Kathmandu

live the dream™

Kathmandu Holdings Limited

Preliminary Full Year Report

For the year ending 31 July 2015

Contents

Kathmandu®
live the dream™

Appendix 4E

Kathmandu Holdings Limited

(ARBN 139 836 918)
(Incorporated in New Zealand)

For the year ending 31 July 2015

Reporting Period

Reporting Period:	12 months ending 31 July 2015
Previous Reporting Period:	12 months ending 31 July 2014

Results for Announcement to the Market (all comparisons to the year ended 30 June 2014)	$NZ'000	Up/Down	Movement %
1. Revenues from ordinary activities	409,372	Up	4.2%
2. Profit from ordinary activities after tax attributable to members	20,419	Down	51.6%
3. Net profit for the period attributable to members	20,419	Down	51.6%

4. Dividends (distribution)	Amount per Security **NZ cents**	Franked amount per security **NZ cents**
Interim Dividend per share (paid 19 June 2015)	3.0	3.0
Final Dividend per share (to be paid 20 November 2015)	5.0	5.0

5. The record date for final dividend	9 November 2015
6. For commentary on the results refer to the following Media Announcement.	

Financial Information

The appendix 4E should be read in conjunction with the following consolidated financial statements for the year ended 31 July 2015, specifically:

Kathmandu

live the dream™

Dividends – Ordinary Shares

Dividends	Amount per Security **NZ cents**	Franked amount per security **NZ cents**
Interim Dividend	3.0	3.0
Final Dividend	5.0	5.0
The record date for determining entitlements to the final dividend		9 November 2015
Final Dividend payment date:		20 November 2015

There is no foreign sourced dividend or distribution included.

Dividend reinvestment plan
Not applicable.

Net Tangible Assets per Security

	2015 **NZ $**	**2014** **NZ $**
Net tangible assets per security	0.36	0.32

Entities over which control has been gained or lost
Control has not been gained or lost in relation to any entity during the period.

Details of associates and joint venture entities
Not applicable.

Other significant information
Not applicable.

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

Commentary on results for the period
Refer to media announcement and consolidated financial statements following.

Information on Audit
The report is based on financial statements which have been audited. The audit report, which is unqualified, is on page 42 of the financial statements.

Kathmandu FY15 Full Year Results

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced earnings before interest and tax (EBIT) of NZ$33.2 million for the year ended 31 July 2015, a decrease of NZ$31.1 million compared with the prior corresponding period. Net profit after tax (NPAT) decreased from NZ$42.2 million to NZ$20.4 million for the same period. A final dividend of NZ 5.0 cents per share will be paid, bringing the full year payout to NZ 8.0 cents per share.

Summary of Results

	NZD $m		Change	
	FY2015	**FY2014**	**NZD $m**	**%**
Sales	409.4	392.9	16.5	4.2%
Gross Profit	251.9	248.1	3.8	1.5%
EBITDA	47.1	74.5	(27.4)	(36.8%)
EBIT	33.2	64.3	(31.1)	(48.4%)
NPAT	**20.4**	**42.2**	**(21.8)**	**(51.7%)**
NPAT excluding non-recurring items	21.8	41.2	(19.4)	(47.1%)

Kathmandu’s FY2015 result was a disappointing outcome from a challenging year.

The key contributing factors to the reduction in earnings were:

- Excess inventory entering FY2015 requiring aggressive clearance activity in Q1 FY2015 at compressed margins;
- Pricing and promotional activity during the first three quarters of FY2015 caused customer confusion, and was compromised by clearance activity;
- The rate of operating cost increases in anticipation of sales growth that did not eventuate;
- Subdued consumer sentiment impacting on the Australian retail environment; and
- Weakening foreign exchange rate increasing the cost of goods.

Chief Executive Xavier Simonet commented:

“The results for FY2015 were disappointing and well below our expectations. After a challenging first three quarters, our Winter promotion delivered improved same store sales and gross margin results year on year, which was a significantly better outcome than our

Christmas and Easter promotions. Summit Club members responded to a shift in promotional strategy which focused on new products and highlighted features and benefits, rather than a price and discount message."

Non-recurring items incurred in FY2015 relate to the relocation of the Australian distribution centre and Christchurch support office, along with costs arising due to the Briscoe takeover process.

