

Kathmandu Holdings Limited
(ARBN 139 836 918)

**Australian Stock Exchange Listing Rules
Disclosure
Half Year Report**

For the period ending 31 January 2018

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Appendix 4D

Kathmandu Holdings Limited

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

Half Year Report

Reporting Period: 1 August 2017 to 31 January 2018
Previous Reporting Period: 1 August 2016 to 31 January 2017

Results for Announcement to the Market:

For the half year ending 31 January 2018

		NZ \$'000
Revenues from ordinary activities	Up 4.3% to	204,811
Profit from ordinary activities after tax attributable to members	Up 22.7% to	12,277
Net profit for the period attributable to members	Up 22.7% to	12,277
Dividends – Ordinary Shares	Amount per Security	Franked amount per security
	NZ\$ cents	NZ\$ cents
Interim Dividend	4.0	4.0
Final Dividend	Nil	Nil
The record date for determining entitlements to Interim Dividend	08 June 2018	

For commentary on the above figures refer to the Directors' Report and Media Release attached.

Financial Information

The Appendix 4D should be read in conjunction with the consolidated financial statements for the 6 months ending 31 January 2018 as contained in the interim report attached.

Net Tangible Assets per Security

	Current period NZ\$	Previous corresponding period NZ\$
Net tangible assets per security	0.22	0.14

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.

Dividends – Ordinary Shares	Amount per Security NZ\$ cents	Franked amount per security NZ\$ cents
Final FY17 Dividend per share (Paid 24 November 2017)	9.0	9.0
Interim Dividend per share (To be paid 22 June 2018)	4.0	4.0
Ex-Dividend date	07 June 2018	
Record date	08 June 2018	
Interim Dividend payment date	22 June 2018	

There is no foreign sourced dividend or distribution included.

Dividend Reinvestment Plan

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).

Information on Audit or Review

The report is based on interim consolidated financial statements which have been subject to a review. The Independent Accountants Report, which is unqualified, is on page 16 in the Interim Report.

Kathmandu Holdings Limited FY2018 first half results

- Sales increased by 4.3% to NZ\$204.8m
- Gross profit increased by 7.2% to NZ\$129.7m
- EBIT increased by 21.6% to NZ\$18.0m
- NPAT increased by 23.0% to NZ\$12.3m
- Interim dividend NZ 4.0 cents per share
- KMD announces acquisition of Oboz

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced net profit after tax (NPAT) of NZ\$12.3 million for the six months ended 31 January 2018, an increase of NZ\$2.3 million compared with the prior corresponding period. Earnings before interest and tax (EBIT) increased from NZ\$14.8 million to NZ\$18.0 million for the same period.

Summary of Results

	NZD \$m		Change	
	1H FY2018	1H FY2017	NZD \$m	%
Sales	204.8	196.3	8.5	4.3%
Gross Profit	129.7	121.0	8.7	7.2%
EBITDA	25.1	21.5	3.6	16.7%
EBIT	18.0	14.8	3.2	21.6%
NPAT	12.3	10.0	2.3	23.0%

Chief Executive Xavier Simonet commented:

“Striking the right balance between generating sales growth and improving our gross margin has fuelled healthy earnings growth in the first half. Sales momentum improved through the end of the Christmas trading period and into February and March.”

“Our financial position continued to strengthen during the first half year and we ended the period with healthy inventory and record low half year net debt.”

Sales, Store Numbers, Gross Margin and Inventory

Sales Growth

Sales grew by 3.7% in Australia, our largest market. New Zealand first quarter sales were impacted by lower levels of clearance stock. In the last six weeks of the first half-year, New Zealand same store sales growth was +1.9%. Online sales now comprise 8.0% of group sales.

	Total Sales Growth	Same Store Sales Growth
Australia	3.7%	1.9%
New Zealand	(6.4%)	(6.3%)
Group (constant currency)	0.8%	(0.8%)
Group (NZD reporting currency)	4.3%	2.7%

Note: Same store sales are for the 26 weeks ending 28 January 2018

Gross Margin

Gross margin increased 1.7% points from 61.6% in 1H FY17 to 63.3% in 1H FY18. Increased full price sell through and higher average selling prices contributed to the improvement.

