# The KORDIA ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2014

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# CHAIR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2014

## Kordia Group

THE KORDIA GROUP DELIVERED REVENUE OF $301M FOR THE YEAR ENDED 30 JUNE 2014. KORDIA SOLUTIONS AUSTRALIA'S REVENUE INCREASED BY 12% OVER THE PRIOR YEAR. THE GROUP REVENUE IS LOWER THAN THE PRIOR YEAR, DRIVEN BY THE STRENGTHENING NZ DOLLAR IN FY14 REDUCING THE AUSTRALIAN RESULTS IN NZ DOLLAR TERMS WHEN CONSOLIDATING.

Positive EBITDA of $12.9m for the year delivered a net loss after tax for the Group of $8.6m. Kordia New Zealand exceeded its revenue and profit targets for the full year. This strong performance was offset by Kordia Solutions Australia experiencing difficult trading conditions with competitor pressure reducing margins, which, combined with some problematic contracts, have impacted profitability during the year.

Net debt was $60m at 30 June 2014, and there continues to be plenty of headroom under the Group's bank facilities and covenants to fund the on-going requirements of the business. In addition, post-balance date, on the 2nd July 2014 the sale of Orcon to Callplus was completed. As a result the outstanding loan of c$10m due to Kordia was repaid in full.

## Kordia New Zealand

On the 1st December 2013 the final phase of the Analogue TV switch off (ASO) was successfully completed. The Minister of Broadcasting was present at Kordia's Waiatarua broadcast site to push the button on the closure of analogue television services in New Zealand. ASO enabled the Crown to release radio spectrum for 4G cellular licenses which has realised over $200m.

Despite the Analogue switch off and the associated drop in earnings, the Kordia New Zealand business remains profitable and had a strong performance for the year, with growth in both broadcast and telecommunications revenues.

## Kordia Solutions Australia

In March 2014 the Board announced the appointment of a new CEO for the Australian business. Ken Benson is an experienced Telco professional with global senior executive experience and is a former director of the Kordia Group. He has held executive leadership roles at international telecommunications companies such as Telstra Corporation, Telecom New Zealand and British Telecom. He has also served as both chairman and a director of telecommunications-related businesses in EMEA and Asia Pacific.

The Australian business had a very difficult trading year with margins squeezed and a significant contract ending with negative results. In the last half the business was right sized, costs were cut and loss making projects closed out.

## Dividend

Consistent with this year's Statement of Corporate Intent, Kordia Group has declared no dividend will be payable in respect of the financial year ended 30th June 2014.

# “ASO ENABLED THE CROWN TO RELEASE RADIO SPECTRUM FOR 4G CELLULAR LICENSES WHICH HAS REALISED OVER $200M.”

LORRAINE WITTEN
CHAIR OF THE BOARD

# KORDIA GROUP BOARD MEMBERS

## Lorraine Witten

CHAIR OF THE BOARD

Lorraine Witten (BMS Hons, CA) is a fellow of the New Zealand Institute of Directors and a member of the Institute of Chartered Accountants New Zealand. She has extensive experience in the telco and ICT sector, with 25 years experience in senior management and finance roles and 15 years in director roles.

For the past 10 years Lorraine has been an entrepreneur leading high growth businesses. She is currently Managing Director of the company she founded in 2007, Simply Security Limited.

Lorraine is also Chair of StarNow Limited and Director of Wellington Venues Limited.

## John Allen

John Allen has worked in technology-based positions for 25 years. His career includes senior roles with Panasonic before joining Kordia in its previous incarnation as BCL in 1994 where he was Auckland-based sales manager.

John later assisted in a restructuring that saw today's Networks business moved to Auckland and the number of maintenance centres around New Zealand reduced from twelve to five. John left BCL to take up a management role in data communications.

His latest role was Director of Technology at MediaWorks, covering radio, television and corporate IT engineering and television operations. John was a member of the Freeview Board and has served on a number of industry organisations including the Broadcast Sector Group that worked with the Government to achieve digital switch over.

## John Quirk

DEPUTY CHAIR OF THE BOARD

John Quirk is a partner in strategic investment and advisory company Howard & Company, and is actively involved in merger and acquisition activity in the ICT sector.

He is currently Chairman of Wherescape Software Ltd and SMX Limited, a Director of FrameCAD Group and Private Flight Global Ltd. He is also an advisor to the Boards of Simpl Group, Clearpoint, Merlot.aero and Code Blue.

John has extensive business and governance experience in high growth, high tech companies. He has held key leadership roles including Chairman, CEO and Managing Director in a number of iconic ICT companies.

John is a member of the Institute of Directors, the NZ Venture Capital Association, the NZ Software Association and is the Chair of Kordia Group's Remuneration Committee.

## Rachel Farrant

Rachel Farrant (BCom, Post Graduate Diploma – Finance & Management, CA (NZICA)) is a partner at BDO Wellington and has over 20 years experience in chartered accountancy and business advisory services.

Rachel's other board experience includes Director and Audit Committee Member – Fulton Hogan Group Limited; Trustee and Audit Committee Chair – Wellington Museum Trust; and Chair of the Central Region General Practitioners Fees Review Committee.

Rachel is the Chair of Kordia Group's Audit and Risk Committee.

## Graeme Sumner

Graeme Sumner (BCom, MBA, MAICD) is a highly experienced Managing Director specialising in developing and expanding companies in a broad range of sectors and across a number of geographical regions.

Previous roles have included being the Chief Executive Officer and Managing Director of Service Stream Ltd, Chief Executive Officer of Transfield Services (New Zealand) Limited and Managing Director of Siemens Limited in New Zealand.

He served in senior positions at IBM, Telecom New Zealand, Contact Energy, New Zealand Post and its subsidiary companies, SkyRoad and Kiwimail. Graeme was also the Chairman of New Zealand Post's joint venture airfreight company, AirPost Limited.

Graeme is the Chair of Kordia Group's Health and Safety Committee.

## Sheridan Broadbent

Sheridan Broadbent (BCom, Advanced Management Program, Harvard Business School) is an experienced telecommunications and infrastructure industry professional, having worked in business development and major operational roles in the sectors for many years throughout New Zealand, Australia and the South Pacific.

Sheridan is the Chief Executive of Franklin-based electricity lines company Counties Power, and has held Executive positions with Genesis Energy, Downer EDI (Australia), and led Downer EDI Engineering in New Zealand.

Sheridan is a member of the Leadership subcommittee of the Business Leaders' Health and Safety Forum, a member of the Institute of Directors and an inaugural graduate of the IOD-administered Future Directors' Scheme, having participated in Board activities of Auckland International Airport Limited for the 2013 year.

Sheridan is a member of Kordia Group's Health and Safety Committee.

## Bryan Hemi

Bryan Hemi (BE (Civil), MBA) is an experienced company director, with a background in ICT and a range of governance and consulting experience and expertise.

Bryan is a director of Governance Online Limited and advisor to iTools Online Limited. Bryan was previously a director of Quotable Value and Chair of Property IQ (a joint venture between Quotable Value and RP Data), Chair of Aotearoa Credit Union, and a Trustee of Workbase. Prior to that Bryan was CEO of PIPC NZ.

Bryan is a member of Kordia Group's Audit and Risk Committee.

## BOARD COMMITTEES

THE BOARD CURRENTLY HAS THREE STANDING COMMITTEES:

### AUDIT & RISK COMMITTEE

The Audit & Risk Committee assists the Board in fulfilling its responsibilities by providing recommendations, counsel and information concerning its accounting and reporting responsibilities under the Companies Act 1993 and related legislation. Its terms of reference also cover the role of internal audit and financial risk management.

### REMUNERATION COMMITTEE

The Remuneration Committee assists the Board in fulfilling its responsibilities by providing advice and recommendations regarding the appropriate levels of remuneration for executives.

### HEALTH AND SAFETY COMMITTEE

The Health and Safety Committee supports the Board to comply with its health and safety obligations and to achieve its health and safety goals.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

The Directors have pleasure in presenting their report, together with the audited Financial Statements of the Group for the year ended 30 June 2014.

## PRINCIPAL ACTIVITIES

The Group's principal activity during the year was the provision of telecommunications services (transmission, linking of telecommunications and broadcasting signals as well as design, build, operations and maintenance of transmission networks).

The Directors regard the state of the Group's affairs as satisfactory.

## SHAREHOLDING

The Group is wholly owned by Her Majesty the Queen in right of New Zealand (the 'Crown').

The Shareholding Ministers (being Ministers of the Crown who hold the shares in Kordia Group Limited on behalf of the Crown) at balance date were:

| | |
|---|---|
| Hon Bill English | Minister of Finance |
| Hon Tony Ryall | Minister of State Owned Enterprises |

## RESULTS FOR THE YEAR

The Group's consolidated net loss after taxation for the year was $8,641,000 (2013: $3,669,000 profit).

## DIVIDEND

The Directors recommend no final dividend for the year ended 30 June 2014. Taking into account the nil interim dividend, the total dividend for the year will be nil (2013: $5m).

## AUDITOR

The Controller and Auditor-General is the auditor of the Group in accordance with Section 19 of the State Owned Enterprises Act 1986 and has appointed Mark Crawford of KPMG to act for and on behalf of the Auditor-General, as auditor in respect of the year ended 30 June 2014.

On behalf of the Board

| | | |
|---|---|---|
| L M Witten<br>Chair | R H Farrant<br>Director | 28 August 2014 |

# STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2014

The Board and management of Kordia Group Limited are responsible for:

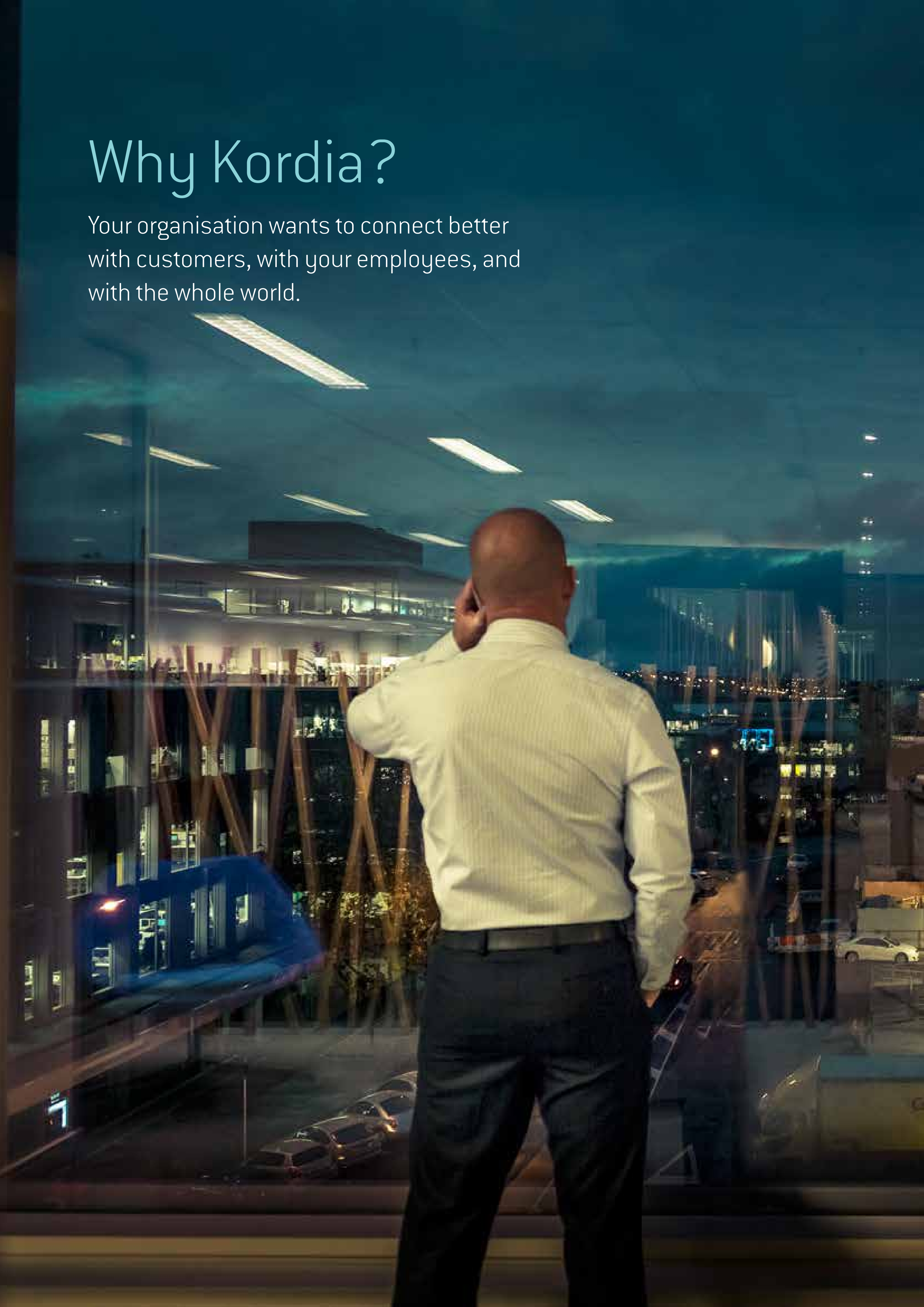
- The preparation of these financial statements and the judgments used in them.
- Establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the Board and management these financial statements fairly reflect the financial position, operations and cashflows of Kordia Group Limited for the year ended 30 June 2014.

