



**Kathmandu®**

live the dream™

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ANNUAL REPORT 2015







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## **NOTICE OF ANNUAL GENERAL MEETING**

11.00am Friday  
20 November 2015  
George Hotel  
50 Park Terrace  
Christchurch  
New Zealand



# Chairman's Report



David Kirk Chairman

Sales	EBIT	EPS
\$409.4m	\$33.2m	10.1c
Sales growth of 4.2%	Earnings before interest and tax	Earnings per share

## I am pleased to present my second report as Chairman of Kathmandu.

### FINANCIAL RESULTS

The 2015 financial year has been challenging for Kathmandu and we have delivered a disappointing result. In summary, we have seen:

- Sales grow 4.2% to \$409.4m;
- Gross margin reduce to 61.5% from 63.1% in FY2014;
- A decrease in earnings before interest and tax of 48.4% from NZ\$64.3m to NZ\$33.2m; and
- A decrease in earnings per share to 10.1 cents per share from 21.0c in FY2014.

On the plus side we have:

- Secured an outstanding new Chief Executive in Xavier Simonet;
- Concluded our very important investment in new information systems across the company and in warehouse facilities in New Zealand;

- Begun our investment in new warehouse facilities in Australia;
- Grown our internet earnings by 28%; and
- Delivered an encouraging performance through the winter sale period late in the year, recording 1.4% same store sales growth and 3.5% point increase in gross margin on the last year.

The investment in information systems and warehouse facilities just mentioned coincided in FY2015 with increased levels of operating expenditure incurred in anticipation of stronger sales performance. This sales growth was not achieved and Xavier has moved quickly to re-establish a cost base appropriate to the company's sales level.

### BRISCOE TAKEOVER BID

As you will be aware Kathmandu has been subject to a takeover offer by the Briscoe Group. After careful evaluation of the offer and a valuation by an independent expert the Board unanimously recommended that

shareholders reject the offer. The Board concluded that the offer did not reflect the underlying value of Kathmandu and failed to recognise the strength of Kathmandu's business and future plans for growth. Additionally the bid was highly opportunistic in timing, coming as it did in a period of what we believe to be isolated poor trading. The offer was heavily weighted in favour of Briscoe shareholders and did not share enough of the value of the two companies with Kathmandu shareholders.

Virtually all Kathmandu shareholders rejected the Briscoe Group offer and the takeover has now lapsed. The Briscoe Group remains the largest shareholder in Kathmandu and we look forward to growing the value of their investment in the company.

In order to give shareholders a clear understanding of the value of Kathmandu the Board and management produced a document setting out the strategies and expected growth in sales and earnings for the company in FY2016. We are very focused on delivering these results and believe we will. Doing so will

result in a significant uplift in the value of your investment in Kathmandu.

## GROWTH STRATEGIES AND INVESTMENT

It is useful to set out quickly Kathmandu's growth strategies.

These are to:

- Drive same store sales growth, through investment in the in-store experience, and focus on enhancing loyalty and engagement with our Summit Club members;
- Continue store network expansion in Australasia;
- Continue to grow our online sales at over 20% per annum;
- Develop our brand and make sales in international markets with a capital-light business model – meaning without investing in an extensive bricks and mortar store network; and
- Improve our cost efficiency.

Appropriate capital investment in new store fit-outs, refurbishment of current stores, and supporting information

technology systems and infrastructure will continue to be made.

Our growth strategies are supported by our commitment to sustainability, which is an important part of our company values. Our new support office in Christchurch and distribution centre in Melbourne will both be 5 Star Green Star rated buildings. We continue to work with suppliers to monitor the environmental and social impact of our products. We focus on sustainable designs and seek full visibility of the manufacturing process to ensure our expectations are met. Kathmandu's annual sustainability report details our progress and plans in this area in more detail.

## PEOPLE

It has been a year of change in the management team.

As I mentioned earlier, following an extensive international search the Board was delighted to welcome Xavier Simonet to Kathmandu as Chief Executive Officer. Xavier started in July. He brings a proven track record

of building brands and developing successful retail businesses in fashion, apparel, accessories and related products in Australia and international markets. In the short time he has been with us we have gained a great deal of confidence in his ability and the positive impact he will have on the business.

Mark Todd, who has been with the company for 18 years and who was acting CEO throughout most of FY2015 recently announced his resignation. Mark's financial and retail acumen have been tremendously valuable to the company and we wish him well in the next stage of his career.

Supporting Xavier is an energetic and committed management team who are excited by the challenge of delivering an improved result in FY2016.

## DIVIDEND

The Directors have declared a final dividend of 5 cents per share, which, with the 3 cents interim dividend, makes a total payout for the year of 8 cents per share, a reduction of 4 cents per share compared with last year. The final dividend will be fully imputed for New Zealand shareholders, and fully franked for Australian shareholders. This dividend represents a payout ratio of over 78%.

Finally, I would like to thank my board colleagues for their continuing commitment to Kathmandu's success in what has been a busy and demanding year.

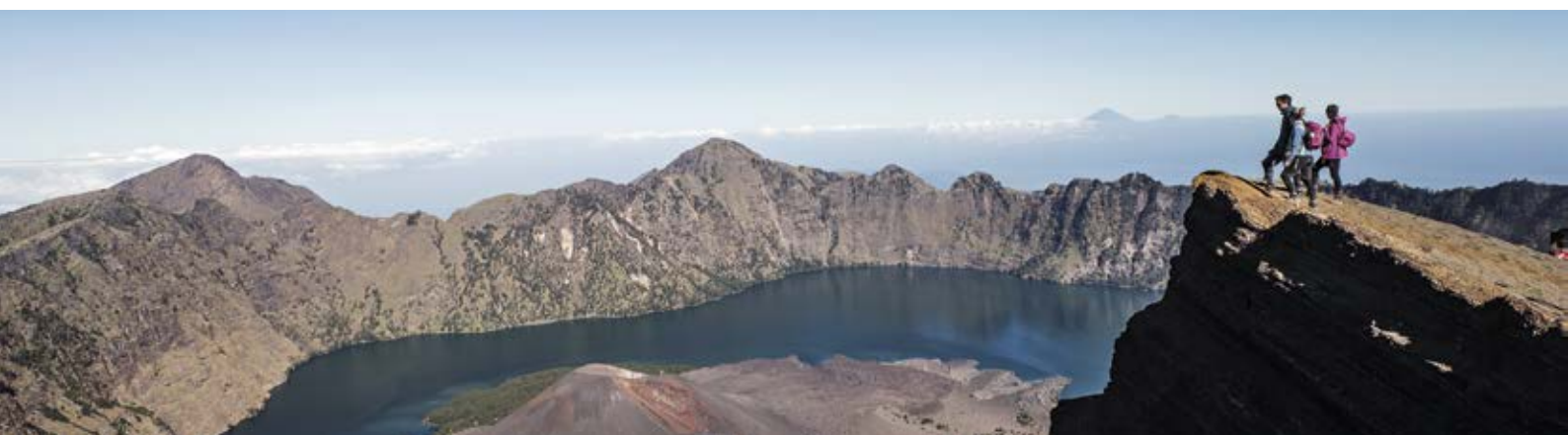
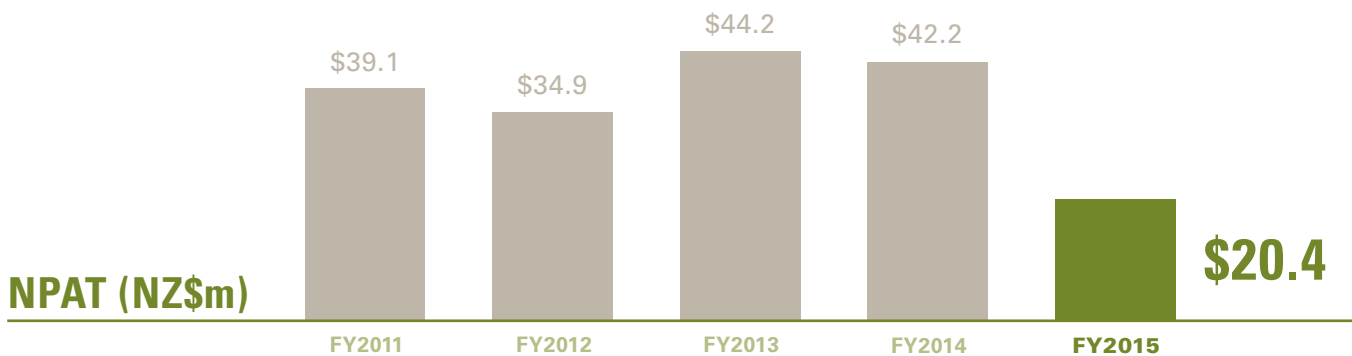
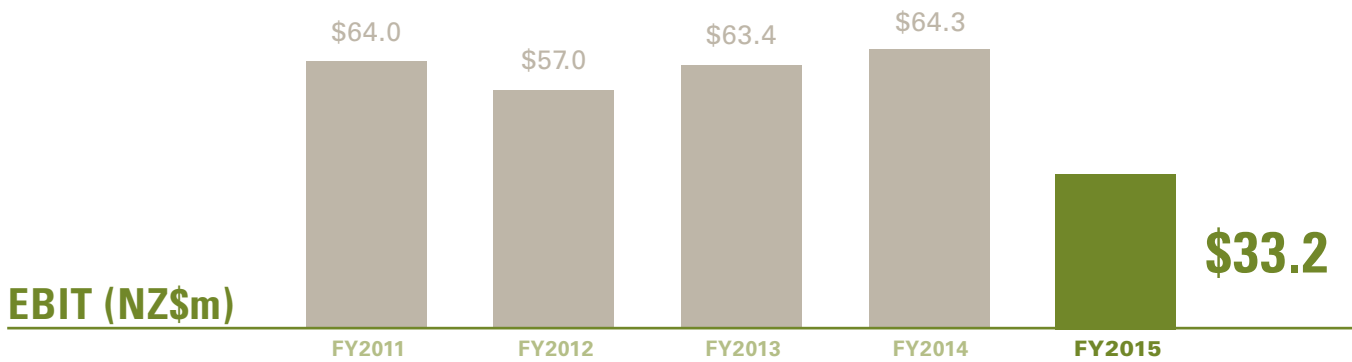
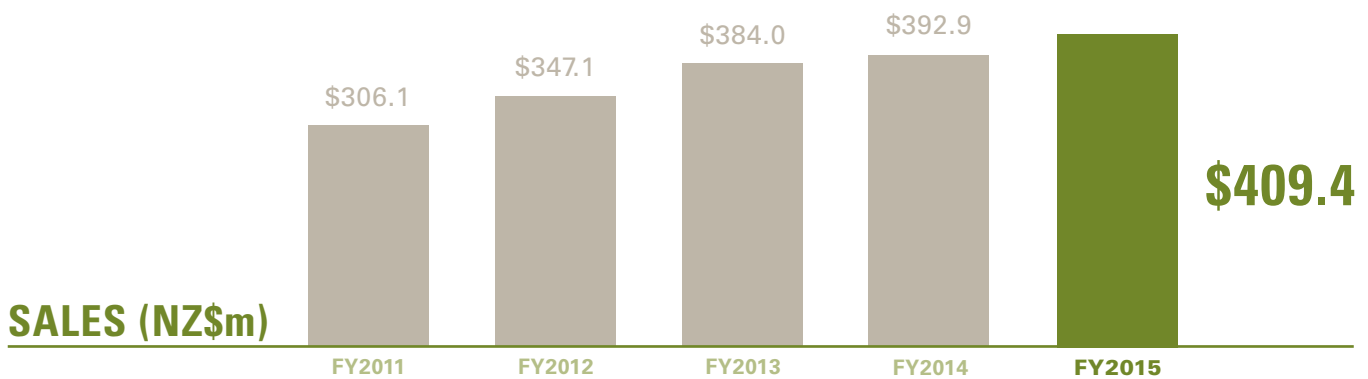
Thank you for your continued investment in Kathmandu. We are focused on delivering an improved result in FY2016 and are confident that we have the team and strategies in place to do so.

*David Kirk*

**David Kirk**  
Chairman



# Key Highlights 2015







## + NEPAL EARTHQUAKE RESPONSE

THROUGH DONATIONS  
MADE IN OUR STORES  
ACROSS NEW ZEALAND,  
AUSTRALIA AND THE  
UK, OUR CUSTOMERS  
HELPED RAISE

**\$159,000**

# Chief Executive Officer's Report



**Xavier Simonet**  
Chief Executive Officer

Online Sales

28%

6.2% of Group sales



Summit Club

20%

1.4 million active members



New Stores

10

Group now has 160 stores



## KEY HIGHLIGHTS

- Sales increased by 4.2% to \$409.4m;
- Same store sales declined by 1.9% at constant exchange rates;
- Gross margin reduced by 160bps across the full year but increased by 70bps in 2H FY2015;
- Online sales up c.28%; 6.2% of Group sales;
- Summit Club member numbers grew c.20%, now more than 1.4 million active members;
- Good UK same store sales growth, 15.7%, but decision made to exit the retail store network in the UK in FY2016 to focus on online sales channels in that market;
- New Australian distribution centre being constructed in Melbourne for 2H FY2016 opening;
- New purpose built Christchurch support office to open in the CBD 2H FY2016;
- 10 permanent new stores opened. Group now has 160 stores; and
- Substantial reduction in earnings reflected poor trading result and operating expense increases that will be addressed in FY2016.

## I am immensely excited to have joined Kathmandu in July 2015.

Although company results in FY2015 were disappointing and did not meet expectations, Kathmandu has managed over the last few years to develop a strong network of profitable stores and continues to hold a strong market share in the outdoor and travel product categories across Australia and New Zealand.

The company has also shown its ability to consistently create and successfully launch innovative products and solutions in both apparel and equipment. Also, it has remained true to its values of offering great quality products at accessible price points.

The difficulties the company has experienced over the last few months have highlighted the need to review its cost structure and deliver cost base efficiencies. Decisive action has been taken quickly in these areas.

## RESULT AND FINANCIAL PERFORMANCE

Earnings, measured at both the EBIT and NPAT level, declined by c.50% on last year. The key reasons for this downturn in profitability were:

- Cost of quitting excess inventory carried over from FY2014. Clearing of this stock filled a level of demand with low margin sales, causing both significant margin compression especially in 1H FY2015, and reduced same store sales overall;
- Poor pricing and promotional decisions during the first three quarters of FY2015 which was a trading period also compromised by the strongly promoted excess inventory clearance events. Advertising in the key Christmas and Easter promotions was generally ineffective, and in combination these factors led to weaker sales of our high margin, high volume summer product groups;
- Rate of increase in operating costs that was excessive given the weaker sales and gross margin results achieved in the summer season.



Whilst the FY2015 result was well below our expectations, the actions taken to improve sales and gross margin in the fourth quarter and the resulting trading performance in that period provide confidence that we will return to growing profitability in FY2016. In particular:

- Our Winter season, the largest in the year, achieved same store sales growth at higher gross margins than the comparable period in FY2014. Absolute discount levels were reduced and resulted in an improvement in gross profit earned during this period;
- Easter and Winter sale promotions introduced pricing benefits for Summit Club members, which helped to improve start of sale performance and gross margin

outcomes especially in the Winter season. It also drove a substantial uplift in Summit Club membership and their share of business; and

- Advertising and promotion execution in the Winter sale was significantly modified in comparison to previous campaigns. The focus of this effective campaign was much more on new product and product features along with Summit Club member benefits.

Overall in FY2015 Kathmandu's sales grew 6.3% in Australia and declined 1.3% in New Zealand, and neither result met expectations. UK sales growth of 17.3% warrants specific comment given the substantial one-off expenditure (\$2.8m) in brand and online advertising in FY2015. Whilst this growth in sales was

a positive outcome, the level of increase was not sufficient to justify continuing with that level of advertising spend going forward, nor to invest further in our UK retail store network.

During the year we re-assessed our long term target gross margins down by 100 bps to a range of 61% to 63%. Our FY2015 outcome matched this expectation, with 2H FY2015 gross margin increasing on the prior year to partly offset the weak 1H FY2015 performance.

#### FINANCIAL PERFORMANCE DETAIL

**Group sales** of \$409.4m increased by 4.2% overall, but there was a decrease in same store sales of 1.9% measured at constant exchange rates.

## +NEW WINTER RANGE LAUNCHED

KATHMANDU LAUNCHED ITS NEW 2015 WINTER RANGE IN MAY, A TIMELY RELEASE THAT COINCIDED WITH A COLD SNAP IN MANY OF ITS MAJOR MARKETS



"GROUP SALES OF \$409.4M INCREASED BY 4.2% OVERALL, BUT THERE WAS A DECREASE IN SAME STORE SALES OF 1.9% MEASURED AT CONSTANT EXCHANGE RATES."

By country, the change in same store sales was as follows (53 weeks ending 2 August 2015):

- Australia -2.7%
- New Zealand -1.1%
- UK +15.7%

**Gross profit** increased by \$3.8m (1.5%), as gross margin (61.5%) was 160 bps lower than last year. The impact of the weak performance in high gross margin summer product groups in tandem with the lift in the proportion of sales made as clearance product was more severe in Australia than New Zealand. This also coincided with a period of subdued consumer confidence in our biggest market. By country the change in gross margins were:

- Australia -290 bps
- New Zealand +30 bps
- UK +40 bps

The appreciation of the USD against the AUD further negatively impacted Australian gross margins as inventory is primarily purchased in USD. Our foreign currency forward hedging policy continues to be on a rolling 12 month basis.

**Operating expenses** excluding depreciation, amortisation and financing costs increased by \$29.8m (17.0%). This was an increase as a percentage of sales from 44.5% to 50.0%. Over half of the

increase is attributable to retail stores and online operating costs including the full year impact of 15 stores opened during FY2014, and the part year impact of 10 new stores opened during FY2015. Other increases in key operating costs such as advertising, store labour as well as the uplift in support office headcount all reflected an anticipated level of sales growth consistent with prior years, which did not eventuate. Store rental costs also rose at a higher rate than sales through both cost of new store occupancy and generally fixed rate of increases to annual lease costs across the rest of store network. Operating cost efficiency will be a key area of focus in FY2016, with our aim to decrease overall expenses as a percentage of sales.

**Capital expenditure** reduced by \$4.2m (17%) compared to FY2014. This is mainly due to the reduction of investment in information systems in the third year of realigning all core systems to be based on the Microsoft Dynamics AX platform. The investment made in "bricks and mortar" retail, in both new stores opened and existing stores relocated or refurbished, reduced by \$4.6m (31%). This reduction was largely offset by an initial investment of \$4m in our partly automated warehousing facility in Melbourne to service our Australian store network and growing online business.

Depreciation and amortisation expense increased by \$3.7m (36%), as the substantial amortisation cost arising from the new systems platform kicked in. Capital expenditure in FY2016 will be higher than in FY2015 mainly due to our continued investment in the new Melbourne distribution centre.

**Finance costs** reduced through a decline in effective interest rates despite debt levels that were slightly higher throughout the year to fund both higher inventory levels and capital projects spend. The re-negotiation of Group banking facilities was completed during FY2015 on improved terms.



Glenelg, SA





## +WINTER WEBSITE REFRESH

AS PART OF THE WINTER LAUNCH KATHMANDU REFRESHED ITS WEBSITE TO PROVIDE A BETTER CUSTOMER EXPERIENCE. IT HAD A MORE CONTEMPORARY LOOK, NEW PAGE TEMPLATES, RICHER IMAGERY AND IMPROVED SITE NAVIGATION

**Inventory levels** increased by \$9.5m (9.2%), and by 2.3% on a per store basis. The timing of new season deliveries, fewer new stores being opened than planned, and stock investment required to support online growth have contributed to this increase. The level of reduction in clearance stock units was a particular focus throughout the year, and we ended FY2015 with c.40% less aged stock than last year.

**Taxation** The effective tax rate rose from c.29% to c.33%. The trading losses of the UK business (not tax deductible) formed a larger portion of the total Group earnings for the year. The tax expense arising from Australian intercompany loan revaluation also contributed to the uplift in the effective tax rate.

