



# Annual Report 2017

[kathmandu.com.au](http://kathmandu.com.au)  
[kathmandu.co.nz](http://kathmandu.co.nz)  
[kathmandu.co.uk](http://kathmandu.co.uk)  
[kathmanduoutdoor.com](http://kathmanduoutdoor.com)



# OUR STORY

**We were born in New Zealand — a breathtaking country where isolation breeds innovation and the hunger to explore.**

For 30 years we have designed gear to endure the rugged landscapes of our homeland, and to outfit the adventurous spirit of our people.

With Kiwi ingenuity, and an open mind, we continuously adapt our gear to endure different weather conditions, diverse terrain and the ever-changing needs of travellers.

We act with people and the planet in mind — from the creative minds of our designers to the careful hands of our suppliers, to backs of our customers all around the world.

We believe that adventure begins when you pack your bag.

**We are Kathmandu.**

**Original.  
Sustainable.  
Engineered.  
Adaptive.**

These four principles are the foundation of every piece that carries the Kathmandu logo. They're the basis of the questions we ask ourselves throughout the design and manufacturing process.



# FINANCIAL HIGHLIGHTS

---

Sales \$

**445.3m**

↑ 4.6%, 5.8% at constant currency

Same store sales growth

**5.5%**

↑ AU 6.9%    ↑ NZ 3.6%

---

EBIT \$

**57.0m**

↑ 12.0%

Net profit after tax \$

**38.0m**

↑ 13.5%

---

Net debt \$

**6.9m**

↓ 29.9M reduction, record low debt

Dividend

**13cps**

↑ 18.2%

---

Online % of total sales

**7.5%**

↑ 15.9% online sales growth

Summit club members

**1.726m**

↑ 127,000 active members

---



Four quarters  
of continued  
same store  
sales growth



Implemented  
automated  
distribution centre  
in Australia

4

new stores  
opened in  
Australia

---

**Launched international wholesale  
and responsive website**

---

**Record full  
year dividend**



**Record low  
net debt**



# CONTENTS

5	<b>Chairman and CEO's Letter</b>
7	<b>Result and Financial Performance</b>
10	<b>Sustainability Highlights</b>
12	<b>The Board</b>
13	<b>Management Team</b>
14	<b>Directors' Report</b>
24	<b>Corporate Governance</b>
29	<b>Financial Statements</b>
73	<b>Statutory Information</b>
78	<b>Directory</b>

## **NOTICE OF ANNUAL MEETING 2017**

11.00 am Friday  
24 November 2017  
Collins Square  
727 Collins Street  
Melbourne  
Australia

# CHAIRMAN AND CEO'S LETTER

2017 was a successful year where we again improved our financial performance in a challenging and competitive retail environment.

We were pleased to achieve strong same store sales growth driven by innovative new products and inspiring digital content. In addition to top line growth, continued cost control and working capital efficiency resulted in very solid profit growth. Our financial position strengthened further during FY2017, and we ended the year with lower inventory and record low net debt.

We commenced new international wholesale relationships, and while we are still early into our wholesale journey, we are committed to developing new international channels for the Kathmandu brand.

## Growth Strategies and Investments

Kathmandu's strategy can be divided in to two streams. Continuous improvement in our core Australasian market, and international growth initiatives to grow in new markets and channels.

Continuous improvement (Australasia):

- Elevate brand distinctiveness through product design and innovation, with a focus on our expertise in adventure travel;

- Inspire our customers and engage with our Summit Club members with a focus on social media and digital channels;
- Refine the structure of promotions to leverage foot traffic in key trading periods, increase basket size, and maximise gross profit;
- Provide a channel agnostic offer, with one range available to all customers wherever they choose to purchase;
- Continue to improve cost efficiency, through infrastructure investments, automation and leveraging advertising content across social and digital media channels;
- Invest in new stores where return on investment is justified;
- Invest in existing stores to refine visual merchandising, product presentation, optimise allocation and improve the customer experience to deliver same store sales growth.

International growth strategies:

- Leverage our brand equity and online platform to expand internationally using a capital light model across a variety of business models appropriate for the market;
- Evaluate opportunities to offer our products on international marketplace sites where strategically relevant;



**DAVID KIRK**  
CHAIRMAN



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

## "As a key value of Kathmandu, sustainability is an integral part of our business".

---

- Further investment in our online platform will be made to further improve usability and functionality.

### Sustainability

As a key value of Kathmandu, sustainability is an integral part of our business. Our goal is Australasian industry leadership in sustainability.

Key achievements during the year include the launch of our 5 Green Star distribution centre in Melbourne, partnering with Bluesign to eliminate harmful chemicals in our supply chain and winning the Banksia "Large Business Sustainability Leadership" award.

Full details of our progress can be found in our 2017 Sustainability Report, released in conjunction with our Annual Report and prepared in accordance with the Global Reporting Initiative (GRI).

### People

Directors Christine Cross and John Holland retired from the Board in October. Christine has brought deep retail experience and understanding to the Board, while John's understanding of the business, combined with his legal and commercial judgement will be sorely missed by the Board. We thank Christine and John very much for their service and wish them all the best in their other endeavours.

Two new directors joining the Board are Philip Bowman and Brent Scrimshaw who were appointed after an extensive international search. We are delighted that Philip and Brent have agreed to join the Board. They both bring absolutely first class understanding of retail, brand development and international markets. They are a great fit for the next stage of Kathmandu's journey.

### Dividend

The Director's have declared a final dividend of 9 cents per share, which with the 4 cents interim dividend makes a total payout of 13 cents per share, and increase of 2 cents per share compared to last year. The final dividend will be fully imputed for New Zealand shareholders and fully franked for Australian shareholders.

### Outlook

As a product and brand led business, we are focused on engaging our customers by creating distinctive, sustainable, quality products and by promoting our brand authenticity.

In the year ahead, we will strive to grow in our core markets. Maintaining gross margin, and delivering operating efficiency remain a key management focus.

As we look forward, we are excited about the wholesale trials we are conducting in Europe, and remain committed to developing new international channels for the Kathmandu brand.



**David Kirk**  
Chairman



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



# RESULT AND FINANCIAL PERFORMANCE

KEY PERFORMANCE INDICATORS		2017	2016
<b>Sales</b> <i>Same store sales growth</i>	↑ 4.6%	<b>\$445.3m</b> 5.5%	<b>\$425.6m</b> 4.4%
<b>Gross profit</b> <i>Gross margin</i>	↑ 3.7%	<b>\$276.2m</b> 62.0%	<b>\$266.4m</b> 62.6%
<b>Operating expenses</b> <i>Operating expenses % of sales</i>	↑ 1.8%	<b>\$205.4m</b> 46.1%	<b>\$201.6m</b> 47.4%
<b>EBITDA</b> <i>EBITDA margin</i>	↑ 9.4%	<b>\$70.8m</b> 15.9%	<b>\$64.8m</b> 15.2%
<b>EBIT</b> <i>EBIT margin</i>	↑ 12.0%	<b>\$57.0m</b> 12.8%	<b>\$50.9m</b> 12.0%
<b>NPAT</b>	↑ 13.5%	<b>\$38.0m</b>	<b>\$33.5m</b>
<b>Earnings per share</b>	↑ 13.9%	<b>18.9cps</b>	<b>16.6cps</b>
<b>Dividend</b>	↑ 18.1%	<b>13.0cps</b>	<b>11.0cps</b>
<b>Net Debt</b>	↓ (81.3)%	<b>\$6.9m</b>	<b>\$36.8m</b>
<b>Share Price</b>	↑ 26.1%	<b>\$2.27</b>	<b>\$1.80</b>
<b>Summit club members</b>	↑ 7.9%	<b>1.726m</b>	<b>1.599m</b>
<b>Employees</b>	↑ 0.5%	<b>1,904</b>	<b>1,895</b>
<b>Store count</b>		<b>164</b>	<b>162</b>

For FY2017 we were pleased to achieve strong same store sales growth driven by innovative new products and inspiring digital content. In addition to top line growth, continued cost control and working capital efficiency delivered very solid profit growth. Our financial position continued to strengthen during FY2017, and we ended the year with lower inventory and record low net debt.

**Group sales** of \$445.3m increased by 4.6% overall, with an increase in same store sales of 5.5% measured at constant exchange rates. By country the change in same store sales was:

- Australia +6.9%
- New Zealand +3.6%

**Gross profit** increased by \$9.8m (3.7%), however gross margin (62.0%) was 60bps lower than last year. This sits in the middle of our long-term target range 61% to 63%. Sourcing negotiations, product newness, price action and improved stock control all helped to offset the gross margin challenges caused by higher input costs as a result of foreign currency. By country the change in gross margins were:

- Australia +002bps
- New Zealand -220bps

Our foreign currency forward hedging policy is on a 12 month basis with

prescribed levels of maximum hedging beyond 6 months.

**Operating Expenses** excluding depreciation, amortisation and financing costs increased by \$3.8m (1.9%), however as a percentage of sales decreased from 47.4% to 46.1%. Efficiencies were achieved through optimising retail labour, targeting advertising expenditure towards promotional periods and increasing spending mix towards more effective digital channels. Support office costs also benefited from the full year impact of the structural review completed during FY2016. Rental costs increased as a percentage of sales due to the full year impact of the new support office in Christchurch and a new distribution centre in Melbourne. Operating cost efficiency remains a key area of focus in FY2018, with our aim to further drive operating leverage within the business.

**Capital expenditure** decreased by \$9.9m (43%) compared to FY2016. This is mainly due to physical infrastructure investments made in our partly automated warehousing facility in Melbourne and a new support office (Christchurch) in the prior year. The investment made in "bricks and mortar" retail, (new stores, relocations and refurbishments), increased by \$1.5m (19%). Technology

## "Our financial position continued to strengthen during FY2017, and we ended the year with lower inventory and record low net debt".

investments decreased by \$0.4m (19%) as investments were focussed on online enhancements, including responsive website design and product lifecycle management.

**Depreciation and amortisation** expense decreased by \$0.1m (0.7%), as the impact of capital expenditure was offset by existing assets being fully depreciated. Capital expenditure in FY2018 will be higher than FY2017, as investments will be made in existing retail sites timed with reference to lease renewals, new stores, and increasing systems spend as investments are made in omni-channel infrastructure.

**Finance costs** reduced as a result of lower average debt levels throughout the year, and a decline in effective interest rates.

**Inventory** levels decreased by \$6.2m (6.5%), and by 7.6% on a per store basis (constant exchange rates) as we continue focus on improving stock turnover. Ongoing benefits were realised from investments in demand planning software which has enabled more accurate buying to reflect store range differences.

**Taxation** The effective tax rate increased to c.31% from c.29%. This increase is due to higher non-deductible expenditure relating to legal fees and long term incentive performance rights.





**"Sales growth was driven by innovative new products and inspiring digital content".**

---



# OUR TOP 10 SUSTAINABILITY HIGHLIGHTS



Won the Banksia 'Large Business Sustainability Leadership' award and two APC awards



B+ in the Ethical Fashion Guide supporting worker's rights



Partnered with bluesign® to eliminate harmful chemicals



**3.9M**

Recycled 3.9 million plastic bottles



**74%**

Increased sustainable cotton from 59% to 74%



Ranked #2 in the outdoor and sports category 2017 Textile Exchange Preferred Fibres and Materials report



Launched our 5 Green Star AU Distribution Centre



8.5M

8.5 million bottles of water saved



Increased recycling rate from 69% to 72%. 106 stores now recycling polybags



899kg

899kg of clothes donated to Red Cross shops

# THE BOARD



## 1 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.

## 2 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.

## 3 PHILIP BOWMAN (appointed 2 October 2017) NON-EXECUTIVE DIRECTOR

Mr Bowman has extensive experience in retail including roles as CFO of Bass, CEO of Bass Taverns, Executive Chairman of Liberty PLC, CEO of Allied Domecq, Chairman of Coral Eurobet, CEO of Scottish Power and CEO of Smiths Group. He has held office as an independent director of BSkyB, Scottish & Newcastle and Berry Bros. & Rudd. He currently sits on the boards of Burberry Group, Ferrovial SA, and is Chairman of Majid al Futtaim Properties and housebuilder The Miller Homes Group (UK).