| | | |
|---|---|---|
| L M Witten<br>Chair | R H Farrant<br>Director | 28 August 2014 |

# Why Kordia?

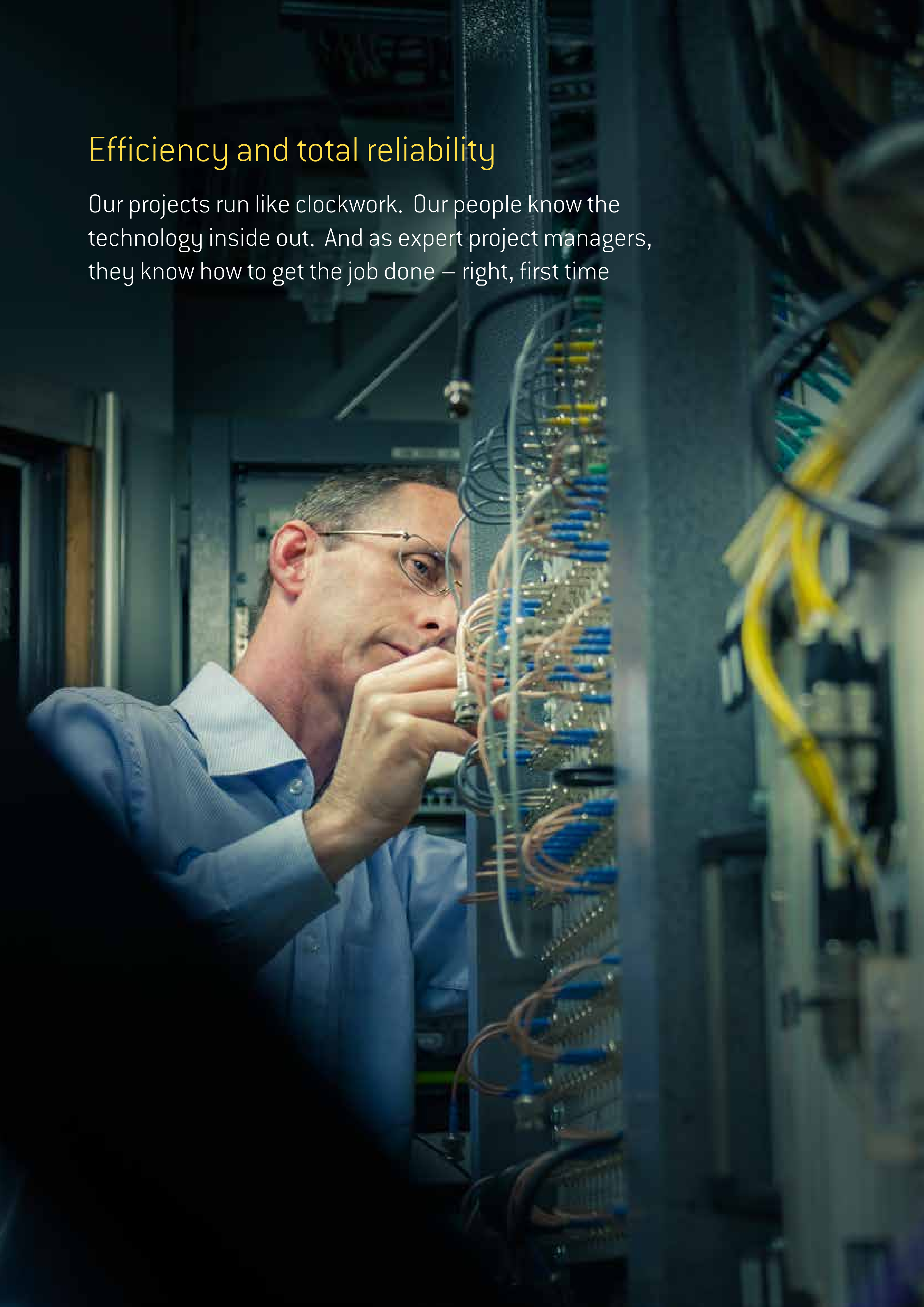
Your organisation wants to connect better with customers, with your employees, and with the whole world.




Home
Hunter

## Efficiency and total reliability

Our projects run like clockwork. Our people know the technology inside out. And as expert project managers, they know how to get the job done – right, first time



## We cast a wide net – but without the holes

Our network connects people from the far reaches of the country to the densest cities. We also ensure safety of life at sea for over a quarter of the world's oceans.

Maritime Networks

1/4 WORLDS OCEAN

We run the network which monitors much of the worlds ocean.

15 Million KM²

That's a vast territory. We provide the stability and reliability for the network. We know it can be life or death and people depend on it.

## No drama – except when you want it

The nation's broadcasters rely on us. So if you've watched TV in the last 60 years, you've used our network.

Entertainment, news, live sport. Shared moments that stick in the memory. Can you remember an interruption in coverage? Neither can we.

During the year Kordia provided the technology for diverse and exciting new television stations in New Zealand.

## Take the weight off your shoulders

Finding a network partner who can deliver everything you need—on time and on budget—needn't be a headache. We already do it for some of New Zealand's most demanding companies with our OnKor solution.


OnKor is an award winning converged network solution for businesses; delivering voice, video and data all over one smart pipe.

# The KORDIA GROUP LIMITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

# INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| In thousands of New Zealand dollars | Notes | **2014** | 2013 | **2014** | 2013 |
| Revenue | 3 | **301,363** | 309,134 | **4,000** | 2,000 |
| Finance income | 6 | **1,599** | 573 | **-** | - |
| | | **302,962** | 309,707 | **4,000** | 2,000 |
| Direct costs and overheads | 4 | **162,975** | 121,372 | **1,233** | 2,290 |
| Employee and contractor costs | 5 | **125,444** | 143,048 | **-** | - |
| Depreciation and amortisation expense | | **21,636** | 24,697 | **-** | - |
| Finance expense | 6 | **5,860** | 6,213 | **-** | - |
| **Profit/(loss) before income tax** | | **(12,953)** | 14,377 | **2,767** | (290) |
| Income tax expense/(benefit) | 7 | **(4,312)** | 3,698 | **12** | (389) |
| **Profit/(loss) from continuing operations** | | **(8,641)** | 10,679 | **2,755** | 99 |
| Profit/(loss) from discontinued operations net of tax | 9 | **-** | (7,010) | **-** | - |
| **Profit/(loss) for the year attributable to the equity holder** | | **(8,641)** | 3,669 | **2,755** | 99 |

*The accompanying notes set out on pages 21 to 53 are to be read as part of these financial statements.*

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| In thousands of New Zealand dollars | **2014** | 2013 | **2014** | 2013 |
| **Profit/(loss) for the year attributable to the equity holder** | **(8,641)** | 3,669 | **2,755** | 99 |
| Foreign currency translation differences | **(1,347)** | (1,504) | **-** | - |
| Effective portion of changes in the fair value of cashflow hedges | **1,373** | 2,018 | **-** | - |
| Tax effect of the effective portion of changes in the fair value of cashflow hedges | **(388)** | (572) | **-** | - |
| Ineffective portion of changes in the fair value of cashflow hedges | **475** | 105 | **-** | - |
| Tax effect of the ineffective portion of changes in the fair value of cashflow hedges | **(133)** | (29) | **-** | - |
| **Other comprehensive income for the year** | **(20)** | 18 | **2,755** | 99 |
| **Total comprehensive income for the year attributable to the equity holder** | **(8,661)** | 3,687 | **2,755** | 99 |

*The accompanying notes set out on pages 21 to 53 are to be read as part of these financial statements.*

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

GROUP

| In thousands of New Zealand dollars | Share Capital | Retained Earnings | Foreign Currency Translation Reserve | Cashflow Hedge Reserve | Total Attributable to Owners |
|---|---|---|---|---|---|
| **Balance 1 July 2012** | **87,696** | **6,580** | **735** | **(3,273)** | **91,738** |
| Net profit for the year | - | 3,669 | - | - | 3,669 |
| **Other comprehensive income** | | | | | |
| Foreign currency translation differences | - | - | (1,504) | - | (1,504) |
| Effective portion of changes in fair value of cashflow hedges, net of tax | - | - | - | 1,939 | 1,939 |
| Fair value of cashflow hedges transferred to income statement, net of tax | - | - | - | (417) | (417) |
| Total other comprehensive income | - | - | (1,504) | 1,522 | 18 |
| **Total comprehensive income** | **-** | **3,669** | **(1,504)** | **1,522** | **3,687** |
| **Transactions with owners** | | | | | |
| Dividends | - | (2,000) | - | - | (2,000) |
| **Balance 30 June 2013** | **87,696** | **8,249** | **(769)** | **(1,751)** | **93,425** |
| Net loss for the year | - | (8,641) | - | - | (8,641) |
| **Other comprehensive income** | | | | | |
| Foreign currency translation differences | - | - | (1,347) | - | (1,347) |
| Effective portion of changes in fair value of cashflow hedges, net of tax | - | - | - | 2,798 | 2,798 |
| Fair value of cashflow hedges transferred to income statement, net of tax | - | - | - | (1,471) | (1,471) |
| Total other comprehensive income | - | - | (1,347) | 1,327 | (20) |
| **Total comprehensive income** | **-** | **(8,641)** | **(1,347)** | **1,327** | **(8,661)** |
| **Transactions with owners** | | | | | |
| Dividends | - | (4,000) | - | - | (4,000) |
| **Balance 30 June 2014** | **87,696** | **(4,392)** | **(2,116)** | **(424)** | **80,764** |

*The accompanying notes set out on pages 21 to 53 are to be read as part of these financial statements.*

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# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

COMPANY

| In thousands of New Zealand dollars | Share Capital | Retained Earnings | Foreign Currency Translation Reserve | Cashflow Hedge Reserve | Total Attributable to Owners |
|---|---|---|---|---|---|
| **Balance 1 July 2012** | **87,696** | **(10,969)** | **-** | **-** | **76,727** |
| Net profit for the year | - | 99 | - | - | 99 |
| **Total comprehensive income** | **-** | **99** | **-** | **-** | **99** |
| **Transactions with owners** | | | | | |
| Dividends | - | (2,000) | - | - | (2,000) |
| **Balance 30 June 2013** | **87,696** | **(12,870)** | **-** | **-** | **74,826** |
| Net profit for the year | - | 2,755 | - | - | 2,755 |
| **Total comprehensive income** | **-** | **2,755** | **-** | **-** | **2,755** |
| **Transactions with owners** | | | | | |
| Dividends | - | (4,000) | - | - | (4,000) |
| **Balance 30 June 2014** | **87,696** | **(14,115)** | **-** | **-** | **73,581** |

*The accompanying notes set out on pages 21 to 53 are to be read as part of these financial statements.*

# STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2014

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| In thousands of New Zealand dollars | Notes | **2014** | 2013 | **2014** | 2013 |
| **Assets** | | | | | |
| Property, plant and equipment | 10 | **82,417** | 86,579 | **-** | - |
| Intangible assets and goodwill | 11 | **25,067** | 22,356 | **-** | - |
| Investments in subsidiaries | 13 | **-** | - | **72,511** | 72,511 |
| Advances to subsidiaries | 13 | **-** | - | **4,852** | 8,727 |
| Loans receivable | 22 | **-** | 7,500 | **-** | - |
| Finance lease receivable | 26 | **64** | 1,716 | **-** | - |
| Loans and advances | 18 | **-** | - | **8,350** | - |
| Deferred tax asset | 14 | **8,216** | 3,576 | **-** | 84 |
| **Total non-current assets** | | **115,764** | 121,727 | **85,713** | 81,322 |
| Cash | | **4,623** | 4,114 | **-** | - |
| Inventories | 15 | **1,477** | 1,335 | **-** | - |
| Trade and other receivables | 16 | **83,221** | 82,833 | **133** | 101 |
| Loans receivable | 22 | **9,950** | 2,500 | **-** | - |
| Finance lease receivable | 26 | **1,653** | 1,388 | **-** | - |
| Derivative assets | 20 | **-** | 22 | **-** | - |
| Taxation receivables | | **833** | 1,163 | **134** | 1,228 |
| **Total current assets** | | **101,757** | 93,355 | **267** | 1,329 |
| **Total assets** | | **217,521** | 215,082 | **85,980** | 82,651 |
| **Equity and Liabilities** | | | | | |
| Share capital | 8 | **87,696** | 87,696 | **87,696** | 87,696 |
| Foreign currency translation reserve | | **(2,116)** | (769) | **-** | - |
| Cashflow hedge reserve | | **(424)** | (1,751) | **-** | - |
| Retained earnings | | **(4,392)** | 8,249 | **(14,115)** | (12,870) |
| **Total equity attributable to the equity holder** | | **80,764** | 93,425 | **73,581** | 74,826 |
| Trade and other payables | 17 | **5,053** | 5,413 | **-** | - |
| Derivative liabilities | 20 | **1,040** | 1,788 | **-** | - |
| Deferred tax liability | 14 | **54** | - | **-** | - |
| Loans and advances | 18 | **40,132** | 43,840 | **-** | 7,252 |
| Advances from subsidiaries | 13 | **-** | - | **2,300** | - |
| Provisions | 19 | **6,333** | 5,174 | **-** | - |
| **Total non-current liabilities** | | **52,612** | 56,215 | **2,300** | 7,252 |
| Taxation payable | | **654** | 1,558 | **-** | - |
| Trade and other payables | 17 | **55,714** | 46,749 | **99** | 573 |
| Derivative liabilities | 20 | **119** | 833 | **-** | - |
| Provisions | 19 | **2,823** | 3,235 | **-** | - |
| Loans and advances | 18 | **24,835** | 13,067 | **10,000** | - |
| **Total current liabilities** | | **84,145** | 65,442 | **10,099** | 573 |
| **Total liabilities** | | **136,757** | 121,657 | **12,399** | 7,825 |
| **Total equity and liabilities** | | **217,521** | 215,082 | **85,980** | 82,651 |

*The accompanying notes set out on pages 21 to 53 are to be read as part of these financial statements.*

On behalf of the Board

L M Witten
Chair

R H Farrant
Director

28 August 2014

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| In thousands of New Zealand dollars | Notes | **2014** | 2013 | **2014** | 2013 |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | **304,668** | 344,508 | **-** | - |
| Payments to suppliers and employees | | **(287,974)** | (332,615) | **(1,739)** | (1,830) |
| | | **16,694** | 11,893 | **(1,739)** | (1,830) |
| Dividends received | | **4** | 2 | **4,000** | 2,000 |
| Interest received | | **1,595** | 571 | **-** | - |
| Interest paid - other | | **(5,514)** | (6,606) | **-** | - |
| Interest paid - finance lease | | **(1)** | (10) | **-** | - |
| Taxes (paid)/refunded | | **(1,833)** | (4,754) | **3** | - |
| Net cash from/(used in) operating activities | 23 | **10,945** | 1,096 | **2,264** | 170 |
| **Cash flows from investing activities** | | | | | |
| Proceeds from the sale of property, plant and equipment | | **196** | 8,376 | **-** | - |
| Proceeds from the sale of intangibles | | **-** | 1,984 | - | - |
| Proceeds from the sale of a company, net of cash disposed | 9 | **-** | 23,582 | **-** | - |
| Acquisition of property, plant and equipment | | **(14,298)** | (20,031) | **-** | - |
| Acquisition of intangibles | 11 | **(6,998)** | (3,106) | **-** | - |
| Loan to associate | 12 | **-** | (176) | **-** | - |
| Net cash (used in)/from investing activities | | **(21,100)** | 10,629 | **-** | - |
| **Cash flows from financing activities** | | | | | |
| Proceeds/(repayment) of loans and advances | | **13,475** | (10,141) | **(5,602)** | (41,629) |
| Repayment of finance lease liabilities | | **(33)** | (375) | **-** | - |
| Proceeds from finance lease assets | | **1,388** | 146 | - | - |
| Proceeds from intercompany advances | | **-** | - | **7,338** | 43,459 |
| Dividends paid | | **(4,000)** | (2,000) | **(4,000)** | (2,000) |
| Net cash from/(used in) financing activities | | **10,830** | (12,370) | **(2,264)** | (170) |
| **Net increase/(decrease) in cash and cash equivalents** | | **675** | (645) | **-** | - |
| **Cash and cash equivalents at beginning of year** | | **4,114** | 4,922 | **-** | - |
| Effect of exchange rate fluctuations on cash | | **(166)** | (163) | **-** | - |
| **Cash and cash equivalents at end of year** | | **4,623** | 4,114 | **-** | - |

*The accompanying notes set out on pages 21 to 53 are to be read as part of these financial statements.*

# STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014

## 1. REPORTING ENTITY

Kordia Group Limited (the 'Company') is a limited liability company incorporated and domiciled in New Zealand under the Companies Act 1993 and is wholly owned by the Crown. The registered office of the Company is Level 3, 162 Victoria Street, Auckland Central, Auckland 1010, New Zealand.

The financial statements presented here are for the reporting entity Kordia Group Limited and the consolidated financial statements of the Group ("the Group"), comprising the Company, its subsidiaries and the Group's interest in associates.

The financial statements of the Group have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the State Owned Enterprises Act 1986.

From 1 April 2014, the new Financial Reporting Act 2013 has come into force replacing the Financial Reporting Act 1993. This is effective for all for-profit entities with reporting periods beginning on or after 1 April 2014. This will be effective for the Company's 30 June 2015 year end.

**Statement of Compliance**

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

The financial statements were authorised for issue by the directors on 28 August 2014.

The financial statements have been prepared on the basis of historical cost unless otherwise noted within the specific accounting policies below.

These financial statements are presented in New Zealand dollars ($), which is the Group's reporting currency and is also the Company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

**Estimates and Judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the notes relating to:

- Measurement of the recoverable amounts of cash-generating units – Notes 10 and 11.
- Provisions – Note 19.
- Valuation of financial instruments - Note 20.
- Deferred tax assets – Note 14.
- Useful life of property, plant, equipment and intangibles – Notes 10 and 11.

In the opinion of management, all adjustments necessary for a fair presentation of the results of operations, financial position and cash flows have been reflected.

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# STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014

## 2. STATEMENT OF ACCOUNTING POLICIES

### (A) BASIS OF PREPARING GROUP FINANCIAL STATEMENTS

The financial statements have been prepared on a going concern basis, nowithstanding the fact that current liabilities exceed current assets by $9.8m for the Company. The directors believe this position does not indicate an inability to satisfy its financial obligations but is a result of the Group's management of the funding within the Group. The directors are therefore satisfied that the Group is in a position to meet its obligations as they fall due for the foreseeable future.

**Subsidiaries**

Subsidiaries are those entities controlled, directly or indirectly, by the Group. Control exists when the Group has the power over investees, exposure or rights to variable returns and ability to use power to affect returns. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies are eliminated on consolidation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases

### (B) REVENUE

Revenue from the sale of transmission and maintenance services is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and the associated costs and possible return of goods can be estimated reliably.

Revenue from the sale of operations services rendered is recognised in the Income Statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

### (C) LEASES

**Consolidated Entity as the Lessee**

Group entities lease certain land and buildings, motor vehicles, plant and equipment and information systems.

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The interest expense component of finance lease payments is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognised in the Group's Statement of Financial Position. Operating lease payments are included in the Income Statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

**Lease incentives**

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight line basis.

**Consolidated Entity as the Lessor**

Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

(D) FINANCE INCOME AND EXPENSES

Finance income comprises interest income on funds invested, loans receivable, finance leases, dividend income, foreign currency gains and gains on hedging instruments that are recognised in the Income Statement. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Company's right to receive payment is established.

Finance expenses comprise interest expense on borrowings and leases, unwinding of the discount on provisions, foreign currency losses and losses on hedging instruments that are recognised in the Income Statement. All borrowing costs are recognised in the Income Statement using the effective interest method.

(E) TAXATION

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting dates.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment losses. Cost includes the cost to acquire the asset and other directly attributable costs incurred to bring the asset to the location and condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of property, plant and equipment is disposed of, the gain or loss recognised in the Income Statement is calculated as the difference between the sale price and the carrying value of the item of property, plant and equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

Items of property, plant and equipment that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before reclassification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the Income Statement. Gains are not recognised in excess of cumulative impairment losses.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be reliably measured. The costs of day-to-day servicing of property, plant and equipment are recognised in the Income Statement as incurred.

CONTINUED

# STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014

## 2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### (F) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation is provided for on a straight-line basis on all tangible items of property, plant and equipment other than freehold land and work in progress, over their estimated useful lives as follows:

| | |
|---|---|
| Freehold buildings | 10 - 40 years |
| Leasehold improvements | 2 - 10 years |
| Masts and aerials | 4 - 25 years |
| Transmission equipment | 3 - 25 years |
| Furniture and fittings | 5 - 10 years |
| Office equipment | 4 - 10 years |
| Information systems | 2.5 - 5 years |
| Leased information systems | 3 - 5 years |
| Motor vehicles | 7 years |

Assets under finance leases are initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

### (G) INTANGIBLES

**Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the purchase consideration over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. When the excess is negative (negative goodwill), it is recognised in the Income Statement. Subsequently, goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted associates, goodwill is included in the carrying amount of the investment.

**Customer Acquisition Costs**

Customer acquisition costs are those costs incurred in obtaining telecommunication service contracts with subscribers. These costs are amortised over the period of the contract or the period during which the future economic benefits are expected.  This period is currently 1 year.

**Customer Lists**

Customer lists are recognised on the acquisition of subsidiaries or trading assets and represents the net fair value of identified assets acquired.  Customer lists are measured at cost less accumulated amortisation and accumulated impairment losses.

**Research and Development Costs**

Research is original and planned investigation undertaken with the prospect of gaining new technical knowledge. Research costs are recognised in the Income Statement as incurred. Development expenditure is expenditure on the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products, processes, systems or services. Development expenditure is recognised as an asset when it can be demonstrated that the commercial production of the products, processes, systems or services will commence. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Capitalised development costs are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is on a straight line basis over the period of expected future benefits.

**Other intangible assets**

Other intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the asset to which it relates. All other expenditure is recognised in the Income Statement as incurred.

Amortisation is recognised in the Income Statement on a straight line basis over the estimated useful lives of the intangible assets, from the date they are available for use. The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Frequency licences | 5-20 years |
| Development costs | 5 years |
| Subscriber terminal unit customer subsidy | 2-5 years |
| Customer lists | 3-5 years |
| Software | 3-5 years |
| Customer acquisition costs | 1 year |

(H) FINANCIAL INSTRUMENTS

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and advances and trade and other payables. These are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantively all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

The Group uses derivative financial instruments within predetermined policies and limits in order to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates. The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, they are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement. However, where derivatives qualify for hedge accounting and are designated as cash flow hedges, recognition of any resultant gain or loss are recognised directly in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in the fair value are recognised in the Income Statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs. The amount recognised in other comprehensive income is transferred to the Income Statement in the same period that the hedged item affects profit or loss.