Sales, Store Numbers, Gross Margin and Inventory

Sales Growth FY2015

Sales growth in Australia was due to the expansion of the store network. Same store sales reduced by 2.7% in Australia and 1.1% in New Zealand.
In the UK growth was recorded in both total and same stores sales during the period.

	Total Sales	**Total Sales Growth**		**Same Store Sales Growth**	
	NZD $m	Local currency	NZD	Local currency	NZD
Australia	264.6	6.3%	7.0%	(2.7%)	(2.0%)
New Zealand	139.1	-1.3%	-1.3%	(1.1%)	(1.1%)
United Kingdom	5.7	17.3%	21.4%	15.7%	19.7%
Total	**409.4**	**3.7%**	**4.2%**	**(1.9%)**	**(1.4%)**

Note: Same store sales are for the 53 weeks ending 2 August 2015

Online Sales Growth

Online sales growth continued to be strong in all countries, with overall growth of c.28% led by an uplift of over 79% in the UK. Online sales are now 6.2% of total sales.

Permanent Store Openings

Kathmandu opened eight new permanent stores in the first half of FY2015, and two more in the second half of FY2015, all in Australia.

Gross Margin

Gross margin declined 1.6% pts from 63.1% in FY2014 to 61.5% in FY2015. In 2H FY2015 gross margin improved by 0.7% pts from 62.6% to 63.3%. This improvement, driven by less discounting, was particularly evident in the Winter sale promotion where margins improved by over 3.5% pts year on year.

1H FY2015 margins declined as a result of a combination of factors including the sale of a large amount of clearance stock, below target sales of higher margin summer apparel product groups, and price pressure in some key product categories.

Inventory levels

Total inventory levels increased by 9.2% (NZ$9.5m) on last year and by 2.3% on a per store basis at actual exchange rates.

	FY2015 NZD $m	**FY2014 NZD $m**	**Change NZD $m**	**Change %**	**Change per store %**
Inventory	113.3	103.8	9.5	9.2%	2.3%

The timing of new season deliveries, fewer new store openings than planned and stock investment required to support online growth have contributed to this increase. The level of clearance stock was a particular focus throughout the year, and we ended FY2015 with c.40% less aged stock than last year. Clearance stock on hand was 15% below last year following the conclusion of Winter sale.

Operating Expenses

Operating expenses have increased by NZ$29.8m and by 5.5% as a percentage of sales compared to FY2014. The primary increases are:

- Over half is attributable to retail stores and online operating costs including the full year effect of the 15 stores opening during FY2014, and part year costs of the 10 new stores opened during FY2015;
- UK growth investment expenditure (NZ$2.8m);
- Increased promotional activity; and
- Non-recurring items relating to the relocation of the New Zealand support office, Australian distribution centre and costs from the Briscoe takeover process (NZ$1.9m).

Following a structural review, cost savings of c.NZ$7.0m have been planned and are being implemented during FY2016.

Operating expenses (excluding depreciation)

	FY2015 NZD $m	FY2014 NZD $m
Rent	53.0	44.5
% of Sales	12.9%	11.3%
Other operating costs	151.8	130.5
% of Sales	37.1%	33.2%
Total	**204.8**	**175.0**
% of Sales	50.0%	44.5%

Other Financial Information

Capital expenditure decreased by NZ$4.2m compared to the prior period due to reduced investment in new and refurbished stores and a reduction in core systems investment as the upgrade project was completed in the first half of FY2015.

Operating cash flow was NZ$1.6m or 5.1% lower than FY2015. However, cash conversion was improved year on year. Gearing has increased from FY2014 but remains conservative.

	FY2015 NZD $m	FY2014 NZD $m
Capital Expenditure	20.0	24.2
Operating Cash Flow	29.6	31.2
Net Debt	69.3	55.3
Net Debt: Net Debt + Equity	18.1%	15.5%

Final Dividend

A final dividend of NZ5.0 cents per share will be paid to shareholders on the register as at 9 November 2015. The dividend will be fully franked for Australian shareholders and fully imputed for New Zealand shareholders.

Outlook

Chief Executive Xavier Simonet commented:

"The FY2015 result has highlighted the need to review our cost structure and we have taken decisive action on this already. It also emphasised the need to optimise our pricing strategy and promotional model in order to improve same store sales growth and profitability in existing stores. These levers will remain a strong focus for management in FY2016.