### FUTURE GROWTH PLANS

Kathmandu will execute a number of strategies to drive growth in profitability in FY2016 and beyond. These include:

- driving same store sales growth;
- continuing store network expansion in Australasia;
- realising our full online potential;
- expanding internationally through a capital-light business model; and
- becoming more cost efficient.

"WE WILL SUPPORT OUR CUSTOMER ENGAGEMENT AS WELL AS IMPROVE STORE PROFITABILITY THROUGH GROWING THE CONTRIBUTION FROM TRAFFIC-DRIVING PRODUCTS AND MAXIMISING RANGE PRODUCTIVITY."

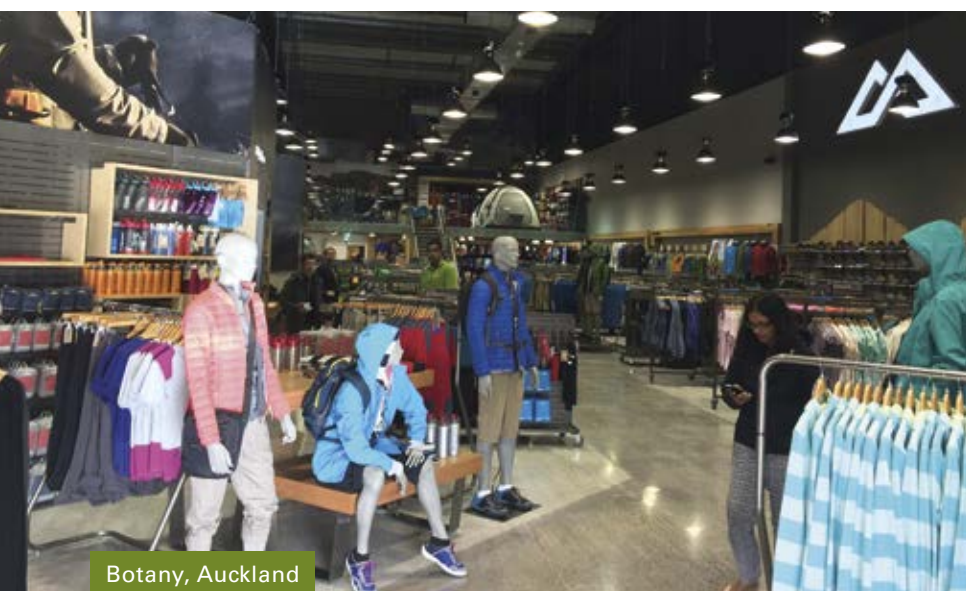
**Same store sales growth** is being actioned in several key areas. Optimising our pricing and promotional model for the future is critical, and this requires us to provide customers with better quality and value through a simpler promotions and pricing architecture, focusing on:

- Advertising strategy that is lower cost overall and makes more efficient use of the social and digital media channels;
- Promotion spend that activates an increase in foot traffic and basket size;
- Refining the promotional calendar to increase traffic earlier in seasons, reducing both 'sales fatigue and dependency' of customers; and
- Optimising the structure of sales

events, both breadth and depth, to maximise gross profit contribution.

A major enabler to achieving these outcomes is to capitalise on activation of Summit Club members. Kathmandu has over 1.4 million Summit Club members who represent c. 70% of Kathmandu's annual sales, and our focus is to build enhanced loyalty and individual engagement with those members, providing an improved value proposition through:

- Targeted marketing spend, providing better, differentiated pricing during major promotions compared to non-members; and
- Personalised communication, rewards and recognition, facilitated by Kathmandu's improved CRM platform.



Botany, Auckland



Byron Bay, NSW





In the future, Kathmandu will capitalise on our CRM platform to provide information and analytics on the purchasing behaviour of Summit Club members. This will drive product ranging decisions and offers to best suit the needs of our Summit Club members. This will be supported further by improving our in-store experience through maintaining the highest standards of customer service and product knowledge.

We will support our customer engagement as well as improve store profitability through growing the contribution from traffic-driving products and maximising range productivity. We will do so by:

- Continuously enhancing each new-season's range to resonate with customer requirements, strengthening Kathmandu's image in 'adventure travel' and positioning as an aspirational brand;
- Improving visual merchandising and stock presentation in-store to showcase our expertise in product for outdoor adventure and travel activity, supported by comprehensive customer service;
- Increasing focus on categories and products that drive frequency of

visitation; facilitated by our improved forecasting, planning and real time performance analysis capability; and

- Optimising space allocation in-store to those product groups that will maximise gross profit contribution.

**Store network** expansion will continue in Australia and New Zealand, and we are committed to our long term target of 180 stores across Australasia. Further roll-out is based on our established optimal store sizing in conjunction with comprehensive assessment of specific site and catchment characteristics.

Permanent store numbers totalled 160 at 31 July: New Zealand 46, Australia 110 and UK 4. The previously temporary site in the Christchurch Re-start precinct is now classified as a permanent store.

Ten new permanent stores opened during FY2015, and three new stores are already confirmed in FY2016, with further sites possible if justified by individual store ROI criteria. Additionally in FY2016 two new flagship stores will open in the Melbourne and Adelaide CBD's replacing existing stores in both cities.

**Online sales** of outdoor apparel in particular are growing at a much quicker rate than sales in "bricks and mortar" retail. This is driven by consumer preference and favourable category

characteristics. The online sales channel will be ever more critical for Kathmandu going forwards. Kathmandu will continue to invest and improve in its e-commerce platform and build its online capability by:

- Building a true omni-channel offering, fully integrating with in-store sales to provide one range available to all customers wherever they shop;
- Continue building a click and collect offering to expand into key market places and all sales channels;
- Driving site visitation through targeted campaigns, partnering and social media;
- Actively leveraging Summit Club members to drive online sales; and
- Launching country specific online stores and participating in appropriate open marketplace sites.

**International expansion** remains a key growth strategy for Kathmandu, using our brand equity to expand internationally through a capital-light model and leveraging its online platform. In the immediate future this does not include opening a network of our own stores in another country, and as already noted it is our intention to close the UK retail network during FY2016.





## +SUSTAINABLE MATERIALS

KATHMANDU IS COMMITTED TO SUSTAINABILITY IN ITS RAW MATERIALS AND WE HAVE THEREFORE COMMITTED TO COMPLETELY PHASE OUT CONVENTIONAL COTTON AND REPLACE IT WITH SUSTAINABLE COTTON BY 2020



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"OUR ON-GOING OBJECTIVE IS TO DELIVER VALUE TO OUR STAKEHOLDERS AND TO CONTINUALLY POSITION KATHMANDU AS AN INDUSTRY LEADER."

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Kathmandu will tailor its international expansion strategy to key growth markets via the most effective channel for each market – potentially online only, wholesale distribution, licensed or franchised retail stores or a combination of these channels. Flagship stores may continue to be part of this strategy, in line with the practice adopted by leading brands globally.

**Cost efficiency** is a major area of opportunity for Kathmandu to improve its structure and drive operating margin expansion. Initiatives being undertaken include:

- Improved workforce productivity, with dedicated and skilled team resources now in place to optimise and improve store labour scheduling including management structures;
- Decrease in distribution labour costs as a percentage of sales, as new software efficiencies are realised;
- Optimise marketing spend overall, with clear metrics and ROI, and focus on more efficient direct advertising spend, utilising digital media with greater effect;
- Obtain operating leverage in other key overhead expenses including salaries and wages, as we improve business efficiency and simplify processes with new systems platforms.

## SUSTAINABILITY

As a Kathmandu core value, sustainability is an integral part of our business strategy. Our on-going objective is to deliver value to our stakeholders and to continually position Kathmandu as an industry leader in this area.

Full details of our progress can be found in our 2015 Sustainability Report, produced in conjunction with our Annual Report and prepared in accordance with the Global Reporting Initiative (GRI).

## OUR TEAM

Employee numbers as at 31 July 2015 increased from 2,074 last year to 2,097 this year, with permanent employees making up c.80% of the total workforce. Kathmandu's team have been particularly resilient in a year of substantial change. There were a large number of changes in the makeup of the Executive and senior management groups across the business, and the trading difficulties encountered during the year required substantially increased activity in managing and delivering changes to our promotional campaigns. The response of our team in these circumstances was exemplary.

I want to convey particular thanks to Mark Todd, Finance Director and Chief Operating Officer, who left the business at the end of September 2015 after 18 years with the company. I also want to acknowledge the employees who were impacted by the restructuring process and I thank them for their contributions to the business.

## MARKET OVERVIEW AND FUTURE OUTLOOK

The recent takeover offer from Briscoe and the associated shareholder, analyst and media assessment of Kathmandu's current market position and future opportunities has meant our trading prospects for FY2016 and beyond have already been unusually well researched and commented on.

I simply want to conclude by saying:

More than a retail business, Kathmandu is an inspiring brand, with deep roots in Australia and New Zealand and a strong heritage. The company plans to leverage the assets of its brand to make it more aspirational and to engage with its target customers, particularly through the Summit Club loyalty programme.

Strengthening the distinctiveness of the Kathmandu brand will also open opportunities to be relevant in international markets as well as on social, digital and online channels.

The difficulties the company has experienced over the last few months have highlighted the need to review our cost structure. They have also emphasised the requirement to optimise our pricing strategy and promotional model as well as improve same store sales growth and profitability in existing stores. These levers will remain a strong focus for us in FY2016.



**Xavier Simonet**  
Chief Executive Officer

# The Board



## 01 DAVID KIRK CHAIRMAN

Mr Kirk is the Chairman of Trade Me Group Ltd, the co-founder and Managing Partner of Bailador Investment Management, and sits on the Board of Bailador portfolio companies. Mr Kirk's Executive Management career has seen him hold Chief Executive Officer roles at Fairfax Media and PMP Limited and the Regional President (Australasia) for Norske Skog.

## 02 XAVIER SIMONET MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Joined Kathmandu in July 2015 with over 20 years international experience in building brands and developing successful retail businesses in fashion, apparel, accessories and related products.

Prior roles include CEO of Radley (London), VP & GM International of DB Apparel, 11 years at LVMH (primarily Asia-Pacific) and International Director of Seafolly.

## 03 JOHN HOLLAND NON-EXECUTIVE DIRECTOR

Mr Holland is a partner in the national New Zealand law firm Chapman Tripp and specialises in general corporate and commercial law. Mr Holland's securities law experience includes acting on initial public offerings, advising on employee share schemes and in the private equity area.

## 04 JOHN HARVEY NON-EXECUTIVE DIRECTOR

Mr Harvey is a professional director with a background in accounting and professional services, including 23 years as a partner of PricewaterhouseCoopers where he held a number of leadership and governance roles. Mr Harvey has extensive experience in financial reporting, governance, information systems and processes, business evaluation, acquisition, merger and takeover reviews.

## 05 SANDRA McPHEE AM NON-EXECUTIVE DIRECTOR

Ms McPhee is an experienced executive and non-executive Director in consumer facing sectors including aviation, retail, energy and media. She held a range of senior international executive roles in the aviation industry, most recently with Qantas Airways Limited.

## 06 CHRISTINE CROSS NON-EXECUTIVE DIRECTOR

Ms Cross has extensive experience in international retail and consumer goods including 14 years as a Director on the operating board of Tesco Plc.

Ms Cross currently runs a retail advisory consultancy focusing on international best practice in customer led business planning and value chain management.



# Management Team



**XAVIER SIMONET**  
MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER



**MARK TODD**  
CHIEF OPERATING OFFICER<sup>1</sup>



**REUBEN CASEY**  
CHIEF FINANCIAL OFFICER



**MICHELLE ADAMS**  
GENERAL MANAGER, PRODUCT



**REBECCA EDWARDS**  
GENERAL MANAGER,  
GROUP HUMAN RESOURCES



**ALISON EVANS**  
GENERAL MANAGER, RETAIL - STORES,  
AUSTRALIA AND NEW ZEALAND



**CALEB NICOLSON**  
GENERAL MANAGER, SUPPLY CHAIN



**PAUL STERN**  
GENERAL MANAGER, MARKETING,  
INTERNATIONAL AND ONLINE



**JOLANN VAN DYK**  
CHIEF INFORMATION OFFICER

<sup>1</sup> Resigned as Chief Operating Officer on 25 September 2015

# Directors' Report

Your Directors present their Report and the Financial Statements for the year ended 31 July 2015.

## DIRECTORS

The following persons were Directors of Kathmandu Holdings Limited during the financial year:

### DAVID KIRK

Was re-appointed as a non-Executive Director, Member of the Audit and Risk Committee, Member of the Remuneration and Nomination Committee on 21 November 2014 and was appointed Chairman on 5 February 2014, and continues in these offices at the date of this report.

### XAVIER SIMONET

Was appointed as Managing Director and Chief Executive Officer on 29 June 2015 and continues in these offices at the date of this report.

### JOHN HARVEY

Was re-appointed as a non-Executive Director, Chair of the Audit and Risk Committee, Member of the Remuneration and Nomination Committee on 21 November 2014. Reappointed as Chair of the Audit and Risk Committee on 5 February 2014. He continues in these offices at the date of this report.

### JOHN HOLLAND

Was re-appointed as a non-Executive Director, Member of the Audit and Risk Committee, Member of the Remuneration and Nomination Committee on 20 November 2013, and continues in these offices at the date of this report.

### SANDRA MCPHEE

Was re-appointed as a non-Executive Director, Member of the Audit and Risk Committee, Chair of the Remuneration and Nominee Committee on 20 November 2013, and continues in these offices at the date of this report.

### CHRISTINE CROSS

Was re-appointed as a non-Executive Director, Member of the Remuneration and Nomination Committee, Member

of the Audit and Risk Committee on 20 November 2013, and continues in these offices at the date of this report.

### PETER HALKETT

Was appointed as Managing Director and Chief Executive Officer on 9 October 2009, and resigned effective 25 November 2014.

### MARK TODD

Was re-appointed as an Executive Director on 21 November 2014 and appointed as Finance Director, Chief Financial Officer on 9 October 2009, and resigned as a Director effective 24 August 2015.

Details of the experience and expertise of the Directors are outlined on page 14 of this annual report.

## RETIREMENT OF DIRECTORS

In accordance with the Company's constitution, John Holland and Christine Cross will retire as Directors at the annual general meeting and being eligible, offer themselves for re-election.

## MEETING OF DIRECTORS

The number of meetings of the Board of Directors and Committees held during the year ended 31 July 2015 and the numbers of meetings attended by each Director were:

Director	DIRECTOR MEETINGS		AUDIT AND RISK COMMITTEE MEETINGS		REMUNERATION AND NOMINEE COMMITTEE MEETINGS	
	A	B	A	B	A	B
David Kirk	9	9	5	5	6	6
Xavier Simonet	1	1	XX	XX	XX	XX
John Harvey	9	9	5	5	6	6
John Holland	9	9	5	5	6	6
Sandra McPhee	9	9	5	5	6	6
Christine Cross	9	9	5	5	6	6
Peter Halkett	2	2	XX	XX	XX	XX
Mark Todd	8	9	XX	XX	XX	XX

A – Number of meetings attended

B – Number of meetings held during the time the Director held office during the year

XX - Not a member of relevant Committee

## REVIEW OF OPERATIONS

The profit of the consolidated entity for the financial year after providing for income tax amounted to \$20,419,000 (2014: \$42,152,000).

A detailed review of operations is provided on pages 2 to 13 of this annual report.

## SIGNIFICANT CHANGES OF AFFAIRS

As announced on 10 August 2015, Chief Operating Officer Mark Todd tendered his resignation with effect from 25 September 2015.

No other matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

## PRINCIPAL ACTIVITIES

The Group's principal activity in the course of the financial year was the design, marketing and retailing of clothing and equipment for outdoor, travel and adventure. It operates through wholly owned subsidiaries in New Zealand, Australia and the United Kingdom.



### MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

As announced on 10 August 2015, Chief Operating Officer Mark Todd tendered his resignation with effect from 25 September 2015.

No other matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years are contained on pages 2 to 13 of this annual report.

### ENVIRONMENTAL REGULATION

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory of Australia, or of New Zealand.

### DIVIDENDS

Since the end of the financial year the Directors have declared the payment of a final ordinary dividend of NZ 5.0 cents per share. Dividends will carry full New Zealand imputation credits and full Australian franking credits. The dividend will be paid on 20 November 2015.

The Company does not currently have a dividend re-investment plan.

### INSURANCE OF OFFICERS

The Company has entered into deeds of indemnity, insurance and access with each Director which confirms each person's right of access to certain books and records of the Company for a period of seven years after the Director ceases to hold office. This seven year period can be extended where certain proceedings

or investigations commence before the seven years expires. The deed also requires the Company to provide an indemnity for liability incurred as an officer of the Company, to the maximum extent permitted by law.

**Indemnification:** Pursuant to the Constitution, the Company is required to indemnify all Directors and employees, past and present against all liabilities allowed under law. The Company has entered into an agreement with each Director to indemnify those parties against all liabilities to another person that may arise from their position as Director or other officer of the Company or its controlled entities to the extent permitted by law. The deed stipulates that the Company will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

**Insurance:** Pursuant to the Constitution, the Company may arrange and maintain Directors' and officers' insurance during each Director's period of office, and for a period of seven years after a Director ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven years expires.

### REMUNERATION REPORT

#### KEY HIGHLIGHTS

FY2015 was a difficult trading year. The Group profit result and return to shareholders was disappointing and there were a number of changes in our Executive and senior management team. After a global search Xavier Simonet joined Kathmandu as our new Chief Executive Officer ("CEO").

### Remuneration Outcomes from FY2015

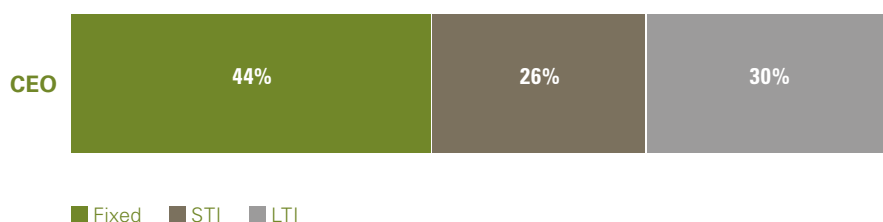
- No short term incentives were earned in FY2015 by any of Kathmandu's Executive or senior management team.
- The Board has carefully considered the implications and learnings from the FY2015 result, and as part of a number of actions taken to improve profitability and return to shareholders in the year ahead:
  - Most salaried employees will receive no increase in their remuneration for FY2016;
  - Team structures and employee numbers amongst our support offices have been reviewed and total headcount in those offices has been reduced by approximately 10%; and
  - Non-Executive Directors fees will remain unchanged for a second consecutive year.

These were difficult but necessary decisions made in order to re-set our support services to a level commensurate with our future growth targets and anticipated market conditions.

### New CEO Remuneration

- Our focus on the recovery of Kathmandu's profitability from FY2016 onwards is recognised in the remuneration structure for our new CEO. More than half (56%) the total remuneration for Xavier Simonet is at risk, as detailed below, and this is higher than the at risk component (47%) for the previous CEO:

### REMUNERATION STRUCTURE – CEO:



Additionally:

- Over 85% of this at risk remuneration (all except for the STI KPI's) is solely dependent on outcomes of Group financial performance against short and long term targets, and
- All long term incentive (70% of base salary) will be measured on a single 3 year performance period.

#### **FY2016 Actions**

- Executive and senior management personnel's short and long term incentive structures will remain unchanged in FY2016. Achievement of earnings (EBITDA) growth targets will be rewarded with a mix of cash and equity incentives, with the latter subject to deferral for a required period (1 year) of ongoing employment in the Group;
- During FY2016 the Remuneration and Nomination Committee of the Board will be reviewing the remuneration structure and in particular the short and long term incentives to ensure their framework including performance hurdles remains appropriately aligned between shareholder and Executive interests as the Group's business strategies evolve.