Inventory

Total inventory levels decreased by 12.7% (NZ\$12.2m) from 1H FY2017 and by 13.8% on a per store basis.

	1H FY2018 NZD \$m	1H FY2017 NZD \$m	Change NZD \$m	Change %	Change per store %
Inventory	84.2	96.4	(12.2)	(12.7%)	(13.8%)

At the start of the financial year, clearance inventory levels were c. 40% below last year. While this impacted clearance sales performance, particularly in the first quarter in New Zealand, there were benefits to both gross margin and inventory handling costs. By the end of the first half, the reset clearance stock levels were more in line with last year.

The reduction in total inventory continues to demonstrate the benefits of investments made in forecasting and planning technology.

Operating Expenses

On a constant currency basis, operating expenses increased by \$1.5m (1.5%) in 1H FY2018.

Operating expenses (excluding Rent) decreased by 0.3% as a percentage of sales, with supply chain efficiencies from lower inventory handling costs achieved following automation of the Australian distribution centre last year.

Rent increased on a constant currency basis by NZ\$1.4m, primarily from key store relocations and new stores opened.

Operating expenses (excluding depreciation)

	1H FY2018 NZD \$m	1H FY2017 NZD \$m
Rent	33.2	30.5
<i>% of Sales</i>	<i>16.2%</i>	<i>15.5%</i>
Other operating expenses	71.4	69.0
<i>% of Sales</i>	<i>34.9%</i>	<i>35.2%</i>
Total operating expenses	104.6	99.5
<i>% of Sales</i>	<i>51.1%</i>	<i>50.7%</i>

Other Financial Information

NZ\$8.7m was invested in capital projects, primarily in re-positioning and updating our store network.

Continued working capital efficiency led to record low half year net debt and subsequent lower financing costs. Gearing remains very conservative.

	1H FY2018 NZD \$m	1H FY2017 NZD \$m
Capital Expenditure	8.7	6.8
Operating Cash Flow	16.9	10.0
Net Debt	17.0	48.9
Net Debt to Equity	4.9%	13.8%

Interim Dividend

An interim dividend of NZ\$ 4.0 cents per share will be paid to shareholders on the register as at 8 June 2018. The dividend will be fully franked for Australian shareholders. The interim dividend will not be imputed for New Zealand shareholders. The final dividend is expected to be fully franked and fully imputed.

Trading Update

For the six weeks ending 11 March 2018, Group Sales were 7.9% above last year at constant exchange rates. Same store sales growth was 7.5% for Australia and 5.1% for New Zealand. February gross margins were also above last year in both countries.

Oboz acquisition

Kathmandu has agreed to acquire US-based Oboz Footwear LLC for a base cash consideration of US\$60 million, and earn-out of up to US\$15 million. Oboz designs, sources, and sells footwear for backpacking, hiking, travel, winter and general outdoor wear. Oboz distributes its products directly to North American outdoor chains, specialty outdoor retailers, limited online sellers, shoe stores and sporting goods retailers. For more information, please refer to the Oboz acquisition announcement released on the ASX and NZX.

Outlook

Chief Executive Xavier Simonet commented:

“We are focused on delivering profit growth in our core markets for the second half of FY18. The Australasian business provides the foundation for our brand to expand internationally. As always the success of our full year result is still very dependent on the key promotion periods to come.

We will continue to inspire our customers by creating distinctive, sustainable, quality products and by promoting our brand authenticity.

As our wholesale business in Europe is expanding, we are now very pleased to announce the acquisition of Oboz, an innovative outdoor footwear brand based in North America. This is a

significant event for the company, accelerating our international growth, and diversifying our product mix, geography and channels to market.”

ENDS

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KATHMANDU HOLDINGS LIMITED

INTERIM REPORT 2018

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2018

DIRECTORS' REPORT

The Directors of Kathmandu Holdings Limited present the interim report for the Company and its controlled entities for the half year ended 31 January 2018.