(I) INVENTORIES

Inventories comprise technical stores and subscriber terminal units. All inventories are measured at the lower of cost and net realisable value. Cost is based on the weighted average principle 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 the estimated costs of completion and selling expenses.

CONTINUED

# STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014

## 2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### (J) CONTRACTS WORK IN PROGRESS

Contracts work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Contracts work in progress is presented as part of trade and other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

### (K) IMPAIRMENT

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill relating to subsidiaries, the recoverable amount is estimated at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses reduce the carrying amount of assets and are recognised in the Income Statement.

The recoverable amount of receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted. Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach. For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on number of days overdue, and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

The recoverable amount of a non-financial asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the Income Statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (L) PROVISIONS

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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. A make-good provision is recognised for the Group's obligation on making-good the leased premises on expiration of the contract. The provision is measured at the present value of the expected cost to be incurred.

(M) EMPLOYEE BENEFITS

A liability for annual leave, long service leave and retirement leave accruing to employees is recognised in the Statement of Financial Position. The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The liability for annual leave is measured on an undiscounted basis and expensed as the related service is provided.

(N) FOREIGN CURRENCIES

**Transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the Group at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities in foreign currencies at balance date are re-translated to the functional currency at the exchange rates ruling at balance date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Exchange differences arising on the translation of monetary assets and liabilities in foreign currencies are recognised in the Income Statement, except as detailed below.

**Translation of Foreign Group Entities**

The assets and liabilities of foreign entities with functional currencies other than New Zealand dollars, including goodwill and fair value adjustments arising on acquisition, are translated at the rates of exchange ruling at the reporting date. The revenues and expenses of these entities are translated at rates approximating the exchange rates ruling at the date of transactions. Exchange differences arising on translation are taken directly to the foreign currency translation reserve (FCTR). When such an entity is disposed of in part or in full, the relevant amount in the FCTR is transferred to the Income Statement.

(O) CONTINGENCIES

Where it is yet to be confirmed whether a present obligation exists, but the likelihood is possible, unless an outflow is deemed remote, a contingent liability is disclosed. Where an inflow of economic benefits is probable, a contingent asset is disclosed. Disclosure includes management's best estimate of the economic effect of the contingent asset or liability.

(P) DETERMINATION OF FAIR VALUES

Fair values have been determined for measurement and/or disclosure purposes in Note 21 based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**Trade and other receivables**

The fair value of trade and other receivables, excluding contracts work in progress, is estimated as the present value of future cash flows, at a rate that reflects the credit risk associated with the asset. Trade and other receivables are financial assets categorised as loans and receivables.

**Trade payables and accruals**

The fair value of trade payables and accruals is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Payables are categorised as financial liabilities measured at amortised cost.

CONTINUED

# STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014

## 2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### (P) DETERMINATION OF FAIR VALUES (CONTINUED)

**Derivatives**

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps and caps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

**Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

### (Q) STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards and interpretations are not yet effective for the period ended 30 June 2014 and have not been applied in preparing these consolidated financial statements:

- NZ IFRS 9 Financial Instruments. NZ IFRS 9 (2010) is the first standard issued as part of a wider project to replace NZ IAS 39. NZ IFRS 9 retains, but simplifies, the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in NZ IAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if an entity adopts the standards for reporting periods beginning before 1 January 2012. This standard is effective for the Group from 1 July 2018.
- NZ IFRS 15 Revenue from Contracts With Customers. NZ IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognised. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. This standard is effective for the Group from 1 July 2017.

The Directors expect to adopt the above standards and interpretations in the period in which they become effective. The Directors anticipate that the above standards and interpretations will have no material impact on the financial statements of the Group or Company in the period of initial application.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 3. REVENUE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| In thousands of New Zealand dollars | **2014** | 2013 | **2014** | 2013 |
| Telecommunications services | **301,363** | 308,590 | **-** | - |
| Other revenue | **-** | 544 | **-** | - |
| Intercompany dividends | **-** | - | **4,000** | 2,000 |
| **Total revenue** | **301,363** | 309,134 | **4,000** | 2,000 |

Other revenue includes settlements received from insurance companies.

## 4. DIRECT COSTS AND OVERHEADS INCLUDE:

| | | | | |
|---|---|---|---|---|
| Auditor's fees | | | | |
| - audit services | **314** | 347 | **-** | - |
| - other audit related services | **10** | 14 | **-** | - |
| Directors' fees | **261** | 279 | **261** | 279 |
| Loss/(gain) on disposal of property, plant and equipment | **620** | (7,184) | **-** | - |
| Loss/(gain) on disposal of intangibles | **-** | (1,456) | **-** | - |
| Impairment/(reversal) loss on trade receivables | **(497)** | 815 | **-** | - |
| Rental and operating lease costs | **11,370** | 12,954 | **-** | - |
| Project material and subcontractor costs | **121,088** | 83,336 | **-** | - |
| Direct network costs | **13,901** | 15,898 | **-** | - |
| Impairment of advances to associates | **-** | 35 | **-** | - |
| Hedging losses | **475** | 105 | **-** | - |

## 5. EMPLOYEE AND CONTRACTOR COSTS INCLUDE:

| | | | | |
|---|---|---|---|---|
| Redundancy | **7,086** | 2,113 | **-** | - |
| Defined contribution plan | **7,558** | 9,380 | **-** | - |

## 6. FINANCE INCOME AND EXPENSE

| | | | | |
|---|---|---|---|---|
| Interest income on bank deposits and loan receivable | **1,219** | 448 | **-** | - |
| Interest income on finance leases | **376** | 123 | **-** | - |
| Dividend income | **4** | 2 | **-** | - |
| Finance income | **1,599** | 573 | **-** | - |
| Interest expense on loans and borrowings | **4,535** | 3,624 | **-** | - |
| Net interest expense on financial assets designated at fair value through the income statement | **958** | 2,228 | **-** | - |
| Net foreign exchange loss | **78** | 71 | **-** | - |
| Interest expense on finance leases | **1** | 10 | **-** | - |
| Unwind the discount on provisions | **288** | 280 | **-** | - |
| Finance expense | **5,860** | 6,213 | **-** | - |
| Net finance expense | **4,261** | 5,640 | **-** | - |

CONTINUED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 7. INCOME TAX EXPENSE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| In thousands of New Zealand dollars | **2014** | 2013 | **2014** | 2013 |
| Current tax expense | **720** | 3,524 | **74** | (305) |
| Adjustment from prior periods | **40** | (325) | **(146)** | - |
| Deferred tax (benefit)/expense | **(5,072)** | 499 | **84** | (84) |
| **Total income tax (benefit)/expense** | **(4,312)** | 3,698 | **12** | (389) |
| **Reconciliation of effective tax rate** | | | | |
| Net profit/(loss) before taxation | **(12,953)** | 14,377 | **2,767** | (290) |
| Taxation at 28% | **(3,627)** | 4,025 | **775** | (81) |
| **Adjusted for the tax effect of:** | | | | |
| Difference in subsidiary income tax rates | **(436)** | 16 | **-** | - |
| Non assessable income | **(566)** | (438) | **(1,120)** | (560) |
| Non-deductible expenses | **277** | 420 | **211** | 252 |
| Under/(over) provided in prior periods | **40** | (325) | **146** | - |
| **Taxation expense/(benefit)** | **(4,312)** | 3,698 | **12** | (389) |
| **Imputation Credit Account** | | | | |
| Imputation credits available to shareholders in future periods | **9,125** | 8,566 | **-** | - |

The Kordia Group Limited consolidated tax group was formed on 1 July 2003.

## 8. CAPITAL AND RESERVES

### Foreign Currency Translation Reserve

The foreign currency translation reserve comprises all foreign currency differences from the translation of the financial statements of foreign operations.

### Share Capital

| | | | | |
|---|---|---|---|---|
| On issue at beginning and end of the year (number of shares) | **1,000** | 1,000 | **1,000** | 1,000 |

All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

### Cashflow Hedge Reserve

The cashflow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedging transactions that have not yet occurred.

### Dividends

For the year ended 30 June 2014 the Group paid no interim dividend (2013: $1m) and a prior year final dividend of $4m (2013: $1m).

## 9. DISCONTINUED OPERATION

On 31 March 2013, the Group sold its investment in Orcon Limited.

| In thousands of New Zealand dollars | GROUP<br>2013<br>(9 months) |
|---|---|
| **Results of Discontinued Operation** | |
| Revenue | 61,019 |
| Direct costs and overheads | 43,139 |
| Employee and contractor costs | 11,710 |
| Depreciation and amortisation expense | 7,643 |
| Finance expense | 650 |
| **Loss before income tax** | (2,123) |
| Income tax benefit | (466) |
| **Loss after income tax** | (1,657) |
| Loss on sale of discontinued operation including transaction costs | (5,684) |
| Tax on loss on sale of discontinued operations including transaction costs | 331 |
| **Loss for the period attributable to the equity holder** | (7,010) |
| **Cashflows from/(used in) Discontinued Operation Included in the Group Statement of Cashflows** | |
| Net cashflow used in operating activities | 2,533 |
| Net cash from investing activities | (8,274) |
| Net cash from financing activities | 4,868 |
| **Net cashflows for the period** | (873) |
| **Effect of Disposal on the Financial Position of the Group** | |
| Property, plant and equipment | 18,005 |
| Intangible assets and goodwill | 30,290 |
| Cash | 1,168 |
| Inventories | 319 |
| Trade and other receivables | 9,755 |
| Trade and other payables | (16,569) |
| Deferred tax | (445) |
| Finance lease liability | (20) |
| Net assets and liabilities | 42,503 |
| Consideration received, satisfied in cash | 24,750 |
| Deferred consideration, non-contingent | 13,250 |
| Total consideration | 38,000 |
| Consideration received, satisfied in cash | 24,750 |
| Cash and cash equivalents disposed of | 1,168 |
| Net cash inflow | 23,582 |

CONTINUED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 10. PROPERTY, PLANT AND EQUIPMENT

| In thousands of New Zealand dollars | Land & buildings | Leasehold improvements | Mast and aerials | Transmission equipment |
|---|---|---|---|---|
| GROUP | | | | |
| **Cost** | | | | |
| Balance at 1 July 2012 | 31,092 | 16,704 | 74,156 | 281,865 |
| Additions | 372 | 950 | 466 | 11,018 |
| Transfers | - | 30 | 153 | 2,098 |
| Disposals | (212) | (342) | (488) | (26,103) |
| Disposal of Orcon Limited | - | (4,273) | - | (28,013) |
| Effect of movements in exchange rates | - | (648) | - | (2,188) |
| Balance at 30 June 2013 | **31,252** | **12,421** | **74,287** | **238,677** |
| Additions | 783 | 2,522 | 437 | 9,222 |
| Transfers | - | - | 43 | 334 |
| Disposals | (1,902) | (1,905) | (8,056) | (17,402) |
| Effect of movements in exchange rates | - | (824) | (2) | (2,822) |
| Balance at 30 June 2014 | **30,133** | **12,214** | **66,709** | **228,009** |
| | | | | |
| **Depreciation and Impairment Losses** | | | | |
| Balance at 1 July 2012 | (20,541) | (8,754) | (55,135) | (215,544) |
| Depreciation for the year | (848) | (2,102) | (2,756) | (18,145) |
| Disposals | 119 | 337 | 401 | 25,332 |
| Disposal of Orcon Limited | - | 2,290 | - | 13,781 |
| Effect of movements in exchange rates | - | 350 | - | 1,911 |
| Balance as at 30 June 2013 | **(21,270)** | **(7,879)** | **(57,490)** | **(192,665)** |
| Depreciation for the year | (926) | (1,374) | (3,628) | (10,303) |
| Disposals | 1,602 | 2,051 | 7,994 | 17,081 |
| Effect of movements in exchange rates | - | 471 | - | 2,533 |
| Balance as at 30 June 2014 | **(20,594)** | **(6,731)** | **(53,124)** | **(183,354)** |
| | | | | |
| **Carrying amounts** | | | | |
| At 30 June 2013 | **9,982** | **4,542** | **16,797** | **46,012** |
| At 30 June 2014 | **9,539** | **5,483** | **13,585** | **44,655** |

