is now the equivalent of a midsized store in both New Zealand and Australia.
- Cost of doing business increased by just over 100 basis points as a % of Sales as the balance of our costs shifted further to Australia.
- Our new brand identity was launched after an extensive project encompassing store design, advertising collateral, product and packaging. This provides a modern, clearer and consistent

foundation for communication with our customers. This is not just about re-branding our product and stores, it's about positioning the business for wider long term growth opportunities.

- We have formally adopted and launched our Sustain the Dream Plan, focussed on sustainability, with the priority areas under our plan being;
 - Minimisation of our environmental footprint;
 - Respect of human rights;
 - Strengthening of our community support, and
 - Development of the Kathmandu team.
- In the UK, we achieved positive sales growth in the first 5 months of FY11, but sales declined following the VAT increase this year. At this stage no further investment in the UK retail network is planned, but a greater emphasis on our online business will occur.

Growth Strategy Update

- Key to Kathmandu's long term success is the strength and awareness of our brand, the appeal of the products we sell, and the effectiveness and profitability of our store network.
- Our store network roll out continues and our target is again to open 15 new stores in FY12. We have 5 new stores already confirmed in the coming year – Coastlands (Wellington), The Palms (Christchurch), The Rocks (Sydney), Warrnambool and Tamworth. Our overall target of at least 150 stores across New Zealand and Australia remains unchanged.
- The Australian market opportunity and the successful growth in our product range both support the investment we are making in refurbishment/ relocation or enlargement of existing stores. Four major relocation projects are either fully or nearly complete at Chatswood, Camberwell, Newmarket, and Wellington. This year we have also already completed major refurbishments of our Hobart and Newcastle stores.
- Our product range continues to grow and will remain a key growth driver. Continuous innovation of new product ranges with a focus on product design, technology and quality will be crucial

to our on-going success as a leading brand. We are committed to increasing investment in design resources so that our products remain technically credible and have ongoing appeal, especially in Australia.

- Growing our Summit club membership remains a key area of focus for us, given the loyalty of those customers and the year on year growth in sales they deliver. We now have over 550,000 members and have a target to achieve one million members. This is consistent with our expectation of substantially improving the level of market penetration we achieve in Australia.
- The internet provides us with increased opportunity for future growth as an own brand vertical retailer. A major enhancement project of our web site is underway with a dedicated team established to deliver this project. This will provide improved best of breed functionality, efficiency and capacity, and enable us to pursue global sales opportunities in the medium term.
- The UK business is being integrated into the Australasian operating structure where logical to do so in order to improve efficiency and reduce trading losses. The internet channel will be a key growth strategy for the UK market.

Trading Update FY 2012: 15 WEEKS TO 13 NOVEMBER 2011

- Firstly I want to remind shareholders that whilst we have already had over 30% of the trading days in this financial year (representing 17% of sales value last year), for Kathmandu this remains the period of the year with lowest sales volume as illustrated by the trading pattern in FY11.
- Retail conditions have continued to be challenging during the current financial year. There are very few significant economic indicators suggesting improvement is coming in the short term.
- Total sales for the first 15 weeks are NZ \$56.0m, up 16.0% on the same period last year and up 17.6% at constant exchange rates.
- On a same store basis this is an increase of 7.6% (9.2% at constant exchange rates). This compares to a same store sales increase of 2.1% for the first 16 weeks last year. Throughout most of this period in FY11 limited available inventory to sell was a real constraint as compared to the same period this year.
- By market we have seen New Zealand record a larger increase than Australia in same store sales year to date. The UK recorded a small decline in same store sales.

- The first half profit result will as usual be almost entirely dependent on the Christmas and January period.
- Year to date trading performance is in line with expectations, however as we have nearly 85% of our FY12 sales targets still to achieve, our performance thus far is not very significant relative to full year earnings.

Outlook For Balance Of FY 2012

- **The Market:**
 - We think it is unlikely that we will see any significant change to current retail conditions in the short term, and at this stage there is probably more downside rather than upside risk.
 - Operating costs such as rent and payroll increases are generally outpacing retail sales growth, especially in Australia.
 - Increasing competition - both regional and global. The “Active Outdoor” segment is seen as an attractive sector, as shown by international profit results, and expansion and acquisition

activities of major brands and retail groups both in Australasia and further afield.

- Volatility and unpredictability is becoming the norm, which means providing forward guidance is not appropriate.

- **Summary**

- So whilst it is difficult to provide specific guidance due to the market uncertainty, Kathmandu is planning for continued growth and remains positive about the FY12 outlook. Nothing has changed since our FY11 result release in this regard.

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