Review of Operations

The consolidated net profit for the period was NZ\$12.277 million (2017: NZ\$10.009 million). Sales for the period were NZ\$204.811 million (2017: NZ\$196.316 million).

A review of the operations of the Company and its controlled entities is set out in the accompanying Company's media release of 20 March 2018. The key line items in the half year results were:

- Sales up 4.3% to NZ\$204.8m,
- EBIT up NZ\$3.2m to NZ\$18.0m,
- NPAT up NZ\$2.3m to a profit of NZ\$12.3m.

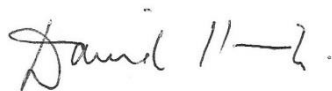
Seasonality

Due to the seasonal nature of the Company and its controlled entities activities, the activities in the second half of each year are expected to provide a larger portion of the sales and net profit for the full year.

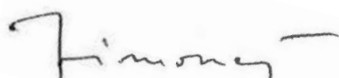
Dividends

On 19 March 2018, the Directors declared a dividend of NZ 4.0 cents per share. This will not be imputed for New Zealand shareholders and will be fully franked for Australian shareholders.

Signed in accordance with a resolution of the directors:



David Kirk
Director



Xavier Simonet
Director

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six Months Ended 31 January 2018	Unaudited Six Months Ended 31 January 2017	Audited Year Ended 31 July 2017
		NZ\$'000	NZ\$'000	NZ\$'000
Sales revenue		204,811	196,316	445,348
Cost of sales		(75,117)	(75,327)	(169,165)
Gross profit		129,694	120,989	276,183
Selling expenses	4	(74,939)	(69,980)	(143,740)
Administration and general expenses	4	(29,659)	(29,548)	(61,613)
		(104,598)	(99,528)	(205,353)
Earnings before interest, tax, depreciation and amortisation		25,096	21,461	70,830
Depreciation and amortisation	4	(7,092)	(6,631)	(13,826)
Earnings before interest and tax		18,004	14,830	57,004
Finance income		13	15	28
Finance expenses		(237)	(1,211)	(2,058)
Finance costs - net	4	(224)	(1,196)	(2,030)
Profit before income tax		17,780	13,634	54,974
Income tax expense		(5,503)	(3,625)	(16,935)
Profit after income tax		12,277	10,009	38,039
Other comprehensive income that may be recycled through profit and loss:				
Movement in cash flow hedge reserve		502	2,649	209
Movement in foreign currency translation reserve		5,475	(2,613)	209
Other comprehensive income for the period, net of tax		5,977	36	418
Total comprehensive income for the period attributable to shareholders		18,254	10,045	38,457
Basic earnings per share		6.1 cps	5.0 cps	18.9 cps
Diluted earnings per share		6.0 cps	4.9 cps	18.7 cps
Weighted average basic ordinary shares outstanding ('000)		202,087	201,485	201,489
Weighted average diluted ordinary shares outstanding ('000)		203,701	203,045	203,324

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six Months Ended 31 January 2018	Unaudited Six Months Ended 31 January 2017	Audited Year Ended 31 July 2017
	NZ\$'000	NZ\$'000	NZ\$'000
Total equity at the beginning of the period	327,100	311,683	311,683
Total comprehensive income for the period	18,254	10,045	38,457
Dividends paid	(18,195)	(16,119)	(24,179)
Issue of share capital	971	-	18
Movements in share based payments reserve	(570)	269	1,121
Total equity at the end of the period	327,560	305,878	327,100