| Furniture & fittings | Office equipment | Motor vehicles | Information systems | Work in progress | Total |
|---|---|---|---|---|---|
| 2,444 | 3,541 | 1,833 | 35,148 | 2,725 | 449,508 |
| 207 | 165 | 83 | 1,984 | 5,114 | 20,359 |
| - | 7 | - | 23 | (2,311) | - |
| (132) | (88) | (281) | (462) | (399) | (28,507) |
| (590) | (1,307) | (5) | (2,357) | (1,113) | (37,658) |
| (41) | (118) | (41) | (1,426) | (172) | (4,634) |
| **1,888** | **2,200** | **1,589** | **32,910** | **3,844** | **399,068** |
| 327 | 123 | 220 | 2,111 | 1,351 | 17,096 |
| - | 2 | - | 2,844 | (3,663) | (440) |
| (749) | (155) | (269) | (4,271) | - | (34,709) |
| (53) | (154) | (53) | (1,871) | (248) | (6,027) |
| **1,413** | **2,016** | **1,487** | **31,723** | **1,284** | **374,988** |
| | | | | | |
| (1,809) | (3,035) | (1,582) | (29,567) | - | (335,967) |
| (256) | (160) | (90) | (2,646) | - | (27,003) |
| 210 | 78 | 278 | 439 | - | 27,194 |
| 441 | 1,054 | (24) | 2,111 | - | 19,653 |
| 25 | 120 | 35 | 1,193 | - | 3,634 |
| **(1,389)** | **(1,943)** | **(1,383)** | **(28,470)** | **-** | **(312,489)** |
| (171) | (52) | (79) | (2,404) | - | (18,937) |
| 643 | 124 | 267 | 4,229 | - | 33,991 |
| 41 | 156 | 45 | 1,618 | - | 4,864 |
| **(876)** | **(1,715)** | **(1,150)** | **(25,027)** | **-** | **(292,571)** |
| | | | | | |
| **499** | **257** | **206** | **4,440** | **3,844** | **86,579** |
| | | | | | |
| **537** | **301** | **337** | **6,696** | **1,284** | **82,417** |

CONTINUED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

**Work in Progress**

Work in progress represents property, plant and equipment which is not yet in service as it is under construction. Property, plant and equipment takes, on average, 1-12 months to construct. The movement in work in progress between June 2013 and June 2014 is due to the capitalisation of information system assets which were under construction at June 2013.

**Impairment of a Cash-Generating Unit**

On 16 September 2010, the Government announced that the date for switch-over to digital television was to commence from September 2012, with completion by late 2013. This announcement caused the Group to reassess the recoverable amount of its Networks cash-generating unit.

The Networks cash-generating unit undertakes transmission services including linking of telecommunications and broadcasting signals.

The recoverable amount of the Networks cash-generating unit is based on a value in use calculation using a discounted cashflow model for five years from 2014. The cashflow projections are based on the financial budgets approved by management, adjusted for impact of earlier than anticipated digital switch-over. The assumptions regarding revenue growth and cost increases are based on past experiences and management's expectations of changes in the market and performance of new products. Management considers the budgets to be reasonable in the current trading environment. Beyond year five, a real growth rate of 0% (2013: 0%) was assumed. A real post tax discount rate of 8.2% (2013: 8.4%) was applied. Bancorp Corporate Finance Limited worked with the Group in determining the weighted average cost of capital.

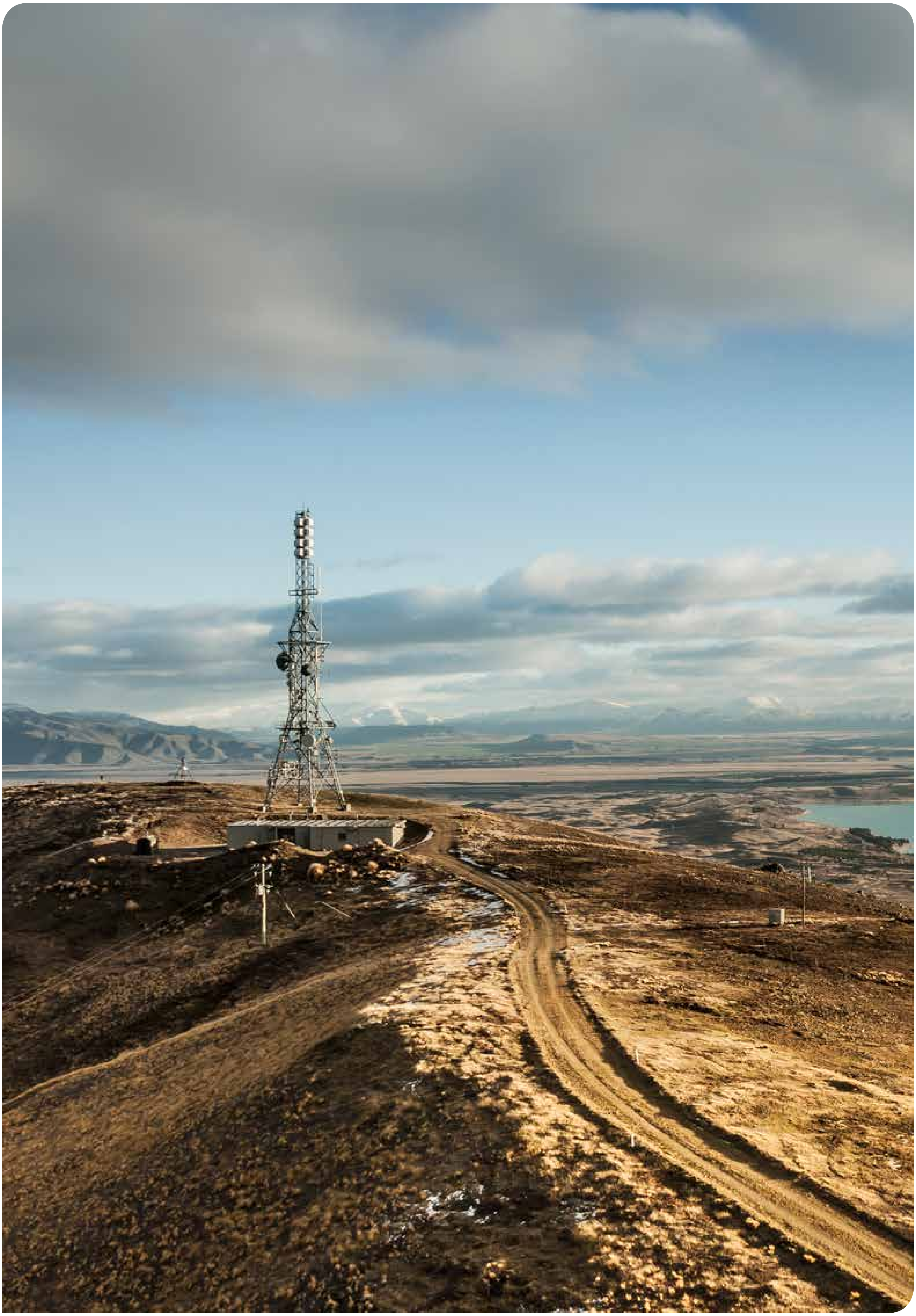
For the year-ended 30 June 2011 a pre-tax impairment loss of $29,054 was recognised in the Income Statement and allocated to the property, plant and equipment assets ($26,699), intangible assets ($999) and an additional make-good provision ($1,356) constituting the cash-generating unit.

Based on the assessment at 30 June 2014, the carrying amount of the Network property, plant and equipment was determined to be in line with the recoverable amount indicating that no further impairment or reversal of the previously recognised impairment is required. This estimate is sensitive to the following assumptions:

- An increase of 1 percentage point in the discount rate used would not impair the carrying value of the assets.
- A decrease of 1 percentage point in the terminal growth rate would not impair the carrying value of the assets.

**Negative Pledge**

A negative pledge in the Group's banking facility restricts the disposal of assets, other than in the ordinary course of business or within certain materiality thresholds.



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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 11. INTANGIBLE ASSETS

| In thousands of New Zealand dollars | **Goodwill** | **Customer Acquisition Costs** |
|---|---|---|
| GROUP | | |
| **Cost** | | |
| Balance at 1 July 2012 | 43,203 | 1,416 |
| Additions | - | 630 |
| Disposals | - | - |
| Disposal of Orcon Limited | (26,362) | (2,046) |
| Effects of movements in exchange rates | (1,173) | - |
| Balance at 30 June 2013 | **15,668** | **-** |
| Additions | - | - |
| Transfers | - | - |
| Disposals | - | - |
| Effects of movements in exchange rates | (1,489) | - |
| Balance at 30 June 2014 | **14,179** | **-** |
| | | |
| **Amortisation and Impairment losses** | | |
| Balance at 1 July 2012 | (148) | (971) |
| Amortisation for the year | - | (592) |
| Disposals | - | - |
| Disposal of Orcon Limited | 148 | 1,563 |
| Effect of movements in the exchange rate | - | - |
| Balance at 30 June 2013 | **-** | **-** |
| Amortisation for the year | - | - |
| Disposals | - | - |
| Balance at 30 June 2014 | **-** | **-** |
| | | |
| **Carrying amounts** | | |
| At 30 June 2013 | **15,668** | **-** |
| At 30 June 2014 | **14,179** | **-** |

| Customer Lists | Development Costs | Frequency Licences | Software | Others | Total |
|---|---|---|---|---|---|
| | | | | | |
| 2,088 | 454 | 7,471 | 28,362 | 664 | 83,658 |
| - | - | - | 2,476 | - | 3,106 |
| - | - | (600) | (667) | - | (1,267) |
| (2,088) | - | - | (7,263) | - | (37,759) |
| - | - | - | (3) | - | (1,176) |
| **-** | **454** | **6,871** | **22,905** | **664** | **46,562** |
| - | - | 2,636 | 3,922 | - | 6,558 |
| - | - | - | 440 | - | 440 |
| - | (454) | - | (2,555) | (664) | (3,673) |
| - | - | - | - | - | (1,489) |
| **-** | **-** | **9,507** | **24,712** | **-** | **48,398** |
| | | | | | |
| (1,547) | (454) | (4,522) | (18,773) | (664) | (27,079) |
| (271) | - | (303) | (4,171) | - | (5,337) |
| - | - | 77 | 663 | - | 740 |
| 1,818 | - | - | 3,940 | - | 7,469 |
| - | - | - | 1 | - | 1 |
| **-** | **(454)** | **(4,748)** | **(18,340)** | **(664)** | **(24,206)** |
| - | - | (344) | (2,355) | - | (2,699) |
| - | 454 | - | 2,456 | 664 | 3,574 |
| **-** | **-** | **(5,092)** | **(18,239)** | **-** | **(23,331)** |
| | | | | | |
| **-** | **-** | **2,123** | **4,565** | **-** | **22,356** |
| | | | | | |
| **-** | **-** | **4,415** | **6,473** | **-** | **25,067** |

CONTINUED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 11. INTANGIBLE ASSETS (CONTINUED)

Goodwill is tested for impairment annually at the reporting date and whenever there is an indication of impairment. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount.

The recoverable amount is assessed at the level of the cash-generating unit, which is the smallest group of assets generating cash flows independent of other cash-generating units that benefit from the use of the intangible asset.

For the purpose of impairment testing, goodwill is allocated to the Group's relevant subsidiaries or businesses. The aggregate carrying amounts of goodwill allocated to each subsidiary and business are as follows:

| | GROUP | |
|---|---|---|
| In thousands of New Zealand dollars | **2014** | 2013 |
| Kordia Solutions Pty Limited | **14,179** | 15,668 |
| | **14,179** | 15,668 |

The recoverable amount of Kordia Pty Limited and subsidiary was based on a value-in-use calculation. The key assumptions used in the value in use calculations include revenue growth, cost increases and discount rates. A discount rate of 8.6% (2013: 8.5%) was applied and was derived from the real post tax weighted average cost of capital. The year-on-year change in discount rates reflect an increase in the risk free rate and a decrease in asset betas which have been assessed by way of comparable companies. Bancorp Corporate Finance Limited worked with the Group in determining the weighted average costs of capital.