We are committed to our long term target of 180 stores across Australasia. In FY2016 three new stores are confirmed along with relocations of our flagship stores in Melbourne and Adelaide CBD's.

The Board has taken the decision to exit the UK store network in FY2016. We intend to build on our brand equity and online platform to expand internationally using a capital light model.

I am immensely excited to have joined Kathmandu in July 2015. More than a retail business, Kathmandu is an inspiring brand with a strong heritage. We have already embarked on plans to make the brand more distinctive and engage with its target customers, particularly through Summit Club.

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

We remain committed to our FY2016 forecast."

ENDS

Media:	Investors:
Helen McCombie	Reuben Casey
Citadel-MAGNUS	Chief Financial Officer
Tel: + 61 2 8234 0103	Tel: +64 3 968 6166

Kathmandu Holdings Limited

FINANCIAL STATEMENTS

31 July 2015

Introduction and Table of Contents

In this section …

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

Keeping it simple …

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

Directors' Approval of Consolidated Financial Statements For the Year Ended 31 July 2015

Authorisation for Issue

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

Approval by Directors

The Directors are pleased to present the Consolidated Financial Statements of Kathmandu Holdings Limited for the year ended 31 July 2015 on pages 4 to 41.

David Kirk	29 September 2015 *Date*
Xavier Simonet	29 September 2015 *Date*

For and on behalf of the Board of Directors

Consolidated Statement of Comprehensive Income
For the Year Ended 31 July 2015

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

Basic earnings per share	2.4	10.1cps	21.0cps
Diluted earnings per share	2.4	10.1cps	20.8cps
Weighted average basic ordinary shares outstanding ('000)	2.4	201,343	200,422
Weighted average diluted ordinary shares outstanding ('000)	2.4	202,227	202,303

Consolidated Statement of Changes in Equity
For the Year Ended 31 July 2015

	Share Capital NZ$'000	Cash Flow Hedge Reserve NZ$'000	Foreign Currency Translation Reserve NZ$'000	Share Based Payments Reserve NZ$'000	Retained Earnings NZ$'000	Total Equity NZ$'000
Balance as at 31 July 2013	**197,370**	**5,067**	**(10,558)**	**823**	**101,487**	**294,189**
Profit after tax	-	-	-	-	42,152	42,152
Other comprehensive income	-	(7,122)	(3,794)	-	-	(10,916)
Dividends paid	-	-	-	-	(24,047)	(24,047)
Issue of share capital	858	-	-	(301)	-	557
Share based payment expense	-	-	-	211	-	211
Balance as at 31 July 2014	**198,228**	**(2,055)**	**(14,352)**	**733**	**119,592**	**302,146**
Profit after tax	-	-	-	-	20,419	20,419
Other comprehensive income	-	12,415	1,034	-	-	13,449
Dividends paid	-	-	-	-	(24,163)	(24,163)
Issue of share capital	1,963	-	-	(509)	-	1,454
Share options / performance rights lapsed	-	-	-	(209)	209	-
Share based payment expense	-	-	-	9	-	9
Balance as at 31 July 2015	**200,191**	**10,360**	**(13,318)**	**24**	**116,057**	**313,314**

Consolidated Balance Sheet
As At 31 July 2015

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

Consolidated Statement of Cash Flows
For the Year Ended 31 July 2015

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

Reconciliation of net profit after taxation with cash inflow from operating activities

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

Section 1: Basis of Preparation

In this section …

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

1.1 General information

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

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

The Company is listed on the NZX and ASX.

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

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

1.2 Summary of significant accounting policies

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

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

1.2.1 Basis of preparation

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

Entities reporting

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

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

Principles of consolidation

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

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

Historical cost convention

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

Critical accounting estimates

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

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Area of Estimation	Section
Goodwill – assumptions underlying recoverable value	3.3
Fair value of derivatives – assumptions underlying fair value	4.2

Foreign currency translation

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

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

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

All resulting exchange differences are recognised in other comprehensive income.

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

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

Reclassification and disclosures

Expenses within the statement of comprehensive income have been reclassified from the presentation in the financial statements for the year ended 31 July 2014. The reclassification has been made to better represent the nature of the costs of the business, how key performance indicators are measured and to allow for improved comparability. Depreciation and amortisation of $7,019k has been reclassified from selling expenses and $3,179k from administration and general expenses and included in a separate line item 'Depreciation and amortisation'. There is no change in the total expenses recognised for the 2014 year.