## 4 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.

## 5 SANDRA MCPHEE 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.

## 6 BRENT SCRIMSHAW (appointed 2 October 2017) NON-EXECUTIVE DIRECTOR

Mr Scrimshaw has had an 18-year career with Nike Inc across Marketing, Commerce and General Management. He led marketing across Nike Pacific, was the Regional GM for Nike North America, was the Chief Marketing officer for Nike EMEA, and also served as Vice President and Chief Executive of Nike Western Europe. He is currently the CEO and Co-Founder of Unscriptd.com and is a Non-Executive Director of ASX listed Rhinomed (RNO) and Catapult International Limited (CAT).

## 7 CHRISTINE CROSS (retired 2 October 2017) 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.

## 8 JOHN HOLLAND (retired 2 October 2017) NON-EXECUTIVE DIRECTOR

Mr Holland is a consultant in the national New Zealand law firm Chapman Tripp, and was a partner for 19 years, specialising 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.

# MANAGEMENT TEAM



- 1 **XAVIER SIMONET**  
MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER
- 2 **REUBEN CASEY**  
CHIEF OPERATING AND FINANCIAL  
OFFICER, AND COMPANY SECRETARY
- 3 **PAUL STERN**  
GENERAL MANAGER, MARKETING,  
ONLINE AND INTERNATIONAL
- 4 **BEN RYAN**  
GENERAL MANAGER,  
PRODUCT
- 5 **REBECCA EDWARDS**  
GENERAL MANAGER,  
HUMAN RESOURCES
- 6 **STEPHEN DOMANCIE**  
GENERAL MANAGER,  
RETAIL STORES AND OPERATIONS
- 7 **CALEB NICOLSON**  
GENERAL MANAGER,  
SUPPLY CHAIN
- 8 **JOLANN VAN DYK**  
CHIEF INFORMATION OFFICER

# DIRECTORS' REPORT

YOUR DIRECTORS PRESENT THEIR REPORT AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017.

## Directors

The following persons were Directors of Kathmandu Holdings Limited during the financial year (unless stated).

### DAVID KIRK

Was re-appointed as a non-Executive Director, Chairman, Member of the Audit and Risk Committee, and Member of the Remuneration Committee on 18 November 2016. He 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, and Member of the Remuneration Committee on 21 November 2014. He continues in these offices at the date of this report.

### JOHN HOLLAND

Was re-appointed as a non-Executive Director, and Member of the Remuneration Committee, Member of the Remuneration and Nomination Committee on 20 November 2015, and retired as a Director effective 2 October 2017.

### SANDRA MCPHEE

Was re-appointed as a non-Executive Director, Member of the Audit and Risk Committee, and Chair of the Remuneration Committee on 18 November 2016, 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 Committee, Member

of the Audit and Risk Committee on 20 November 2015, and retired as a Director effective 2 October 2017.

### PHILIP BOWMAN

Was appointed as a non-Executive Director, Member of the Remuneration Committee, Member of the Audit and Risk Committee on 2 October 2017 and continues in these offices at the date of this report.

### BRENT SCRIMSHAW

Was appointed as a non-Executive Director, Member of the Remuneration Committee, Member of the Audit and Risk Committee on 2 October 2017 and continues in these offices at the date of this report.

Details of the experience and expertise of the Directors are outlined on page 12 of this annual report.

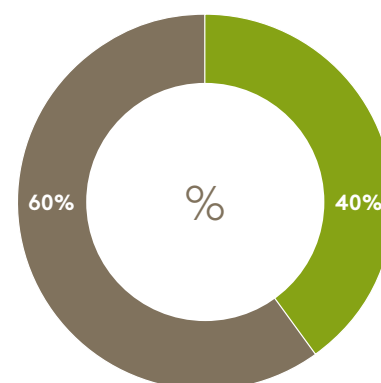
## Retirement of Directors

In accordance with the Company's constitution, John Harvey, Philip Bowman and Brent Scrimshaw will retire as Directors at the annual general meeting and being eligible,

offer themselves for re-election.

## Board Tenure

The average tenure for non-executive Directors as at 31 July 2017 is 6 years 4 months, with the following tenure mix:



- 3 - 5 Years
- 6 - 8 Years

## Meeting of Directors

The number of meetings of the Board of Directors and Committees held during the year ended 31 July 2017 and the numbers of meetings attended by each Director were:

Director	DIRECTOR MEETINGS		AUDIT AND RISK COMMITTEE MEETINGS		REMUNERATION COMMITTEE MEETINGS	
	A	B	A	B	A	B
David Kirk	8	8	4	4	5	5
Xavier Simonet	8	8	XX	XX	XX	XX
John Harvey	8	8	4	4	5	5
John Holland	8	8	4	4	5	5
Sandra McPhee	8	8	4	4	5	5
Christine Cross	6	8	4	4	5	5

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



## Board Skills Matrix

The Board benefits from the combination of the different skills, experiences and expertise that Directors bring to the Board and the insights that result from this diversity.

The following chart summarises the skills, attributes and experience of the Company’s Directors. Percentages are determined as at the date of this report.



**Executive Leadership:** Experienced and successful leadership at a senior executive level of large organisations.

**International Business Development:** Experienced in multi-national, complex environments, including multi-channel business development.

**Capital Projects, Mergers and Acquisitions:** Experience in evaluating and implementing projects involving large-scale financial commitments, investment horizons and major transactions.

**Retail and Consumer Experience:** Experienced in retail and consumer

sectors, understanding multi-channel retailing and brand development.

**Remuneration:** Experience in remuneration design to drive business success.

**Governance:** Knowledge and experience of high standards of corporate governance, including ASX/ NZX Listing Rules and practices.

**Strategy:** Expertise in the development and implementation of strategic plans and risk management to deliver investor returns over time.

**Financial acumen:** Expertise in understanding financial accounting

and reporting, corporate finance and internal financial controls, including an ability to probe the adequacies of financial and risk controls.

**Marketing and product development:** Expertise and senior executive experience in marketing and new media marketing metrics and tools.

**Technology and data:** Expertise and experience in the adoption of new technology and use of data analytics in a consumer environment.



## 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

No 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 5 to 6 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 9.0 cents per share. Dividends will carry full New Zealand imputation credits and full Australian franking credits.

The dividend will be paid on 24 November 2017.

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 permitted 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

### 1. SUMMARY

Kathmandu's financial results for FY2017 reflect a continuation of a return to sustainable long-term profitable growth.

Earnings before interest and tax (EBIT) was \$57.0m an increase of 12.0% and Net Profit after Tax was \$38.0m, a 13.5% increase over FY2016.

#### FY2017 remuneration

- Executive base salaries increased 1.5% for New Zealand based executives and 2% for Australian based executives.
- Short term incentives (cash) were paid to all eligible Executives (including the CEO) for exceeding the Group financial performance target (EBIT).
- Short term incentives (equity) were earned by all eligible Executives (excluding the CEO) and will vest subject to the Executives remaining employed by the Group as at 31 July 2018.
- Non-Executive Directors fees remained unchanged for the third consecutive year.

### 2. 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

##### Reuben Casey

– Chief Operating and Financial Officer, and Company Secretary

### OTHER MANAGEMENT TEAM (EXECUTIVE) MEMBERS:

#### Currently Employed:

##### Ben Ryan

– General Manager, Product,  
from 1 March 2016

##### Rebecca Edwards

– General Manager, Human Resources

##### Stephen Domancie

– General Manager, Retail Stores  
& Operations, from 20 July 2016

##### Caleb Nicolson

– General Manager, Supply Chain

##### Paul Stern

– General Manager, Marketing,  
Online & International

##### Jolann van Dyk

– Chief Information Officer

The Group employed all of the above Executives for the full years ended 31 July 2017 and 2016, unless otherwise stated.

Mark Handy has been subsequently appointed General Manager, Merchandising effective from 4 September 2017.

Throughout their period of employment, Reuben Casey, Caleb Nicolson, Jolann Van Dyk, Rebecca Edwards and Ben Ryan were employees of Kathmandu Limited (New Zealand) and Xavier Simonet, Paul Stern, and Stephen Domancie were employees of Kathmandu Pty Limited (Australian).

### 3. 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 24 of this annual report. The Committee adopts a series of principles in determining remuneration related decisions. The principles used are:

- 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;
- Executive remuneration should be market competitive, and generally account for market practice including consideration of employee place of domicile;
- Executives' remuneration package should have:
  - a substantial portion of their total remuneration that is "at risk" and aligned with reward for creating shareholder value;
  - an appropriate balance between short and long-term performance focus and outcomes;
  - a mix of cash and equity based remuneration.
- The CEO 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 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.

- 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;
- The Board uses discretion when setting remuneration levels, taking into account interests of shareholders, the current market environment and Group performance.

### 4. REMUNERATION FRAMEWORK

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.

The Executive remuneration structure has three components:

- a) **Base salary and benefits;**
- b) **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.
- c) **Long term incentives** via participation in the Company's Long Term Incentive plan.

#### a) **Base salary and benefits**

Base salary for Executives is reviewed annually to assess appropriateness to the position and competitiveness with the market.

### b) Short term incentives (STI)

Executives are eligible to participate in an annual STI that delivers rewards by way of cash and/or deferred equity. Group Earnings before interest and tax (EBIT), has been determined as the appropriate financial performance target to trigger payment of STI.

The amount of any STI paid in a year is dependent upon:

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

The weighting of STI between Group financial performance, individual KPI's, cash and deferred equity is:

SHORT TERM INCENTIVE WEIGHTING:	CEO		EXECUTIVES	
	CASH	EQUITY	CASH	EQUITY
Group financial performance target	70%	-	29%	46%
Individual KPI achievement	30%	-	25%	-
<b>Total</b>	<b>100%</b>	<b>-</b>	<b>54%</b>	<b>46%</b>

achieved by the Group relative to the financial performance target (EBIT) for the year.

For Executives where a short term equity incentive is earned, vesting is subject to ongoing employment by the Group for a period of one year

following the end of the financial year in which the incentive is earned.

### c) Long Term Incentive Plan (LTI)

Shareholders reapproved the current LTI at the Company's 2016 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.

Rights granted are dependent upon the Company achieving Earnings per Share (EPS) and/or relative TSR targets over specified performance periods, with the value of rights 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 a comparator group of ASX listed companies (other than metal and mining stocks) ranked 101 to 200 in the S&P/ASX200 as at the date of the grant.



"As a product and brand led business, we are focused on engaging our customers by creating distinctive, sustainable, quality products and by promoting our brand authenticity".

---



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.

In 2017 grants were made to the CEO and COO/CFO (2016: CEO only). The Board resolved to grant nil cost performance rights that:

- Were measurable for a single specified performance period of three years;
- Required achievement of relative TSR targets and EPS growth targets over a single specified performance period of three years with the value of rights allocated 50:50 between EPS and relative TSR;
- Performance measurement under either criterion is at the end of the performance period with no ability to re-test.