The recoverable amount for Kordia Pty Limited was calculated using cash flow projections for the five years from 2014 using the financial budgets approved by management. Beyond year five a real growth rate of 0% (2013: 0%) was assumed. The assumptions regarding revenue growth and cost increases are based on past experiences and management's expectations of changes in the market. Management considers the budgets to be reasonable in the current trading environment.

**Key Assumptions – Sensitivities; Kordia Pty Limited**

- An increase of 1 percentage point in the discount rate used would not impair the carrying value of goodwill.
- A decrease of 1 percentage point in the terminal growth rate would not impair the carrying value of goodwill.

In the prior year, the Group sold its investment in Orcon Limited. Refer to note 9.

## 12. INVESTMENT IN ASSOCIATE

On 12 December 2006, the Group acquired 49% of the shares in AAP Communications Services (Thailand) Co Ltd (now called Kordia Solutions (Thailand) Co Ltd), a Thailand based company specialising in mobile telecommunications network implementation services within Thailand and neighbouring countries. The associate has a balance date of 31 December.

During the prior year, Kordia Solutions Pty Ltd advanced the associate AUD 200 and received a repayment of an advance from the associate of AUD nil. The loan is unsecured, interest bearing and repayable on demand. The loan has been written down to nil as the share of the losses exceeds the investment in the associate.

On 5 June 2013, the associate company was dissolved and liquidated.

## 13. INVESTMENTS IN SUBSIDIARIES

| | COMPANY | |
|---|---|---|
| In thousands of New Zealand dollars | **2014** | 2013 |
| ***Non-current*** | | |
| Shares | 72,511 | 72,511 |
| Advance to subsidiaries | 4,852 | 8,727 |
| Advance from subsidiary | (2,300) | - |
| | **75,063** | 81,238 |

**Significant subsidiaries:**

| ***Entity*** | ***Principal activity of entity*** | ***% holding*** | ***Country of Incorporation*** |
|---|---|---|---|
| Kordia Limited | Telecommunications and Transmission services | 100% | New Zealand |
| Kordia Pty Limited | Operations and maintenance services | 100% | Australia |
| Kordia Solutions Pty Limited | | 100% | Australia |

All subsidiaries have balance dates of 30 June.

During the prior year, the company sold its investment in Orcon Limited. Refer to note 9.

The advances to the subsidiaries are unsecured and interest bearing. They are repayable in line with the Group's syndicated revolving cash advance facility.

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 14. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

| GROUP | ASSETS | | LIABILITIES | | NET | |
|---|---|---|---|---|---|---|
| In thousands of New Zealand dollars | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| Property, plant and equipment | **-** | - | **(1,836)** | (1,114) | **(1,836)** | (1,114) |
| Intangible assets | **-** | - | **(614)** | (719) | **(614)** | (719) |
| Derivatives | **172** | 712 | **-** | - | **172** | 712 |
| Trade and other receivables | **-** | - | **(11,376)** | (11,724) | **(11,376)** | (11,724) |
| Inventories | **63** | 53 | **-** | - | **63** | 53 |
| Employee entitlements | **2,106** | 3,475 | **-** | - | **2,106** | 3,475 |
| Other payables | **4,323** | 8,552 | **-** | - | **4,323** | 8,552 |
| Provisions | **2,614** | 2,416 | **-** | - | **2,614** | 2,416 |
| Tax losses | **12,710** | 1,925 | **-** | - | **12,710** | 1,925 |
| Net tax assets/(liabilities) | **21,988** | 17,133 | **(13,826)** | (13,557) | **8,162** | 3,576 |

The deferred tax assets/(liabilities) are attributable to the following jurisdictions:

| GROUP | | |
|---|---|---|
| In thousands of New Zealand dollars | **2014** | 2013 |
| New Zealand | **(54)** | 834 |
| Australia | **8,216** | 2,742 |
| Net tax asset/(liability) | **8,162** | 3,576 |

All movements in deferred tax have been recognised in the Income Statement except for ($520) (2013: ($601)) relating to derivatives which have been recognised in the cash flow hedge reserve and $35 (2013: ($263)) that have been recognised in the foreign currency translation reserve. The Group is expecting, on the basis of historical profitability and future performance in the foreseeable future, to be able to utilise the net deferred tax asset in Australia.

The Company has a deferred tax asset of nil (2013: $84) in relation to other payables.

## 15. INVENTORIES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| In thousands of New Zealand dollars | **2014** | 2013 | **2014** | 2013 |
| Inventory | **1,704** | 1,525 | **-** | - |
| Provision for write down | **(227)** | (190) | **-** | - |
| Total inventories | **1,477** | 1,335 | **-** | - |

## 16. TRADE AND OTHER RECEIVABLES

| In thousands of New Zealand dollars | Notes | GROUP 2014 | GROUP 2013 | COMPANY 2014 | COMPANY 2013 |
|---|---|---|---|---|---|
| Trade receivables | | **40,896** | 48,582 | **-** | - |
| Provision for doubtful debts | | **(637)** | (1,322) | **-** | - |
| Trade prepayments | | **3,026** | 3,314 | **133** | 101 |
| Contract work in progress | | **39,936** | 32,259 | **-** | - |
| | | **83,221** | 82,833 | **133** | 101 |

Contract work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

At June 2014, contract work in progress was $39,936 (2013: $32,259). Deferred income, where billing exceeds recognised revenue, amounted to $14,912 (2013: $8,929).

Trade and other receivables are financial assets categorised as loans and receivables.

## 17. TRADE AND OTHER PAYABLES

| | Notes | GROUP 2014 | GROUP 2013 | COMPANY 2014 | COMPANY 2013 |
|---|---|---|---|---|---|
| *Current* | | | | | |
| Trade payables and accruals | | **34,536** | 28,560 | 99 | 573 |
| Deferred income | | **14,484** | 8,558 | - | - |
| Employee entitlements | | **6,694** | 9,598 | - | - |
| Finance lease liability | 25 | **-** | 33 | - | - |
| | | **55,714** | 46,749 | 99 | 573 |
| *Non-current* | | | | | |
| Trade payables and accruals | | **3,182** | 2,367 | - | - |
| Deferred income | | **428** | 371 | - | - |
| Employee entitlements | | **1,443** | 2,675 | - | - |
| | | **5,053** | 5,413 | - | - |

Payables are categorised as financial liabilities measured at amortised cost.

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

| 18. LOANS AND ADVANCES | GROUP | | COMPANY | |
|---|---|---|---|---|
| In thousands of New Zealand dollars | **2014** | 2013 | **2014** | 2013 |
| Bank loans (unsecured) | **64,967** | 56,907 | **1,650** | 7,252 |
| | | | | |
| **Loan facilities are repayable as follows:** | | | | |
| Within one year | **24,835** | 13,067 | **10,000** | - |
| One to two years | **40,132** | 25,000 | **(8,350)** | 25,000 |
| Two to four years | **-** | 18,840 | **-** | (17,748) |
| | **64,967** | 56,907 | **1,650** | 7,252 |
| | | | | |
| **Weighted average interest rates:** | | | | |
| Bank loans | **3.8%** | 3.8% | **4.5%** | 3.7% |
| Bank loans amended for derivatives, line fees and margin | **6.0%** | 7.2% | **4.5%** | 3.7% |

The loan facilities comprise a syndicated revolving cash advance facility, dated 21 March 2012, committed to a maximum amount of $92 million (2013: $102 million). The loans drawn and facility available is analysed as follows:

| | GROUP | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | | | | 2013 | | | |
| | **Balance Drawn** | | **Available Facility** | | Balance Drawn | | Available Facility | |
| In thousands of New Zealand dollars | **Current** | **Non-current** | **Current** | **Non-current** | Current | Non-current | Current | Non-current |
| Tranche A | **-** | **-** | **-** | **-** | - | - | - | - |
| Tranche B | **14,835** | **-** | **15,000** | **-** | 13,067 | - | 15,000 | - |
| Tranche C | **10,000** | **-** | **27,000** | **-** | - | 25,000 | - | 37,000 |
| Tranche D | **-** | **39,344** | **-** | **40,000** | - | 33,856 | - | 40,000 |
| Tranche E | **-** | **788** | **-** | **10,000** | - | (15,016) | - | 10,000 |
| | **24,835** | **40,132** | **42,000** | **50,000** | 13,067 | 43,840 | 15,000 | 87,000 |

The Company is party of the syndicated revolving cash advance facility. At June 2014 it had drawn $10m under Tranche C (2013: $25m) and had $8m on deposit under Tranche E (2013: $18m).

On 21 March 2012 a facility agreement was entered into between Kordia and the members of the banking syndicate. The facility was split into five tranches with different expiry and renewal dates, as well as fee and margin structures. Tranche A has subsequently been reduced to nil. Tranche E is a working capital facility which enables the Group to manage its cashflow on a daily basis. Funding levels are actively managed with tranches renewed or repaid as forecasts require. There is a right of set off between the tranches of the loan facility.

The Board is of the opinion, there is minimal liquidity risk because the split of funding between current and non-current is a conscious decision to be in line with the Group's treasury policy which stipulates progressive expiry/renewal dates for debt facilities. The facility has a portion of one year debt to take advantage of lower bank margins and commitment fees and this has been used in preference to the longer dated and more expensive tranches, hence the balance drawn as current in the table above.

The facility is supported by a negative pledge by the Company and its guaranteeing subsidiaries over their assets and undertakings. The negative pledge restricts the disposal of assets other than in the ordinary course of business or within certain materiality thresholds. Under the negative pledge, each guaranteeing subsidiary may be liable for indebtedness incurred by the Company and other guaranteeing subsidiaries.

The facility is subject to various covenants such as limitations on gearing, interest cover, minimum shareholders' funds and coverage (the proportion of the consolidated group that forms the guaranteeing group under the negative pledge). The Group was in compliance with all covenants for the 2013 and 2014 financial years.

| **Covenant** | | **30 June 2014** | 30 June 2013 |
|---|---|---|---|
| Gearing ratio | Net debt to EBITDA <3.85:1 (2013: <3.0:1) | **2.8:1** | 1.1:1 |
| Interest cover | EBITDA to net interest >3.0 times | **5.0:1** | 7.9:1 |
| Minimum shareholder funds | > $70 million | **$81m** | $93m |
| Coverage ratios | Total assets of guaranteeing group to total assets of the consolidated group >95% | **>95%** | >95% |
| | Total EBIT of guaranteeing group to total EBIT of the consolidated group >95% | **>95%** | >95% |

Loans and advances are categorised as financial liabilities measured at amortised cost.

As at 30 June 2014, the subsidiary, Kordia Limited, had an advance from its parent company. Refer to Note 29.

The APLNG coal seam gas project is a $30 billion project in Queensland. Kordia has been contracted to design and build the communication and data infrastructure for this project.

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 19. PROVISIONS

GROUP

| In thousands of New Zealand dollars | Warranty | Make good | Total |
|---|---|---|---|
| Balance at 1 July 2012 | 830 | 7,485 | 8,315 |
| Provisions made during the period | 830 | 328 | 1,158 |
| Provisions utilised during the period | (830) | (265) | (1,095) |
| Effect of movement in exchange rate | (57) | (192) | (249) |
| Unwind discount | - | 280 | 280 |
| **Balance at 30 June 2013** | **773** | **7,636** | **8,409** |
| | | | |
| Provisions made during the period | 751 | 2,358 | 3,109 |
| Provisions utilised during the period | (773) | (1,579) | (2,352) |
| Effect of movements in exchange rate | (74) | (224) | (298) |
| Unwind discount | - | 288 | 288 |
| **Balance at 30 June 2014** | **677** | **8,479** | **9,156** |
| | | | |
| Current | 773 | 2,462 | 3,235 |
| Non-current | - | 5,174 | 5,174 |
| **Balance at 30 June 2013** | **773** | **7,636** | **8,409** |
| | | | |
| Current | 677 | 2,146 | 2,823 |
| Non-current | - | 6,333 | 6,333 |
| **Balance at 30 June 2014** | **677** | **8,479** | **9,156** |

**Warranties**

The provisions for warranties relate mainly to design and build contracts. The provision is based on estimates made from historical data. The Group expects to utilise or reassess approximately 100% of the liability next year.