The detailed information that follows is set out in the following sections:

#### **A – PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION**

#### **B – REMUNERATION STRUCTURE**

#### **C – KEY MANAGEMENT PERSONNEL AND REMUNERATION DETAILS**

#### **D – SERVICE AGREEMENTS**

#### **E – DETAILS OF SHARE-BASED COMPENSATION**

#### **F – ADDITIONAL INFORMATION, PERFORMANCE RIGHTS VESTING**

#### **A – PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION**

The Company's Remuneration and Nomination Committee of the Board, currently comprising all independent non-Executive Directors, determines the quantum and structure of Directors and Executive remuneration. The composition, role and responsibility of the Committee is outlined in the Corporate Governance Statement on page 26 of this annual report. The Committee adopts a series of principles in determining remuneration related decisions. The principles used are:

- Executive remuneration should be market competitive, and generally account for market practice including recognition of level of responsibility and place of domicile;
- The remuneration structure should reward those employees who have the ability to influence the achievement of the Group's strategic objectives and business plans to enhance shareholder value for successful Group performance outcomes and their contribution to these;
- Executives, whose appointment and remuneration packages are considered and approved individually by the Committee are personnel who:
  - report directly to the CEO;
  - are designated as an Executive by the CEO; and
  - have responsibility and authority for management of a significant profit or cost centre.
- Executives' remuneration package should have:
  - a substantial portion of their total remuneration that is "at risk" and aligned with reward for creating shareholder value; and
  - an appropriate balance between short and long-term performance focus and outcomes;

- a mix of cash and equity based remuneration.

- The CEO should, relative to other Executives have
  - a greater proportion of total remuneration (at least 50%) that is "at risk", i.e. contingent upon the achievement of performance hurdles, and
  - a greater proportion of "at risk" remuneration weighted towards equity based rewards rather than cash,

because of his leadership role in establishing and delivering achievement of medium and long term Group strategic objectives and business plans, and increasing shareholder value over that period;

- The opportunity to participate in equity based rewards should be a component of remuneration for all senior management personnel as well as Executives both to align their reward with the creation of shareholder value, and to encourage their ongoing participation in and retention by the Group;
- Non-Executive Directors' remuneration should enable the Company to attract and retain high quality Directors with the relevant experience. In order to maintain independence and impartiality, non-Executive Directors should not receive performance based remuneration; and
- The Board uses discretion when setting remuneration levels, taking into account the current market environment and Group performance.

#### **Remuneration Review 31 July 2015**

The Board on the advice of the Committee has accountability to set all Executive remuneration. Recognising the principles above, the current prevailing market conditions and the reported performance of the Group, the Committee determined the following



in relation to the 31 July 2015 review of base remuneration:

- Directors, 0% increase (2014: 0%);
- Executive Directors, no increase in base salary for the CEO who joined the Group on 29 June 2015; and
- Generally Executives and senior management personnel received no increase.

Following a review by the Board on the advice of the Committee, the quantum and structure of incentive based earnings available for Executives apart from the CEO remain unchanged. Their remuneration structure is outlined below.

## B - REMUNERATION STRUCTURE

The Company's objective is to provide a remuneration framework whereby every incentive payment over and above an Executive's fixed pay, whether in the form of cash or equity, is appropriate for the results delivered by both the Group and the employee and is based on reward for their performance. The Board, through the Committee undertakes its governance role in establishing Executive remuneration including, where required, use of external independent remuneration consultants and/or available market information, with reference to both total remuneration and its various components.

The Executive remuneration structure (currently applying to 8 Executives including the CEO) has three components:

- 1. Base salary and benefits;**
- 2. Short term incentives** determined on the basis of achievement of specific targets and outcomes relating to annual Group financial performance and individual value adding performance objectives. The available incentive reward is split between cash and equity.
- 3. Long term incentives** via participation in the Company's Long Term Incentive plan.

The combination of these comprises the Executives' total remuneration. Other senior management personnel have a remuneration framework incorporating components 1. and 2.

### 1. Base salary and benefits

Executive base salaries are structured as part of a negotiated total employment remuneration package comprising a mix of cash and non-monetary benefits.

Executives are offered a base salary that comprises the fixed component of pay and rewards. Base salary for Executives is reviewed annually to assess appropriateness to the position and competitiveness with the market.

Executive benefits made available are superannuation contributions made in accordance with the legislation specific to each country in which the employee is resident, and for some Executives, leasing and/or reimbursement of vehicle running costs, and medical insurance. Key management and senior management personnel who relocate their place of working between countries may be assisted in the cost of such relocation.

### 2. Short term incentives

Executives including the CEO are eligible to participate in an annual short term incentive which delivers rewards by way of cash and equity participation, subject to the achievement of Group financial performance targets and individual KPI's. The CEO's short term incentive is up to 60% of base annual salary and other Executives' short term incentive is up to 52% of base salary,

Group Earnings before interest, tax, depreciation and amortisation (EBITDA) has been determined as the appropriate financial performance target to trigger payment of short term incentives. This criterion excludes depreciation and amortisation expenses arising from the substantial capital investment programme the Group is undertaking approved and overseen by the Board with reference to wider medium and long term growth strategies.

The shareholder approved Long Term Incentive plan enables the Board to offer equity incentives as part of both short and long term remuneration. All Executives, apart from the CEO, and all senior management personnel participate in short term equity incentives. The CEO's equity incentives are all long term.

Executives, except for the CEO, have a target of at least 45% of the total value of their annual short term incentive being equity based, with equity rewards delivered by way of nil cost performance rights.

The amount of any short term incentive paid in a year is dependent upon:

- the level of performance achieved against the Group's financial performance target (EBITDA) for the year; and
- the outcome of individual value adding performance, measured by achievement of individual KPI's, provided a minimum level of performance is achieved by the Group relative to the financial performance target (EBITDA) for the year.

An incentive earned by an Executive under a. is paid as a mix of cash and equity. An incentive earned under b. is all paid as cash. The CEO short term incentive split between a. and b. is 70% and 30% respectively, all paid in cash. For other Executives and senior management personnel, where Company financial performance outcomes trigger the employee's entitlement to equity rewards as well as cash, as a condition of the vesting of the eligible performance rights, the staff member (whether Executive or senior management personnel) will generally be required to remain employed by the Group for a period of one year after the end of the financial year in which Group financial performance that determines entitlement to the rights is measured.

For the years ended 31 July 2015 and 31 July 2014 the Group's financial

performance targets were not met and as a result in both years:

- no annual short term cash incentive was paid; and
- no short term equity incentives granted to Executives or senior management personnel in relation to these periods vested.

### 3. Long term incentive plan

#### Long term incentive plan

Shareholders re-approved the current long term incentive plan at the Company's 2013 Annual General Meeting based on the granting of nil cost performance rights. Rights have been offered each year since the plan was originally approved in 2010.

The plan is intended to focus performance on achievement of key long term performance metrics. The selected performance measures provide an appropriate balance between relative and absolute Company performance. The Board continues to reassess the plan and its structure to ensure it will best support and facilitate the growth in shareholder value over the long term relative to current business plans and strategies. Any grants made to Executive Directors are subject to shareholder approval.

For rights granted in the years up to and including 2013 vesting of the rights are dependent upon the Company achieving Earnings per Share (EPS) and/

or relative TSR targets over specified performance periods of two, three and four years, with the value of rights to be allocated between EPS and relative TSR determined each year. EPS is measured on a compound annual growth basis and TSR is measured on a relative basis against similar sized Australian and New Zealand listed retail companies.

Performance measurement under either criterion is at the end of each applicable performance period with no ability to re-test. Fifty per cent of the relevant portion of the award vests for achievement of targets and a further fifty per cent vests for the achievement of aspirational targets. A sliding scale operates between target and aspirational performance levels.

The history of grants made to date is as follows:

2010 - Grants made to all Executives including Executive Directors. All rights granted in 2010 have now either vested or been forfeited.

2011 to 2013 - Grants made only to the two Executive Directors. After FY2016 testing of rights for vesting or forfeiture, all remaining grants made in these years will lapse.

In 2014 - A grant made to the single Executive Director (Mark Todd) only. The Board resolved to grant for that year only nil cost performance rights that:

- Were measurable for a single specified performance period of three years; and
- Required achievement of only relative TSR targets over the specified performance period.

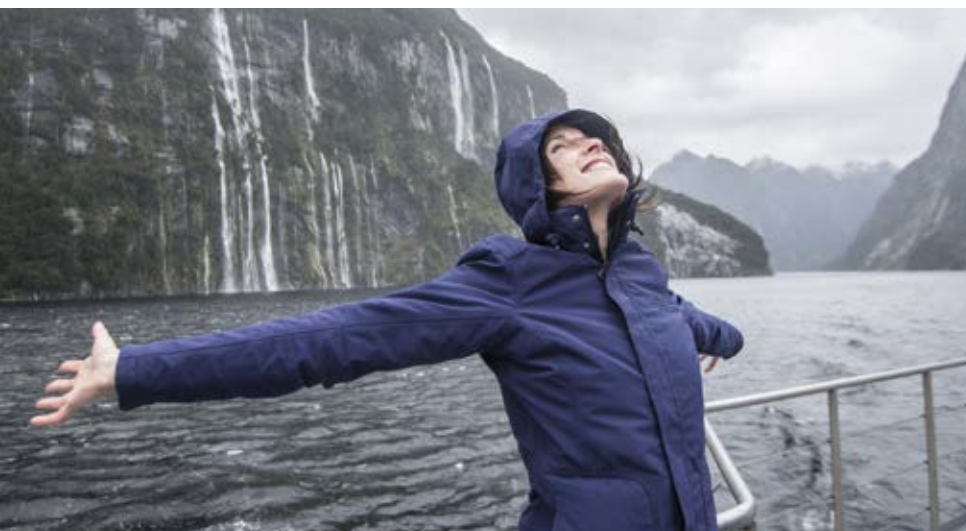
As a result of Mark Todd's resignation from the Company, these rights will lapse.

At the end of FY2016, there will be no grants outstanding under the long term incentive plan other than those proposed for the new CEO Xavier Simonet. The Board intends to grant, subject to shareholder approval at the 2015 AGM, nil cost performance rights to the CEO, Xavier Simonet, equivalent to 70% of his base salary. The vesting of these rights will be dependent upon the Company achieving Earnings per Share (EPS) and relative TSR targets over a single specified performance period of three years, with the value of rights allocated 50:50 between EPS and relative TSR.

For this grant EPS will be measured on a compound annual growth basis and TSR will be measured on a relative basis against a comparator group of ASX listed companies (other than metal and mining stocks) ranked 101 to 200 in the S&P/ASX200 as at date of grant. Performance measurement under either criterion is at the end of the performance period with no ability to re-test. Fifty percent of the relevant portion of the award vests for achievement of targets and a further fifty percent vests for the achievement of aspirational targets. A sliding scale operates between target and aspirational performance levels.

#### Options Plan 2009- now closed and all options exercised or cancelled

The Company implemented the Employee Option plan on 16 October 2009, and it was developed in the lead in to the Company's IPO in order to provide an incentive scheme for selected senior employees in conjunction with the public listing of the Company. An initial grant of options was made in conjunction with the IPO to seven Executives of the Company and all the options granted vested on





1 October 2013 for the five Executives that were still employed as at that date. Vesting of the options occurred because the Company achieved a compound annual growth in Total Shareholder Return (TSR) of 15% over the tested period of performance measurement that ended on 1 October 2013. TSR was determined as the criterion for performance measurement based on research against the market, and advice from external independent remuneration consultants with reference to the approach considered appropriate for a Company undertaking an IPO of shares.

The Board has not granted any further options under this plan. The Board are of the view that the plan no longer represents an appropriate on-going long term incentive structure for the Company post the IPO.

#### Non-Executive Directors' fees

The current aggregate limit for non-Executive Directors' fees is \$A800,000 per annum. In FY2015 the base fee payable (including superannuation if applicable) to the Chairman was \$A206,000 and to a non-Executive Director \$A103,000 per annum. Additionally \$A10,000 per annum is paid for sub-committee attendances. No increase has been proposed for the coming year commencing 1 August 2015.

Executive Directors do not receive Directors' fees. The amounts approved for Directors' fees are expressed in AUD given the specific requirements for remuneration reporting applying to ASX listed companies, however all amounts reported in the tables within this report are specified in NZD, being the reporting currency of the Company.

It remains the Board's intention that Directors' fees will be reviewed annually; with external independent remuneration consultants providing advice to ensure fees reflect market rates. There are no guaranteed annual increases in any Directors' fees.

#### BASE FEES

	AUD \$
Chairman	216,000
Other non-Executive Directors	113,000

#### Actual fees paid in year ended 31 July 2015 (converted to reporting currency)

	NZD \$
Chairman	242,230
Other non-Executive Directors	125,449

Non-Executive Directors do not participate in the Company short or long term incentive schemes.

The following fees apply per annum, including sub-committee attendance fees:

#### C – KEY MANAGEMENT PERSONNEL AND REMUNERATION DETAILS

##### Key Management Personnel:

The following Executives are identified as key management personnel with the authority and responsibility, along with the Directors for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

##### Currently Employed:

**Xavier Simonet**  
Chief Executive Officer  
from 29 June 2015

**Reuben Casey**  
General Manager, Finance  
then Chief Financial Officer  
from 1 December 2014

##### Previously Employed:

**Peter Halkett**  
Chief Executive Officer to  
6 October 2014

**Mark Todd**  
Chief Operating Officer and Finance Director. Acting CEO 6 October 2014 to 28 June 2015. Resigned as an Executive Director on 24 August 2015 and as an Executive on 25 September 2015

##### Other Management Team (Executive) members:

##### Currently Employed:

**Michelle Adams**  
General Manager, Product

**Rebecca Edwards**  
General Manager, Human Resources

**Alison Evans**  
General Manager Retail  
- Stores, Australia And New Zealand

**Caleb Nicolson**  
General Manager, Supply Chain

**Paul Stern**  
General Manager, Marketing,  
Online & International

**Jolann van Dyk**  
Chief Information Officer,  
from 3 April 2015

##### Previously Employed:

**Tamalin Morton**  
General Manager, Sales & Marketing  
to 12 December 2014

**Grant Taylor**  
Chief Information Officer to  
2 April 2015

All of the above Executives were employed by the Group for the full years ended 31 July 2015 and 2014, unless otherwise stated. Throughout their period of employment, Mark Todd, Reuben Casey, Michelle Adams, Caleb Nicolson, Jolann Van Dyk and Rebecca Edwards were employees of Kathmandu Limited (New Zealand domiciled) and Xavier Simonet, Alison Evans, and Paul Stern, were employees of Kathmandu Pty Limited (Australian domiciled).

Details of the remuneration of the Directors and Key Management Personnel and total remuneration of other Management Team Members of the Group, for the current and prior financial years are set out in section 5.3 of the financial statements.

## D - SERVICE AGREEMENTS

All Executives are on employment terms consistent with the remuneration framework outlined in this report. Each of the agreements has an open term, and the period of notice to be given by the employee is three months (six months for the CEO). The agreements provide for three months base salary inclusive of any applicable superannuation to be paid in the event of a redundancy (six months for the CEO).

## E – DETAILS OF SHARE-BASED COMPENSATION

### Options Plan 2009, Final year of vesting was year ended 31 July 2014

The Company Employee Option plan entitled the holder to acquire one share for each option granted by paying the prescribed exercise price to the Company once the option had vested in the holder and the relevant exercise conditions have been met.

All options granted under this plan as detailed above vested on 1 October 2013 to the employees still employed with the Company at that date as the required performance hurdles were achieved for all options that had been granted. All of those options that vested under this plan were exercised prior to the final exercise date of 18 November 2014. The total payable per employee on the exercise of one or more options was the price per share in the Company paid for by the purchasers of shares in the IPO, being \$A1.70 and \$NZ2.1333.

The Board do not intend to grant any further options under this plan.

The number of options previously granted by the Company that vested in the year ended 31 July 2014 and was thus provided as remuneration to eligible Executives under this plan is set as follows:

YEAR ENDED 31 JULY 2010	OPTIONS GRANT DATE	OPTIONS GRANTED	VESTING DATE	TOTAL FAIR VALUE OF OPTIONS AT GRANT DATE \$	OPTIONS VESTED DURING YEAR ENDED 31 JULY 2014	
<b>Executive Directors (at time of vesting)</b>						
	Peter Halkett	18 Nov 2009	558,655	1 Oct 2013	258,678	558,655
	Mark Todd	18 Nov 2009	160,131	1 Oct 2013	74,146	160,131
<b>Other Executives</b>						
	Michelle Adams	18 Nov 2009	80,266	1 Oct 2013	37,166	80,266
	Tamalin Morton	18 Nov 2009	110,796	1 Oct 2013	51,304	110,796
	Caleb Nicolson	18 Nov 2009	46,554	1 Oct 2013	21,556	46,554
	<b>Total</b>		<b>956,402</b>		<b>442,850</b>	<b>956,402</b>

The fair value of the options granted on 18 November 2009 was \$0.46 per option.

There are no grants remaining under this plan. All vested options were exercised in the years ended 31 July 2014 and 2015. The aggregate number and total \$ cost of exercise in each year was:

YEAR	OPTIONS EXERCISED	EXERCISE \$
2014	270,927	577,969
2015	685,475	1,462,324

### Long term incentive plan

The Company Long term incentive plan entitles the Board to grant performance rights for no cash consideration, at intervals determined by the Board.

For rights granted to Executives up to and including 2013 vesting of the rights is dependent upon the Company achieving Earnings per Share (EPS) and / or relative TSR targets over a 2, 3 and 4 year performance period, with 50% of the value of rights allocated under each target. Rights were offered in 2010 to all Executives domiciled in Australia and New Zealand. From 2011 to 2013, rights were offered to the Executive Directors only.

The number of rights granted and the applicable performance period over which EPS and relative TSR is measured is set out below, along with the fair value of the rights at the grant date. All rights granted to Peter Halkett have now lapsed. All rights granted to Mark Todd with vesting (expiry) dates in financial periods after FY2016 will lapse.





2015	GRANT DATE	RIGHTS GRANTED DURING THE YEAR	DATE EXERCISABLE	EXPIRY DATE	TOTAL FAIR VALUE OF PERFORMANCE RIGHTS AT GRANT DATE \$
<b>Executive Directors</b>					
Mark Todd	12 Dec 2014	110,891	1 Dec 2017	1 Dec 2017	221,782
<b>Total</b>		<b>110,891</b>			<b>221,782</b>

2014	GRANT DATE	RIGHTS GRANTED DURING THE YEAR	DATE EXERCISABLE	EXPIRY DATE	TOTAL FAIR VALUE OF PERFORMANCE RIGHTS AT GRANT DATE \$
<b>Executive Directors</b>					
Mark Todd	11 Dec 2013	33,051	1 Dec 2015	1 Dec 2015	72,051
Mark Todd	11 Dec 2013	33,051	1 Dec 2016	1 Dec 2016	72,051
Mark Todd	11 Dec 2013	33,051	1 Dec 2017	1 Dec 2017	72,051
<b>Total</b>		<b>99,153</b>			<b>216,153</b>

Shares issued to Directors and Other Executives on Exercise of Performance Rights:

2015	DATE GRANTED	DATE EXERCISED	NUMBER OF SHARES ISSUED
<b>Executive Directors</b>			
Peter Halkett	29 Nov 2010	17 Dec 2014	49,488
Peter Halkett	30 Nov 2011	17 Dec 2014	16,274
Peter Halkett	11 Dec 2012	17 Dec 2014	27,344
Mark Todd	29 Nov 2010	17 Dec 2014	17,460
Mark Todd	30 Nov 2011	17 Dec 2014	9,617
Mark Todd	11 Dec 2012	17 Dec 2014	16,158
Other Executives	29 Nov 2010	17 Dec 2014	29,298
<b>Total</b>			<b>165,639</b>

2014	DATE GRANTED	DATE EXERCISED	NUMBER OF SHARES ISSUED
<b>Executive Directors</b>			
Peter Halkett	29 Nov 2010	18 Dec 2013	59,048
Peter Halkett	18 Nov 2011	18 Dec 2013	19,994
Mark Todd	29 Nov 2010	18 Dec 2013	20,833
Mark Todd	18 Nov 2011	18 Dec 2013	11,815
Other Executives	29 Nov 2010	18 Dec 2013	21,250
<b>Total</b>			<b>132,940</b>



Performance rights granted to each Executive will, subject to satisfaction of performance conditions, vest on the basis of one ordinary share for each performance right which vests, at the end of each performance period.