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2018

CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 31 January 2018	Unaudited As at 31 January 2017	Audited As at 31 July 2017
		NZ\$'000	NZ\$'000	NZ\$'000
ASSETS				
Current assets				
Cash and cash equivalents		3,001	2,659	3,537
Trade and other receivables		4,937	5,399	6,284
Derivative financial instruments		23	-	-
Current tax asset		1,205	2,773	-
Inventories		84,241	96,371	89,206
Total current assets		93,407	107,202	99,027
Non-current assets				
Property, plant and equipment	10	64,228	61,172	61,026
Intangible assets	13	283,084	276,995	279,014
Total non-current assets		347,312	338,167	340,040
Total assets		440,719	445,369	439,067
LIABILITIES				
Current liabilities				
Trade and other payables		51,046	48,731	56,735
Derivative financial instruments		6,444	3,199	7,034
Current tax liabilities		-	-	3,475
Total current liabilities		57,490	51,930	67,244
Non-current liabilities				
Derivative financial instruments		109	313	265
Interest bearing liabilities	6	20,014	51,595	10,431
Deferred tax	13	35,546	35,653	34,027
Total non-current liabilities		55,669	87,561	44,723
Total liabilities		113,159	139,491	111,967
Net assets		327,560	305,878	327,100
EQUITY				
Contributed equity - ordinary shares		201,180	200,191	200,209
Reserves		(17,595)	(24,235)	(23,002)
Retained earnings	13	143,975	129,922	149,893
Total equity		327,560	305,878	327,100

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2018

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Six Months Ended 31 January 2018	Unaudited Six Months Ended 31 January 2017	Audited Year Ended 31 July 2017
		NZ\$'000	NZ\$'000	NZ\$'000
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers		206,288	195,909	444,100
Income tax received		156	-	-
Interest received		13	15	28
		<u>206,457</u>	<u>195,924</u>	<u>444,128</u>
Cash was applied to:				
Payments to suppliers and employees		178,780	177,888	360,122
Income tax paid		9,907	6,730	14,571
Interest paid		856	1,273	2,162
		<u>189,543</u>	<u>185,891</u>	<u>376,855</u>
Net cash inflow from operating activities		<u>16,914</u>	<u>10,033</u>	<u>67,273</u>
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		-	-	1
Cash was applied to:				
Purchase of property, plant and equipment		7,386	5,700	11,419
Purchase of intangibles		1,331	1,092	1,857
		<u>8,717</u>	<u>6,792</u>	<u>13,276</u>
Net cash (outflow) from investing activities		<u>(8,717)</u>	<u>(6,792)</u>	<u>(13,275)</u>
Cash flows from financing activities				
Cash was provided from:				
Proceeds of loan advances		49,626	41,921	90,330
Cash was applied to:				
Dividends		18,195	16,119	24,179
Repayment of loan advances		40,296	33,421	123,533
		<u>58,491</u>	<u>49,540</u>	<u>147,712</u>
Net cash (outflow) from financing activities		<u>(8,865)</u>	<u>(7,619)</u>	<u>(57,382)</u>
Net (decrease) in cash held		<u>(668)</u>	<u>(4,378)</u>	<u>(3,384)</u>
Opening cash and cash equivalents		3,537	6,891	6,891
Effect of foreign exchange rates		132	146	30
Closing cash and cash equivalents		<u>3,001</u>	<u>2,659</u>	<u>3,537</u>

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2018

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

	Unaudited Six Months Ended 31 January 2018 NZ\$'000	Unaudited Six Months Ended 31 January 2017 NZ\$'000	Audited Year Ended 31 July 2017 NZ\$'000
Profit after income tax	12,277	10,009	38,039
<i>Movement in working capital:</i>			
(Increase) / decrease in trade & other receivables	1,475	(408)	(1,249)
(Increase) / decrease in inventories	6,971	(2,176)	6,283
Increase / (decrease) in trade and other payables	(7,207)	(1,555)	5,596
Decrease in tax liability	(4,729)	(3,988)	2,257
	(3,490)	(8,127)	12,887
<i>Add non cash items:</i>			
Depreciation	5,486	4,965	10,630
Amortisation of intangibles	1,606	1,666	3,196
Foreign currency translation of working capital balances	(30)	(1,907)	(816)
Increase in deferred taxation	481	2,832	733
Employee share based remuneration	402	269	1,139
Loss on disposal of property, plant and equipment	182	326	1,465
	8,127	8,151	16,347
Cash inflow from operating activities	16,914	10,033	67,273

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2018

1 GENERAL INFORMATION

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

The Company is a limited liability company incorporated and domiciled in New Zealand. Kathmandu Holdings Limited is a company registered under the Companies Act 1993 and is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The address of its registered office is 223 Tuam Street, Christchurch.