**Make good**

The make-good provision primarily relates to an obligation to return rented sites to their original condition at the end of the lease. The Group expects to utilise approximately 25% of the liability next year.

## 20. FINANCIAL INSTRUMENTS

Exposure to foreign currency, interest rate and credit risk arises in the ordinary course of the Group's business. Derivative financial instruments are entered into in order to reduce exposure to fluctuations in foreign exchange rates and interest rates.

### (A) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the Group's assets, liabilities and future earnings will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk as a result of transactions that are denominated in a currency other than the Group's functional currency. Transactions that typically expose the Group to foreign currency risk include import purchases and purchases of property, plant and equipment. The currencies that give rise to currency risk in which the Group deals are United States and Australian dollars, British Pounds and European Currency Units. The Group's policy is to manage these risks, as they arise, in accordance with prudent commercial practice.

The Group uses forward and spot foreign exchange contracts to manage these exposures. At balance date the Group has unhedged current assets of AUD963 ($1,044) and USD368 ($420) {2013: AUD1,151 ($1,369), USD245 ($315)} and current liabilities of AUD474 ($510) and USD125 ($143) {2013: AUD447 ($531), USD102 ($132)}. The Group does not have any other foreign currency monetary assets or liabilities that are not hedged for the lesser of the next twelve months and the period until settlement.

### (B) INTEREST RATE RISK

As outlined in Note 18, the Group has a syndicated revolving cash advance facility committed to a maximum amount of $92 million (2013: $102 million). At 30 June the drawdown on these facilities was $65 million (2013: $57 million), to fund on-going activities. $27 million of the facilities expire 30 September 2014, $15 million of the facilities expire on 31 December 2014, and $50m of the facilities expire on 30 September 2015.

The Group has an overdraft facility of $50 (2013: $50) which has a wholesale prime interest rate of 6% (2013: 6%). At 30 June 2014 the drawdown on this facility was nil (2013: nil).

It is Group policy to manage its interest rate exposure in accordance with prudent commercial practice. The Group enters into interest rate swaps to convert a portion of its interest rate exposure from floating to fixed. The swaps mature over the next 5 years.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| In thousands of New Zealand dollars | **2014** | 2013 | **2014** | 2013 |
| **Fixed rate instruments:** | | | | |
| Financial assets (finance leases) | **1,717** | 3,104 | **-** | - |
| Financial liabilities (finance leases) | **-** | 33 | **-** | - |
| ***Variable rate instruments:*** | | | | |
| Financial assets | **-** | - | **13,202** | 8,727 |
| Financial assets (loans receivable) | **9,950** | 10,000 | **-** | - |
| Financial liabilities (debt) | **64,967** | 56,907 | **12,300** | 7,252 |
| Financial liabilities (swaps at fair value) | **1,159** | 2,621 | **-** | - |

### (C) LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 20. FINANCIAL INSTRUMENTS (CONTINUED)

### (C) LIQUIDITY RISK (CONTINUED)

The maturity analysis below summarises the Group's exposure to liquidity risk on non-derivative financial liabilities.

| | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|
| In thousands of New Zealand dollars | Call | Within One Year | One to Two Years | Two to Five Years | More than Five Years | Contractual Cashflows | Carrying Amount |
| GROUP | | | | | | | |
| **Liabilities and equity** | | | | | | | |
| Payables | - | (55,714) | (5,053) | - | - | (60,767) | (60,767) |
| Loans and advances | - | (27,304) | (40,512) | - | - | (67,816) | (64,967) |
| Total liabilities and equity | - | (83,018) | (45,565) | - | - | (128,583) | (125,734) |

| | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|
| In thousands of New Zealand dollars | Call | Within One Year | One to Two Years | Two to Five Years | More than Five Years | Contractual Cashflows | Carrying Amount |
| COMPANY | | | | | | | |
| **Liabilities and equity** | | | | | | | |
| Payables | - | (99) | - | - | - | (99) | (99) |
| Loans and advances | - | (10,074) | 8,444 | - | - | (1,630) | (1,650) |
| Total liabilities and equity | - | (10,173) | 8,444 | - | - | (1,729) | (1,749) |

| | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|
| In thousands of New Zealand dollars | Call | Within One Year | One to Two Years | Two to Five Years | More than Five Years | Contractual Cashflows | Carrying Amount |
| GROUP | | | | | | | |
| **Liabilities and equity** | | | | | | | |
| Payables | - | (46,716) | (5,413) | - | - | (52,129) | (52,129) |
| Finance lease liability | - | (35) | - | - | - | (35) | (33) |
| Loans and advances | - | (15,229) | (25,953) | (19,019) | - | (60,201) | (56,907) |
| Total liabilities and equity | - | (61,980) | (31,366) | (19,019) | - | (112,365) | (109,069) |

| | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|
| In thousands of New Zealand dollars | Call | Within One Year | One to Two Years | Two to Five Years | More than Five Years | Contractual Cashflows | Carrying Amount |
| COMPANY | | | | | | | |
| **Liabilities and equity** | | | | | | | |
| Payables | - | (573) | - | - | - | (573) | (573) |
| Loans and advances | - | (268) | (24,575) | 17,912 | - | (6,931) | (7,252) |
| Total liabilities and equity | - | (841) | (24,575) | 17,912 | - | (7,504) | (7,825) |

The following tables indicate the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| In thousands of New Zealand dollars | Carrying amount | Within One Year | One to Two Years | Two to Five Years | More than Five Years | Contractual Cashflows |
| GROUP | | | | | | |
| **Interest rate swaps:** | | | | | | |
| Liabilities | **(1,153)** | **(467)** | **(381)** | **(415)** | **-** | **(1,263)** |
| **Forward exchange contracts:** | | | | | | |
| Liabilities | **(6)** | **(6)** | **-** | **-** | **-** | **(6)** |
| | **(1,159)** | **(473)** | **(381)** | **(415)** | **-** | **(1,269)** |

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| In thousands of New Zealand dollars | Carrying amount | Within One Year | One to Two Years | Two to Five Years | More than Five Years | Contractual Cashflows |
| GROUP | | | | | | |
| **Interest rate swaps:** | | | | | | |
| Liabilities | (2,621) | (1,334) | (817) | (1,010) | - | (3,161) |
| **Forward exchange contracts:** | | | | | | |
| Assets | 22 | 11 | - | - | - | 11 |
| | (2,599) | (1,323) | (817) | (1,010) | - | (3,150) |

(D) SENSITIVITY ANALYSIS

At 30 June 2014, it is estimated that a general increase of one percentage point in interest rates would increase the Group's equity by approximately $126 (2013: $662) and decrease net profit after tax by $666 (2013: $86). At 30 June 2014, it is estimated that a general decrease of one percentage point in interest rates would decrease the Group's equity by approximately $140 (2013: $692) and increase net profit after tax by $710 (2013: $86). Interest rate swaps have been included in this calculation.

At 30 June 2014, it is estimated that a general increase of one percentage point in the value of the New Zealand dollar against other foreign currencies would decrease the Group's profit before income tax by approximately $134 (2013: $7). At 30 June 2014, it is estimated that a general decrease of one percentage point in the value of the New Zealand dollar against other foreign currencies would increase the Group's profit before income tax by approximately $134 (2013: $7). Forward exchange contracts have been included in this calculation.

The Group has specific forward exchange contracts representing specific hedges against exposures for capital expenditure and inventory purchases. At balance date, these hedges would have given rise to a realised loss of $6 (2013: $22 gain) had the Group closed the contracts out. None (2013: nil) of these losses were included in the Income Statement.

CONTINUED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 20. FINANCIAL INSTRUMENTS (CONTINUED)

### (E) CREDIT RISK

In the normal course of its business the Group incurs credit risk with amounts deposited with financial institutions and also the extension of credit to trade debtors. The major concentration of credit risk within trade debtors is the extension of credit to customers for transmission services and contracting services to major telecommunications companies in Australia. The carrying amounts of financial assets represent the Group's maximum exposure to credit risk.

Management has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The group does not normally require collateral in respect of financial assets due to the quality of the financial institutions with which it deals.

Following the sale of Orcon Limited (refer to note 9), the Group has a loan receivable from the purchaser. This is subject to credit risk.

The Group does not have any other significant concentrations of credit risk.

The status of trade receivables at the reporting date is as follows:

| GROUP<br>In thousands of New Zealand dollars | 2014<br>Gross receivable | 2014<br>Impairment | 2013<br>Gross receivable | 2013<br>Impairment |
|---|---|---|---|---|
| Not past due | **23,717** | **-** | 22,766 | (50) |
| Past due 0-30 days | **10,800** | **(77)** | 15,571 | (760) |
| Past due 31-120 days | **5,451** | **(331)** | 7,526 | (125) |
| Past due 121-365 days | **891** | **(204)** | 1,908 | (227) |
| Past due more than 1 year | **37** | **(25)** | 811 | (160) |
| Total | **40,896** | **(637)** | 48,582 | (1,322) |

Trade receivables are reviewed for impairment on a collective basis based on the number of days overdue and taking into account historical experience. Significant trade receivables are reviewed on an individual basis. No individually significant receivables were considered impaired at balance date.

## 21. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

*Fair value measurement:* Financial instruments measured and recognised at fair value are derivitives that are designated in hedge relationships. The fair value of these derivatives are level 2 valuations based on accepted valuation methodologies. Interest rate derivatives are calculated by discounting the future principal and interest cashflows at current market interest rates that are available for similar financial instruments. Forward exchange fair value is calculated using quoted forward exchange rates and discounted using yield curves derived from quoted interest rates matching matuirity of the contract.

*Fair value disclosures:* The fair values of borrowings used for disclosures are measured by discounting future principal and interest cashflows at the current market interest rate plus an estimated credit margin that are available for similar financial instruments.

The estimated fair value of the Group's financial assets and liabilities are noted below. The purpose of reporting the carrying and fair values is to show the extent to which the Group is carrying an exposure from its foreign exchange and interest rate hedging activities. The table below identifies whether the Group is in a notional gain or loss position as if the Group had closed out the instruments at balance date.

The carrying values of short term financial assets and liabilities are equivalent to their fair values. Short term financial assets include cash, loans to associate, trade and other receivables. Short term financial liabilities include trade and other payables and finance leases. Advances to subsidiaries carrying values are equivalent to their fair values.

| In thousands of New Zealand dollars | 2014 GROUP Carrying value | 2014 GROUP Fair value | 2014 COMPANY Carrying value | 2014 COMPANY Fair value | 2013 GROUP Carrying value | 2013 GROUP Fair value | 2013 COMPANY Carrying value | 2013 COMPANY Fair value |
|---|---|---|---|---|---|---|---|---|
| Loans and advances payable[1] | **64,967** | **64,967** | **10,000** | **10,000** | 56,907 | 56,907 | 7,252 | 7,252 |
| Financial derivatives liability[2] | **1,159** | **1,159** | **-** | **-** | 2,621 | 2,621 | - | - |
| Loans receivable[1] | **9,950** | **9,950** | **8,350** | **8,350** | 10,000 | 10,000 | - | - |

*Classification:*
*(1) Amortised cost*
*(2) Fair value hedge*

Financial derivatives includes interest rate swaps and forward foreign exchange contracts.

The methods used to estimate the fair values for interest rate swaps, forward foreign exchange contracts and loans and advances (> 1 year) are discussed in note 2(p).