#### F – ADDITIONAL INFORMATION, PERFORMANCE RIGHTS VESTING

For each grant of performance rights included in the table below, the percentage of the grant that vested, in the financial period, and the percentage that was forfeited because the performance criteria were not achieved or the person did not meet the service criteria is as listed. The performance rights vest over several years provided the vesting conditions are met. No performance rights will vest if the conditions are not satisfied, hence the minimum value of each performance right yet to vest is \$Nil. The maximum value of performance rights yet to vest has been determined as the total number of performance rights still to vest multiplied by the fair value of each performance right at grant date.

	GRANT DATE	VESTED %	FORFEITED %	FINANCIAL PERIODS IN WHICH RIGHTS MAY VEST	MAXIMUM TOTAL NUMBER OF RIGHTS YET TO VEST	MAXIMUM TOTAL VALUE OF GRANTS YET TO VEST
Mark Todd	FY2015	0.0%	0.0%	FY2019	110,891	336,000
Mark Todd	FY2014	0.0%	0.0%	FY2018	33,051	71,776
Mark Todd	FY2014	0.0%	0.0%	FY2017	33,051	71,776
Mark Todd	FY2014	0.0%	0.0%	FY2016	33,051	71,776
Mark Todd	FY2013	0.0%	0.0%	FY2017	32,316	41,203
Mark Todd	FY2013	0.0%	0.0%	FY2016	32,315	42,656
Mark Todd	FY2013	50.0%	50.0%	FY2015	-	-
Mark Todd	FY2012	0.0%	0.0%	FY2016	27,476	47,945
Mark Todd	FY2012	35.0%	65.0%	FY2015	-	-
Mark Todd	FY2012	43.0%	57.0%	FY2014	-	-
Mark Todd	FY2011	84.0%	16.0%	FY2015	-	-
Mark Todd	FY2011	100.0%	0.0%	FY2014	-	-
Mark Todd	FY2011	43.5%	56.5%	FY2013	-	-

Following his resignation, all rights granted to Mark Todd with vesting dates in financial periods after FY2016 will lapse.

Also in FY2015 for three other Executives, of the final one-third of performance rights granted in FY2011, 84% vested and 16% were forfeited. As at 31 July 2015 there are no remaining grants of nil cost performance rights still to vest other than those granted to Mark Todd as detailed above.

#### Company performance

All Executives' short term incentive is dependent upon the Company's overall financial performance for each financial year. Long term incentive is dependent upon both earnings per share growth and relative total shareholder returns over a range of performance periods.

With reference to the measurement of long term incentive performance the table below outlines the Company's earnings and share performance since its listing on 13 November 2009:

YEAR	NPAT	GROWTH	EPS CENTS PER SHARE	EPS GROWTH	SHARE PRICE AT START OF YEAR	SHARE PRICE AT END OF YEAR	SHARE PRICE GROWTH	ORDINARY DIVIDENDS PAID OR DECLARED PER SHARE
FY2010	\$9.4m	NA	0.3	NA	\$2.13	\$2.05	(3.8%)	\$0.07
FY2011	\$39.1m	316.0%	19.5	65x	\$2.05	\$2.20	7.3%	\$0.10
FY2012	\$34.9m	(10.7%)	17.4	0.9x	\$2.20	\$1.59	(27.7%)	\$0.10
FY2013	\$44.2m	26.6%	22.1	1.3x	\$1.59	\$2.68	68.6%	\$0.12
FY2014	\$42.2m	(4.5%)	21.0	1.0x	\$2.68	\$3.33	24.3%	\$0.12
FY2015	\$20.4m	(51.7%)	10.1	0.5x	\$3.33	\$1.70	(48.9%)	\$0.08





Share price quoted is the NZX listing price. The Company is listed on both the ASX and NZX and options will vest on both exchanges, dependent on where the employee is based.

Historical performance prior to the Company's listing is not considered meaningful with respect to the Company's performance and its impact on shareholder wealth.

#### Shares under options or performance rights

There are no unissued ordinary shares of the Company under any vested options or performance rights at the date of this report.

#### REMUNERATION OF AUDITORS

Details of remuneration of Auditors is set out in Note 5.8 of the Financial Statements.

#### NON-AUDIT SERVICES

PricewaterhouseCoopers were appointed auditors of Kathmandu Holdings Limited in 2009 and whilst their main role is to provide audit services to the Company, the Company does employ their specialist advice where appropriate. In each instance, the Board has considered the nature of the advice sought in the context of the audit relationship and in accordance with the advice received from the Audit and Risk Committee, does not consider these services compromised the auditor independence for the following reasons:

- All non-audit services have been reviewed by Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermined the general principles relating to auditor independence, including not reviewing or auditing the auditor's own work, not acting in a management or a decision making capacity for the Company, not acting as advocate for the Company or not jointly sharing economic risk or rewards.

This report is made in accordance with a resolution of the Directors.

**David Kirk**  
Chairman

**Xavier Simonet**  
Managing Director and Chief Executive Officer

## BOARD, MANAGEMENT AND CORPORATE GOVERNANCE

# Corporate Governance

The Board and management of the Company are committed to ensuring that the Company adheres to best practice governance principles and maintains the highest ethical standards. The Board is responsible for the overall corporate governance of the Company, including adopting the appropriate policies and procedures and seeking to ensure Directors, management and employees fulfil their functions effectively and responsibly. The Company is listed on both the New Zealand and Australian stock exchanges. Corporate governance principles and guidelines have been introduced in both countries. These include the Australian Securities Exchange (ASX) Corporate Governance Council Corporate Governance Principles and Recommendations (Third Edition), the New Zealand Stock Exchange Listing Rules relating to corporate governance, the NZX Corporate Governance Best Practice Code, and the Financial Markets Authority Corporate Governance Principles and Guidelines (collectively, the Principles). The Board considers that the Company's corporate governance practices and procedures substantially reflect the principles. The full content of the Company's Corporate governance policies, practices and procedures can be found on the Company's website ([kathmanduholdings.com](http://kathmanduholdings.com)).

The main policies and practices adopted by the Company are summarised below.

### BOARD OF DIRECTORS CHARTER AND ITS COMMITTEES

The Board has adopted a written charter to provide a framework for the effective operation of the Board. The charter addresses the following matters and responsibilities of the Board:

- enhancing Shareholder value;
- oversight of the Company, including its control and accountability systems;
- appointing and removing the Managing Director (or equivalent) and the Chief Financial Officer;

- ratifying the appointment, and where appropriate, the removal of the senior Executives;
- input into and approval of corporate strategy and performance objectives;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- monitoring senior management's performance and implementation strategy, and seeking to ensure appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- approving budgets; and
- approving and monitoring financial and other reporting.

### BOARD COMPOSITION

At present, there are six Directors on the Board. Five out of the six Directors are non-Executive Directors. Xavier Simonet (Managing Director and Chief Executive Officer,) is the only Executive Director on the Board. Mark Todd, former Finance Director, resigned from the Board on 24 August 2015. The Chairman of the Board is David Kirk. The biography of each Board member, including each Director's skills, experience, expertise and the term of office held by each Director at the date of this Annual Report is set out in the "Board of Directors" section of this Annual Report.

### BOARD PERFORMANCE

The Board Charter provides for an annual performance evaluation that compares the performance of the Board with the requirements of this Charter, reviews the performance of the Board's committees and individual Directors and sets forth the goals and objectives of the Board for the upcoming year and effecting any amendments to this Charter considered necessary or desirable of the Board and its Committees. The

Board is currently undertaking a review of its performance by the anonymous completion by Directors and Executives of evaluation questionnaires relating to Board and committee composition and performance, and individual interviews of Directors with the Chairman.

### INDEPENDENCE OF DIRECTORS

The factors that the Company will take into account when assessing the independence of its Directors are set out in its Charter, a copy of which is available on the Company's website ([kathmanduholdings.com](http://kathmanduholdings.com)).

The Managing Director (Xavier Simonet) is employed by the Company or another Group member in an Executive capacity and is not considered to be an independent Director based on the criteria set out in the Board Charter. All remaining Directors satisfy the criteria and are considered independent Directors, namely David Kirk, John Harvey, John Holland, Sandra McPhee and Christine Cross.

### BOARD COMMITTEES

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established the Audit and Risk Committee and the Remuneration and Nomination Committee. Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors.

### AUDIT AND RISK COMMITTEE

Under its charter, this committee must have at least three members, a majority of whom must be independent Directors and all of whom must be non-Executive Directors. Currently, all the non-Executive Directors are members of this committee. John Harvey is Chair of the committee. The primary role of this committee includes:



- overseeing the process of financial reporting, internal control, continuous disclosure, financial and non-financial risk management and compliance and external audit;
- monitoring Kathmandu's compliance with laws and regulations and Kathmandu's own codes of conduct and ethics;
- encouraging effective relationships with, and communication between, the Board, management and Kathmandu's external auditor; and
- evaluating the adequacy of processes and controls established to identify and manage areas of potential risk and to seek to safeguard the Company's assets.

Under the charter it is the policy of the Company that its external auditing firm must be independent of the Company. The committee will review and assess the independence of the external auditor on an annual basis.

### REMUNERATION AND NOMINATION COMMITTEE

Under its charter, this committee must have at least three members, a majority of whom must be independent Directors and all of whom must be non-Executive Directors. Currently, all the non-Executive Directors are members of this committee. Sandra McPhee is Chair of the committee. The main functions of the committee, are to assist the Board with a view to establishing a Board of effective composition, size, expertise and commitment to adequately discharge its responsibilities and duties, and assist the Board with a view to discharging its responsibilities to Shareholders and other stakeholders to seek to ensure that the Company:

- has coherent remuneration policies and practices which enable the Company to attract and retain Executives and Directors who will create value for Shareholders;
- fairly and responsibly remunerates Directors and Executives, having regard to the performance of the Company, the performance of the Executives and the general remuneration environment; and
- has effective policies and procedures to attract, motivate and retain appropriately skilled persons to meet the Company's needs.

### RISK MANAGEMENT POLICY

The identification and proper management of the Company's risk are an important priority of the Board. The Company has a Risk Management Policy (available on the Company's website [kathmanduholdings.com](http://kathmanduholdings.com)) appropriate for its business. This policy highlights the risks relevant to the Company's operations, and the Company's commitment to designing and implementing systems and methods appropriate to minimise and control its risk. The Audit and Risk Committee is responsible for monitoring risk management and establishing procedures which seek to provide assurance that major business risks are identified, consistently assessed and appropriately addressed. A risk management framework is in place to identify, oversee, manage and control risk. A formal review of the risk framework was undertaken during the reporting period by the Committee.

### CONTINUOUS DISCLOSURE POLICY

The Company is committed to observing its disclosure obligations under the Listing Rules. The Company has a policy that establishes procedures which are aimed at ensuring that Directors and Executives are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

### SECURITIES TRADING POLICY

The Company has guidelines for dealing in securities which are intended to explain the prohibited type of conduct in

relation to dealings in securities under the Corporations Act 2001 (Australia) and the Financial Markets Conduct Act 2013 and to establish a best practice procedure in relation to Directors', Executives' and employees' dealings in Shares in the Company. Subject to the overriding restriction that persons may not deal in Shares while they are in possession of material price sensitive information, Directors, Executives and key management personnel will only be permitted to deal in Shares during certain 'window periods', following the release of the Company's full and half year financial results or the release of a disclosure document offering shares in the Company. Outside of these periods, Directors, Executives and key management personnel must receive clearance in accordance with the protocols detailed in the policy for any proposed dealing in Shares.

### CODE OF CONDUCT

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has a formal code of conduct, to be followed by all employees and officers. The key aspects of this code are to:

- act with honesty, integrity and fairness and in the best interest of the Company;
- act in accordance with all applicable laws, regulations, policies and procedures; and
- use Company resources and property properly.

### DIVERSITY POLICY

Kathmandu recognises the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for our business into the future. Different perspectives arising from diversity encourage an innovative, responsive, productive and competitive business and

create value for our customers and shareholders.

We are committed to leveraging the diverse backgrounds, experiences and perspectives of our people to provide excellent customer service and innovative products to an equally diverse community.

Kathmandu's commitment to recognising the importance of diversity extends to all areas of the business including talent acquisition, learning and development, succession planning, internal transfer & promotion, retention of employees, and company policy and procedures.

We consider our current level of employee gender diversity to be efficacious; however we remain vigilant in the review of measureable diversity objectives. The benefits of diversity will continue to be tested and re-affirmed with reference to our team composition.

Kathmandu has established a Diversity Policy in accordance with ASX CGC Corporate Governance Principles and Recommendation 1.5, the NZX Listing rules relating to diversity and the NZX Diversity Policies and Disclosure Guidance note. A copy of Kathmandu's Diversity Policy can be obtained from the Company Website.

## GENDER DIVERSITY

As at 31 July 2015 the proportion of females employed by Kathmandu was as follows:

- Board: 33% being 2 female of 6 Directors
- Executive Management: Total 9 = 6 Males (67%), 3 Females (33%)
- Senior Management (Wider Leadership Team): Total 60 = 31 Male (52%), 29 Female (48%)
- Total Employees New Zealand: Total 767 = 279 Male (36%) and 488 Female (64%)
- Total Employees Australia: Total 1,293 = 580 Male (45%) and 713 Female (55%)

- Total Employees United Kingdom: Total 37 = 25 Male (68%) and 12 Female (32%)
- Total Employees Group: Total 2097 = 884 Male (42%) and 1213 Female (58%)

Kathmandu considers its gender diversity as a strength and we will continue to support strategies and initiatives that address any significant adverse changes in diversity ratios through employee turnover. Kathmandu is also proud of its ethnic diversity which reflects the diversity of its customers; business partners and community.

## REMUNERATION SYSTEM BASED ON PERFORMANCE

We are committed to reward our employees with compensation and benefit programmes that are based on performance merit and experience. In 2015 an audit on employee pay parity was completed. Based upon the results of this audit, Kathmandu has evidence that supports pay equality between gender and other diversity indicators, with no evidence of pay disparity between persons holding the same or similar roles. A review of gender pay parity will continue to be an on-going focus for the company.

## COMMUNICATIONS WITH SHAREHOLDERS

The Company is committed to keeping Shareholders informed of all major developments affecting the Company's state of affairs relevant to Shareholders in accordance with all applicable laws. Information is communicated to Shareholders through the lodgement of all relevant financial and other information with ASX and NZX and publishing information on the Company's website ([kathmanduholdings.com](http://kathmanduholdings.com)). In particular, the Company's website will contain information about the Company, including media releases, key policies and the terms of reference of the Company's Board Committees.

All relevant announcements made to the market and any other relevant information will be posted on the Company's website as soon as they have been released to ASX and NZX.

## ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

The Company prepares a separate sustainability report in accordance with the Global Reporting Initiative (GRI) G4 reporting framework. It is available online at [kathmanduholdings.com](http://kathmanduholdings.com).



# Financial Statements

FOR THE YEAR ENDED 31 JULY 2015

## Introduction and Table of Contents



### In this Section

The financial statements have been presented in a style which attempts to make them less complex and more relevant to shareholders. We have grouped the note disclosures into five sections: 'Basis of Preparation', 'Results for the Year', 'Operating Assets and Liabilities', 'Capital Structure and Financing Costs' and 'Other Notes'. Each section sets out the accounting policies applied in producing the relevant notes. The purpose of this format is to provide readers with a clearer understanding of what drives financial performance of the Group. The aim of the text boxes is to provide commentary on each section, or note, in plain English.



### Keeping it simple

Notes to the financial statements provide information required by accounting standards or Listing Rules to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the annual report and the financial statements.

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# Directors' Approval of Consolidated Financial Statements

FOR THE YEAR ENDED 31 JULY 2015

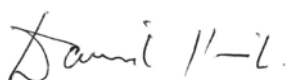
## Authorisation for Issue

The Board of Directors authorised the issue of these Consolidated Financial Statements on 29 September 2015.

## Approval by Directors

The Directors are pleased to present the Consolidated Financial Statements of Kathmandu Holdings Limited for the year ended 31 July 2015 on pages 31 to 69.

David Kirk



Date: 29 September 2015

Xavier Simonet



Date: 29 September 2015

For and on behalf of the Board of Directors

# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JULY 2015

	SECTION	2015 NZ\$'000	2014 NZ\$'000
Sales		409,372	392,918
Cost of sales		(157,482)	(144,777)
Gross profit		251,890	248,141
Other income		23	1,363
Selling expenses		(142,893)	(116,174)
Administration and general expenses		(61,968)	(58,876)
		(204,861)	(175,050)
<b>Earnings before interest, tax, depreciation and amortisation</b>		<b>47,052</b>	<b>74,454</b>
Depreciation and amortisation	3.2/3.3	(13,875)	(10,198)
<b>Earnings before interest and tax</b>		<b>33,177</b>	<b>64,256</b>
Finance income		1,450	257
Finance expenses		(4,195)	(4,850)
Finance costs - net	4.1.1	(2,745)	(4,593)
<b>Profit before income tax</b>		<b>30,432</b>	<b>59,663</b>
Income tax expense	2.3	(10,013)	(17,511)
<b>Profit after income tax</b>		<b>20,419</b>	<b>42,152</b>
Other comprehensive income that may be recycled through profit and loss:			
Movement in cash flow hedge reserve	4.3.2	12,415	(7,122)
Movement in foreign currency translation reserve	4.3.2	1,034	(3,794)
<b>Other comprehensive income/(expense) for the year, net of tax</b>		<b>13,449</b>	<b>(10,916)</b>
<b>Total comprehensive income for the year attributable to shareholders</b>		<b>33,868</b>	<b>31,236</b>
Basic earnings per share	2.4	10.1cps	21.0cps
Diluted earnings per share	2.4	10.1cps	20.8cps
Weighted average basic ordinary shares outstanding ('000)	2.4	201,343	200,422
Weighted average diluted ordinary shares outstanding ('000)	2.4	202,227	202,303

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY 2015

	SHARE CAPITAL NZ \$'000	CASH FLOW HEDGE RESERVE NZ \$'000	FOREIGN CURRENCY TRANSLATION RESERVE NZ \$'000	SHARE BASED PAYMENTS RESERVE NZ \$'000	RETAINED EARNINGS NZ \$'000	TOTAL EQUITY NZ \$'000
<b>Balance as at 31 July 2013</b>	<b>197,370</b>	<b>5,067</b>	<b>(10,558)</b>	<b>823</b>	<b>101,487</b>	<b>294,189</b>
Profit after tax	-	-	-	-	42,152	42,152
Other comprehensive income	-	(7,122)	(3,794)	-	-	(10,916)
Dividends paid	-	-	-	-	(24,047)	(24,047)
Issue of share capital	858	-	-	(301)	-	557
Share based payment expense	-	-	-	211	-	211
<b>Balance as at 31 July 2014</b>	<b>198,228</b>	<b>(2,055)</b>	<b>(14,352)</b>	<b>733</b>	<b>119,592</b>	<b>302,146</b>
Profit after tax	-	-	-	-	20,419	20,419
Other comprehensive income	-	12,415	1,034	-	-	13,449
Dividends paid	-	-	-	-	(24,163)	(24,163)
Issue of share capital	1,963	-	-	(509)	-	1,454
Share options / performance rights lapsed	-	-	-	(209)	209	-
Share based payment expense	-	-	-	9	-	9
<b>Balance as at 31 July 2015</b>	<b>200,191</b>	<b>10,360</b>	<b>(13,318)</b>	<b>24</b>	<b>116,057</b>	<b>313,314</b>