These consolidated interim financial statements have been approved for issue by the Board of Directors on 20 March 2018, and have been reviewed, not audited.

Seasonality

The majority of Kathmandu's annual sales are derived from three major sales promotions each year, occurring in a portion of the months of December and January (Christmas), March and April (Autumn) and June and July (Winter). Two of these sales occur in the second half of the financial year, and the Winter Sale is the largest of these three promotions. As a consequence, a greater proportion of Kathmandu's sales and EBITDA are derived in the second half of each financial year, with the proportion in any given year dependent on the relative success of each of these promotions.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These general purpose financial statements for the six months ended 31 January 2018 have been prepared in accordance with NZ IAS 34, Interim Financial Reporting. In complying with NZ IAS 34, these consolidated interim financial statements also comply with IAS 34.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements of Kathmandu Holdings Limited for the year ended 31 July 2017 which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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

3 ACCOUNTING POLICIES

All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements of Kathmandu Holdings Limited for the year ended 31 July 2017.

4 EXPENSES

	Unaudited Six Months Ended 31 January 2018	Unaudited Six Months Ended 31 January 2017	Audited Year Ended 31 July 2017
	NZ\$'000	NZ\$'000	NZ\$'000
Profit before tax includes the following expenses:			
Depreciation	5,486	4,965	10,630
Amortisation	1,606	1,666	3,196
Employee benefit expense	43,508	41,243	84,074
Rental expense	33,219	30,492	62,205
Finance costs – net consist of:			
Interest income	(13)	(15)	(28)
Interest expense	518	982	1,887
Other finance costs	224	186	360
Net exchange loss on foreign currency borrowings	(505)	43	(189)
	224	1,196	2,030

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5 RELATED PARTY DISCLOSURES

Parent and Ultimate Controlling Party

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

During the period, operating lease costs of \$107,163 (2017: \$112,268) were paid to Chalmers Properties Limited, a subsidiary of Port Otago Limited. John Harvey retired as a Director of both of these companies on 8 December 2017.

No amounts owed to related parties have been written off or forgiven during the period.

6 INTEREST BEARING LIABILITIES

	Unaudited As at 31 January 2018	Unaudited As at 31 January 2017	Audited As at 31 July 2017
	NZ\$'000	NZ\$'000	NZ\$'000
Non-current portion	20,014	51,595	10,431

The Group has a multi option facility agreement with Commonwealth Bank of Australia and ASB Bank Limited, repayable in full on 30 June 2019, and a facility agreement with Bank of New Zealand and National Bank of Australia, repayable in full on 23 March 2018.

Interest is payable based on the BKBM rate (NZD borrowings), the BBSY rate (AUD borrowings), or the applicable short term rate for interest periods less than 30 days, plus a margin of up to 1.30%. There are no assets pledged as security in relation to the unsecured debt.

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 agreement of 19 December 2011 and have been complied with at 31 January 2018.

The current interest rates, prior to hedging, on the term loans ranged between 2.35% - 2.48% (2017: 2.27% - 2.74%).

7 CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 January 2018 (2017: nil).

8 CONTINGENT ASSETS

There are no contingent assets as at 31 January 2018 (2017: nil).

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2018

9 COMMITMENTS

(a) Operating lease commitments

Group as lessee:

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

	Unaudited As at 31 January 2018	Unaudited As at 31 January 2017	Audited As at 31 July 2017
	NZ\$'000	NZ\$'000	NZ\$'000
Due within 1 year	61,149	51,848	55,089
Due within 1-2 years	50,733	43,127	46,827
Due within 2-5 years	87,751	73,248	81,088
Due after 5 years	37,570	33,889	41,192
	237,203	202,112	224,196

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.