#### d) CEO remuneration

CEO remuneration comprises a mixture of base salary, STI and LTI:

#### CEO 2017 Remuneration package A\$'000

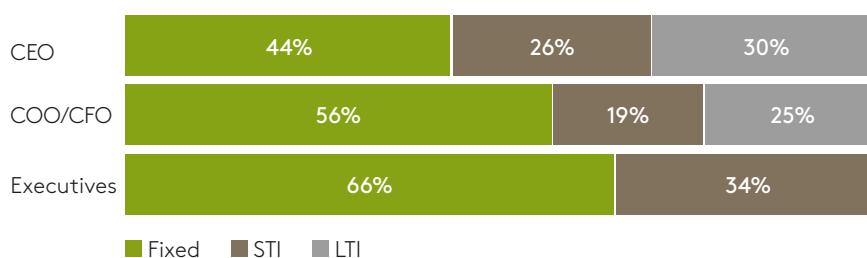
Fixed (Base salary, superannuation)	796
STI (60% of fixed)	477
LTI (70% of fixed)*	557
Maximum potential remuneration	1,830

\* Vesting dependent on achievement of performance hurdles measured over a three-year period. Vesting date 1 December 2019.

- More than half (56%) the total remuneration for the CEO is at risk;
- Over 85% of the 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;

- All long term incentive (70% of Fixed Annual Remuneration) will be measured on a single 3-year performance period.

#### REMUNERATION STRUCTURE – CEO AND EXECUTIVES:



#### FY2017 STI outcomes

For the year ended 31 July 2017 the Group financial performance targets were exceeded and as a result, short-term cash incentives were paid to the extent of 52% (86% of potential) of fixed annual remuneration for the Chief Executive Officer.

#### 5 Year CEO Remuneration

		SINGLE FIGURE REMUNERATION <sup>1</sup>	% STI ACHIEVED AGAINST MAXIMUM	PERCENTAGE VESTED AGAINST MAXIMUM	SPAN OF LTI PER- FORMANCE PERIOD
2017	Xavier Simonet	1,290,026	86%	N/A	N/A
2016	Xavier Simonet	1,391,983	100%	N/A	N/A
2015	Xavier Simonet	136,267	-	N/A	N/A
	Mark Todd <sup>2</sup>	715,539	-	54%	2010-2014
2014	Peter Halkett	1,009,108	33%	74%	2010-2013
2013	Peter Halkett <sup>3</sup>	1,658,711	58%	100%	2010-2012

<sup>1</sup> Comprises of cash salary and fees, non-monetary benefits, superannuation. <sup>2</sup> Acting CEO during FY2015. <sup>3</sup> Includes non-monetary benefits settling obligations arising over tax residency status for period May 2011 to July 2013.

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

## 5. Executive 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).

## 6. Non-Executive Directors' fees

The current aggregate limit for non-Executive Directors' fees is \$A800,000 per annum. In FY2017 the base fee payable (including superannuation if applicable) to the Chairman was \$A222,480 and to a non-Executive Director \$A116,390 per annum.

No additional fees are paid for sub-committee attendances. No increase was made in 2017.

Any 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.

The Board reviews Directors' fees annually seeking advice from external independent remuneration consultants as necessary.

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

The following fees apply per annum:

<b>TOTAL FEES</b>	<b>AUD \$</b>
Chairman	222,480
Other non-Executive Directors	116,390
Actual fees paid in year ended 31 July 2017 (converted to reporting currency)	<b>NZD \$</b>
Chairman	236,428
Other non-Executive Directors	123,687

## 7. Details of share-based compensation

### 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.

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.

	<b>GRANT DATE</b>	<b>RIGHTS GRANTED DURING THE YEAR</b>	<b>DATE EXERCISABLE</b>	<b>EXPIRY DATE</b>	<b>TOTAL FAIR VALUE OF PERFORMANCE RIGHTS AT GRANT DATE \$</b>
<b>Executive Director – Xavier Simonet</b>					
2016	19 Dec 2016	293,078	1 Dec 2019	1 Dec 2019	378,071
2015	16 Dec 2015	407,463	1 Dec 2018	1 Dec 2018	433,948

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

<b>2017</b>	<b>DATE GRANTED</b>	<b>DATE SHARES ISSUED</b>	<b>NUMBER OF SHARES ISSUED</b>
Other Executives and Senior Management	18 Dec 2015	29 Mar 2017	12,537
<b>Total</b>			<b>12,537</b>

No shares were issued to Directors or Other Executives during FY2017 on exercise of performance rights.

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.

## 8. Additional information, Performance Rights Vesting

Performance rights granted, the percentage that vested, the percentage that forfeited and future potential vesting periods are shown in the table below:

	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
<b>Executive Directors</b>						
Xavier Simonet	FY2017	0.0%	0.0%	FY2020	293,078	378,071
Xavier Simonet	FY2016	0.0%	0.0%	FY2019	407,463	433,948
<b>Other Executives and Senior Management</b>						
Other Executives and Senior Management	FY2017	0.0%	0.0%	FY2020	82,732	106,724
Other Executives and Senior Management	FY2017	0.0%	0.0%	FY2019	523,139	894,567
Other Executives and Senior Management	FY2016	69.3%	30.7%	FY2018 <sup>1</sup>	669,669	971,020

<sup>1</sup>Shares were issued on 22 August 2017

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.

### 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	\$2.37	49.1%	\$0.12
FY2014	\$42.2m	(4.5%)	21.0	1.0x	\$2.37	\$3.33	40.5%	\$0.12
FY2015	\$20.4m	(51.7%)	10.1	0.5x	\$3.33	\$1.70	(48.9%)	\$0.08
FY2016	\$33.5m	64.2%	16.6	1.6x	\$1.70	\$1.80	5.9%	\$0.11
FY2017	\$38.0m	13.5%	18.9	1.1x	\$1.80	\$2.27	26.1%	\$0.13

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.

### 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.





## 9. 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.
- 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

# 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) (ASX Code), the New Zealand Stock Exchange Listing Rules relating to corporate governance, the NZX Corporate Governance Code 2017 (NZX Code), and the New Zealand Financial Markets Authority Corporate Governance Principles and Guidelines 2014 (collectively, the Principles). Although reporting on the NZX Code is not mandatory this year as the Code applies for reporting periods from 1 October 2017, the Company has chosen to adopt the recommendations earlier to demonstrate how Kathmandu's corporate governance practices align with the best practice recommended by NZX.

The Company has followed each of the recommendations set out in the Principles where appropriate for the size of the Company and the Board, the resources available and the activities of the Company. After due consideration, the Board considers that the Company's corporate governance practices and procedures depart from the Principles during the reporting period only as set out below. The information in this statement is current as at 31 July 2017.

## Explanation for departure from NZX Corporate Governance Code 2017 and ASX Corporate Governance Principles and Recommendations (3rd Edition)

REFERENCE	RECOMMENDATION	DEPARTURE	EXPLANATION FOR DEPARTURE
NZX Code 3.4 ASX Code 2.1	An issuer should establish a nomination committee to recommend director appointments to the board	The Company has not maintained a separate nomination committee	The Board considers that it is able to deal efficiently and effectively with the processes of appointment and reappointment of directors to the Board and considerations of Board composition and succession planning
NZX Code 7.3 ASX Code 7.3	Internal audit functions should be disclosed	The Company does not have an internal audit function	The Company considers that the external advisors it currently engages provide a sufficient system for evaluating and continually improving the effectiveness of risk management for the Company and delivers appropriate objective assurance on risk management.

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)).



## 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. 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 pages 12 to 15 of this Annual Report.

### BOARD AND EXECUTIVE 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 during the reporting period 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.

The Group has a robust process for annual evaluation of its senior executives that compares the performance of each individual senior executive against the goals and objectives set for the year. A performance evaluation of each senior executive was undertaken in relation to the reporting period in accordance with this process.

### 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.

### 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 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.

As noted above, the Company does not currently have an internal audit function. The Committee will continue to monitor whether this current practice is sufficient for the Company's requirements.

### REMUNERATION 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 purpose of this committee is to ensure the remuneration programme of the Kathmandu Group delivers the business plan, is fit for purpose and is one which considers the current business needs of the Group whilst supporting shareholder and customer value. The main functions of the committee are to assist the Board in fulfilling its responsibilities to stakeholders on management activities for the Kathmandu Group in relation to:

- Overseeing the development and application of the Group Human Resources strategy, the remuneration framework and associated policies;
- The remuneration of senior executives, non-executive Directors and Directors;

- Providing effective remuneration policies and programs to motivate high performance from all employees; and
- Ensuring appropriate and effective policies for managing the performance and development of employees at all levels.

### Policies, practices and processes

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

### 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 assists the Board in discharging its responsibility for monitoring risk management and that Committee is responsible for 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. A robust risk assessment process of reviewing existing risks and identifying any new and emerging risks facing the Company, and how these are to be managed, was carried out during the reporting period.

### HEALTH AND SAFETY

The Company is committed to cultivating a strong safety culture and awareness of health and safety risks, performance and management within the Group. The Group has adopted an integrated approach to safety and wellbeing which recognises that workplace safety, health and mental health all contribute to an employee's overall wellbeing. During the reporting period, the Company has introduced a new Safety and Wellbeing intranet site 'Destination Safe' which contains a range of resources, tools and information employees can access to assist in keeping workplaces safe covering incident and emergency response and hazard and risk management.

Lag indicators of health and safety risks during the reporting period are set out below:

Lost time injury frequency rate (number of claims per 1,000,000 hours worked): 5.3 (FY2016: 6.6).

More information on Health, Safety and Wellbeing in the Group can be found in the Company's Sustainability Report available at [kathmanduholdings.com](http://kathmanduholdings.com)

### 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 (NZ) 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 and promotion, retention of employees, and company policy and procedures.

Kathmandu has established a Diversity Policy in accordance with ASX CGC Corporate Governance Principles and Recommendation 1.5, NZX Corporate Governance Code Recommendation 2.5, 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 [kathmanduholdings.com](http://kathmanduholdings.com). This policy encompasses Kathmandu's Diversity Principles which affirm the Company's

commitment to harnessing differences to encourage an innovative, responsive and productive workplace, creating value and rewards for customers, the team, shareholders and the community.

As part of its Diversity Policy, Kathmandu has established measurable objectives for achieving diversity, including across the Gender, Generation and Culture profiles of the Company. Kathmandu has carried out an annual assessment of its diversity objectives for FY17. The Company considers that it has continued to make good progress towards achieving these objectives. In relation to gender diversity, Kathmandu considers its current level of employee gender diversity to be effective; however it remains vigilant in the review of this measurable diversity objective. The benefits of diversity will continue to be tested and re-affirmed with reference to Kathmandu team composition.

As at 31 July 2017, in relation to Kathmandu's:

- Board of Directors, two out of six Directors were women (this is the same as FY16)
- Executive Management, one out of eight positions were held by women (this is the same as FY16).

Kathmandu considers its gender diversity as a strength and 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.

Kathmandu is committed to rewarding its employees with compensation and benefit programmes that are based on performance merit and experience. In 2017 a review 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 continues 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 new Global Reporting Initiative (GRI) Standards framework. It is available online at [kathmanduholdings.com](http://kathmanduholdings.com).



# FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
31 JULY 2017



## 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.

## TABLE OF CONTENTS

Directors' Approval of Consolidated Financial Statements ...	30
Consolidated Statement of Comprehensive Income .....	31
Consolidated Statement of Changes in Equity .....	32
Consolidated Balance Sheet.....	33
Consolidated Statement of Cash Flows.....	34
Notes to the Financial Statements	
<b>Section 1:</b> Basis of Preparation .....	36
<b>Section 2:</b> Results for the Year.....	38
<b>Section 3:</b> Operating Assets and Liabilities .....	44
<b>Section 4:</b> Capital Structure and Financing Costs .....	51
<b>Section 5:</b> Other Notes .....	60
Auditors' Report .....	68



# DIRECTORS' APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
31 JULY 2017

## Authorisation for Issue

The Board of Directors authorised the issue of these Consolidated Financial Statements on 26 September 2017.