# Consolidated Balance Sheet

AS AT 31 JULY 2015

	SECTION	2015 NZ\$'000	2014 NZ\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3.1.2	1,700	7,192
Trade and other receivables	3.1.3	3,741	3,779
Derivative financial instruments	4.2	13,637	10
Inventories	3.1.1	113,270	103,767
<b>Total current assets</b>		<b>132,348</b>	<b>114,748</b>
<b>Non-current assets</b>			
Property, plant and equipment	3.2	54,093	48,402
Intangible assets	3.3	240,033	238,674
Derivative financial instruments	4.2	20	138
Deferred tax	2.3	3,957	6,335
<b>Total non-current assets</b>		<b>298,103</b>	<b>293,549</b>
<b>Total assets</b>		<b>430,451</b>	<b>408,297</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	3.1.4	44,048	37,489
Derivative financial instruments	4.2	77	2,999
Interest bearing liabilities	4.1	39	231
Current tax liabilities		1,536	2,739
<b>Total current liabilities</b>		<b>45,700</b>	<b>43,458</b>
<b>Non-current liabilities</b>			
Derivative financial instruments	4.2	461	209
Interest bearing liabilities	4.1	70,976	62,484
<b>Total non-current liabilities</b>		<b>71,437</b>	<b>62,693</b>
<b>Total liabilities</b>		<b>117,137</b>	<b>106,151</b>
<b>Net assets</b>		<b>313,314</b>	<b>302,146</b>
<b>EQUITY</b>			
Contributed equity - ordinary shares	4.3.1	200,191	198,228
Reserves	4.3.2	(2,934)	(15,674)
Retained earnings		116,057	119,592
<b>Total equity</b>		<b>313,314</b>	<b>302,146</b>

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 JULY 2015

	SECTION	2015 NZ\$'000	2014 NZ\$'000
<b>Cash flows from operating activities</b>			
<b>Cash was provided from:</b>			
Receipts from customers		409,506	394,163
Income tax received		2,609	-
Interest received		56	50
		412,171	394,213
<b>Cash was applied to:</b>			
Payments to suppliers and employees		363,191	338,975
Income tax paid		15,147	19,555
Interest paid		4,206	4,488
		382,544	363,018
<b>Net cash inflow from operating activities</b>		<b>29,627</b>	<b>31,195</b>
<b>Cash flows from investing activities</b>			
<b>Cash was provided from:</b>			
Proceeds from sale of property, plant and equipment		14	8
		14	8
<b>Cash was applied to:</b>			
Purchase of property, plant and equipment	3.2	16,093	15,168
Purchase of intangibles	3.3	3,901	9,047
		19,994	24,215
<b>Net cash outflow from investing activities</b>		<b>(19,980)</b>	<b>(24,207)</b>
<b>Cash flows from financing activities</b>			
<b>Cash was provided from:</b>			
Proceeds of loan advances		101,551	53,577
Proceeds from share issues		1,454	557
		103,005	54,134
<b>Cash was applied to:</b>			
Dividends paid		24,163	24,047
Repayment of loan advances		93,740	32,778
		117,903	56,825
<b>Net cash outflow from financing activities</b>		<b>(14,898)</b>	<b>(2,691)</b>
<b>Net increase / (decrease) in cash held</b>		<b>(5,251)</b>	<b>4,297</b>
Opening cash and cash equivalents		7,192	2,345
Effect of foreign exchange rates		(241)	550
<b>Closing cash and cash equivalents</b>	3.1.2	<b>1,700</b>	<b>7,192</b>

**RECONCILIATION OF NET PROFIT AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES**

	<b>2015</b>	<b>2014</b>
	<b>NZ\$'000</b>	<b>NZ\$'000</b>
Profit after taxation	20,419	42,152
<b>Movement in working capital:</b>		
(Increase) / decrease in trade and other receivables	111	(119)
(Increase) / decrease in inventories	(8,429)	(24,978)
Increase / (decrease) in trade and other payables	6,222	5,176
Increase / (decrease) in tax liability	(1,205)	(2,689)
	(3,301)	(22,610)
<b>Add non cash items:</b>		
Depreciation	10,611	8,500
Amortisation of intangibles	3,264	1,698
Revaluation of derivative financial instruments	(4,171)	3,079
(Increase) / decrease in deferred taxation	2,425	(2,432)
Employee share based remuneration	9	211
Loss on sale of property, plant and equipment	371	597
	12,509	11,653
<b>Cash inflow from operating activities</b>	<b>29,627</b>	<b>31,195</b>



# Section 1: Basis of Preparation



## In this Section

This section sets out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

### 1.1 GENERAL INFORMATION

Kathmandu Holdings Limited (the Company) and its subsidiaries (together the Group) is a designer, marketer and retailer of clothing and equipment for travel and adventure. It operates in New Zealand, Australia and the United Kingdom.

The Company is a limited liability company incorporated and domiciled in New Zealand. Kathmandu Holdings Limited is a company registered under the Companies Act 1993 and is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The address of its registered office is 11 Mary Muller Drive, Heathcote, Christchurch.

The Company is listed on the NZX and ASX.

The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Listing Rules. In accordance with the Financial Markets Conduct Act 2013 because group financial statements are prepared and presented for Kathmandu Holdings Limited and its subsidiaries, separate financial statements for Kathmandu Holdings Limited are no longer required to be prepared and presented.

These audited consolidated financial statements have been approved for issue by the Board of Directors on 29 September 2015.

### 1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements are presented in New Zealand dollars, which is the Company's functional currency and Group's presentation currency.

#### 1.2.1 Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

##### Entities reporting

The financial statements reported are for the consolidated "Group" which is the economic entity comprising Kathmandu Holdings Limited and its subsidiaries.

The Group is designated as a profit-oriented entity for financial reporting purposes.

##### Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

##### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies below.

##### Critical accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current

market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Assumptions underlying management's estimates can be found in the following notes to the financial statements:

AREA OF ESTIMATION	SECTION
Goodwill – assumptions underlying recoverable value	3.3
Fair value of derivatives – assumptions underlying fair value	4.2

### Foreign currency translation

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Reclassification and disclosures

Expenses within the statement of comprehensive income have been reclassified from the presentation in the financial statements for the year ended 31 July 2014. The reclassification has been made to better represent the nature of the costs of the business, how key performance indicators are measured and to allow for improved comparability. Depreciation and amortisation of \$7,019k has been reclassified from selling expenses and \$3,179k from administration

and general expenses and included in a separate line item 'Depreciation and amortisation'. There is no change in the total expenses recognised for the 2014 year.

Segment disclosures for the New Zealand segment have been represented to exclude holding company balances to better align with how the chief decision maker reviews operating performance. 'Other' represents holding companies and consolidation eliminations.

### 1.2.2 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

## Section 2: Results for the Year



### In this Section

This section focuses on the results and performance of the Group. On the following pages you will find disclosures explaining the Group's results for the year, segmental information, taxation and earnings per share.

#### 2.1 SEGMENT INFORMATION

An operating segment is a component of an entity that engages in business activities which earns revenue and incurs expenses and where the chief decision maker reviews the operating results on a regular basis and makes decisions on resource allocation. The Group is organised into three operating segments, depicting the three geographical regions the Group operates in.

The Group operates in three geographical areas: New Zealand, Australia and the United Kingdom.

	AUSTRALIA NZ\$'000	NEW ZEALAND NZ\$'000	UNITED KINGDOM NZ\$'000	OTHER NZ\$'000	TOTAL NZ\$'000
<b>31 JULY 2015</b>					
Total segment sales	266,437	140,264	5,851	-	412,552
Inter-segment sales	(1,852)	(1,136)	(192)	-	(3,180)
Sales from external customers	<b>264,585</b>	<b>139,128</b>	<b>5,659</b>	-	<b>409,372</b>
<b>EBITDA</b>	<b>21,846</b>	<b>28,747</b>	<b>(2,078)</b>	<b>(1,463)</b>	<b>47,052</b>
Depreciation and software amortisation	7,098	6,067	707	3	13,875
Income tax expense	2,840	7,583	-	(410)	10,013
<b>Total segment assets</b>	<b>223,080</b>	<b>207,071</b>	<b>7,464</b>	<b>(7,164)</b>	<b>430,451</b>
Total assets includes:					
Non-current assets	142,667	27,569	1,451	126,416	298,103
Additions to non-current assets	11,883	8,084	27	-	19,994
<b>Total segment liabilities</b>	<b>120,688</b>	<b>26,038</b>	<b>20,730</b>	<b>(50,319)</b>	<b>117,137</b>

	AUSTRALIA NZ\$'000	NEW ZEALAND NZ\$'000	UNITED KINGDOM NZ\$'000	OTHER NZ\$'000	TOTAL NZ\$'000
<b>31 JULY 2014</b>					
Total segment sales	248,369	142,415	4,843	-	395,627
Inter-segment sales	(1,064)	(1,464)	(181)	-	(2,709)
Sales from external customers	<b>247,305</b>	<b>140,951</b>	<b>4,662</b>	-	<b>392,918</b>
Segment EBITDA	<b>44,284</b>	<b>34,755</b>	<b>(2,904)</b>	<b>(1,681)</b>	<b>74,454</b>
Depreciation and software amortisation	6,160	3,689	341	8	10,198
Income tax expense	8,926	8,981	-	(396)	17,511
<b>Total segment assets</b>	<b>208,116</b>	<b>180,203</b>	<b>5,175</b>	<b>14,803</b>	<b>408,297</b>
Total assets includes:					
Non-current assets	138,501	26,734	1,898	126,416	293,549
Additions to non-current assets	11,252	12,008	947	8	24,215
<b>Total segment liabilities</b>	<b>157,748</b>	<b>23,404</b>	<b>14,227</b>	<b>(89,228)</b>	<b>106,151</b>



The New Zealand segment has been represented to exclude Holding company balances. Other represents holding companies and consolidation eliminations.

EBITDA represents earnings before income taxes (a non-GAAP measure), excluding interest income, interest expense, depreciation and amortisation, as reported in the financial statements.

The Group operates in one industry being outdoor clothing and equipment.

Revenue is allocated based on the country in which the customer is located. New Zealand includes head office charges. The Group has no reliance on any single major customers.

Costs recharged between Group companies are calculated on an arms-length basis. The default basis of allocation is % of revenue with other bases being used where appropriate.

Assets / liabilities are allocated based on where the assets / liabilities are located.

Deferred tax assets have been included within non-current assets as they form part of the amounts provided to the Chief Operating Decision Maker (the Executive Management Team), and the comparative information has been updated to reflect this.

## 2.2 PROFIT BEFORE TAX

### Accounting policies

#### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, excluding Goods and Services Tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

##### (i) Sales of goods

Sale of goods are recognised at point of sale for retail customers and when product is dispatched to the customer for online sales. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of the sale (excluding GST).

##### (ii) Interest income

Interest income is recognised on a time-portion basis using the effective interest method.

### Operating expenses

#### Employee entitlements

	2015 NZ\$'000	2014 NZ\$'000
Wages, salaries and other short term benefits	81,676	71,871
Employee share based remuneration	9	211

The number of full-time equivalent employees (excluding short-term contractors), as at 31 July was:

	2015	2014
Australia	759	718
New Zealand	509	507
United Kingdom	27	29

#### (i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. The liability for employee entitlements is carried at the present value of the estimated future cash flows.

### Rental and operating leases

The Group is a Lessee. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

	2015 NZ\$'000	2014 NZ\$'000
Rental and operating lease expenses	52,971	44,461

Rent expenses reported in these financial statements relate to non-cancellable operating leases. The future commitments on these leases are as follows:

	2015 NZ\$'000	2014 NZ\$'000
Due within 1 year	52,682	45,220
Due within 1-2 years	43,402	38,531
Due within 2-5 years	72,363	62,999
Due after 5 years	26,212	9,157
	194,659	155,907

Some of the existing lease agreements have right of renewal options for varying terms. The Group leases various properties under non-cancellable lease agreements. These leases are generally between 1 - 10 years.

## 2.3 TAXATION



### Keeping it simple

This section lays out the tax accounting policies, the current and deferred tax charges or credits in the year (which together make up the total tax charge or credit in the statement of comprehensive income), a reconciliation of profit before tax to the tax charge and the movements in deferred tax assets and liabilities.

#### Accounting policies

##### *Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

##### *Goods and Services Tax (GST)*

The statement of comprehensive income and the cash flow statement have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

#### Taxation – Statement of comprehensive income

The total taxation charge in the income statement is analysed as follows:

	2015 NZ\$'000	2014 NZ\$'000
Current income tax charge	11,356	16,846
Deferred income tax charge / (credit)	(1,343)	665
<b>Income tax charge reported in statement of comprehensive income</b>	<b>10,013</b>	<b>17,511</b>

In order to understand how, in the statement of comprehensive income, a tax charge of \$10,013k (2014: \$17,511k) arises on profit before income tax of \$30,432k (2014: \$59,663k), the taxation charge that would arise at the standard rate of New Zealand corporate tax is reconciled to the actual tax charge as follows:

	2015 NZ\$'000	2014 NZ\$'000
Profit before income tax	30,432	59,663
Income tax calculated at 28%	8,521	16,706
Adjustments to taxation:		
Adjustments due to different rate in different jurisdictions	360	812
Non-taxable income	(596)	(197)
Expenses not deductible for tax purposes	1,169	863
Utilisation of tax losses by group companies	-	-
Tax expense transferred to foreign currency translation reserve	644	(670)
Adjustments in respect of prior years	(85)	(3)
<b>Income tax charge reported in statement of comprehensive income</b>	<b>10,013</b>	<b>17,511</b>

Adjustments for prior periods primarily arise where an outcome is obtained on certain tax matters which differs from expectations held when the related provision was made. Where the outcome is more favourable than the provision made, the difference is released, lowering the current year tax charge. Where the outcome is less favourable than the provision, an additional charge to the current year tax will occur.

The tax charge / (credit) relating to components of other comprehensive income is as follows:

	2015 NZ\$'000	2014 NZ\$'000
Movement in cash flow hedge reserve before tax	16,160	(10,198)
Tax impact relating to cash flow hedge reserve	(3,745)	3,076
Movement in cash flow hedge reserve after tax	12,415	(7,122)
Foreign currency translation reserve before tax	1,654	(4,371)
Tax credit / (charge) relating to foreign currency translation reserve	(620)	577
Movement in foreign currency translation reserve after tax	1,034	(3,794)
Total other comprehensive income before tax	17,814	(14,569)
Total tax credit / (charge) on other comprehensive income	(4,365)	3,653
Total other comprehensive income after tax	13,449	(10,916)
Current tax	(644)	670
Deferred tax	(3,721)	2,983
Total tax credit / (charge) on other comprehensive income	(4,365)	3,653

### Unrecognised tax losses

The Group has estimated tax losses to carry forward from Kathmandu (U.K.) Limited of £10,399,107 (NZ\$21,008,297) (2014: £9,529,783 (NZ\$18,612,857)) which can be carried forward to be offset against future profits generated within the UK.



**Imputation credits**

	2015 NZ\$'000	2014 NZ\$'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	4,702	6,156

The above amounts represent the balance of the imputation account as at the end of July 2015, adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax;
- Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The balance of Australian franking credits able to be used by the Group in subsequent periods as at 31 July 2015 is A\$1,164,293 (2014: A\$5,318,617).

**Taxation – Balance sheet**

The following are the major deferred taxation liabilities and assets recognised by the Group and movements thereon during the current and prior year:

	TAX DEPRECIATION NZ\$'000	EMPLOYEE OBLIGATIONS NZ\$'000	FOREIGN EXCHANGE NZ\$'000	OTHER TIMING DIFFERENCES NZ\$'000	RESERVES NZ\$'000	TOTAL NZ\$'000
As at 31 July 2013	212	1,122	2,617	2,351	(2,285)	4,017
Recognised in the statement of comprehensive income	6	(36)	(1,952)	1,317	-	(665)
Recognised in other comprehensive income	-	-	(104)	11	3,076	2,983
As at 31 July 2014	218	1,086	561	3,679	791	6,335
Recognised in the statement of comprehensive income	(43)	78	1,015	293	-	1,343
Recognised in other comprehensive income	-	-	7	17	(3,745)	(3,721)
As at 31 July 2015	175	1,164	1,583	3,989	(2,954)	3,957

Certain deferred taxation assets and liabilities have been offset. The following is the analysis of the deferred taxation balances (before offset) for financial reporting purposes:

	2015 NZ\$'000	2014 NZ\$'000
Deferred taxation assets:		
- Deferred tax asset to be recovered after more than 12 months	2,799	2,081
- Deferred tax asset to be recovered within 12 months	4,232	4,661
Deferred taxation liabilities:		
- Deferred tax liability to be recovered after more than 12 months	(1,657)	(383)
- Deferred tax liability to be recovered within 12 months	(1,417)	(24)
	3,957	6,335

The deferred tax balance relates to:

- Property, plant and equipment temporary differences arising on differences in accounting and tax depreciation rates
- Temporary differences on the unrealised gain/loss in hedge reserve
- Realised gain/loss on foreign exchange contracts not yet charged in the statement of comprehensive income
- Unrealised foreign exchange on intercompany loan (Kathmandu Pty Ltd)
- Inventory provisioning
- Employee benefits accruals
- Temporary differences arising from landlord contributions and rent free periods
- Other temporary differences on miscellaneous items

## 2.4 EARNINGS PER SHARE



### Keeping it simple

Earnings per share ('EPS') is the amount of post-tax profit attributable to each share.

Basic EPS is calculated by dividing the profit after tax attributable to equity holders of the Company of \$20,419,451 (2014: 42,151,736) by the weighted average number of ordinary shares in issue during the year of 201,342,759 (2014: 200,422,443).

Diluted EPS reflects any commitments the Group has to issue shares in the future that would decrease EPS. In 2015, these are in the form of share options / performance rights. To calculate the impact it is assumed that all share options are exercised / performance rights taken, and therefore, adjusting the weighted average number of shares.

	2015 '000	2014 '000
Weighted average number of shares in issue	201,343	200,422
Adjustment for:		
- Share options / performance rights	884	1,881
	202,227	202,303

## Section 3: Operating Assets and Liabilities



### In this Section

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in Section 4. Deferred tax assets and liabilities are shown in note 2.3.



### Keeping it simple

Working capital represents the assets and liabilities the Group generates through its trading activity. The Group therefore defines working capital as inventory, cash, trade and other receivables and trade and other payables.

### 3.1 WORKING CAPITAL

#### 3.1.1 Inventory

##### Accounting policies

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventory is considered in transit when the risk and rewards of ownership have transferred to the Group.

The Group assesses the likely residual value of inventory. A stock provision is recognised for stock which is expected to sell for less than cost. Any increase in these provisions is taken as a reduction to inventory on the balance sheet and expensed to cost of sales.

Inventory is broken down into trading stock and goods in transit below:

	2015 NZ\$'000	2014 NZ\$'000
Trading stock	101,198	91,392
Goods in transit	12,072	12,375
	113,270	103,767

Inventory has been reviewed for obsolescence and a provision of \$454,413 (2014: \$348,189) has been made.

#### 3.1.2 Cash and cash equivalents

	2015 NZ\$'000	2014 NZ\$'000
Cash on hand	175	169
Cash at bank	1,508	7,009
Short term deposits	17	14
	1,700	7,192
The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:		
NZD	520	1,624
AUD	471	5,263
GBP	237	250
USD	470	52
EUR	2	3
	1,700	7,192

#### 3.1.3 Trade and other receivables

##### Accounting policies

Trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently at the amounts considered recoverable (amortised cost). The collectability of trade receivables is reviewed on an on-going basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.



	2015 NZ\$'000	2014 NZ\$'000
Trade receivables	98	211
Other assets and prepayments	3,643	3,568
	3,741	3,779

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

NZD	1,584	1,075
AUD	1,833	2,435
GBP	324	269
	3,741	3,779

### 3.1.4 Trade and other payables due within one year

#### Accounting policies

Trade payables are recognised at the value of the invoice received from a supplier. The carrying value of trade payables is considered to approximate fair value as amounts are unsecured and are usually paid by the 30th of the month following recognition.