(b) Capital commitments

Capital commitments contracted for at balance date are:

	Unaudited As at 31 January 2018	Unaudited As at 31 January 2017	Audited As at 31 July 2017
	NZ\$'000	NZ\$'000	NZ\$'000
Property, plant and equipment	1,162	1,725	2,093
Intangible assets	1,424	850	850

10 PROPERTY PLANT & EQUIPMENT

	Unaudited Ended 31 January 2018	Unaudited Ended 31 January 2017	Audited Ended 31 July 2017
	NZ\$'000	NZ\$'000	NZ\$'000
Additions	7,386	5,700	11,419
Disposals	(182)	(326)	(1,466)

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2018

11 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage certain risk exposures. Derivatives are exclusively used for economic hedging purposes, i.e. not as trading or other speculative instruments, however not all derivative financial instruments qualify for hedge accounting.

Risk management is carried out based on policies approved by the Board of Directors. The Group treasury policy provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk.

The consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 July 2017. There have been no changes in the risk management department or in any risk.

(b) Fair value estimation

The only financial instruments held by the Group that are measured at fair value are over-the-counter derivatives. 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.

There were no changes in valuation techniques during the period.

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 approximately carrying value.

Foreign exchange contracts and interest rate swaps

The forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are insignificant for these derivatives.

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 repayable on demand.

The following table presents the group's assets and liabilities that are measured at fair value at 31 January 2018.

	Total
	NZ\$' 000
Assets	
Derivative financial instruments	23
Total assets	23
Liabilities	
Derivative financial instruments	6,553
Total liabilities	6,553

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2018

12 SEGMENTAL INFORMATION

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

31 January 2018	Australia NZ\$'000	New Zealand NZ\$'000	International NZ\$'000	Other NZ\$'000	Total NZ\$'000
Total segment sales	138,362	65,099	4,352	-	207,813
Inter-segment sales	(803)	(849)	(1,350)	-	(3,002)
Sales from external customers	137,559	64,250	3,002	-	204,811
EBITDA	12,552	14,075	(206)	(1,325)	25,096
Depreciation and software amortisation	(4,134)	(2,957)	(1)	-	(7,092)
EBIT	8,418	11,118	(207)	(1,325)	18,004
Income tax expense	2,662	3,217	(74)	(302)	5,503
Total segment assets	237,219	238,944	1,802	(37,246)	440,719
<i>Total assets includes:</i>					
Non-current assets	178,660	25,415	-	143,237	347,312
Additions to non-current assets	5,847	2,870	-	-	8,717
Total segment liabilities	96,809	15,572	14,436	(13,658)	113,159

31 January 2017	Australia NZ\$'000	New Zealand NZ\$'000	International NZ\$'000	Other NZ\$'000	Total NZ\$'000
Total segment sales	126,338	69,206	2,011	-	197,555
Inter-segment sales	(208)	(552)	(479)	-	(1,239)
Sales from external customers	126,130	68,654	1,532	-	196,316
EBITDA	7,276	15,884	(184)	(1,515)	21,461
Depreciation and software amortisation	(3,574)	(3,055)	(2)	-	(6,631)
EBIT	3,702	12,829	(186)	(1,515)	14,830
Income tax expense	259	3,743	(69)	(308)	3,625
Total segment assets	233,047	236,838	481	(24,997)	445,369
<i>Total assets includes:</i>					
Non-current assets	167,627	27,300	3	143,237	338,167
Additions to non-current assets	4,673	2,119	-	-	6,792
Total segment liabilities	161,169	35,322	11,498	(68,498)	139,491

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. EBIT represents EBITDA less depreciation and amortisation.

The Group operates in one industry being retailer of clothing and equipment for travel and adventure.

Revenue is allocated based on the country in which the customer is located.

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.

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

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13 RESTATEMENT OF PRIOR YEAR

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

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

Following this additional guidance, the Group reviewed the expected manner of recovery of the carrying amount of indefinite life Kathmandu brand and concluded that its carrying amount is expected to be recovered through use of the brand within its business. As a result, comparatives for goodwill, deferred tax liability and retained earnings at 31 January 2017 have been restated as follows:

	<u>NZ\$'000</u>
Goodwill	45,490
Deferred tax liability	42,940
Retained earnings	2,550

This adjustment has no impact on profit in the reported period.