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

1.2.2 Offsetting financial instruments

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

Section 2: Results for the Year

In this section …

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

2.1 Segment information

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

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

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

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

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

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

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

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

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

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

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

2.2 Profit before tax

Accounting policies

Revenue recognition

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

(i) Sales of goods

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

(ii) Interest income

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

Operating expenses

Employee entitlements

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

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

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

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

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

Rental and operating leases

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

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

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

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

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

2.3 Taxation

Keeping it simple …

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

Accounting policies

Current and deferred income tax

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

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

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

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

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

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

Goods and Services Tax (GST)

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

Taxation – Statement of comprehensive income

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

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

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

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

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

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

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

Unrecognised tax losses

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

Imputation credits

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

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

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

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

Taxation – Balance sheet

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

	Tax depreciation NZ$'000	Employee obligations NZ$'000	Foreign exchange NZ$'000	Other timing differences NZ$'000	Reserves NZ$'000	Total NZ$'000
As at 31 July 2013	212	1,122	2,617	2,351	(2,285)	4,017
Recognised in the statement of comprehensive income	6	(36)	(1,952)	1,317	-	(665)
Recognised in other comprehensive income	-	-	(104)	11	3,076	2,983
As at 31 July 2014	218	1,086	561	3,679	791	6,335
Recognised in the statement of comprehensive income	(43)	78	1,015	293	-	1,343
Recognised in other comprehensive income	-	-	7	17	(3,745)	(3,721)
As at 31 July 2015	175	1,164	1,583	3,989	(2,954)	3,957

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

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

The deferred tax balance relates to:

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

2.4 Earnings per share

Keeping it simple …

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

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

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

Section 3: Operating Assets and Liabilities

In this section …

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

Keeping it simple …

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

3.1 Working capital

3.1.1 Inventory

Accounting policies

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

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

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

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

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

3.1.2 Cash and cash equivalents

	2015 NZ$'000	2014 NZ$'000
Cash on hand	175	169
Cash at bank	1,508	7,009
Short term deposits	17	14
	1,700	7,192

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

NZD	520	1,624
AUD	471	5,263
GBP	237	250
USD	470	52
EUR	2	3
	1,700	7,192

3.1.3 Trade and other receivables

Accounting policies

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

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

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

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

3.1.4 Trade and other payables due within one year

Accounting policies

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

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

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

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

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

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

3.1.5 Credit risk

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

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

Exposure to credit risk

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

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

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

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

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

3.2 Property, plant and equipment

Keeping it simple …

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

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

Accounting policies

Property, plant and equipment

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

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

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

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

Depreciation

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

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

Impairment of assets

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

Property, plant and equipment can be analysed as follows:

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

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

Depreciation

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

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

Sale of property, plant and equipment

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

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

Capital commitments

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

3.3 Intangible assets

Keeping it simple …

The following section shows the non-physical assets used by the Group to operate the business, generating revenues and profits. These assets include brands, licenses, software development and goodwill.

This section explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the net book value of these assets.

Accounting policies

Goodwill

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

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

Brand

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

Software costs

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

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

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

Impairment

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

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

Intangible assets

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

Impairment tests for goodwill and brand

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

Group	Goodwill		Brand	
	2015	2014	2015	2014
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
New Zealand	28,654	28,654	51,000	51,000
Australia	46,752	46,752	101,995	101,098
	75,406	75,406	152,995	152,098

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

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

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

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

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

Amortisation

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

Capital commitments

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

Section 4: Capital Structure and Financing Costs

In this section …

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

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

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

4.1 Interest bearing liabilities

Accounting policies

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

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

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

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

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

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

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

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

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

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

4.1.1 Finance costs

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

Other finance costs relates to facility fees on banking arrangements.

4.1.2 Cash flow and fair value interest rate risk

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

Refer to section 4.2 for notional principal amounts and valuations of interest rate swaps outstanding at balance date. A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table below.