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

	2015 NZ\$'000	2014 NZ\$'000
Trade payables	14,255	11,868
Employee entitlements	7,780	6,165
Sundry creditors and accruals	20,600	19,456
Provisions	1,413	-
	44,048	37,489

The carrying amount of the Group's trade and other payables are denominated in the following currencies:

NZD	9,490	9,064
AUD	30,930	26,067
GBP	1,042	502
USD	2,586	1,856
	44,048	37,489

Provisions primarily relate to an onerous contract in relation to the relocation of the Christchurch support office and the restoration of leased properties for the Christchurch support office and the Australian distribution centre. These provisions are expected to be fully utilised within the next 12 months.

### 3.1.5 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This would arise principally from the Group's receivables from customers. The nature of the customer base is such that there is no individual customer concentration of credit risk. Other financial instruments which potentially subject the Group to credit risks principally consist of bank balances, loans, advances and refund of taxes.

The Group does not carry out credit evaluations for all new customers requiring credit. Credit is generally only given to government or local council backed institutions.

#### Exposure to credit risk

The below balances are recorded at their carrying amount after any provision for loss on these financial instruments. The maximum exposure to credit risk at reporting date was (carrying amount):

	2015 NZ\$'000	2014 NZ\$'000
Cash and cash equivalents	1,700	7,192
Trade receivables	98	211
Sundry debtors	1,039	1,360
	2,837	8,763

As at balance date the carrying amount is also considered to approximate fair value for each of the financial instruments. There are no past due or impaired balances.

The credit quality of cash and cash equivalents can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2015 NZ\$'000	2014 NZ\$'000
Cash and cash equivalents:		
Standard & Poors - AA-	1,494	6,949
Standard & Poors - BBB+	206	243
Total cash and cash equivalents	1,700	7,192

## 3.2 PROPERTY, PLANT AND EQUIPMENT



### Keeping it simple

The following section shows the physical assets used by the Group to operate the business, generating revenues and profits. These assets include store and office fit-out, as well as equipment used in sales and support activities.

Assets are recognised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

#### Accounting policies

##### *Property, plant and equipment*

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The assets' residual value and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Capital work in progress is not depreciated until available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

##### *Depreciation*

Depreciation of property, plant and equipment is calculated using straight line and diminishing value methods so as to expense the cost of the assets over their useful lives. The rates are as follows:

Leasehold improvements	8 – 50 %
Office, plant and equipment	8 – 50 %
Furniture and fittings	10 – 50 %
Computer equipment	10 – 60 %

##### *Impairment of assets*

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Property, plant and equipment can be analysed as follows:

	LEASEHOLD IMPROVEMENT \$'000	OFFICE, PLANT & EQUIPMENT \$'000	FURNITURE & FITTINGS \$'000	COMPUTER EQUIPMENT \$'000	TOTAL \$'000
<b>Year ended 31 July 2014</b>					
Opening net book value	27,379	1,922	11,049	3,029	43,379
Additions	5,318	394	8,901	555	15,168
Disposals	(339)	(27)	(279)	(131)	(776)
Depreciation charge	(4,277)	(446)	(2,429)	(1,348)	(8,500)
Exchange differences	(567)	(26)	(261)	(15)	(869)
Closing net book value	27,514	1,817	16,981	2,090	48,402
<b>As at 31 July 2014</b>					
Cost	49,640	5,160	26,802	7,307	88,909
Accumulated depreciation	(22,126)	(3,343)	(9,821)	(5,217)	(40,507)
Closing net book value	27,514	1,817	16,981	2,090	48,402
<b>Year ended 31 July 2015</b>					
Opening net book value	27,514	1,817	16,981	2,090	48,402
Additions	10,679	723	3,905	786	16,093
Disposals	(101)	(15)	(74)	(11)	(201)
Depreciation charge	(5,965)	(464)	(3,281)	(901)	(10,611)
Exchange differences	296	4	102	8	410
Closing net book value	32,423	2,065	17,633	1,972	54,093
<b>As at 31 July 2015</b>					
Cost	60,243	5,778	30,672	8,120	104,813
Accumulated depreciation	(27,820)	(3,713)	(13,039)	(6,148)	(50,720)
Closing net book value	32,423	2,065	17,633	1,972	54,093

Included within property, plant and equipment are assets currently in progress of \$10,441k, this relates to store fit-outs and work to complete the New Zealand support office and Australian distribution centre, due for opening March 2016 and October 2016 respectively.

#### Depreciation

	2015 NZ\$'000	2014 NZ\$'000
Leasehold improvements	5,965	4,277
Office, plant and equipment	464	446
Furniture and fittings	3,281	2,429
Computer equipment	901	1,348
<b>Total depreciation</b>	<b>10,611</b>	<b>8,500</b>

Depreciation expenditure is excluded from administration and general expenses in the statement of comprehensive income.

#### Sale of property, plant and equipment

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

	2015 NZ\$'000	2014 NZ\$'000
Loss/(gain) on sale of property, plant and equipment	371	597

#### Capital commitments

Capital commitments contracted for at balance date include property, plant and equipment of \$18,486k (2014: \$3,420k).



### 3.3 INTANGIBLE ASSETS



## Keeping it simple

The following section shows the non-physical assets used by the Group to operate the business, generating revenues and profits. These assets include brands, licenses, software development and goodwill. This section explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the net book value of these assets.

#### Accounting policies

##### *Goodwill*

Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the assets and liabilities of the acquiree. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

##### *Brand*

Acquired brands are carried at original cost based on independent valuation obtained at the date of acquisition. The brand represents the price paid to acquire the rights to use the Kathmandu brand. The brand is not amortised. Instead the brand is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

##### *Software costs*

Software costs have a finite useful life. Software costs are capitalised and written off over the useful economic life.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees.

Software is amortised using straight line and diminishing value methods and rates of 10-67%.

##### *Impairment*

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life, including goodwill, are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows e.g. cash generating units.

**Intangible assets**

	<b>GOODWILL NZ\$'000</b>	<b>BRAND NZ\$'000</b>	<b>SOFTWARE NZ\$'000</b>	<b>TOTAL NZ\$'000</b>
<b>Year ended 31 July 2014</b>				
Opening net book value	75,406	155,426	4,031	234,863
Additions	-	-	9,047	9,047
Disposals	-	-	(155)	(155)
Amortisation	-	-	(1,698)	(1,698)
Exchange differences	-	(3,328)	(55)	(3,383)
Closing net book value	75,406	152,098	11,170	238,674
<b>As at 31 July 2014</b>				
Cost	76,677	152,098	18,700	247,475
Accumulated amortisation/impairment	(1,271)	-	(7,530)	(8,801)
Closing net book value	75,406	152,098	11,170	238,674
<b>Year ended 31 July 2015</b>				
Opening net book value	75,406	152,098	11,170	238,674
Additions	-	-	3,901	3,901
Disposals	-	-	(185)	(185)
Amortisation	-	-	(3,264)	(3,264)
Exchange differences	-	897	10	907
Closing net book value	75,406	152,995	11,632	240,033
<b>As at 31 July 2015</b>				
Cost	76,677	152,995	22,467	252,139
Accumulated amortisation/impairment	(1,271)	-	(10,835)	(12,106)
Closing net book value	75,406	152,995	11,632	240,033

**Impairment tests for goodwill and brand**

The aggregate carrying amounts of goodwill and brand allocated to each unit are as follows:

	<b>GOODWILL</b>		<b>BRAND</b>	
	<b>2015 NZ\$'000</b>	<b>2014 NZ\$'000</b>	<b>2015 NZ\$'000</b>	<b>2014 NZ\$'000</b>
New Zealand	28,654	28,654	51,000	51,000
Australia	46,752	46,752	101,995	101,098
	75,406	75,406	152,995	152,098

For the purposes of goodwill and brand impairment testing, the Group operates as two cash generating units, New Zealand and Australia. The recoverable amount of the cash generating units has been determined based on value in use.

The discounted cash flow valuations were calculated using projected five year future cash flows based on Board approved business plans. Business plans are modelled assuming like for like sales growth based on historical performance taking into account changing market conditions and the continuation of the store rollout programme. The key assumptions used for the value in use calculation are as follows:

	2015	2014
Terminal growth rate	2.0%	2.5%
New Zealand CGU pre-tax discount rate	14.9%	15.0%
Australia CGU pre-tax discount rate	13.5%	14.0%

The calculations confirmed that there was no impairment of goodwill and brand during the year (2014: nil). The Board believes that any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount.

The expected continued promotion and marketing of the Kathmandu brand support the assumption that the brand has an indefinite life.

#### **Amortisation**

	2015 NZ\$'000	2014 NZ\$'000
Software	3,264	1,698
Total amortisation	3,264	1,698

#### **Capital commitments**

Capital commitments contracted for at balance date include intangible assets of \$1,192k (2014: \$1,135k).

## Section 4: Capital Structure and Financing Costs



### In this Section

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

Capital structure is how a company finances its overall operations and growth by using different sources of funds. The Directors determine and monitor the appropriate capital structure of Kathmandu, specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future.

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute strategy and to deliver its business plan.

#### 4.1 INTEREST BEARING LIABILITIES

##### Accounting policies

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

The table below separates borrowings into current and non-current liabilities:

	2015 NZ\$'000	2014 NZ\$'000
Current portion	39	231
Non-current portion	70,976	62,484
<b>Total term loans</b>	<b>71,015</b>	<b>62,715</b>

On 23 March 2015 the Group entered into a new multi option facility agreement with Commonwealth Bank of Australia and ASB Bank Limited and a facility agreement with Bank of New Zealand and National Bank of Australia.

The loans are repayable in full on final maturity date of the facilities being 23 March 2018. Interest is payable based on the BKBM rate (NZD borrowings), the BBSY rate (AUD borrowings), or the applicable short term rate for interest periods less than 30 days, plus a margin of up to 1.30%. The bank loans are secured against the assets of the company and its subsidiaries.

The covenants entered into by the Group require specified calculations of Group earnings before interest, tax, depreciation and amortisation (EBITDA) plus lease rental costs to exceed total fixed charges (net interest expense and lease rental costs) at the end of each half during the financial year. Similarly EBITDA must be no less than a specified proportion of total net debt at the end of each six month interim period. The calculations of these covenants are specified in the bank facility agreements of 19 December 2011 and have been complied with at 31 July 2015.

The current interest rates, prior to hedging, on the term loans ranged between 2.90% - 4.37% (2014: 3.48% - 4.56%).

The Group has entered into a 36 month loan to finance software licenses. For accounting purposes, an interest rate has been imputed on the loan. The imputed rate is within the range shown above for current interest rates on external borrowings. The loan balance at 31 July 2015 is \$39,382 (2014: \$270,750). The loan is not repayable on demand.



	2015 NZ\$'000	2014 NZ\$'000
The principal of interest bearing liabilities is:		
Payable within 1 year	39	231
Payable 1 to 2 years	-	62,484
Payable 2 to 3 years	70,976	-
Payable 3 to 4 years	-	-
	71,015	62,715

#### 4.1.1 Finance costs

	2015 NZ\$'000	2014 NZ\$'000
Interest income	(56)	(50)
Interest expense	3,645	3,904
Other finance costs	594	570
Net exchange loss/(gain) on foreign currency borrowings	(1,438)	169
	2,745	4,593

Other finance costs relates to facility fees on banking arrangements.

#### 4.1.2 Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from floating rate borrowings drawn down under bank debt facilities. The Group uses interest rate swaps to hedge floating rate borrowings in accordance with the Group treasury policy. Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates.

Refer to section 4.2 for notional principal amounts and valuations of interest rate swaps outstanding at balance date. A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table below. At the reporting date the interest rate profile of the Group's banking facilities was (carrying amount):

	2015 NZ\$'000	2014 NZ\$'000
Total secured loans	70,976	62,444
less Principal covered by interest rate swaps	(50,694)	(48,374)
Net Principal subject to floating interest rates* <sup>1</sup>	20,282	14,070

<sup>1</sup> Debt levels fluctuate throughout the year and as at 31 July, are typically at a cyclical low.

The Group has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its long-term debt. The cash flow hedge (gain)/loss on interest rate swaps at balance date was \$517,348 (2014: \$150,844).

### Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk.

A sensitivity of 1% (2014: 1%) has been selected for interest rate risk. The 1% is based on reasonably possible changes over a financial year, using the observed range of historical data for the preceding five year period.

Amounts are shown net of income tax. All variables other than applicable interest rates are held constant. The impact on equity is presented exclusive of the impact on retained earnings.

31 JULY 2015	CARRYING AMOUNT \$'000	-1%		+1%	
		PROFIT \$'000	EQUITY \$'000	PROFIT \$'000	EQUITY \$'000
Derivative financial instruments (asset) / liability	(13,119)	(507)	876	507	(908)
<b>Financial assets</b>					
Cash	1,700	(12)	-	12	-
		(12)	-	12	-
<b>Financial liabilities</b>					
Borrowings	70,976	710	-	(710)	-
		710	-	(710)	-
<b>Total increase / (decrease)</b>		<b>191</b>	<b>876</b>	<b>(191)</b>	<b>(908)</b>

31 JULY 2014	CARRYING AMOUNT \$'000	-1%		+1%	
		PROFIT \$'000	EQUITY \$'000	PROFIT \$'000	EQUITY \$'000
Derivative financial instruments (asset) / liability	3,060	(572)	852	572	(885)
<b>Financial assets</b>					
Cash	7,192	(52)	-	52	-
		(52)	-	52	-
<b>Financial liabilities</b>					
Borrowings	62,444	624	-	(624)	-
		624	-	(624)	-
<b>Total increase / (decrease)</b>		<b>-</b>	<b>852</b>	<b>-</b>	<b>(885)</b>

#### 4.1.3 Liquidity Risk

Liquidity risk is the risk that an unforeseen event or miscalculation in the required liquidity level will result in the Group not being able to meet its obligations in a timely manner, and therefore gives rise to lower investment income or to higher borrowing costs than normal. Prudent liquidity risk management includes maintaining sufficient cash, and ensuring the availability of funding from adequate amounts of credit facilities.

The Group's liquidity exposure is managed by ensuring sufficient levels of liquid assets and committed facilities are maintained based on regular monitoring of cash flow forecasts. The Group has lending facilities of \$138,580,931 / \$125,000,000 AUD (2014: \$126,373,626 / \$115,000,000 AUD) and operates well within this facility. This includes short term bank overdraft requirements, and at balance date no bank accounts were in overdraft.



## Keeping it simple

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, so will not always reconcile with the amounts disclosed on the balance sheet.

	<b>LESS THAN 1 YEAR NZ\$'000</b>	<b>BETWEEN 1 AND 2 YEARS NZ\$'000</b>	<b>BETWEEN 2 AND 5 YEARS NZ\$'000</b>	<b>OVER 5 YEARS NZ\$'000</b>
<b>Group 2015</b>				
Trade and other payables	44,048	-	-	-
Borrowings	2,184	2,178	72,976	-
	46,232	2,178	72,976	-
<b>Group 2014</b>				
Trade and other payables	37,489	-	-	-
Borrowings	2,295	63,344	-	-
	39,784	63,344	-	-

The Group enters into forward exchange contracts to manage the risks associated with the purchase of foreign currency denominated products.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. They are expected to occur and affect the profit or loss at various dates between balance date and the following five years.

	LESS THAN 1 YEAR NZ\$'000	BETWEEN 1 AND 2 YEARS NZ\$'000	BETWEEN 2 AND 5 YEARS NZ\$'000
<b>At 31 July 2015</b>			
<b>Forward foreign exchange contracts</b>			
- Inflow	146,814	-	-
- Outflow	(133,177)	-	-
Net Inflow / (Outflow)	13,637	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(263)	(143)	(77)
<b>At 31 July 2014</b>			
<b>Forward foreign exchange contracts</b>			
- Inflow	119,979	-	-
- Outflow	(122,889)	-	-
Net Inflow / (Outflow)	(2,910)	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(181)	(73)	(46)

## 4.2 DERIVATIVE FINANCIAL INSTRUMENTS



### Keeping it simple

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying exposure.

The Group is exposed to changes in interest rates on its borrowings and to changes in foreign exchange rates on its foreign currency (largely USD) purchases. The Group uses derivatives to hedge these underlying exposures.

Derivative financial instruments are initially included in the balance sheet at their fair value, either as assets or liabilities, and are subsequently re-measured at fair value at each reporting date. An interest rate swap is an instrument to exchange a fixed rate of interest for a floating rate, or vice versa, or one type of floating rate for another.

### Accounting policies

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.



**Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income. Amounts accumulated in equity are recycled in the statement of comprehensive income in the periods when the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income.

**Foreign currency translation**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income. Translation differences on monetary financial assets and liabilities are reported as part of the fair value gain or loss.

**Derivative financial instruments**

	2015 NZ\$'000	2014 NZ\$'000
Foreign exchange contracts		
Current asset	13,637	-
Current liability	-	(2,701)
Non-current liability	-	(209)
Net foreign change contracts – cash flow hedge (asset / (liability))	13,637	(2,910)
Interest rate swaps		
Current asset	-	10
Non-current asset	20	138
Current liability	(77)	(298)
Non-current liability	(461)	-
Net interest rate swaps – cash flow hedge (asset / (liability))	(518)	(150)
Total derivative financial instruments	13,119	(3,060)

The above table shows the Group's financial derivative holdings at year end.

**Interest rate swaps - cash flow hedge**

Interest rate swaps are to exchange a floating rate of interest for a fixed rate of interest. The objective of the transaction is to hedge the core floating rate borrowings of the business to minimise the impact of interest rate volatility within acceptable levels of risk thereby limiting the volatility on the Group's financial results. The notional amount of interest rate swaps at balance date was \$50,694,013 (2014: \$48,373,626). The fixed interest rates range between 3.05% and 4.13% (2014: 3.05% and 5.71%). Refer section 4.1.3 for timing of expected cash flows relating to interest rate swaps.

**Foreign exchange contracts - cash flow hedge**

The objective of these contracts is to hedge highly probable anticipated foreign currency purchases against currency fluctuations. These contracts are timed to mature when import purchases are scheduled for payment. The notional amount of foreign exchange contracts amount to US\$95,450,000, NZ\$133,176,765 (2014: US\$100,250,000, NZ\$122,888,501).

No material hedge ineffectiveness for interest rate swaps or foreign exchange contracts exists as at balance date (2014: nil).

#### 4.2.1 Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the AUD, USD and the GBP. The Group is exposed to currency risk on any cash remitted between Australia and the United Kingdom and New Zealand. The Group does not hedge for such remittances. The Group is exposed to purchases that are denominated in a currency other than the functional currency of Group entities, and over 90% of purchases are denominated in United States dollars. Interest on borrowings is denominated in either New Zealand dollars or Australian dollars, and is paid for out of surplus operating cashflows generated in New Zealand or Australia.

A sensitivity analysis of foreign exchange rate risk on the Group's financial assets and liabilities is provided in the table below.

#### Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to foreign exchange risk.

A sensitivity of -10% / +10% (2014: -10% / +10%) for foreign exchange risk has been selected. While it is unlikely that an equal movement of the New Zealand dollar would be observed against all currencies an overall sensitivity of -10% / +10% (2014: -10% / +10%) is reasonable given the exchange rate volatility observed on an historic basis for the preceding five year period and market expectation for potential future movements.

Amounts are shown net of income tax. All variables other than applicable exchange rates are held constant. The impact on equity is presented exclusive of the impact on retained earnings.