## Approval by Directors

The Directors are pleased to present the Consolidated Financial Statements of Kathmandu Holdings Limited for the year ended 31 July 2017 on pages 31 to 67.

---

David Kirk

26 September 2017

---

Date

---

Xavier Simonet

26 September 2017

---

Date

For and on behalf of the Board of Directors



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED  
31 JULY 2017

	SECTION	2017 NZ\$'000	2016 NZ\$'000
Sales		445,348	425,593
Cost of sales		(169,165)	(159,232)
Gross profit		276,183	266,361
Selling expenses		(143,740)	(139,285)
Administration and general expenses		(61,613)	(62,278)
		(205,353)	(201,563)
<b>Earnings before interest, tax, depreciation and amortisation</b>		<b>70,830</b>	<b>64,798</b>
Depreciation and amortisation	3.2/3.3	(13,826)	(13,917)
<b>Earnings before interest and tax</b>		<b>57,004</b>	<b>50,881</b>
Finance income		28	26
Finance expenses		(2,058)	(3,582)
Finance costs - net	4.1.1	(2,030)	(3,556)
<b>Profit before income tax</b>		<b>54,974</b>	<b>47,325</b>
Income tax expense	2.3	(16,935)	(13,804)
<b>Profit after income tax</b>		<b>38,039</b>	<b>33,521</b>
<b>Other comprehensive income that may be recycled through profit and loss:</b>			
Movement in cash flow hedge reserve	4.3.2	209	(15,891)
Movement in foreign currency translation reserve	4.3.2	209	(6,384)
<b>Other comprehensive income/(expense) for the year, net of tax</b>		<b>418</b>	<b>(22,275)</b>
<b>Total comprehensive income for the year attributable to shareholders</b>		<b>38,457</b>	<b>11,246</b>
Basic earnings per share	2.4	18.9cps	16.6cps
Diluted earnings per share	2.4	18.7cps	16.6cps
Weighted average basic ordinary shares outstanding ('000)	2.4	201,489	201,484
Weighted average diluted ordinary shares outstanding ('000)	2.4	203,324	202,439



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED  
31 JULY 2017

	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
Balance as at 31 July 2015	200,191	10,360	(13,318)	24	118,607	315,864
Profit after tax	-	-	-	-	33,521	33,521
Other comprehensive income/(expense)	-	(15,891)	(6,384)	-	-	(22,275)
Dividends paid	-	-	-	-	(16,119)	(16,119)
Issue of share capital	-	-	-	-	-	-
Share options / performance rights lapsed	-	-	-	(24)	24	-
Share based payment expense	-	-	-	692	-	692
<b>Balance as at 31 July 2016</b>	<b>200,191</b>	<b>(5,531)</b>	<b>(19,702)</b>	<b>692</b>	<b>136,033</b>	<b>311,683</b>
Profit after tax	-	-	-	-	38,039	38,039
Other comprehensive income/(expense)	-	209	209	-	-	418
Dividends paid	-	-	-	-	(24,179)	(24,179)
Issue of share capital	18	-	-	(18)	-	-
Share options / performance rights lapsed	-	-	-	-	-	-
Share based payment expense	-	-	-	1,139	-	1,139
<b>Balance as at 31 July 2017</b>	<b>200,209</b>	<b>(5,322)</b>	<b>(19,493)</b>	<b>1,813</b>	<b>149,893</b>	<b>327,100</b>

# CONSOLIDATED BALANCE SHEET

FOR THE YEAR ENDED  
31 JULY 2017

	SECTION	2017 NZ\$'000	2016 NZ\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3.1.2	3,537	6,891
Trade and other receivables	3.1.3	6,284	5,031
Inventories	3.1.1	89,206	95,436
<b>Total current assets</b>		<b>99,027</b>	<b>107,358</b>
<b>Non-current assets</b>			
Property, plant and equipment	3.2	61,026	61,609
Intangible assets	3.3	279,014	280,083
<b>Total non-current assets</b>		<b>340,040</b>	<b>341,692</b>
<b>Total assets</b>		<b>439,067</b>	<b>449,050</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	3.1.4	56,735	51,084
Derivative financial instruments	4.2	7,034	7,529
Current tax liabilities		3,475	1,212
<b>Total current liabilities</b>		<b>67,244</b>	<b>59,825</b>
<b>Non-current liabilities</b>			
Derivative financial instruments	4.2	265	604
Interest bearing liabilities	4.1	10,431	43,691
Deferred tax	2.3	34,027	33,247
<b>Total non-current liabilities</b>		<b>44,723</b>	<b>77,542</b>
<b>Total liabilities</b>		<b>111,967</b>	<b>137,367</b>
<b>Net assets</b>		<b>327,100</b>	<b>311,683</b>
<b>EQUITY</b>			
Contributed equity - ordinary shares	4.3.1	200,209	200,191
Reserves	4.3.2	(23,002)	(24,541)
Retained earnings		149,893	136,033
<b>Total equity</b>		<b>327,100</b>	<b>311,683</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED  
31 JULY 2017

SECTION	2017 NZ\$'000	2016 NZ\$'000
<b>Cash flows from operating activities</b>		
<b>Cash was provided from:</b>		
Receipts from customers	444,100	424,182
Income tax received	-	1,357
Interest received	28	26
	444,128	425,565
<b>Cash was applied to:</b>		
Payments to suppliers and employees	360,122	336,968
Income tax paid	14,571	16,688
Interest paid	2,162	2,829
	376,855	356,485
<b>Net cash inflow from operating activities</b>	<b>67,273</b>	<b>69,080</b>
<b>Cash flows from investing activities</b>		
<b>Cash was provided from:</b>		
Proceeds from sale of property, plant and equipment	1	5
	1	5
<b>Cash was applied to:</b>		
Purchase of property, plant and equipment	3.2 11,419	20,729
Purchase of intangibles	3.3 1,857	2,467
	13,276	23,196
<b>Net cash outflow from investing activities</b>	<b>(13,275)</b>	<b>(23,191)</b>
<b>Cash flows from financing activities</b>		
<b>Cash was provided from:</b>		
Proceeds of loan advances	90,330	63,047
Proceeds from share issues	-	-
	90,330	63,047
<b>Cash was applied to:</b>		
Dividends paid	24,179	16,119
Repayment of loan advances	123,533	87,658
	147,712	103,777
<b>Net cash outflow from financing activities</b>	<b>(57,382)</b>	<b>(40,730)</b>
<b>Net increase / (decrease) in cash held</b>	<b>(3,384)</b>	<b>5,159</b>
Opening cash and cash equivalents	6,891	1,700
Effect of foreign exchange rates	30	32
<b>Closing cash and cash equivalents</b>	3.1.2 <b>3,537</b>	<b>6,891</b>

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

	SECTION	2017 NZ\$'000	2016 NZ\$'000
Profit after taxation		38,039	33,521
<i>Movement in working capital:</i>			
(Increase) / decrease in trade and other receivables		(1,249)	(1,440)
(Increase) / decrease in inventories		6,283	13,528
Increase / (decrease) in trade and other payables		5,596	8,735
Increase / (decrease) in tax liability		2,257	(388)
		12,887	20,435
<i>Add non cash items:</i>			
Depreciation	3.2	10,630	10,019
Amortisation of intangibles	3.3	3,196	3,898
Impairment of Assets	3.2	-	1,094
Revaluation of derivative financial instruments		(816)	5,436
Increase / (decrease) in deferred taxation		733	(6,481)
Employee share based remuneration	5.4	1,139	692
Loss on sale of property, plant and equipment	3.2	1,465	466
		16,347	15,124
<b>Cash inflow from operating activities</b>		<b>67,273</b>	<b>69,080</b>

## NOTES TO THE FINANCIAL STATEMENTS

# 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 223 Tuam Street, Central Christchurch, 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.

These audited consolidated financial statements have been approved for issue by the Board of Directors on 26 September 2017.

### 1.2 Summary of significant accounting policies

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice. 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 for profit 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.

Further explanation as to estimates and assumptions made by the Group can be found in the following notes to the financial statements:

Area of Estimation	Section
Goodwill	
– assumptions underlying recoverable value	3.3
Inventory	
– estimates of obsolescence	3.1.1
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.

### 1.3 Restatement of prior year

In October 2006, on acquisition of the Kathmandu business, the Group recognised an indefinite life brand with a fair value of \$160.3m. No deferred tax was recognised in relation to the asset at the time of acquisition. This was based on the assumption that because an indefinite life brand is not amortised, its carrying amount is not expected to be consumed, rather, its carrying amount is expected to be recovered entirely through sale.

In November 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the determination of the expected manner of recovery of intangible assets with indefinite useful life for the purposes of measuring deferred tax, in accordance with IAS 12 Income Taxes. This provided additional guidance on how an entity recovers the carrying value of such assets and the consequences for the measurement and recognition of deferred tax.

Following this additional guidance, the Group has reviewed the expected manner of recovery of the carrying amount of indefinite life Kathmandu brand and concluded that its carrying amount is expected to be recovered through use of the brand within its business. As a result, the Group has recognised additional goodwill, deferred tax liability and retained earnings as follows:

	NZ\$'000
Goodwill	47,429
Deferred tax liability	44,879
Retained earnings	2,550

At the date of acquisition the tax rates in New Zealand and Australia were 33% and 30% respectively. As the New Zealand tax rate has reduced from 33% to 28% over the period the deferred tax liability has been measured at the new tax rate. This has resulted in a release of the liability through the income tax expense and ultimately increased retained earnings in the period of the change in tax rate.

Comparatives for goodwill (note 3.3), deferred tax liability (note 2.3) and retained earnings at 31 July 2016 and 1 August 2015 have been restated. This adjustment has no impact on profit in the reported periods.

As the restatement amount only affects three line-items in the balance sheet as described above, an opening comparative balance sheet has not been provided.

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

The Group operates in three geographical areas: New Zealand, Australia and International.

31 JULY 2017	AUSTRALIA NZ\$'000	NEW ZEALAND NZ\$'000	INTERNATIONAL NZ\$'000	OTHER NZ\$'000	TOTAL NZ\$'000
Total segment sales	298,013	146,779	3,338	-	448,130
Inter-segment sales	(1,581)	(407)	(794)	-	(2,782)
<b>Sales from external customers</b>	<b>296,432</b>	<b>146,372</b>	<b>2,544</b>	<b>-</b>	<b>445,348</b>
EBITDA	39,317	36,001	(713)	(3,775)	70,830
Depreciation and software amortisation	7,783	6,039	3	1	13,826
EBIT	31,534	29,962	(716)	(3,776)	57,004
Income tax expense	8,792	8,595	(225)	(227)	16,935
<b>Total segment assets</b>	<b>233,082</b>	<b>235,834</b>	<b>849</b>	<b>(30,698)</b>	<b>439,067</b>
Total assets includes:					
Non-current assets	171,273	25,529	1	143,237	340,040
Additions to non-current assets	9,662	3,614	-	-	13,276
<b>Total segment liabilities</b>	<b>150,209</b>	<b>22,097</b>	<b>12,356</b>	<b>(72,695)</b>	<b>111,967</b>

31 JULY 2016	AUSTRALIA NZ\$'000	NEW ZEALAND NZ\$'000	INTERNATIONAL NZ\$'000	OTHER NZ\$'000	TOTAL NZ\$'000
Total segment sales	279,704	142,166	7,813	-	429,683
Inter-segment sales	(1,276)	(484)	(2,330)	-	(4,090)
<b>Sales from external customers</b>	<b>278,428</b>	<b>141,682</b>	<b>5,483</b>	<b>-</b>	<b>425,593</b>
EBITDA	32,868	35,134	(541)	(2,663)	64,798
Depreciation and software amortisation	7,121	6,581	214	1	13,917
EBIT	25,747	28,553	(755)	(2,664)	50,881
Income tax expense	6,254	8,090	-	(540)	13,804
<b>Total segment assets</b>	<b>235,781</b>	<b>221,919</b>	<b>1,657</b>	<b>(10,307)</b>	<b>449,050</b>
Total assets includes:					
Non-current assets	170,034	28,416	5	143,237	341,692
Additions to non-current assets	15,545	7,650	1	-	23,196
<b>Total segment liabilities</b>	<b>148,044</b>	<b>30,461</b>	<b>13,460</b>	<b>(54,598)</b>	<b>137,367</b>



EBITDA represents earnings before income taxes (a non-GAAP measure), excluding interest income, interest expense, depreciation and amortisation, as reported in the financial statements. EBIT represents EBITDA less depreciation and amortisation. EBITDA and EBIT are key measurement criteria on which operating segments are reviewed by the Chief Operating Decision Maker (the Executive Management Team).