At the reporting date the interest rate profile of the Group's banking facilities was (carrying amount):

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

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

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

Summarised sensitivity analysis

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

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

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

31 July 2015	Carrying amount $'000	-1% Profit $'000	-1% Equity $'000	+1% Profit $'000	+1% Equity $'000
Derivative financial instruments (asset) / liability	(13,119)	(507)	876	507	(908)
Financial assets					
Cash	1,700	(12)	-	12	-
		(12)	-	12	-
Financial liabilities					
Borrowings	70,976	710	-	(710)	-
		710	-	(710)	-
Total increase / (decrease)		**191**	**876**	**(191)**	**(908)**

31 July 2014	Carrying amount $'000	-1% Profit $'000	-1% Equity $'000	+1% Profit $'000	+1% Equity $'000
Derivative financial instruments (asset) / liability	3,060	(572)	852	572	(885)
Financial assets					
Cash	7,192	(52)	-	52	-
		(52)	-	52	-
Financial liabilities					
Borrowings	62,444	624	-	(624)	-
		624	-	(624)	-
Total increase / (decrease)		**-**	**852**	**-**	**(885)**

4.1.3 Liquidity Risk

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

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

Keeping it simple …

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

	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
Group 2015				
Trade and other payables	44,048	-	-	-
Borrowings	2,184	2,178	72,976	-
	46,232	2,178	72,976	-
Group 2014				
Trade and other payables	37,489	-	-	-
Borrowings	2,295	63,344	-	-
	39,784	63,344	-	-

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

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

	Less than 1 year NZ$'000	Between 1 and 2 years NZ$'000	Between 2 and 5 years NZ$'000
At 31 July 2015			
Forward foreign exchange contracts			
- Inflow	146,814	-	-
- Outflow	(133,177)	-	-
Net Inflow / (Outflow)	13,637	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(263)	(143)	(77)
At 31 July 2014			
Forward foreign exchange contracts			
- Inflow	119,979	-	-
- Outflow	(122,889)	-	-
Net Inflow / (Outflow)	(2,910)	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(181)	(73)	(46)

4.2 Derivative financial instruments

Keeping it simple …

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

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

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

Accounting policies

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

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

Cash flow hedge

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

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

Foreign currency translation

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

Derivative financial instruments

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

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

Interest rate swaps - cash flow hedge

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

Foreign exchange contracts - cash flow hedge

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

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

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

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

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

Summarised sensitivity analysis

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

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

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

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

		-10%		+10%	
31 July 2014	**Carrying amount \$'000**	**Profit \$'000**	**Equity \$'000**	**Profit \$'000**	**Equity \$'000**
Derivative financial instruments (asset) / liability	3,060	-	(12,588)	-	10,299
Financial assets					
Cash	7,192	445	-	(364)	-
Trade receivables and sundry debtors	1,572	(112)	-	91	-
		333	-	(273)	-
Financial liabilities					
Trade payables	37,489	(2,274)	-	1,861	-
Borrowings	62,444	-	(4,396)	-	3,596
		(2,274)	(4,396)	1,861	3,596
Total increase / (decrease)		**(1,941)**	**(16,984)**	**1,588**	**13,895**

4.3 Equity

Keeping it simple …

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

Accounting policies

Share capital

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

Dividends

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

4.3.1 Contributed equity - ordinary shares

	2015 NZ$'000	2014 NZ$'000
Ordinary shares fully paid ($)	200,191	198,228
Balance at beginning of year	198,228	197,370
Issue of shares under Executive and Senior Management Long Term Incentive Plan	1,963	858
Balance at end of year	200,191	198,228

Number of issued shares

	2015 '000	2014 '000
Ordinary shares issued at beginning of the year	200,633	200,216
Shares issued under Executive and Senior Management Long Term Incentive Plan	851	417
Ordinary shares issued at end of the year	201,484	200,633

As at 31 July 2015 there were 201,484,583 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity. 165,639 shares (2014: 146,648) were issued under the "Executive and Senior Management Long Term Incentive Plan 24 November 2010" and 685,475 shares (2014: 270,927) were issued under the "Executive Share Option Plan 16 October 2009" during the year ending 31 July 2015.
All ordinary shares carry equal rights in respect of voting and the receipt of dividends. Ordinary shares do not have a par value.

Refer to section 5.4 for Employee share based remuneration plans.