	CARRYING AMOUNT \$'000	-10%		+10%	
		PROFIT \$'000	EQUITY \$'000	PROFIT \$'000	EQUITY \$'000
<b>31 July 2015</b>					
Derivative financial instruments (asset) / liability	(13,119)	-	(16,312)	-	13,365
<b>Financial assets</b>					
Cash	1,700	131	-	(107)	-
Trade receivables and sundry debtors	1,137	(173)	-	141	-
		(42)	-	34	-
<b>Financial liabilities</b>					
Trade payables	44,048	(2,765)	-	2,262	-
Borrowings	70,976	-	(4,878)	-	3,991
		(2,765)	(4,878)	2,262	3,991
<b>Total increase / (decrease)</b>		<b>(2,807)</b>	<b>(21,190)</b>	<b>2,296</b>	<b>17,356</b>

		-10%		+10%	
	CARRYING AMOUNT \$'000	PROFIT \$'000	EQUITY \$'000	PROFIT \$'000	EQUITY \$'000
Derivative financial instruments (asset) / liability	3,060	-	(12,588)	-	10,299
Financial assets					
Cash	7,192	445	-	(364)	-
Trade receivables and sundry debtors	1,572	(112)	-	91	-
		333	-	(273)	-
Financial liabilities					
Trade payables	37,489	(2,274)	-	1,861	-
Borrowings	62,444	-	(4,396)	-	3,596
		(2,274)	(4,396)	1,861	3,596
Total increase / (decrease)		(1,941)	(16,984)	1,588	13,895

## 4.3 EQUITY



### Keeping it simple

This section explains material movements recorded in shareholders' equity that are not explained elsewhere in the financial statements. The movements in equity and the balance at 31 July 2015 are presented in the statement of changes in equity.

#### Accounting policies

##### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

##### Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

#### 4.3.1 Contributed equity - ordinary shares

	2015 NZ\$'000	2014 NZ\$'000
Ordinary shares fully paid (\$)	200,191	198,228
Balance at beginning of year	198,228	197,370
Issue of shares under Executive and Senior Management Long Term Incentive Plan	1,963	858
Balance at end of year	200,191	198,228
	2015 '000	2014 '000
Number of issued shares		
Ordinary shares issued at beginning of the year	200,633	200,216
Shares issued under Executive and Senior Management Long Term Incentive Plan	851	417
Ordinary shares issued at end of the year	201,484	200,633

As at 31 July 2015 there were 201,484,583 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity. 165,639 shares (2014: 146,648) were issued under the "Executive and Senior Management Long Term Incentive Plan 24 November 2010" and 685,475 shares (2014: 270,927) were issued under the "Executive Share Option Plan 16 October 2009" during the year ending 31 July 2015.

All ordinary shares carry equal rights in respect of voting and the receipt of dividends. Ordinary shares do not have a par value.

Refer to section 5.4 for Employee share based remuneration plans.

#### 4.3.2 Reserves and retained earnings

##### Cash flow hedging reserve

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in other comprehensive income, as described in the accounting policy in section 4.2. The amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

##### Foreign currency translation reserve

The FCTR is used to record foreign currency translation differences arising on the translation of the Group entities results and financial position. The amounts are accumulated in other comprehensive income and recognised in profit and loss when the foreign operation is partially disposed of or sold.

##### Share based payments reserve

The share based payments reserve is used to recognise the fair value of share options and performance rights granted but not exercised or lapsed. Amounts are transferred to share capital when vested options are exercised by the employee or performance rights are granted.

Reserves		2015 NZ\$'000	2014 NZ\$'000
<b>(i) Cash flow hedging reserve</b>			
Opening balance		(2,055)	5,067
Revaluation - gross		29,281	(7,541)
Deferred taxation on revaluation	2.3	(3,745)	3,076
Transferred to hedged asset		(12,857)	(2,690)
Transfer to net profit - gross		(264)	33
Closing balance		10,360	(2,055)
<b>(ii) Foreign currency translation reserve</b>			
Opening balance		(14,352)	(10,558)
Currency translation differences – Gross		1,654	(4,371)
Currency translation differences – Taxation	2.3	(620)	577
Closing balance		(13,318)	(14,352)
<b>(iii) Share based payments reserve</b>			
Opening balance		733	823
Current year amortisation		9	211
Transfer to Share Capital on vesting of shares to Employees		(509)	(301)
Share Options / Performance Rights lapsed		(209)	-
Closing balance		24	733
<b>Total Reserves</b>		<b>(2,934)</b>	<b>(15,674)</b>



**4.3.3 Dividends**

	<b>2015</b>	<b>2014</b>
	<b>NZ\$'000</b>	<b>NZ\$'000</b>
Prior year final dividend paid	18,119	18,028
Current year interim dividend paid	6,044	6,019
Dividends paid (\$0.12 per share (2014: \$0.12))	24,163	24,047

**4.3.4 Capital risk management**

The Group's capital includes contributed equity, reserves and retained earnings.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt or draw down more debt.

## Section 5: Other Notes

### 5.1 RELATED PARTIES

	EQUITY HOLDING	
	2015	2014
<b>Subsidiaries</b>		
Milford Group Holdings Limited	100%	100%
Kathmandu Limited	100%	100%
Kathmandu Pty Limited	100%	100%
Kathmandu (U.K.) Limited	100%	100%

All subsidiary entities have a balance date of 31 July. Kathmandu Pty Limited and Kathmandu (U.K.) Limited are incorporated in Australia and the United Kingdom, respectively. All other subsidiary entities are incorporated in New Zealand.

The principal activities of the subsidiaries are:

	COUNTRY OF REGISTRATION	PRINCIPAL ACTIVITY
Milford Group Holdings Limited	New Zealand	Holding company
Kathmandu Limited	New Zealand	Outdoor retailer
Kathmandu Pty Limited	Australia	Outdoor retailer
Kathmandu (U.K.) Limited	United Kingdom	Outdoor retailer

#### 5.1.1 Related party disclosures

##### Parent and Ultimate Controlling Party

Kathmandu Holdings Limited is the immediate parent, ultimate parent and controlling party.

During the year, legal fees of \$40,921 (2014: \$50,180) were paid to Chapman Tripp for services provided to the Group (primarily related to property leases). John Holland is both a Director of Kathmandu Holdings Limited and a Partner of Chapman Tripp. As at 31 July 2015, the Group owed outstanding legal fees of \$754 (2014: \$5,437).

During the year, operating lease costs of \$238,536 (2014: \$238,407) were paid to Chalmers Properties Limited, a subsidiary of Port Otago Limited. John Harvey is a Director of both of these companies.

All subsidiaries within the Group are related parties. No amounts owed to related parties have been written off or forgiven during the year.

During the year the Company advanced and repaid loans to its subsidiaries by way of an internal current account. In presenting the financial statements of the Group, the effect of transactions and balances between fellow subsidiaries and those with the parent have been eliminated. All transactions with related parties were in the normal course of business and provided on commercial terms.

Material amounts outstanding between the parent and subsidiaries at year end were:

- Loans from the parent to subsidiaries (Kathmandu Limited and Milford Group Holdings Limited) \$108,437,709 (2014: \$84,274,467).
- Loans to the parent from subsidiaries \$27,655,127 (2014: \$3,004,251).

##### Key Management Personnel

	2015 NZ\$'000	2014 NZ\$'000
Salaries	2,844	3,450
Other short-term employee benefits	166	350
Employee performance rights	9	211
	3,019	4,011

Key management personnel include the following employees:

Executive Directors:

- Chief Executive Officer
- Chief Operating Officer

Other Key Management Personnel:

- Chief Financial Officer
- GM, Product
- GM, Marketing, Online and International
- GM, Supply Chain
- GM, Human Resources
- Chief Information Officer
- GM, Retail

Remuneration Detail – refer to section 5.3.

## 5.2 FAIR VALUES

The following methods and assumptions were used to estimate the fair values for each class of financial instrument:

### Trade debtors, trade creditors and bank balances

The carrying value of these items is equivalent to their fair value.

### Term liabilities

The fair value of the Group's term liabilities is estimated based on current market rates available to the Group for debt of similar maturity. The fair value of term liabilities equates to their current carrying value.

### Foreign exchange contracts and interest rate swaps

The fair value of these instruments is determined by using valuation techniques (as they are not traded in an active market). These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Specific valuation techniques used to value financial instruments include the fair value of interest rate swaps calculated as the present value of the estimated future cash flows based on observable yield curves and the fair value of forward foreign exchange contracts determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

These derivatives have all been determined to be within level 2 (for the purposes of NZ IFRS 13) of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable.

### Guarantees and overdraft facilities

The fair value of these instruments is estimated on the basis that management do not expect settlement at face value to arise. The carrying value and fair value of these instruments is approximately nil. All guarantees are payable on demand.

## 5.3 REMUNERATION DETAIL

2015	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	SHARE BASED PAYMENTS		TOTAL	PERFORMANCE RELATED
	CASH SALARY AND FEES	CASH BONUS	NON-MONETARY BENEFITS	SUPER-ANNUATION	PERFORMANCE RIGHTS	EQUITY RELATED		
NAME	\$	\$	\$	\$	\$	%	\$	%
<b>Non-Executive Directors</b>								
David Kirk	242,230	-	-	-	-	0.0%	242,230	0.0%
John Harvey	125,449	-	-	-	-	0.0%	125,449	0.0%
John Holland	125,449	-	-	-	-	0.0%	125,449	0.0%
Sandra McPhee	125,449	-	-	-	-	0.0%	125,449	0.0%
Christine Cross	125,449	-	-	-	-	0.0%	125,449	0.0%
	<b>744,026</b>	-	-	-	-	<b>0.0%</b>	<b>744,026</b>	<b>0.0%</b>
<b>Executive Directors</b>								
Xavier Simonet <sup>1</sup>	77,283	56,831	-	2,153	-	0.0%	136,267	0.0%
Peter Halkett <sup>2</sup>	297,909	-	-	6,588	4,367	1.4%	308,864	0.0%
Mark Todd <sup>3</sup>	690,701	-	2,655	22,183	1,541	0.2%	717,080	0.0%
	<b>1,065,893</b>	<b>56,831</b>	<b>2,655</b>	<b>30,924</b>	<b>5,908</b>	<b>0.5%</b>	<b>1,162,211</b>	<b>0.0%</b>
<b>Other Key Management Personnel</b>								
Reuben Casey	311,025	-	2,599	9,926	-	0.0%	323,550	0.0%
Other Management <sup>4</sup>	2,105,366	91,803	12,311	65,492	2,593	0.1%	2,277,565	0.0%
<b>Total</b>	<b>4,226,310</b>	<b>148,634</b>	<b>17,565</b>	<b>106,342</b>	<b>8,501</b>	<b>0.2%</b>	<b>4,507,352</b>	<b>0.0%</b>

<sup>1</sup> CEO from 29 June 2015. Cash bonus paid is a sign on bonus. <sup>2</sup> Resigned as CEO effective 25 November 2014. <sup>3</sup> Acting CEO 6 October 2014 to 28 June 2015. Resigned as Executive Director effective 24 August 2015. <sup>4</sup> Cash bonus paid relates to sign on bonus.

2014	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	SHARE BASED PAYMENTS		TOTAL	PERFORMANCE RELATED
	CASH SALARY AND FEES	CASH BONUS	NON-MONETARY BENEFITS	SUPER-ANNUATION	PERFORMANCE RIGHTS	EQUITY RELATED		
NAME	\$	\$	\$	\$	\$	%	\$	%
<b>Non-Executive Directors</b>								
David Kirk	144,853	-	-	-	-	0.0%	144,853	0.0%
John Harvey	196,039	-	-	-	-	0.0%	196,039	0.0%
John Holland	128,069	-	-	-	-	0.0%	128,069	0.0%
Sandra McPhee	128,069	-	-	-	-	0.0%	128,069	0.0%
Christine Cross	128,069	-	-	-	-	0.0%	128,069	0.0%
	<b>725,099</b>	-	-	-	-	<b>0.0%</b>	<b>725,099</b>	<b>0.0%</b>
<b>Executive Directors</b>								
Peter Halkett	888,846	87,568	10,637	22,057	129,976	11.4%	1,139,084	7.7%
Mark Todd	488,860	48,750	3,909	17,066	73,633	11.6%	632,218	7.7%
	<b>1,377,706</b>	<b>136,318</b>	<b>14,546</b>	<b>39,123</b>	<b>203,609</b>	<b>11.5%</b>	<b>1,771,302</b>	<b>7.7%</b>
<b>Other Key Management Personnel</b>								
	1,949,221	167,539	31,676	83,577	7,883	0.4%	2,239,896	7.5%
<b>Total</b>	<b>4,052,026</b>	<b>303,857</b>	<b>46,222</b>	<b>122,700</b>	<b>211,492</b>	<b>4.5%</b>	<b>4,736,297</b>	<b>6.4%</b>

## 5.4 EMPLOYEE SHARE BASED REMUNERATION

### Accounting policy

#### (i) Equity settled share option plan

The Employee Share Option Plan allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense in the Statement of comprehensive income with a corresponding increase in the employee share based payments reserve. The fair value is measured at grant date and spread over the vesting periods. The fair value of the options granted is measured using the Monte Carlo simulation approach, taking into account the terms and conditions upon which the options are granted. When options are exercised the amount in the share option reserve relating to those options, together with the exercise price paid by the employee, is transferred to share capital. When any vested options lapse, upon employee termination or unexercised options reaching maturity, the amount in the share based payments reserve relating to those options is transferred to retained earnings.

#### (ii) Equity settled long term incentive plan

The Executive and Senior Management Long Term Incentive plan grants Group employees performance rights subject to performance hurdles being met. The fair value of rights granted is recognised as an employee expense in the Statement of comprehensive income with a corresponding increase in the employee share based payments reserve. The fair value is measured at grant date and amortised over the vesting periods. The fair value of the rights granted is measured using the Kathmandu Holdings Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to the each vesting date. When performance rights vest, the amount in the share based payments reserve relating to those rights are transferred to share capital. When any vested performance rights lapse upon employee termination, the amount in the share based payments reserve relating to those rights is transferred to retained earnings.

### Executive Share Option Plan 16 October 2009

On 16 October 2009 the Board approved an Executive Share Option Plan to issue options to selected senior executives and to Executive Directors. Options will vest annually in part or in full with the holder, in three tranches commencing 1 October 2010. All options not vested expired on 1 October 2013, and all options vested must be exercised within five years from date of grant. Entitlement to exercise is conditional on the Company achieving in relation to each tranche a compound total shareholder return of 15% per annum over the period of trading that is measured in relation to that tranche. Each option entitles the holder to one ordinary share in the capital of the Company. The exercise price is determined by the Board but is generally \$2.1333 for New Zealand based employees and A\$1.70 for Australian based employees.

During the financial year the Company issued nil options (2014: nil) to Executive Directors and senior executives. The fair value of options issued during the financial year is \$0 (2014: \$0). The options issued during 2010 were valued under a Monte Carlo simulation approach factoring in the total shareholder return condition using the following assumptions:

Current price at issue date	\$2.14
Risk free interest rate	5.40%
Expected life (years)	5
Expected share volatility	30%

A 50% Net Profit after Tax dividend pay-out ratio was factored into the valuation of the options based on management budgets. The expected volatility was estimated based on the historical volatility of comparable listed retail businesses.

The estimated fair value for each tranche of options issued is amortised over the vesting period from the grant date. The Company has recognised a compensatory expense in the statement of comprehensive income of \$0 (2014: \$0) which represents this amortisation.

Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	2015		2014	
	AVERAGE EXERCISE PRICE \$ PER SHARE	OPTIONS '000	AVERAGE EXERCISE PRICE \$ PER SHARE	OPTIONS '000
Balance at beginning of year	2.1333	685	2.1333	956
Issued	-	-	-	-
Exercised	2.1333	(685)	2.1333	(271)
Forfeited	-	-	-	-
Balance at end of year	-	-	2.1333	685



Share options outstanding at the end of the year have the following expiry date, exercise dates and exercise prices.

FIRST VESTING MONTH	EXPIRY MONTH	LAST VESTING MONTH	EXERCISE PRICE	2015 '000	2014 '000
October 2010	December 2014	October 2013	\$2.1333	-	229
October 2011	December 2014	October 2013	\$2.1333	-	228
October 2012	December 2014	October 2013	\$2.1333	-	228
				-	685

### Executive and Senior Management Long Term Incentive Plan

On 20 November 2013, shareholders approved at the Annual General Meeting the continuation of an Employee Long Term Incentive Plan (LTI) (previously established 24 November 2010) to grant performance rights to Executive Directors, Key Management Personnel and other Senior Management. Performance rights will vest subject to the satisfaction of performance conditions which will be different for Executive Directors as compared with the Key Management Personnel and Senior Management.

#### Executive Directors and Key Management Personnel

Performance rights granted to Executive Directors and six Key Management Personnel (29 Nov 2010 only) are summarised below:

GRANT DATE*	BALANCE AT START OF YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	VESTED DURING THE YEAR NUMBER	LAPSED DURING THE YEAR NUMBER	BALANCE AT THE END OF YEAR
12 Dec 2014	-	110,891	-	-	110,891
11 Dec 2013	285,987	-	-	(186,834)	99,153
11 Dec 2012	261,009	-	(43,502)	(152,875)	64,632
30 Nov 2011	147,946	-	(25,891)	(94,581)	27,474
29 Nov 2010	114,839	-	(96,246)	(18,593)	-
	809,781	110,891	(165,639)	(452,883)	302,150

\* From 2011 Performance Rights granted to Executive Directors only.

The performance rights granted on 11 December 2014 are Long Term Incentive components only.

Long Term Incentive performance rights vest in equal tranches. In each tranche the rights are subject to a combination of a relative Total Shareholder Return (TSR) hurdle and/or an EPS growth hurdle. The relative weighting and number of tranches for each grant date are shown in the table below:

GRANT DATE	TRANCHES	EPS WEIGHTING	TSR WEIGHTING
12 Dec 2014	1	0%	100%
11 Dec 2013	3	50%	50%
11 Dec 2012	3	50%	50%
30 Nov 2011	3	50%	50%
29 Nov 2010	3	50%	50%

The proportion of rights subject to the relative TSR hurdle is dependent on Kathmandu Holdings Limited's TSR performance relative to a defined comparable group of companies in New Zealand and Australia listed on either the ASX or NZX. The percentage of TSR related rights vest according to the following performance criteria:

<b>KATHMANDU HOLDINGS LIMITED RELATIVE TSR RANKING</b>	<b>% VESTING</b>
Below the 50th percentile	0%
50th percentile	50%
51st – 74th percentile	50% + 2% for each percentile above the 50th
75th percentile or above	100%

The TSR performance is calculated for the following performance periods:

<b>TRANCHE</b>	<b>2015</b>	<b>2014</b>
Tranche 1	36 months to 1 December 2017	24 months to 1 December 2015
Tranche 2	N/A	36 months to 1 December 2016
Tranche 3	N/A	48 months to 1 December 2017

The fair value of the TSR rights have been valued under a Monte Carlo simulation approach predicting Kathmandu Holdings Limited's TSR relative to the comparable group of companies at the respective vesting dates for each tranche. The fair value of TSR rights, along with the assumptions used to simulate the future share prices using a random-walk process are shown below:

	<b>2015</b>	<b>2014</b>
Fair value of TSR rights	\$221,782	\$233,556
Current price at issue date	\$3.05	\$3.10
Risk free interest rate	3.70%	3.65%
Expected life (years)	3	2-4
Expected share volatility	38.5%	38%

The estimated fair value for each tranche of rights issued is amortised over the vesting period from the grant date.

The proportion of rights subject to the EPS growth hurdle is dependent on the compound average annual growth in

Kathmandu Holdings Limited's EPS relative to the year ending 31 July 2014. The applicable performance periods are:

<b>TRANCHE</b>	<b>2015 PERFORMANCE PERIOD</b>	<b>2014 PERFORMANCE PERIOD</b>
Tranche 1	N/A	FY15 EPS relative to FY13 EPS
Tranche 2	N/A	FY16 EPS relative to FY13 EPS
Tranche 3	N/A	FY17 EPS relative to FY13 EPS

The percentage of the EPS growth related rights scales according to the compound average annual EPS growth achieved as follows:

<b>EPS GROWTH</b>	<b>% VESTING</b>
< 10%	0%
>=10%, < 11%	50%
>=11%, < 12%	60%
>=12%, < 13%	70%
>=13%, < 14%	80%
>=14%, < 15%	90%
>=15%	100%

The fair value of the rights have been assessed as the Kathmandu Holdings Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to each vesting date. The estimated fair value for each tranche of options issued is amortised over the vesting period from the grant date.