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

Revenue is allocated based on the country in which the customer is located. The Group has no reliance on any single major customer.

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.

## 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) Sale 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).

### Operating expenses

#### Employee entitlements

	2017 NZ\$'000	2016 NZ\$'000
Wages, salaries and other short term benefits	82,935	82,476
Employee share based remuneration	1,139	692

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

	2017	2016
Australia	762	754
New Zealand	506	488
United Kingdom	5	5

#### (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.

	2017 NZ\$'000	2016 NZ\$'000
Rental and operating lease expenses	62,205	58,252

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

	2017 NZ\$'000	2016 NZ\$'000
Due within 1 year	55,089	52,120
Due within 1-2 years	46,827	40,905
Due within 2-5 years	81,088	70,970
Due after 5 years	41,192	32,112
	224,196	196,107

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:

	2017 NZ\$'000	2016 NZ\$'000
Current income tax charge	16,829	14,996
Deferred income tax charge / (credit)	106	(1,192)
Income tax charge reported in statement of comprehensive income	16,935	13,804

In order to understand how, in the statement of comprehensive income, a tax charge of \$16,934,513 (2016: \$13,804,426) arises on profit before income tax of \$54,973,991 (2016: \$47,324,681), the taxation charge that would arise at the standard rate of New Zealand corporate tax is reconciled to the actual tax charge as follows:

	2017 NZ\$'000	2016 NZ\$'000
Profit before income tax	54,974	47,325
Income tax calculated at 28%	15,393	13,251
Adjustments to taxation:		
Adjustments due to different rate in different jurisdictions	578	550
Non-taxable income	(16)	(25)
Expenses not deductible for tax purposes	1,064	1,492
Tax expense transferred to foreign currency translation reserve	(164)	(1,462)
Adjustments in respect of prior years	80	(2)
Income tax charge reported in statement of comprehensive income	16,935	13,804

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:

	2017 NZ\$'000	2016 NZ\$'000
Movement in cash flow hedge reserve before tax	837	(21,230)
Tax impact relating to cash flow hedge reserve	(628)	5,339
Movement in cash flow hedge reserve after tax	209	(15,891)
Foreign currency translation reserve before tax	91	(8,990)
Tax credit / (charge) relating to foreign currency translation reserve	118	2,606
Movement in foreign currency translation reserve after tax	209	(6,384)
Total other comprehensive income before tax	928	(30,220)
Total tax credit / (charge) on other comprehensive income	(510)	7,945
Total other comprehensive income after tax	418	(22,275)
Current tax	164	1,462
Deferred tax	(674)	6,483
Total tax credit / (charge) on other comprehensive income	(510)	7,945

#### Unrecognised tax losses

The Group has estimated tax losses to carry forward from Kathmandu (U.K.) Limited of £11,177,874 (NZ\$19,854,128) (2016: £11,163,169 (NZ\$24,427,066)) which can be carried forward to be offset against future profits generated within the UK.

No benefit has been recognised in respect to these losses.

## Imputation credits

	2017 NZ\$'000	2016 NZ\$'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	3,602	4,934

The above amounts represent the balance of the imputation account as at the end of July 2017, 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 2017 is A\$4,501,155 (2016: A\$4,093,795).

## 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	BRAND NZ\$'000	FOREIGN EXCHANGE NZ\$'000	OTHER TIMING DIFFERENCES NZ\$'000	RESERVES NZ\$'000	TOTAL NZ\$'000
As at 31 July 2015 (Note 1.3)	175	1,164	(44,879)	1,583	3,989	(2,954)	(40,922)
Recognised in the statement of comprehensive income	(336)	257	-	(797)	2,068	-	1,192
Recognised in other comprehensive income	-	(51)	1,361	(37)	(129)	5,339	6,483
As at 31 July 2016	(161)	1,370	(43,518)	749	5,928	2,385	(33,247)
Recognised in the statement of comprehensive income	209	349	-	(931)	267	-	(106)
Recognised in other comprehensive income	-	3	(62)	(3)	16	(628)	(674)
As at 31 July 2017	48	1,722	(43,580)	(185)	6,211	1,757	(34,027)

The deferred tax balance relates to:

- Property, plant and equipment temporary differences arising on differences in accounting and tax depreciation rates
- Employee benefits accruals
- Kathmandu brand (refer Note 1.3)
- Unrealised foreign exchange on intercompany loan (Kathmandu Pty Ltd)
- Realised gain/loss on foreign exchange contracts not yet charged in the statement of comprehensive income
- Inventory provisioning
- Temporary differences arising from landlord contributions and rent free periods
- Temporary differences on the unrealised gain/loss in hedge reserve
- 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 \$38,039,478 (2016: \$33,520,955) by the weighted average number of ordinary shares in issue during the year of 201,488,773 (2016: 201,484,583).

Diluted EPS reflects any commitments the Group has to issue shares in the future that would decrease EPS. In 2017, 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.

	2017 '000	2016 '000
Weighted average number of shares in issue	201,489	201,484
Adjustment for:		
-Share options / performance rights	1,835	955
	203,324	202,439

# 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. Stock provisions are recognised for inventory which is expected to sell for less than cost and also for the value of inventory likely to have been lost to the business through shrinkage between the date of the last applicable stocktake and balance date. In recognising the provision for inventory, judgement has been applied by considering a range of factors including historical results, stock shrinkage trends and product lifecycle.

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

	2017 NZ\$'000	2016 NZ\$'000
Trading stock	76,678	81,922
Goods in transit	12,528	13,514
	89,206	95,436

Inventory has been reviewed for obsolescence and a provision of \$337,970 (2016: \$396,259) has been made.

### 3.1.2 Cash and cash equivalents

	2017 NZ\$'000	2016 NZ\$'000
Cash on hand	172	171
Cash at bank	3,352	6,707
Short term deposits	13	13
	3,537	6,891

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

NZD	996	2,085
AUD	2,096	3,239
GBP	205	644
USD	163	921
EUR	77	2
	3,537	6,891

### 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.

	2017 NZ\$'000	2016 NZ\$'000
Trade receivables	240	133
Other assets and prepayments	6,044	4,898
	6,284	5,031

Other assets include balances in relation to landlord incentives and takeover bid costs recoverable from Briscoe Group Limited.

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

NZD	3,176	3,335
AUD	2,933	1,608
GBP	175	88
	6,284	5,031

### 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.

	2017 NZ\$'000	2016 NZ\$'000
Trade payables	14,402	12,533
Employee entitlements	10,315	9,793
Sundry creditors and accruals	31,401	27,618
Provisions	617	1,140
	56,735	51,084

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

NZD	11,129	11,292
AUD	38,968	35,602
GBP	624	903
EUR	5	41
USD	6,009	3,246
	56,735	51,084

Provisions primarily relate to the restoration of leased properties. 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.

RISK	EXPOSURE ARISING FROM	MONITORING	MANAGEMENT
Credit risk	Cash and cash equivalents Trade and other receivables	Aging analysis	Credit is generally only given to government or local council backed organisations

The nature of the customer base is such that there is no individual customer concentration of credit risk.

#### 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):

	2017 NZ\$'000	2016 NZ\$'000
Cash and cash equivalents	3,537	6,891
Trade receivables	240	133
Sundry debtors	3,098	2,317
	6,875	9,341

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:

	2017 NZ\$'000	2016 NZ\$'000
Cash and cash equivalents:		
Standard & Poors - AA-	3,272	6,267
Standard & Poors - BBB+	265	624
Total cash and cash equivalents	3,537	6,891

### 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	10 – 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 2016</b>					
Opening net book value	32,423	2,065	17,633	1,972	54,093
Additions	15,417	114	4,388	810	20,729
Disposals	(270)	(16)	(158)	(8)	(452)
Depreciation charge	(5,354)	(358)	(3,780)	(527)	(10,019)
Asset impairment	(1,094)	-	-	-	(1,094)
Exchange differences	(1,009)	(30)	(587)	(22)	(1,648)
Closing net book value	40,113	1,775	17,496	2,225	61,609
<b>As at 31 July 2016</b>					
Cost	70,423	5,391	32,834	8,316	116,964
Accumulated depreciation	(30,310)	(3,616)	(15,338)	(6,091)	(55,355)
Closing net book value	40,113	1,775	17,496	2,225	61,609
<b>Year ended 31 July 2017</b>					
Opening net book value	40,113	1,775	17,496	2,225	61,609
Additions	7,139	47	3,700	533	11,419
Disposals	(962)	(12)	(486)	(6)	(1,466)
Depreciation charge	(6,350)	(278)	(3,347)	(655)	(10,630)
Asset impairment	-	-	-	-	-
Exchange differences	63	1	29	1	94
Closing net book value	40,003	1,533	17,392	2,098	61,026
<b>As at 31 July 2017</b>					
Cost	73,794	5,418	34,385	8,580	122,177
Accumulated depreciation	(33,791)	(3,885)	(16,993)	(6,482)	(61,151)
Closing net book value	40,003	1,533	17,392	2,098	61,026

In the previous year an impairment loss of \$1,093,945 was recognised for leasehold improvements in relation to the closure of the United Kingdom store network.

#### Depreciation

	2017 NZ\$'000	2016 NZ\$'000
Leasehold improvements	6,350	5,354
Office, plant and equipment	278	358
Furniture and fittings	3,347	3,780
Computer equipment	655	527
Total depreciation	10,630	10,019

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.

	2017 NZ\$'000	2016 NZ\$'000
Loss/(gain) on sale of property, plant and equipment	1,465	466

#### Capital commitments

Capital commitments contracted for at balance date include property, plant and equipment of \$2,093,450 (2016: \$2,881,771).

### 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 when 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 at rates of 20-67%.