4.3.2 Reserves and retained earnings

Cash flow hedging reserve

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

Foreign currency translation reserve

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

Share based payments reserve

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

Reserves

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

4.3.3 Dividends

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

4.3.4 Capital risk management

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

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

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

Section 5: Other Notes

5.1 Related parties

Subsidiaries	Equity holding 2015	Equity holding 2014
Milford Group Holdings Limited	100%	100%
Kathmandu Limited	100%	100%
Kathmandu Pty Limited	100%	100%
Kathmandu (U.K.) Limited	100%	100%

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

The principal activities of the subsidiaries are:

	Country of Registration	Principal Activity
Milford Group Holdings Limited	New Zealand	Holding company
Kathmandu Limited	New Zealand	Outdoor retailer
Kathmandu Pty Limited	Australia	Outdoor retailer
Kathmandu (U.K.) Limited	United Kingdom	Outdoor retailer

5.1.1 Related party disclosures

Parent and Ultimate Controlling Party

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

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

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

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

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

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

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

Key Management Personnel

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

Key management personnel include the following employees:

Executive Directors:

- Chief Executive Officer
- Chief Operating Officer

Other Key Management Personnel:

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

Remuneration Detail – refer to section 5.3.

5.2 Fair values

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

Trade debtors, trade creditors and bank balances

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

Term liabilities

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

Foreign exchange contracts and interest rate swaps

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

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

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

Guarantees and overdraft facilities

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

5.3 Remuneration Detail

2015	Short-Term Benefits			Post-employment benefits	Share based payments			
Name	Cash Salary and fees $	Cash bonus $	Non-Monetary benefits $	Super-annuation $	Performance Rights $	Equity related %	Total $	Performance related %
Non-Executive Directors								
David Kirk	242,230	-	-	-	-	0.0%	242,230	0.0%
John Harvey	125,449	-	-	-	-	0.0%	125,449	0.0%
John Holland	125,449	-	-	-	-	0.0%	125,449	0.0%
Sandra McPhee	125,449	-	-	-	-	0.0%	125,449	0.0%
Christine Cross	125,449	-	-	-	-	0.0%	125,449	0.0%
	744,026	**-**	**-**	**-**	**-**	**0.0%**	**744,026**	**0.0%**
Executive Directors								
Xavier Simonet [1]	77,283	56,831	-	2,153	-	0.0%	136,267	0.0%
Peter Halkett [2]	297,909	-	-	6,588	4,367	1.4%	308,864	0.0%
Mark Todd [3]	690,701	-	2,655	22,183	1,541	0.2%	717,080	0.0%
	1,065,893	**56,831**	**2,655**	**30,924**	**5,908**	**0.5%**	**1,162,211**	**0.0%**
Other Key Management Personnel								
Reuben Casey	311,025	-	2,599	9,926	-	0.0%	323,550	0.0%
Other Management [4]	2,105,366	91,803	12,311	65,492	2,593	0.1%	2,277,565	0.0%
Total	**4,226,310**	**148,634**	**17,565**	**106,342**	**8,501**	**0.2%**	**4,507,352**	**0.0%**

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

2014	Short-Term Benefits			Post-employment benefits	Share based payments			
Name	Cash Salary and fees $	Cash bonus $	Non-Monetary benefits $	Super-annuation $	Performance Rights $	Equity related %	Total $	Performance related %
Non-Executive Directors								
David Kirk	144,853	-	-	-	-	0.0%	144,853	0.0%
John Harvey	196,039	-	-	-	-	0.0%	196,039	0.0%
John Holland	128,069	-	-	-	-	0.0%	128,069	0.0%
Sandra McPhee	128,069	-	-	-	-	0.0%	128,069	0.0%
Christine Cross	128,069	-	-	-	-	0.0%	128,069	0.0%
	725,099	**-**	**-**	**-**	**-**	**0.0%**	**725,099**	**0.0%**
Executive Directors								
Peter Halkett	888,846	87,568	10,637	22,057	129,976	11.4%	1,139,084	7.7%
Mark Todd	488,860	48,750	3,909	17,066	73,633	11.6%	632,218	7.7%
	1,377,706	**136,318**	**14,546**	**39,123**	**203,609**	**11.5%**	**1,771,302**	**7.7%**
Other Key Management Personnel								
	1,949,221	**167,539**	**31,676**	**83,577**	**7,883**	**0.4%**	**2,239,896**	**7.5%**
Total	**4,052,026**	**303,857**	**46,222**	**122,700**	**211,492**	**4.5%**	**4,736,297**	**6.4%**