### Key Management Personnel and Senior Management

Performance rights granted to Key Management Personnel and Senior Management, all Short Term Incentives under the shareholder approved Employee Long Term Incentive Plan are summarised below:

GRANT DATE	BALANCE AT START OF YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	VESTED DURING THE YEAR NUMBER	LAPSED DURING THE YEAR NUMBER	BALANCE AT THE END OF YEAR
12 Dec 2014	-	426,029	-	(426,029)	-
05 Dec 2013	-	436,182	-	(436,182)	-
	-	862,211	-	(862,211)	-

Short Term Incentive performance rights vest:

- upon the Company achieving non-market performance hurdles; and
- the employee remaining in employment with the Company until the vesting date.

The performance period and vesting dates are summarised below:

	2015	2014
Grant Date	12 Dec 2014	05 Dec 2013
Performance period (year ending)	31 Jul 2015	31 Jul 2014
Vesting Date – Key Management Personnel	31 Jul 2016	31 Jul 2016
Vesting Date – Senior Management	31 Jul 2016	31 Jul 2015

The fair value of the rights were assessed as the Kathmandu Holdings Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to the vesting date. The fair value of each right has been calculated to be NZ\$2.72 per right (2014: \$3.16 for Key Management Personnel and \$3.29 for Senior Management).

The non-market performance hurdles set for the year ending 31 July 2015 were not met and accordingly:

- no expense has been recorded in the statement of comprehensive income; and
- all of these rights have lapsed.

### Expenses arising from equity settled share based payments transactions

	2015 NZ\$'000	2014 NZ\$'000
Share Option Plan 2009	-	-
Executive Directors and Key Management Personnel	9	211
Senior Management	-	-
	9	211

## 5.5 CONTINGENT LIABILITIES



### Keeping it simple

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

	2015 NZ\$'000	2014 NZ\$'000
Liabilities outstanding under letters of credit	1,871	1,301

## 5.6 CONTINGENT ASSETS

There are no contingent assets in 2015 (2014: nil).

## 5.7 EVENTS OCCURRING AFTER THE BALANCE DATE

There are no events after balance date which materially affect the information within the financial statements.

## 5.8 SUPPLEMENTARY INFORMATION

### Directors fees

	2015 NZ\$'000	2014 NZ\$'000
Directors' fees	744	725

Directors fees for the Parent company were paid to the following:

- David Kirk (Chairman)
- Sandra McPhee
- John Harvey
- John Holland
- Christine Cross

### Audit fees

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and other network audit firms:

	2015 NZ\$'000	2014 NZ\$'000
<b>Audit services - PricewaterhouseCoopers</b>		
Statutory audit	126	126
Half year review	30	30
Other assurance services*	26	7
<b>Total remuneration for audit services</b>	<b>182</b>	<b>163</b>

\* Other assurance services relate to the preparation of revenue certificates and a system implementation review.

## 5.9 NEW ACCOUNTING STANDARDS

### New standards first applied in the year

There are no standards or amendments adopted by the Group since 1 August 2014 that have a significant impact on the Group.

### Standards, interpretations and amendments to published standards that are not yet effective

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group intends to adopt NZ IFRS 15 on 1 July 2017 and is currently assessing its full impact. This standard is not expected to significantly impact the Group.

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in

NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group intends to adopt NZ IFRS 9 on 1 July 2018 and has yet to assess its full impact.





## ***Independent Auditors' Report***

to the shareholders of Kathmandu Holdings Limited

### ***Report on the Financial Statements***

We have audited the Group financial statements of Kathmandu Holdings Limited ("the Company") on pages 31 to 69, which comprise the balance sheet as at 31 July 2015, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 31 July 2015 or from time to time during the financial year.

### ***Directors' Responsibility for the Financial Statements***

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We are independent of the Group. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Group.

### ***Opinion***

In our opinion, the financial statements on pages 31 to 69 present fairly, in all material respects, the financial position of the Group as at 31 July 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

### ***Restriction on Use of our Report***

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

Chartered Accountants  
29 September 2015

Christchurch

# Statutory Information

## EMPLOYEE REMUNERATION

The Group operates in New Zealand, Australia and the UK where remuneration market levels differ. The offshore remuneration amounts are converted into New Zealand dollars. Of the employees noted in the table below, 50% are employed by the Group outside New Zealand. During the year a number of employees or former employees, not being Non-Executive Directors of the Group, received remuneration and other benefits that exceeded NZ\$100,000 in value as follows:

REMUNERATION		NUMBER OF EMPLOYEES	
\$		\$	
100,000	-	110,000	8
110,001	-	120,000	5
120,001	-	130,000	7
130,001	-	140,000	5
140,001	-	150,000	2
150,001	-	160,000	4
170,001	-	180,000	2
180,001	-	190,000	2
190,001	-	200,000	1
200,001	-	210,000	2
230,001	-	240,000	1
240,001	-	250,000	1
260,001	-	270,000	1
300,001	-	310,000	1
310,001	-	320,000	1
320,001	-	330,000	1
350,001	-	360,000	1
410,001	-	420,000	1
710,001	-	720,000	1

## DISTRIBUTION OF SHAREHOLDERS AND HOLDINGS

	NUMBER OF HOLDERS	%	NUMBER OF ORDINARY SHARES	%
1 to 999	1,235	25%	700,248	0%
1,000 to 4,999	2,117	43%	5,902,610	3%
5,000 to 9,999	814	17%	6,229,948	3%
10,000 to 99,999	698	14%	17,708,275	9%
100,000 and over	63	1%	170,943,502	85%
<b>Total</b>	<b>4,927</b>	<b>100%</b>	<b>201,484,583</b>	<b>100%</b>

The details set out above were as at 11 September 2015.

The Company has only one class of shares on issue, ordinary shares, and these shares are listed on the NZX and ASX. There are no other classes or equity security currently on issue. The Company's ordinary shares each carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney. Voting may be conducted by voice, by show of hands, or poll. There are no voting rights attached to options.

There were 284 shareholders holding less than a marketable parcel, as defined by ASX Listing Rules, of the Company's ordinary shares, based on the market price as at 11 September 2015.

There are no restricted securities or securities subject to voluntary escrow on issue.

## LIMITATIONS ON THE ACQUISITION OF SECURITIES

The Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Australia) dealing with the acquisition of shares (i.e. substantial holdings and takeovers).

Limitations on the acquisition of the securities imposed by the jurisdiction in which the Company is incorporated (New Zealand) are:

- In general, securities in the Company are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.
- The New Zealand Takeovers Code creates a general rule under which the acquisition of 20% or more of the voting rights in the Company or the increase of an existing holding of 20% or more of the voting rights of the Company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of the shares of the Company.
- The New Zealand Overseas Investment Act 2005 and Overseas Investment Regulations 2005 (New Zealand) regulate certain investments in New Zealand by overseas persons. In general terms, the consent of the New Zealand Overseas Investment Office is likely to be required where an "overseas person" acquires shares in the Company that amount to 25% or more of the shares issued by the Company, or if the overseas person already holds 25% or more, the acquisition increases that holding.

(d) The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in the Company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in the market.

### SUBSTANTIAL SECURITY HOLDERS

According to notices given under the Securities Markets Act 1988 (New Zealand), the substantial security holders in ordinary shares (being the only class of listed voting securities) of the Company and their relevant interests according to the substantial security holder file as at 11 September 2015, were as follows:

	ORDINARY SHARES	%
Briscoe Limited (30 June 2015)	40,095,432	19.9%
The Goldman Sachs Group In (22 May 2015)	25,932,630	12.9%
Accident Compensation Corporation (2 July 2015)	15,185,721	7.5%
National Nominees Limited as Custodian for UniSuper Limited (25 May 2015)	14,538,721	7.2%

As at 11 September 2015, the Company had 201,484,583 ordinary shares on issue.

### PRINCIPAL SHAREHOLDERS

The names and holdings of the twenty largest shareholders as at 11 September 2015 were:

	NAME	ORDINARY SHARES	%
1	NEW ZEALAND CENTRAL SECURITIES DEPOSITORY LIMITED	40,496,720	20.10%
2	BRISCOE GROUP LIMITED	40,095,432	19.90%
3	J P MORGAN NOMINEES AUSTRALIA LIMITED	34,941,552	17.34%
4	NATIONAL NOMINEES LIMITED	22,121,674	10.98%
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,999,974	2.98%
6	CITICORP NOMINEES PTY LIMITED	5,279,070	2.62%
7	BNP PARIBAS NOMS PTY LTD	3,010,224	1.49%
8	UBS NOMINEES PTY LTD	1,766,326	0.88%
9	FORSYTH BARR CUSTODIANS LIMITED	1,374,078	0.68%
10	NEW ZEALAND DEPOSITORY NOMINEE LIMITED	1,128,260	0.56%
11	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	1,093,706	0.54%
12	CITICORP NOMINEES PTY LIMITED	845,202	0.42%
13	WARBONT NOMINEES PTY LTD	842,192	0.42%
14	WARBONT NOMINEES PTY LTD	751,373	0.37%
15	FNZ CUSTODIANS LIMITED	734,810	0.36%
16	UBS NEW ZEALAND LIMITED	605,000	0.30%
17	LEVERAGED EQUITIES FINANCE LIMITED	530,650	0.26%
18	FORSYTH BARR CUSTODIANS LIMITED	517,155	0.26%
19	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	425,934	0.21%
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	393,491	0.20%

## DIRECTORS' SHAREHOLDINGS

Directors held interests in the following shares of the Company at 31 July 2015:

Mark Todd	beneficially owned	571,494
John Holland	beneficially owned	122,033
David Kirk	beneficially owned	62,150
Sandra McPhee	beneficially owned	58,823
John Harvey	beneficially owned	51,563

## SHARE DEALINGS BY DIRECTORS

In accordance with Section 148(2) of the Companies Act 1993, the Board has received disclosures from the Directors named below of acquisitions or disposals of relevant interests in the Company between 1 August 2014 and 31 July 2015, the details of those dealings were entered in the Company's interests register. The particulars of such disclosures are:

DIRECTOR	NATURE OF INTEREST	SHARES ACQUIRED / (SOLD)	CONSIDERATION	DATE
Mark Todd <sup>1</sup>	Beneficial	42,235	-	17/12/2014
John Holland	Beneficial	20,000	NZD \$1.48	4/02/2015
David Kirk	Beneficial	37,850	AUD \$1.33	6/02/2015

<sup>1</sup> Shares were issued as part of the Long Term Incentive Plan (refer section 5.4 of the financial statements).

## SUBSIDIARY COMPANY DIRECTORS

Section 211(2) of the Companies Act 1993 requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by Directors and former Directors, and particulars of entries in the interests registers made during the year ended 31 July 2015.

No subsidiary has Directors who are not full-time employees of the Group.

The remuneration and other benefits of such employees (received as employees) totalling \$100,000 or more during the year ended 31 July 2015, are included in the relevant bandings for remuneration disclosed at the beginning of the "Statutory Information" section of this annual report.

No employee of the Group appointed as a Director of Kathmandu Holdings Limited or its subsidiaries receives or retains any remuneration or other benefits in their capacity as a Director.

The persons who held office as Directors of subsidiary companies at 31 July 2015, and those who ceased to hold office during the year ended 31 July 2015, are as follows:

### Milford Group Holdings Limited

Mark Todd, Reuben Casey, Xavier Simonet, Peter Halkett (resigned 25 November 2014)

### Kathmandu Limited

Mark Todd, Reuben Casey, Xavier Simonet, Peter Halkett (resigned 25 November 2014)

### Kathmandu Pty Limited

Mark Todd, Paul Stern, Reuben Casey, Xavier Simonet, Peter Halkett (resigned 25 November 2014)

### Kathmandu (U.K.) Limited

Mark Todd, Reuben Casey, Xavier Simonet, Peter Halkett (resigned 25 November 2014)

## DISCLOSURE OF INTERESTS BY DIRECTORS

In accordance with Section 140(2) of the Companies Act 1993, the Directors named below have made a general disclosure of interest, by a general notice disclosed to the Board and entered in the Company's interests register. General notices given by Directors which remain current as at 31 July 2015 are as follows:

### DAVID KIRK

TradeMe Group Limited	Chairman
Food Share Limited	Chairman
Standard Media Index Limited	Chairman
Sydney Grammar School Board of Trustees	Chairman
NZ Rugby Players Association	Chairman
Bailador Investment Management Pty Limited	Managing Partner
Bailador Technology Investments Limited	Director
Forsyth Barr Group Limited	Director
NZPH Limited	Director
Sydney Medical School Foundation	Member
Online Ventures Pty Limited (trading as SiteMinder)	Director
Viocorp International Limited	Director
David Kirk Pty Limited	Director
Kirk Family Trust Pty Limited	Director
Ocean Beach Wilderness Property Limited	Director

### JOHN HARVEY

New Zealand Opera Limited	Chairman
DNZ Property Fund Limited	Director
Port Otago Limited	Director
Heartland Bank Limited	Director
Ballance Agri-Nutrients Limited	Director
Resource Coordination Partnership Limited	Advisor to the Board

### SANDRA MCPHEE

AGL Energy Limited	Director
Tourism Australia	Director
Fairfax Media Limited	Director
JP Morgan Advisory Council	Member
St Vincents and Mater Health Sydney Community Advisory Council	Member
Australian Public Service Commission	Advisor

### JOHN HOLLAND

Chapman Tripp	Partner
Southbase Construction Limited	Chairman
Financial Markets Authority Capital Markets Disclosure Consideration Panel	Member
Carter Group	Advisor

### CHRISTINE CROSS

Sonae Group Plc	Director
Woolworths Limited	Director
Plantasjen ASA	Director
Brambles Limited	Director
Fenwick Limited	Director
Warburg Pincus LLC	Retail Advisor
Apax Private Equity	Retail Advisor

### MARK TODD

City Care Limited	Director
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## DIRECTORS' AND OFFICERS' INSURANCE AND INDEMNITY

The Group has arranged, as provided for under the Company's Constitution, policies of Directors' and Officers' Liability Insurance which, with a Deed of Indemnity entered into with all Directors, ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines which may be imposed in respect of breaches of the law.

## USE OF COMPANY INFORMATION

There were no notices from Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise have been available to them.

## GROUP STRUCTURE

Kathmandu Holdings Limited owns 100% of the following companies:

Milford Group Holdings Limited  
 Kathmandu Limited  
 Kathmandu Pty Limited  
 Kathmandu (UK) Limited

## DIRECTORS' DETAILS

David Kirk	Chairman, Non-Executive Director
Xavier Simonet	Managing Director and Chief Executive Officer (Appointed 29 June 2015)
Mark Todd	Finance Director and Chief Operating Officer (Resigned as Director 24 August 2015)
John Harvey	Non-Executive Director
Christine Cross	Non-Executive Director
John Holland	Non-Executive Director
Sandra McPhee	Non-Executive Director

## EXECUTIVES' DETAILS

Xavier Simonet	Chief Executive Officer
Mark Todd	Chief Operating Officer (Resigned as Executive 25 September 2015)

**DIRECTORY**

The details of the Company's principal administrative and registered office in New Zealand is:

11 Mary Muller Drive  
Heathcote  
PO Box 1234  
Christchurch 8140

**SHARE REGISTRY**

In New Zealand:	Link Market Services (LINK)
Physical Address:	Level 16, Brookfields House, 19 Victoria Street West, Auckland 1010 New Zealand
Postal Address:	PO Box 91976, Auckland, 1142 New Zealand
Telephone:	+64 9 375 5999
Investor enquiries:	+64 9 375 5998
Facsimile:	+64 9 375 5990
Internet address:	<a href="http://www.linkmarketservices.com">www.linkmarketservices.com</a>
In Australia:	Link Market Services (LINK)
Physical Address:	Level 1, 333 Collins Street Melbourne, VIC 3000 Australia
Postal Address:	Locked Bag A14 Sydney, South NSW 1235 Australia
Telephone:	+61 2 8280 7111
Investor enquiries:	+61 2 8280 7111
Facsimile:	+61 2 9287 0303
Internet address:	<a href="http://www.linkmarketservices.com.au">www.linkmarketservices.com.au</a>

**STOCK EXCHANGES**

The Company's shares are listed on the NZX and the ASX.

**INCORPORATION**

The Company is incorporated in New Zealand.

# STORE LOCATIONS

## AUSTRALIA [kathmandu.com.au](http://kathmandu.com.au)

### VIC

Ballarat  
Bendigo  
Blackburn  
Camberwell  
Chadstone Inner  
Chadstone Outer  
Doncaster  
Emporium  
Essendon DFO Outlet Store  
Fitzroy  
Fountain Gate  
Frankston  
Geelong  
Hampton East  
Highpoint  
Knox  
Melbourne (Bourke Street)  
Moonee Ponds  
Moorabbin DFO Outlet Store  
Northland  
Nunawading Outlet Store  
Prahran (Chapel Street)  
Richmond  
Shepparton  
Smith Street Outlet Store  
South Wharf DFO Outlet Store  
Southland  
Spencer Street Outlet Store  
The Glen  
Traralgon  
Uni Hill Outlet Store  
Warrnambool  
Watergardens

### NSW

Albury  
Birkenhead Point Outlet Store  
Bondi Junction  
Burwood  
Byron Bay

Castle Towers  
Charlestown  
Chatswood  
Coffs Harbour  
Cronulla  
Eastgardens  
Erina Fair  
Hornsby  
Macarthur  
Macquarie  
Miranda  
Newcastle  
Orange  
Parramatta  
Penrith  
Sydney City (Kent Street)  
Sydney City (Pitt Street)  
Redyard (Auburn)  
Rouse Hill  
Shellharbour  
Tamworth  
The Rocks  
Tuggerah  
Wagga Wagga  
Warringah  
Wetherill Park  
Wollongong

### SA

Adelaide Harbour Town Outlet Store  
Adelaide (Rundle Street)  
Glenelg  
Marion  
Tea Tree  
West Lakes

### ACT

Belconnen  
Canberra Centre  
Canberra Outlet Store  
Woden

### QLD

Brisbane City  
Cairns  
Carindale  
Chermside  
Fortitude Valley  
Hervey Bay  
Indooroopilly  
Jindalee Outlet Store  
Kawana  
Logan  
Mackay  
Mt Gravatt  
Pacific Fair (Broadbeach)  
Robina  
Rockhampton  
Southport  
Toowoomba  
Townsville

### TAS

Devonport  
Hobart (Salamanca Square)  
Hobart CBD (Elizabeth Street)  
Launceston

### WA

Belmont  
Bunbury  
Carousel  
Cockburn  
Cottesloe  
Fremantle  
Innaloo  
Joondalup  
Morley  
Perth CBD  
Perth Harbourtown Outlet Store  
Whitford

### NT

Casuarina

## NEW ZEALAND [kathmandu.co.nz](http://kathmandu.co.nz)

### NORTH ISLAND

Albany  
Auckland (Queen Street)  
Auckland (Victoria Street)  
Botany  
Broadway  
Coastlands  
Gisborne  
Hamilton  
Hastings  
Lyll Bay  
Manukau  
Masterton  
Napier  
New Plymouth  
Onehunga Outlet Store

Otaki Outlet Store  
Palmerston North  
Petone  
Pukekohe  
Rotorua  
St Lukes  
Sylvia Park  
Takapuna  
Taupo  
Tauranga CBD  
Tauranga (Fraser Cove)  
Te Rapa  
Waitakere  
Wanganui  
Whakatane  
Whangarei

Wellington  
Westgate  
Willis Street Outlet Store

### SOUTH ISLAND

Ashburton  
Blenheim  
Christchurch (Cashel Street)  
Dunedin  
Invercargill  
Nelson  
Papanui  
Queenstown  
Riccarton Outlet Store  
The Palms  
Timaru  
Tower Junction

## UNITED KINGDOM [kathmandu.co.uk](http://kathmandu.co.uk)

Bristol  
London (Covent Garden)  
London (High Street Kensington)  
London (Spitalfields)

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