##### **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**

	GOODWILL NZ\$'000	BRAND NZ\$'000	SOFTWARE NZ\$'000	TOTAL NZ\$'000
<b>Year ended 31 July 2016</b>				
Opening net book value (Note 1.3)	122,835	152,995	11,632	287,462
Additions	-	-	2,467	2,467
Disposals	-	-	(14)	(14)
Amortisation	-	-	(3,898)	(3,898)
Exchange differences	(1,361)	(4,538)	(35)	(5,934)
Closing net book value	121,474	148,457	10,152	280,083
<b>As at 31 July 2016</b>				
Cost	122,745	148,457	24,709	295,911
Accumulated amortisation/impairment	(1,271)	-	(14,557)	(15,828)
Closing net book value	121,474	148,457	10,152	280,083
<b>Year ended 31 July 2017</b>				
Opening net book value	121,474	148,457	10,152	280,083
Additions	-	-	1,857	1,857
Disposals	-	-	-	-
Amortisation	-	-	(3,196)	(3,196)
Exchange differences	62	207	1	270
Closing net book value	121,536	148,664	8,814	279,014
<b>As at 31 July 2017</b>				
Cost	122,807	148,664	26,573	298,044
Accumulated amortisation/impairment	(1,271)	-	(17,759)	(19,030)
Closing net book value	121,536	148,664	8,814	279,014

**Impairment tests for goodwill and brand**

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

GROUP	GOODWILL		BRAND	
	2017 NZ\$'000	2016 NZ\$'000	2017 NZ\$'000	2016 NZ\$'000
New Zealand	45,484	45,484	51,000	51,000
Australia	76,052	75,990	97,664	97,457
	121,536	121,474	148,664	148,457

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:

	2017	2016
Terminal growth rate	1.0%	1.0%
New Zealand CGU pre-tax discount rate	12.5%	12.8%
Australia CGU pre-tax discount rate	12.1%	13.0%

The terminal growth rate assumption is based on a conservative estimate considering the current inflationary environment. Pre-tax discount rates are calculated based on the current capital structure and cost of debt to derive a weighted average cost of capital.

The calculations confirmed that there was no impairment of goodwill and brand during the year (2016: 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.

#### **Capital commitments**

Capital commitments contracted for at balance date include intangible assets of \$850,000 (2016: \$1,410,000).

# 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:

	2017 NZ\$'000	2016 NZ\$'000
Current portion	-	-
Non-current portion	10,431	43,691
Total term loans	10,431	43,691

The Group has a multi option facility agreement with Commonwealth Bank of Australia and ASB Bank Limited, repayable in full on 30 June 2019, and a facility agreement with Bank of New Zealand and National Bank of Australia, repayable in full on 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%. There are no assets pledged as security in relation to the unsecured debt in the 2017 financial year (2016: nil).

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 2017.

The current interest rates, prior to hedging, on the term loans ranged between 2.24% - 2.52% (2016: 2.56% - 3.13%).

	2017 NZ\$'000	2016 NZ\$'000
The principal of interest bearing liabilities is:		
Payable within 1 year	-	-
Payable 1 to 2 years	10,431	43,691
Payable 2 to 3 years	-	-
Payable 3 to 4 years	-	-
	10,431	43,691

#### 4.1.1 Finance costs

	2017 NZ\$'000	2016 NZ\$'000
Interest income	(28)	(26)
Interest expense	1,887	2,665
Other finance costs	360	344
Net exchange loss/(gain) on foreign currency borrowings	(189)	573
	2,030	3,556

Other finance costs relates to facility fees on banking arrangements.

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

Interest rate risk is the risk that fluctuations in interest rates impact the Group's financial performance.

RISK	EXPOSURE ARISING FROM	MONITORING	MANAGEMENT
Interest rate risk	Interest bearing liabilities at floating rates	Cash flow forecasting Sensitivity analysis	Interest rate swaps

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):

	2017 NZ\$'000	2016 NZ\$'000
Total secured loans	10,431	43,691
less Principal covered by interest rate swaps	(37,724)	(47,017)
Net Principal subject to floating interest rates <sup>1</sup>	(27,293)	(3,326)

<sup>1</sup> Debt levels fluctuate throughout the year and as at 31 July, are at a cyclical low. Forecast debt levels are expected to remain in excess of the interest rate swaps for a significant majority of the year.

Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. The cash flow hedge (gain)/loss on interest rate swaps at balance date was \$330,041 (2016: \$697,687).

### 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% (2016: 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 2017	CARRYING AMOUNT \$'000	-1%		+1%	
		PROFIT \$'000	EQUITY \$'000	PROFIT \$'000	EQUITY \$'000
Derivative financial instruments (asset) / liability	7,299	(377)	497	377	(479)
<b>Financial assets</b>					
Cash	3,537	(25)	-	25	-
		(25)	-	25	-
<b>Financial liabilities</b>					
Borrowings	10,431	104	-	(104)	-
		104	-	(104)	-
<b>Total increase / (decrease)</b>		<b>(298)</b>	<b>497</b>	<b>298</b>	<b>(479)</b>

31 JULY 2016	CARRYING AMOUNT \$'000	-1%		+1%	
		PROFIT \$'000	EQUITY \$'000	PROFIT \$'000	EQUITY \$'000
Derivative financial instruments (asset) / liability	8,133	(470)	777	470	(750)
<b>Financial assets</b>					
Cash	6,891	(50)	-	50	-
		(50)	-	50	-
<b>Financial liabilities</b>					
Borrowings	43,691	437	-	(437)	-
		437	-	(437)	-
<b>Total increase / (decrease)</b>		<b>(83)</b>	<b>777</b>	<b>83</b>	<b>(750)</b>

#### 4.1.3 Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

RISK	EXPOSURE ARISING FROM	MONITORING	MANAGEMENT
Liquidity risk	Interest bearing and other liabilities	Forecast and actual cash flows	Active working capital management and flexibility in funding arrangements

The Group has borrowing facilities of \$116,772,823 / \$110,000,000 AUD (2016: \$116,525,424 / \$110,000,000 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.

	LESS THAN 1 YEAR NZ\$'000	BETWEEN 1 AND 2 YEARS NZ\$'000	BETWEEN 2 AND 5 YEARS NZ\$'000	OVER 5 YEARS NZ\$'000
<b>Group 2017</b>				
Trade and other payables	56,735	-	-	-
Borrowings	242	10,653	-	-
	56,977	10,653	-	-
<b>Group 2016</b>				
Trade and other payables	51,084	-	-	-
Borrowings	1,222	44,477	-	-
	52,306	44,477	-	-

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 2017</b>			
Forward foreign exchange contracts			
-Inflow	123,172	-	-
-Outflow	(130,141)	-	-
Net Inflow / (Outflow)	(6,969)	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(248)	(99)	(24)
<b>At 31 July 2016</b>			
Forward foreign exchange contracts			
- Inflow	114,330	-	-
- Outflow	(121,765)	-	-
Net Inflow / (Outflow)	(7,435)	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(215)	(124)	(44)



## 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

	2017 NZ\$'000	2016 NZ\$'000
<b>Foreign exchange contracts</b>		
Current asset	-	-
Current liability	(6,969)	(7,435)
Net foreign change contracts – cash flow hedge (asset / (liability))	(6,969)	(7,435)
<b>Interest rate swaps</b>		
Non-current asset	-	-
Current liability	(65)	(94)
Non-current liability	(265)	(604)
Net interest rate swaps – cash flow hedge (asset / (liability))	(330)	(698)
<b>Total derivative financial instruments</b>	<b>(7,299)</b>	<b>(8,133)</b>

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 \$37,723,992 (2016: \$47,016,949). The fixed interest rates range between 2.13% and 3.52% (2016: 2.13% and 4.13%). Refer section 4.1.3 for timing of contractual 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\$92,450,000, NZ\$130,140,594 (2016: US\$81,700,000, NZ\$121,765,202).

No material hedge ineffectiveness for interest rate swaps or foreign exchange contracts exists as at balance date (2016: nil).

Refer to section 4.2.1 for a sensitivity analysis of foreign exchange risk associated with derivative financial instruments.

### 4.2.1 Foreign exchange risk

Foreign exchange risk is the risk that fluctuations in exchange rates will impact the Group's financial performance. 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.

RISK	EXPOSURE ARISING FROM	MONITORING	MANAGEMENT
Foreign exchange risk	Foreign currency purchases – over 90% of purchases are in USD	Forecast purchases Reviewing exchange rate movements	USD foreign exchange derivatives

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. 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.

### 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% (2016: -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% (2016: -10% / +10%) is reasonable given the exchange rate volatility observed on a 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.

31 JULY 2017	CARRYING AMOUNT \$'000	-10%		+10%	
		PROFIT \$'000	EQUITY \$'000	PROFIT \$'000	EQUITY \$'000
Derivative financial instruments (asset) / liability	7,299	-	(13,549)	-	11,086
<b>Financial assets</b>					
Cash	3,537	203	-	(166)	-
Trade receivables and sundry debtors	3,338	(129)	-	105	-
		74	-	(61)	-
<b>Financial liabilities</b>					
Trade payables	56,735	(3,648)	-	2,985	-
Borrowings	10,431	-	(594)	-	486
		(3,648)	(594)	2,985	486
<b>Total increase / (decrease)</b>		<b>(3,574)</b>	<b>(14,143)</b>	<b>2,924</b>	<b>11,572</b>

31 JULY 2016	CARRYING AMOUNT \$'000	-10%		+10%	
		PROFIT \$'000	EQUITY \$'000	PROFIT \$'000	EQUITY \$'000
Derivative financial instruments (asset) / liability	8,133	-	(12,704)	-	10,394
<b>Financial assets</b>					
Cash	6,891	384	-	(315)	-
Trade receivables and sundry debtors	2,450	(30)	-	25	-
		354	-	(290)	-
<b>Financial liabilities</b>					
Trade payables	51,084	(3,183)	-	2,605	-
Borrowings	43,691	-	(2,415)	-	1,976
		(3,183)	(2,415)	2,605	1,976
<b>Total increase / (decrease)</b>		<b>(2,829)</b>	<b>(15,119)</b>	<b>2,315</b>	<b>12,370</b>

## 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 2017 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

	2017 NZ\$'000	2016 NZ\$'000
Ordinary shares fully paid (\$)	200,209	200,191
Balance at beginning of year	200,191	200,191
Issue of shares under Executive and Senior Management Long Term Incentive Plan	18	-
Balance at end of year	200,209	200,191

#### Number of issued shares

	2017 NZ\$'000	2016 NZ\$'000
Ordinary shares issued at beginning of the year	201,484	201,484
Shares issued under Executive and Senior Management Long Term Incentive Plan	13	-
Ordinary shares issued at end of the year	201,497	201,484

As at 31 July 2017 there were 201,497,120 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity. 12,537 (2016: nil) were issued under the "Executive and Senior Management Long Term Incentive Plan 24 November 2010" and no shares (2016: nil) were issued under the "Executive Share Option Plan 16 October 2009" during the year.

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		2017 NZ\$'000	2016 NZ\$'000
<b>(i) Cash flow hedging reserve</b>			
Opening balance		(5,531)	10,360
Revaluation - gross		8,142	(4,470)
Deferred taxation on revaluation	2.3	(628)	5,339
Transfer to hedged asset		(7,171)	(16,782)
Transfer to net profit - gross		(134)	22
Closing balance		(5,322)	(5,531)
<b>(ii) Foreign currency translation reserve</b>			
Opening balance		(19,702)	(13,318)
Currency translation differences – Gross		91	(8,990)
Currency translation differences – Taxation	2.3	118	2,606
Closing balance		(19,493)	(19,702)
<b>(iii) Share based payments reserve</b>			
Opening balance		692	24
Current year amortisation		1,139	692
Transfer to Share Capital on vesting of shares to Employees		(18)	-
Share Options / Performance Rights lapsed		-	(24)
Closing balance		1,813	692
<b>Total Reserves</b>		<b>(23,002)</b>	<b>(24,541)</b>

### 4.3.3 Dividends

	2017 NZ\$'000	2016 NZ\$'000
Prior year final dividend paid	16,119	10,075
Current year interim dividend paid	8,060	6,044
Dividends paid (\$0.12 per share (2016: \$0.08))	24,179	16,119

### 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

SUBSIDIARIES	EQUITY HOLDING	
	2017	2016
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 \$666,413 (2016: \$223,681) were paid to Chapman Tripp for services provided to the Group (primarily related to takeover defence activity and property leases). John Holland is a Director of Kathmandu Holdings Limited, and during the period was a Consultant of Chapman Tripp. John Holland ceased to be a consultant on 30 November 2016. As at 31 July 2017, the Group owed outstanding legal fees of \$126,591 (2016: \$2,652).