5.4 Employee Share Based Remuneration

Accounting policy

(i) Equity settled share option plan

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

(ii) Equity settled long term incentive plan

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

Executive Share Option Plan 16 October 2009

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

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

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

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

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

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

	2015		2014	
	Average exercise price $ per share	Options '000	Average exercise price $ per share	Options '000
Balance at beginning of year	2.1333	685	2.1333	956
Issued	-	-	-	-
Exercised	2.1333	(685)	2.1333	(271)
Forfeited	-	-	-	-
Balance at end of year	-	-	2.1333	685

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

First Vesting Month	Expiry Month	Last Vesting Month	Exercise Price	2015 '000	2014 '000
October 2010	December 2014	October 2013	$2.1333	-	229
October 2011	December 2014	October 2013	$2.1333	-	228
October 2012	December 2014	October 2013	$2.1333	-	228
				-	685

Executive and Senior Management Long Term Incentive Plan

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

Executive Directors and Key Management Personnel

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

Grant Date*	Balance at start of year Number	Granted during the year Number	Vested during the year Number	Lapsed during the year Number	Balance at the end of year
12 Dec 2014	-	110,891	-	-	110,891
11 Dec 2013	285,987	-	-	(186,834)	99,153
11 Dec 2012	261,009	-	(43,502)	(152,875)	64,632
30 Nov 2011	147,946	-	(25,891)	(94,581)	27,474
29 Nov 2010	114,839	-	(96,246)	(18,593)	-
	809,781	110,891	(165,639)	(452,883)	302,150

* From 2011 Performance Rights granted to Executive Directors only.

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

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

Grant Date	Tranches	EPS Weighting	TSR Weighting
12 Dec 2014	1	0%	100%
11 Dec 2013	3	50%	50%
11 Dec 2012	3	50%	50%
30 Nov 2011	3	50%	50%
29 Nov 2010	3	50%	50%

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

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

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

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

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

The proportion of rights subject to the EPS growth hurdle is dependent on the compound average annual growth in Kathmandu Holdings Limited's EPS relative to the year ending 31 July 2014. The applicable performance periods are:

Tranche	2015 Performance Period	2014 Performance Period
Tranche 1	N/A	FY15 EPS relative to FY13 EPS
Tranche 2	N/A	FY16 EPS relative to FY13 EPS
Tranche 3	N/A	FY17 EPS relative to FY13 EPS

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

EPS Growth	% Vesting
< 10%	0%
>=10%, < 11%	50%
>=11%, < 12%	60%
>=12%, < 13%	70%
>=13%, < 14%	80%
>=14%, < 15%	90%
>=15%	100%

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

Key Management Personnel and Senior Management

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

Grant Date	Balance at start of year Number	Granted during the year Number	Vested during the year Number	Lapsed during the year Number	Balance at the end of year
12 Dec 2014	-	426,029	-	(426,029)	-
05 Dec 2013	-	436,182	-	(436,182)	-
	-	862,211	-	(862,211)	-

Short Term Incentive performance rights vest:

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

The performance period and vesting dates are summarised below:

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

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

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

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

Expenses arising from equity settled share based payments transactions

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

5.5 Contingent liabilities

Keeping it simple …

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

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

5.6 Contingent assets

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

5.7 Events occurring after the balance date

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

5.8 Supplementary Information

Directors fees

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

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

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

Audit fees

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

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

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

5.9 New Accounting Standards

New standards first applied in the year

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

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

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

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group intends to adopt NZ IFRS 9 on 1 July 2018 and has yet to assess its full impact.

Independent Auditors' Report
to the shareholders of Kathmandu Holdings Limited

Report on the Financial Statements
We have audited the Group financial statements of Kathmandu Holdings Limited ("the Company") on pages 4 to 41, which comprise the balance sheet as at 31 July 2015, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 31 July 2015 or from time to time during the financial year.

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

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

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

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

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

Opinion
In our opinion, the financial statements on pages 4 to 41 present fairly, in all material respects, the financial position of the Group as at 31 July 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

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

PricewaterhouseCoopers

Chartered Accountants | Christchurch
29 September 2015

PricewaterhouseCoopers
5 Sir Gil Simpson Drive, Canterbury Technology Park, PO Box 13244, Christchurch 8053, New Zealand
T: +64 3 374 3000, F: +64 3 374 3001, pwc.co.nz