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

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

14 EVENTS OCCURRING AFTER BALANCE DATE

On 19 March 2018, Kathmandu Holdings Limited entered into an unconditional agreement to acquire 100% of US-based Oboz Footwear LLC, for a base consideration of US\$60 million, and a contingent earn out of up to US\$15 million based on an EBITDA target for the year ended 31 December 2018. The purchase will complete in April 2018. Oboz designs, sources, and sells footwear for backpacking, hiking, travel, winter and general outdoor wear. Oboz distributes its products directly to North American outdoor chains, specialty outdoor retailers, limited online sellers, shoe stores and sporting goods retailers. Associated acquisition costs are expected to be circa \$2.0 million. Sufficient bank facilities have been secured to fund the acquisition, and the Directors will explore further sources of funding, including capital raising in due course.

Kathmandu Holdings Limited has secured committed funding of A\$90 million, subject to conditions precedent, under its multi option facility agreement with Commonwealth Bank of Australia and ASB Bank Limited, with A\$60 million expiring on 1 August 2019 and A\$30 million with a 1 year term from drawdown.

Kathmandu Holdings Limited has secured committed funding of NZ\$90 million, subject to conditions precedent, under its multi option facility agreement with Bank of New Zealand, with NZ\$20m expiring in 1 year, NZ\$40 million expiring in 2 years and NZ\$30 million expiring in 3 years.

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STATUTORY INFORMATION

GROUP STRUCTURE

Kathmandu Holdings Limited owns 100% of the following companies:

Milford Group Holdings Limited

Kathmandu Limited

Kathmandu Pty Limited

Kathmandu (UK) Limited

DIRECTORS' DETAILS

David Kirk	Chairman, Non-Executive Director	
Xavier Simonet	Managing Director and Chief Executive Officer	
John Harvey	Non-Executive Director	
Sandra McPhee	Non-Executive Director	
Philip Bowman	Non-Executive Director	(appointed 2 October 2017)
Brent Scrimshaw	Non-Executive Director	(appointed 2 October 2017)
Christine Cross	Non-Executive Director	(retired 2 October 2017)
John Holland	Non-Executive Director	(retired 2 October 2017)

EXECUTIVES' DETAILS

Xavier Simonet	Chief Executive Officer
Reuben Casey	Chief Operating and Financial Officer and Company Secretary

DIRECTORY

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

223 Tuam Street
Christchurch Central
PO Box 1234
Christchurch 8011

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SHARE REGISTRY

In New Zealand: Link Market Services (LINK)

Physical Address: Level 11 Deloitte Centre
80 Queen Street
Auckland 1010
New Zealand

Postal Address: PO Box 91976
Auckland, 1142
New Zealand

Telephone: +64 9 375 5999
Investor enquiries: +64 9 375 5998
Facsimile: +64 9 375 5990
Internet address: www.linkmarketservices.co.nz

In Australia: Link Market Services (LINK)

Physical Address: Level 1, 333 Collins Street
Melbourne, VIC 3000
Australia

Postal Address: Locked Bag A14
Sydney, South NSW 1235
Australia

Telephone: +61 2 8280 7111
Investor enquiries: +61 2 8280 7111
Facsimile: +61 2 9287 0303
Internet address: www.linkmarketservices.com.au

STOCK EXCHANGES

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

INCORPORATION

The company is incorporated in New Zealand.



Independent review report

To the shareholders of Kathmandu Holdings Limited

Report on the consolidated interim financial statements

We have reviewed the accompanying consolidated interim financial statements of Kathmandu Holdings Limited (the Company) and its controlled entities (the Group) on pages 3 to 13, which comprise the consolidated balance sheet as at 31 January 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and selected explanatory notes.

Directors' responsibility for the consolidated interim financial statements

The Directors are responsible on behalf of the Group for the preparation and presentation of these consolidated interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying consolidated interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of store turnover certificates and a covenant compliance audit. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these consolidated interim financial statements of the Group are not prepared, in all material respects, in accordance with IAS 34 and NZ IAS 34.



Who we report to

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review 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 shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

Price Waterhouse Coopers

Chartered Accountants
20 March 2018

Christchurch