During the year, operating lease costs of \$223,258 (2016: \$240,478) were paid to Chalmers Properties Limited, a subsidiary of Port Otago Limited. John Harvey is a Director of both of these companies.

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.

##### Key Management Personnel

	2017 NZ\$'000	2016 NZ\$'000
Salaries	2,882	3,549
Other short-term employee benefits	987	1,327
Employee performance rights	675	218
	4,544	5,094

Key management personnel include the following employees:

**Executive Directors:**

- Chief Executive Officer

**Other Key Management Personnel:**

- Chief Financial Officer
- General Manager, Product
- General Manager, Marketing, Online and International
- General Manager, Supply Chain
- General Manager, Human Resources
- Chief Information Officer
- General Manager, Retail Stores and Operations

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 are approximately nil. All guarantees are payable on demand.

## 5.3 Remuneration Detail

2017 NAME	SHORT-TERM BENEFITS			POST- EMPLOYMENT BENEFITS	SHARE BASED PAYMENTS			PERFORMANCE RELATED %
	CASH SALARY AND FEES \$	CASH BONUS \$	NON- MONETARY BENEFITS \$	SUPER- ANNUATION \$	PERFORMANCE RIGHTS <sup>1</sup> \$	EQUITY RELATED %	TOTAL \$	
<b>Non-Executive Directors</b>								
David Kirk	236,428	-	-	-	-	0.0%	236,428	0.0%
John Harvey	123,687	-	-	-	-	0.0%	123,687	0.0%
John Holland	123,687	-	-	-	-	0.0%	123,687	0.0%
Sandra McPhee	123,687	-	-	-	-	0.0%	123,687	0.0%
Christine Cross	123,687	-	-	-	-	0.0%	123,687	0.0%
	<b>731,176</b>	-	-	-	-	<b>0.0%</b>	<b>731,176</b>	<b>0.0%</b>
<b>Executive Directors</b>								
Xavier Simonet	821,965	446,891	-	21,170	203,866	13.6%	1,493,892	29.9%
	<b>821,965</b>	<b>446,891</b>	-	<b>21,170</b>	<b>203,866</b>	<b>13.6%</b>	<b>1,493,892</b>	<b>29.9%</b>
<b>Other Key Management Personnel</b>								
Reuben Casey	366,651	116,033	3,123	11,000	121,992	19.7%	618,799	18.8%
Other Management	1,589,914	411,520	9,031	71,879	349,281	14.4%	2,431,625	16.9%
<b>Total</b>	<b>3,509,706</b>	<b>974,444</b>	<b>12,154</b>	<b>104,049</b>	<b>675,139</b>	<b>12.8%</b>	<b>5,275,492</b>	<b>18.5%</b>

<sup>1</sup> No performance rights were vested and issued to key management personnel during 2017, this represents the accounting expense of amortising the value of performance rights from grant date to vesting date (refer to note 5.4).

2016 NAME	SHORT-TERM BENEFITS			POST- EMPLOYMENT BENEFITS	SHARE BASED PAYMENTS			PERFORMANCE RELATED %
	CASH SALARY AND FEES \$	CASH BONUS \$	NON- MONETARY BENEFITS \$	SUPER- ANNUATION \$	PERFORMANCE RIGHTS <sup>1</sup> \$	EQUITY RELATED %	TOTAL \$	
<b>Non-Executive Directors</b>								
David Kirk	241,553	-	-	-	-	0.0%	241,553	0.0%
John Harvey	126,368	-	-	-	-	0.0%	126,368	0.0%
John Holland	126,368	-	-	-	-	0.0%	126,368	0.0%
Sandra McPhee	126,368	-	-	-	-	0.0%	126,368	0.0%
Christine Cross	126,368	-	-	-	-	0.0%	126,368	0.0%
	<b>747,025</b>	-	-	-	-	<b>0.0%</b>	<b>747,025</b>	<b>0.0%</b>
<b>Executive Directors</b>								
Xavier Simonet <sup>2</sup>	814,531	556,745	-	20,707	91,679	6.2%	1,483,662	37.5%
Mark Todd <sup>3</sup>	345,668	-	1,867	10,370	-	0.0%	357,905	0.0%
	<b>1,160,199</b>	<b>556,745</b>	<b>1,867</b>	<b>31,077</b>	<b>91,679</b>	<b>5.0%</b>	<b>1,841,567</b>	<b>30.2%</b>
<b>Other Key Management Personnel</b>								
Reuben Casey	355,000	99,400	2,911	10,650	32,816	6.6%	500,777	19.8%
Other Management	1,914,591	658,496	8,421	78,063	93,825	3.4%	2,753,396	23.9%
<b>Total</b>	<b>4,176,815</b>	<b>1,314,641</b>	<b>13,199</b>	<b>119,790</b>	<b>218,320</b>	<b>3.7%</b>	<b>5,842,765</b>	<b>22.5%</b>

<sup>1</sup> No performance rights were vested and issued to key management personnel during 2017, this represents the accounting expense of amortising the value of performance rights from grant date to vesting date (refer to note 5.4). <sup>2</sup> Cash bonus includes payments related to sign on bonus and short term incentives; <sup>3</sup> Resigned as Executive Director on 24 August 2015.



## 5.4 Employee Share Based Remuneration

### Accounting policy

#### (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 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

Performance rights granted to Executive Directors 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 NUMBER
19 Dec 2016	-	293,078	-	-	293,078
16 Dec 2015	407,463	-	-	-	407,463
	407,463	293,078	-	-	700,541

The performance rights granted on 19 December 2015 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
19 Dec 2016	1	50%	50%
16 Dec 2015	1	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:

KATHMANDU HOLDINGS LIMITED RELATIVE TSR RANKING	% VESTING
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:

TRANCHE	2017	2016
Tranche 1	36 months to 1 December 2019	36 months to 1 December 2018

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:

	2017	2016
Fair value of TSR rights	\$167,054	\$189,470
Current price at grant date	\$1.96	\$1.44
Risk free interest rate	2.40%	2.76%
Expected life (years)	3	3
Expected share volatility	44.3%	45.7%

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 2016. The applicable performance periods are:

TRANCHE	2017 PERFORMANCE PERIOD	2016 PERFORMANCE PERIOD
Tranche 1	FY19 EPS relative to FY16 EPS	FY18 EPS relative to FY15 EPS

The percentage of the 2017 EPS growth related rights scales according to the compound average annual EPS growth achieved as follows:

EPS GROWTH	2017 % RIGHTS VESTING	EPS GROWTH	2016 % RIGHTS VESTING
< 10%	0%	< 17.5%	0%
>=10%, < 11%	50%	>=17.5%, < 18.5%	50%
>=11%, < 12%	60%	>=18.5%, < 19.5%	60%
>=12%, < 13%	70%	>=19.5%, < 20.5%	70%
>=13%, < 14%	80%	>=20.5%, < 21.5%	80%
>=14%, < 15%	90%	>=21.5%, < 22.5%	90%
>=15%	100%	>=22.5%	100%

The fair value of the EPS 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 NUMBER
07 Dec 2016	-	648,954	-	(138,632)	510,322
18 Dec 2015	703,183	-	(12,537)	(20,977)	669,669 <sup>1</sup>

<sup>1</sup> Remaining performance rights on vesting date 31 July 2017, which were subsequently issued on 22 August 2017.

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:

	2017	2016
Grant Date	7 Dec 2016	18 Dec 2015
Performance period (year ending)	31 Jul 2017	31 Jul 2016
Vesting Date – Key Management Personnel and Senior Management	31 Jul 2018	31 Jul 2017

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\$1.71 per right (2016: NZ\$1.45)

The non-market performance hurdles set for the year ending 31 July 2017 were met and accordingly an expense has been recognised in the Statement of Comprehensive Income.

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

	2017 NZ\$'000	2016 NZ\$'000
Executive Directors	204	92
Key Management Personnel and Senior Management	935	600
	1,139	692

## 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.

	2017 NZ\$'000	2016 NZ\$'000
Liabilities outstanding under letters of credit	-	159



## 5.6 Contingent assets

There are no contingent assets in 2017 (2016: 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

	2017 NZ\$'000	2016 NZ\$'000
Directors' fees	731	747

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:

	2017 NZ\$'000	2016 NZ\$'000
Audit services - PricewaterhouseCoopers		
Statutory audit	133	130
Half year review	32	30
Other assurance services*	19	37
Total remuneration for audit services	184	197

\* Other assurance services relate the preparation of revenue certificates and a treasury review in the previous year.

## 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 2017 that have a significant impact on the Group.

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

NEW ACCOUNTING STANDARD	EFFECTIVE DATE APPLICABLE TO THE GROUP	SUMMARY OF CHANGES	GROUP IMPACT
NZ IFRS 9 Financial Instruments	1 August 2018	Addresses the classification, measurement and de-recognition of financial assets and financial liabilities and new rules for hedge accounting.	It is not expected that the adoption of NZ IFRS 9 will have a significant impact on the Group's financial statements. In the coming year we will do a full assessment to quantify any impact.
NZ IFRS 15 Revenue from Contracts with Customers	1 August 2018	Establishes the reporting principles relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.	It is not expected that the adoption of NZ IFRS 15 will have a significant impact on the Group's financial statements. In the coming year we will do a full assessment to quantify any impact.
NZ IFRS 16 Leases	1 August 2019	Introduces a single lessee accounting model requiring a lessee to recognise assets and liabilities for all leases with a term of more than 12 months where they are not considered low value. A right-of-use asset will be recognised representing the right to use the underlying leased asset and a lease liability representing the obligations to make lease payments. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability.	This standard will materially impact the Group's financial statements at transition and in future years, as the group's operating leases (primarily in relation to store, distribution centre and office leases) are recognised on balance sheet. Rental expense currently recognised in the statement of comprehensive income will be replaced with depreciation and interest. Initial assessment activities have been undertaken on the Group's current leases, however the impact of the standard will depend on the leases in place on transition. Detailed review of lease contracts will continue over the next year to determine the full impact on adoption of NZ IFRS 16.



## ***Independent auditor's report***

To the shareholders of Kathmandu Holdings Limited

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 July 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows and the reconciliation of net profit after taxation with cash inflow from operating activities for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### ***Our opinion***

In our opinion, the consolidated financial statements of Kathmandu Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 July 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

---

### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services as auditors for the Group in the areas of a share register audit and store turnover certificates. The provision of these other services has not impaired our independence as auditor of the Group.



## Our audit approach

### Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: \$2.75 million, which represents 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during the audit above \$275,000.

We have determined the following areas as key audit matters:

- Carrying value of goodwill and brand intangible assets; and
- Inventory valuation and existence

### Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

### Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The accounting function for the Group is maintained in New Zealand, providing consistent accounting systems and processes across the different economic jurisdictions the Group operates in. Our audit was conducted by a New Zealand based team and the scope of our testing included the transactions of the entire Group.



### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Carrying value of goodwill and brand intangible assets</i></p> <p>As disclosed in note 3.3, the Group has \$279 million of intangible assets, including \$121.5 million of Goodwill and \$148.7 million of indefinite life Brands at 31 July 2017. These assets were recognised on acquisition of the business in 2006. No impairment charge has been recorded by management against these balances in the current or previous financial years.</p> <p>Our audit focused on the intangible assets due to the judgements and estimates that are involved in determining whether the “fair value” exceeds the carrying value. Management assess whether there are any impairment indicators each year for each of the business units. For the purposes of assessing whether there are indicators of impairment of the Goodwill and Brands, management have determined that there are two business units being the New Zealand and the Australian operations.</p> <p>Management prepared a valuation of the New Zealand and Australian businesses using a “value in use” approach. This involves estimating future cash flows of the respective businesses which include assumptions and estimates, including terminal growth rates and the weighted average cost of capital used as the discount rates.</p> <p>There is risk that if these cash flows are not met or there are changes in the underlying assumptions, the assets may be impaired.</p>	<p>Our audit procedures included the following:</p> <p>We obtained an understanding of, and assessed management’s processes and controls over, preparing the valuation model used in their impairment reviews in support of the carrying value of Goodwill and Brands. We also assessed the Group’s ability to prepare accurate forecasts by comparing results of historical forecasts against actual performance.</p> <p>We tested the mathematical accuracy of the valuation model and, on a sample basis, tested the accuracy of the inputs.</p> <p>We assessed key estimates and assumptions made by management by performing the following procedures:</p> <ul style="list-style-type: none"> <li>• Compared the reasonableness of key assumptions in the cash flow forecasts, in particular revenue growth and profit margins with reference to historical performance;</li> <li>• Engaged an auditor’s expert to assess the weighted average cost of capital used as the discount rates in the models against available external data and determined that the rates used by management were within a reasonable range;</li> <li>• Obtained and evaluated management’s sensitivity analysis to ascertain the impact of reasonably possible changes and we performed our own independent sensitivity calculations to quantify the downside changes to management’s models required to consider the effect of changes in key assumptions; and</li> <li>• Compared the market capitalisation of the Group at balance date to the net assets and confirmed that appropriate headroom existed.</li> </ul> <p>We reviewed the disclosures in the financial statements to ensure that they are compliant with the requirements of NZ accounting standards.</p> <p>We had no matters to report arising from the procedures performed.</p>





Key audit matter	How our audit addressed the key audit matter
<p><b><i>Inventory valuation and existence</i></b></p> <p>At 31 July 2017, the Group held inventories of \$89.2 million. Inventory valuation and existence was an audit focus area because of the additional risks assessed due to the number of stores/locations that the inventory was held at, and the judgement applied in the valuation of inventory on hand.</p> <p>As described in note 3.1.1 of the financial statements, inventories are carried at the lower of cost and net realisable value on a weighted average basis.</p> <p>The Group has sophisticated systems and processes including a barcode inventory management system to accurately record inventory movements.</p> <p>Management engage an independent third party to complete full stock takes at each store twice a year. This process is managed centrally by head office for consistency. Daily cycle counts are performed at the New Zealand and Australian distribution centres.</p> <p>Management pay particular attention to inventory management. There are a number of judgements applied in assessing the level of provision for stock obsolescence and inventory shrinkage losses arising. Management provide for shrinkage each month on a location by location basis. The level of provision is based on historical inventory counts and stocktake shrinkage trends.</p>	<p>We performed a number of audit procedures over inventory existence and valuation:</p> <ul style="list-style-type: none"> <li>• Observed the stocktake process at selected store locations near period end and undertook our own test counts.</li> <li>• We validated all stores had been counted twice in the year by selecting a sample of locations not visited and inspected the results of the stock counts and confirmed variances were correctly accounted for and approved by head office management;</li> <li>• Observed the daily stocktake process at the Christchurch and Melbourne distribution centres near period end and undertook our own test counts. This process is controlled centrally by head office management for consistency. We also validated that the daily counts occurred by selecting a sample of days at each location and inspected the count records throughout the year;</li> <li>• Assessed the stock shrinkage provision by reviewing the level of inventory write downs during the period. We tested the shrinkage rate used to calculate the provision for each store since the last stocktake by comparing it to the actual shrinkage rate in prior periods;</li> <li>• Assessed store inventory counts performed post year end to ensure the actual level of shrinkage was consistent with the year end provisioning;</li> <li>• On a sample basis tested inventory costs to supplier invoices and contracts;</li> <li>• Held discussions with management, including merchandising personnel, to understand and corroborate the assumptions applied in estimating inventory provisions;</li> <li>• On a sample basis, we tested the aging of inventory. For our sample we agreed the purchase date recorded in the inventory aging report to supplier invoices;</li> <li>• We evaluated the assumptions made by management, and particularly the key assumption that current shrinkage levels are consistent with historical levels, in assessing stock obsolescence provisions through an analysis of inventory items by category and age and the level of inventory write downs in these categories during the period; and</li> <li>• We tested that inventory on hand at the end of the period was recorded at the lower of cost and net realisable value by testing a sample of inventory items to the most recent retail price.</li> </ul> <p>From the procedures performed we have no matters to report.</p>



### *Information other than the financial statements and auditor's report*

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

---

### *Responsibilities of the Directors for the consolidated financial statements*

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.

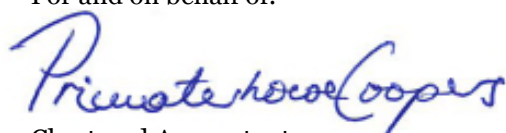
### *Who we report to*

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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.

---

The engagement partner on the audit resulting in this independent auditor's report is Nathan Wylie.

For and on behalf of:



Chartered Accountants  
26 September 2017

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, 51% 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	18
110,000	-	120,000	14
120,000	-	130,000	7
130,000	-	140,000	7
140,000	-	150,000	10
150,000	-	160,000	5
160,000	-	170,000	5
170,000	-	180,000	1
180,000	-	190,000	1
190,000	-	200,000	1
200,000	-	210,000	3
210,000	-	220,000	3
240,000	-	250,000	1
250,000	-	260,000	1
290,000	-	300,000	1
310,000	-	320,000	1
340,000	-	350,000	2
460,000	-	470,000	1
490,000	-	500,000	1
1,280,000	-	1,290,000	1

## Distribution of shareholders and holdings

	NUMBER OF HOLDERS	%	NUMBER OF ORDINARY SHARES	%
1 to 999	1,006	28%	541,432	0%
1,000 to 4,999	1,542	42%	4,222,639	2%
5,000 to 9,999	542	15%	4,089,670	2%
10,000 to 99,999	495	14%	12,464,595	6%
100,000 and over	41	1%	180,848,453	90%
<b>Total</b>	<b>3,624</b>	<b>100%</b>	<b>202,166,789</b>	<b>100%</b>

The details set out above were as at 15 September 2017.

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 166 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 15 September 2017.

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 of 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 15 September 2017, were as follows:

	ORDINARY SHARES	%
Briscoe Group Limited (30 June 2015)	40,095,432	19.8%
TA Universal Investment Holdings and others (15 August 2017)	24,212,664	12.0%
Novaport Capital (28 July 2017)	15,194,513	7.5%
Challenger Limited (28 July 2017)	15,313,741	7.6%
Harbour Asset Management Limited (11 April 2017)	12,374,372	6.1%

As at 15 September 2017, the Company had 202,166,789 ordinary shares on issue.

## Principal shareholders

The names and holdings of the twenty largest shareholders as at 15 September 2017 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 2017:

John Holland	beneficially owned	122,033
David Kirk	beneficially owned	62,150
Sandra McPhee	beneficially owned	58,823
John Harvey	beneficially owned	51,563
Xavier Simonet	beneficially owned	13,810

## Share dealings by directors

In accordance with Section 148(2) of the Companies Act 1993, the Board has not received any disclosures from the Directors in relation to acquisitions or disposals of relevant interests in the Company between 1 August 2016 and 31 July 2017. .

## 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 2017.

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 2017, 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 2017, and those who ceased to hold office during the year ended 31 July 2017, are as follows:

### **Milford Group Holdings Limited**

Reuben Casey, Xavier Simonet

### **Kathmandu Limited**

Reuben Casey, Xavier Simonet

### **Kathmandu Pty Limited**

Paul Stern, Reuben Casey, Xavier Simonet

### **Kathmandu (U.K.) Limited**

Reuben Casey, Xavier Simonet



## 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 2017 are as follows:

### DAVID KIRK

TradeMe Group Limited	Chairman
New Zealand Foodshare Trust	Chairman
Sydney Grammar School Board of Trustees	Chairman
NZ Rugby Players Association	Chairman
Bailador Investment Management Pty Limited	Managing Partner
Bailador Technology Investments Limited (including investee companies)	Director
Forsyth Barr Group Limited	Director

### JOHN HARVEY

New Zealand Opera Limited	Chairman
Stride Property Limited (formerly 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

Fairfax Media Limited	Director
JP Morgan Advisory Council	Member
St Vincents and Mater Health Sydney Community Advisory Council	Chairman
NSW Public Service Commission Advisory Board	Member
Australian Public Service Commission	Advisor

### JOHN HOLLAND

Southbase Construction Limited	Chairman
Carter Group	Consultant
Glasson Trustee Limited	Director
Ryman Healthcare	Consultant
The Court Theatre Foundation	Trustee

### CHRISTINE CROSS

Sonae Group plc	Director
Brambles Limited	Director
Fenwick Limited	Director
Hilton Food Group plc	Director
Coca Cola European Partners plc	Director
Warburg Pincus LLC	Retail Advisor
Apax Private Equity	Retail Advisor

## 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
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
----------------	-------------------------



# DIRECTORY

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

223 Tuam Street  
Christchurch Central  
PO Box 1234  
Christchurch 8011

## Share registry

**In New Zealand:** Link Market Services (LINK)

Physical Address: Level 11, Deloitte Centre,  
80 Queen Street, 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: [www.linkmarketservices.com](http://www.linkmarketservices.com)

**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: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## 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  
Eastland  
Fitzroy  
Fountain Gate  
Frankston  
Geelong  
Hampton East  
Highpoint  
Knox  
Melbourne (Elizabeth 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  
Traralgon  
Uni Hill Outlet Store  
Warrnambool  
Watergardens  
Werribee

### NSW

Albury  
Birkenhead Point Outlet Store  
Bondi Junction  
Burwood  
Byron Bay  
Castle Towers  
Charlestown

Chatswood  
Coffs Harbour  
Cronulla  
Eastgardens  
Erina Fair  
Hornsby  
Homebush DFO  
Macarthur  
Macquarie  
Miranda  
Newcastle  
Orange  
Parramatta  
Parramatta Westfield  
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)  
Adelaide (Rundle Mall)  
Glenelg  
Marion  
Tea Tree (Modbury)  
West Lakes

### ACT

Belconnen  
Canberra Centre  
Canberra Outlet Store  
Woden

### QLD

Brisbane City  
Cairns  
Carindale  
Chermside  
Fortitude Valley  
Gold Coast Harbour Town  
Hervey Bay  
Indooroopilly  
Jindalee Outlet Store  
Kawana  
Mackay  
Mt Gravatt  
North Lakes  
Pacific Fair (Broadbeach)  
Robina  
Rockhampton  
Southport  
Springfield  
Toowoomba  
Townsville

### TAS

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

### WA

Belmont  
Bunbury  
Carousel  
Cockburn  
Cottesloe  
Fremantle  
Innaloo  
Joondalup  
Mandurah  
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  
Lyal Bay  
Manukau  
Masterton  
Napier  
New Plymouth  
Onehunga Outlet Store  
Otaki Outlet Store

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

Westgate  
Willis Street Outlet Store

### SOUTH ISLAND

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

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

London (High Street Kensington)



# NOTES

**Design direction by Kathmandu.**

**Design and print production by MOSHA.**

This document is digitally printed on an environmentally responsible paper, produced using Elemental Chlorine Free (ECF), FSC® certified, Mixed Source pulp from Responsible Sources, and manufactured under strict ISO14001 Environmental Management System.





**Kathmandu**<sup>®</sup>

KATHMANDU HOLDINGS LIMITED  
ANNUAL REPORT 2017

[kathmanduholdings.com](http://kathmanduholdings.com)