As the fair value hedge derivatives are all in hedged relationships, apart from five swaps, the fair value change may be taken to the cash flow hedge reserve. The fair value change of the swap that is not in a hedge relationship is taken to the Income Statement. Only the effective portion of a cash flow designated hedging relationship that meets NZIAS 39's documentation and effectiveness requirements may be taken to the cash flow hedge reserve. The fair value change of swaps that are in an ineffective cash flow hedge relationship or a fair value hedge relationship is taken to the Income Statement.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| In thousands of New Zealand dollars | GROUP Level 1 | GROUP Level 2 | GROUP Level 3 | GROUP Total |
|---|---|---|---|---|
| **30 June 2014** | | | | |
| Derivative financial assets | **-** | **(1,159)** | **-** | **(1,159)** |
| | **-** | **(1,159)** | **-** | **(1,159)** |
| **30 June 2013** | | | | |
| Derivative financial assets | - | 22 | - | 22 |
| Derivative financial liabilities | - | (2,621) | - | (2,621) |
| | - | (2,599) | - | (2,599) |

There have been no transfers between levels during the year ended 30 June 2014 (2013: no transfers).

As at 30 June 2014, no financial assets or liabilities have been offset in the Statement of Financial Position. Given all derivatives are in a liability position, Kordia is not entitled to set off any of its derivative financial instruments, although they are covered by an ISDA/Master netting agreement.

CONTINUED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 22. LOANS RECEIVABLE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| In thousands of New Zealand dollars | **2014** | 2013 | **2014** | 2013 |
| Loans receivable | **9,950** | 10,000 | **-** | - |
| Loans receivable are as follows: | | | | |
| Within one year | **9,950** | 2,500 | **-** | - |
| One to two years | **-** | 2,500 | **-** | - |
| Two to four years | **-** | 5,000 | **-** | - |
| | **9,950** | 10,000 | **-** | - |

The loans bear interest at current market rates. Interest is payable quarterly. The loan was fully repaid on 2 July 2014 (see note 30).

## 23. RECONCILIATION OF NET SURPLUS FOR THE YEAR WITH CASH FLOWS FROM OPERATING ACTIVITIES

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| In thousands of New Zealand dollars | Notes | **2014** | 2013 | **2014** | 2013 |
| Net surplus/ (deficit) as per income statement | | **(8,641)** | 3,669 | **2,755** | 99 |
| **Add/(deduct) non-cash items:** | | | | | |
| Depreciation | 10 | **18,937** | 27,003 | **-** | - |
| Amortisation of licences and intangibles | 11 | **2,699** | 5,337 | **-** | - |
| Unrealised foreign currency losses/(gains) | | **(3,796)** | (2,576) | **-** | - |
| Hedging losses | | **475** | 105 | **-** | - |
| Change in deferred tax/(future income tax benefit) | | **(5,572)** | 2,424 | **84** | (84) |
| Movement in provision for doubtful debts | | **(685)** | 815 | **-** | - |
| Movement in other provisions | | **(1,600)** | (262) | **-** | - |
| Unwind/change in make good | | **288** | 280 | **-** | - |
| Impairment of advance to associate | 12 | **-** | 35 | **-** | - |
| | | **2,105** | 36,830 | **2,839** | 15 |
| **Items classified as investing activities:** | | | | | |
| Loss/(gain) on disposal of property, plant and equipment – continued and discontinued operations | | **521** | (7,065) | **-** | - |
| Loss/(gain) on disposal of intangibles – continued and discontinued operations | | **99** | (1,456) | **-** | - |
| Loss on the sale of discontinued operations | | **-** | 4,503 | **-** | - |
| Working capital on disposal | 9 | **-** | 9,212 | **-** | - |
| Tax balance transferred to/(from) Kordia Limited | | **-** | - | **(1,101)** | 2,061 |
| Tax balance transferred to/(from) Orcon Limited | | **-** | - | **-** | (1,425) |
| Tax balance transferred to/(from) Kordia New Zealand Ltd | | **-** | - | **(62)** | - |
| | | **620** | 5,194 | **(1,163)** | 636 |
| **Movements in working capital:** | | | | | |
| Receivables and prepayments | | **627** | (11,910) | **1,062** | (1,043) |
| Inventories | | **(142)** | 938 | **-** | - |
| Payables | | **7,735** | (29,956) | **(474)** | 562 |
| | | **8,220** | (40,928) | **588** | (481) |
| Net cash flows from/(used in) operating activities | | **10,945** | 1,096 | **2,264** | 170 |

## 24. LEASE COMMITMENTS

| In thousands of New Zealand dollars | GROUP 2014 | GROUP 2013 | COMPANY 2014 | COMPANY 2013 |
|---|---|---|---|---|
| Commitments under non-cancellable operating leases are: | | | | |
| Within one year | **15,188** | 17,733 | **-** | - |
| One to five years | **36,116** | 42,743 | **-** | - |
| Later than five years | **19,833** | 29,438 | **-** | - |
| | **71,067** | 89,914 | **-** | - |

The group leases property, plant and equipment under operating leases. The leases typically run for a period of between 1 and 5 years, with an option to renew the lease after that date, with the exception of a lease of satellite transponder capacity to April 2022. Certain lease agreements provide for an increase in payments every 2 to 3 years to reflect market rentals.

## 25. CAPITAL COMMITMENTS

| | GROUP 2014 | GROUP 2013 | COMPANY 2014 | COMPANY 2013 |
|---|---|---|---|---|
| Capital commitments (including intangible assets) are: | | | | |
| Within one year | **2,274** | 3,715 | **-** | - |

## 26. FINANCE LEASES

Finance lease liabilities are payable as follows:

| In thousands of New Zealand dollars | **2014** Minimum lease payments | **2014** Interest | **2014** Present value of minimum lease payments | 2013 Minimum lease payments | 2013 Interest | 2013 Present value of minimum lease payments |
|---|---|---|---|---|---|---|
| GROUP | | | | | | |
| Less than one year | **-** | **-** | **-** | 35 | 2 | 33 |
| Between one and five years | **-** | **-** | **-** | - | - | - |
| | **-** | **-** | **-** | 35 | 2 | 33 |

The future lease liabilities bear interest at 0% (2013: 12.2%).

Finance leases mainly pertain to computer equipment. The leases are for a 36 month period after which the equipment is returned or retained. Certain leases provide for additional payments that are contingent upon changes in the local price index.

Finance lease receivables are as follows:

| In thousands of New Zealand dollars | **2014** Minimum lease payments | **2014** Interest | **2014** Present value of minimum lease payments | 2013 Minimum lease payments | 2013 Interest | 2013 Present value of minimum lease payments |
|---|---|---|---|---|---|---|
| GROUP | | | | | | |
| Less than one year | **1,800** | **147** | **1,653** | 1,800 | 412 | 1,388 |
| Between one and five years | **65** | **1** | **64** | 1,865 | 149 | 1,716 |
| | **1,865** | **148** | **1,717** | 3,665 | 561 | 3,104 |

The future lease receivables bear interest at 15% (2013: 15%).

Finance leases mainly pertain to customer premises equipment. The leases are for a 28 month period.

CONTINUED

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 27. CAPITAL MANAGEMENT

The Group's capital includes share capital, reserves and retained earnings. The Group's policy is to maintain a strong capital base so as to maintain creditors and market confidence and to sustain future development of the business. The Group is subject to capital requirements from its lenders which requires the Group to have minimum shareholder funds of $70m (2013: $70m) and at balance date the group was in compliance with this covenant. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

## 28. CONTINGENCIES

As part of its contractual obligations with clients, Kordia Limited has an undertaking to provide services at a certain level and should this not be achieved, Kordia Limited may be liable for contract penalties. It is not possible to quantify what these may be until an event has occurred. The Directors do not expect any liabilities to occur as a result of these contractual obligations.

The Company makes advances to its subsidiary companies. The Company's loan facility comprises a syndicated revolving cash advance facility committed to a maximum amount of $92m (2013: $102m). The facility is supported by a negative pledge by the Company and its guaranteeing subsidiaries over their assets and undertakings. Refer to Note 18. Under the negative pledge, each guaranteeing subsidiary may be liable for indebtedness incurred by the Company and other guaranteeing subsidiaries. The Company considers the negative pledge in the individual subsidiaries financial statements to be an insurance contract. Such contracts and cross guarantees are treated as a contingent liability and only recognised as a liability if a payment becomes probable.

## 29. RELATED PARTY TRANSACTIONS

The Crown is a 100 percent shareholder in Kordia Group Limited. All transactions with other Crown Entities, State Enterprises and Government Departments other than entities included in these consolidated financial statements are at arm's length and comprised:

| | GROUP | | | |
|---|---|---|---|---|
| **Crown Entities, State Enterprises and Government Departments** | **Transaction value year ended 30 June** | | **Balance outstanding at 30 June** | |
| In thousands of New Zealand dollars | **2014** | 2013 | **2014** | 2013 |
| Revenue from transmission services | **22,967** | 31,369 | **1,190** | 1,233 |
| Direct costs and overheads | **2,203** | 1,700 | **4** | 25 |

All transactions with Kordia Group and its subsidiary companies are priced on an arm's length basis and are settled in cash within six months of the reporting date. None of the balances are secured.

| | COMPANY | | | |
|---|---|---|---|---|
| | **Transaction value year ended 30 June** | | **Balance outstanding at 30 June** | |
| In thousands of New Zealand dollars | **2014** | 2013 | **2014** | 2013 |
| Advance to subsidiary – Kordia Limited | **-** | - | **4,853** | 8,727 |
| Advance from subsidiary – Kordia New Zealand Limited | **-** | - | **(2,301)** | - |
| Interest on advance – Kordia Limited | **2,587** | 3,843 | **-** | - |
| Transfer of tax balances – Kordia Limited | **(1,101)** | 2,061 | **-** | - |
| Transfer of tax balances – Kordia New Zealand Limited | **(62)** | - | **-** | - |
| Transfer of tax balances – Orcon Limited | **-** | (1,425) | **-** | - |
| Dividend – Kordia New Zealand Limited | **4,000** | 2,000 | **-** | - |
| | **5,424** | 6,479 | **2,552** | 8,727 |

In addition to the above related party transactions, the Group have transacted with its owner, the Crown. Refer to note 7 (income tax).

**Transactions with Key Management Personnel (Directors and Key Executives)**

In addition to their salaries, the Group also provides non-cash benefits (superannuation and long service leave) to executive officers. Key management personnel compensation comprised:

| | GROUP | |
|---|---|---|
| In thousands of New Zealand dollars | **2014** | 2013 |
| Short term employee benefits | **2,104** | 3,485 |
| Defined contribution plan | **51** | 35 |
| Directors' fees | **261** | 279 |
| | **2,416** | 3,799 |

Unpaid amounts relating to the above are $286 (2013: $438).

## 30. EVENTS AFTER THE BALANCE SHEET DATE

On 2 July 2014, the loan receivable from the purchasers of Orcon Limited was fully repaid (see note 22) as part of the sale of the business to another third party.

On 28 August 2014 the board of directors approved no final dividend for the year ended 30 June 2014.

There are no other events subsequent to balance date which have a significant effect on the financial statements.

# REPORT OF THE AUDITOR-GENERAL

FOR THE YEAR ENDED 30 JUNE 2014

TO THE READERS OF KORDIA GROUP LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

The Auditor-General is the auditor of Kordia Group Limited (the company) and group. The Auditor-General has appointed me, Mark Crawford, using the staff and resources of KPMG, to carry out the audit of the financial statements of the company and group, on her behalf.

We have audited the financial statements of the company and group on pages 15 to 53, that comprise the statement of financial position as at 30 June 2014, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

## OPINION

### Financial statements

In our opinion the financial statements of the company and group on pages 15 to 53:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the company and group's:
  - financial position as at 30 June 2014; and
  - financial performance and cash flows for the year ended on that date.

### Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 28 August 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

### Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements that give a true and fair view of the matters to which they relate.

We consider internal control 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 and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

**Responsibilities of the Board of Directors**

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the company financial position, financial performance and cash flows.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

**Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

**Independence**

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit and other audited related services, we have no relationship with or interests in the company.

M.S. Crawford

Mark Crawford
KPMG
On behalf of the Auditor-General
Auckland, New Zealand

# STATEMENT OF PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2014

| | Statement of Corporate Intent - Target 2014 | 2014 Actual | 2013 Actual |
|---|---|---|---|
| **Financial Performance Targets (Consolidated)** | | | |
| Return on equity<br>(net profit after tax as a percentage of average shareholders' equity) | 1.9% | **(9.9%)** | 4.0% |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | $33.0m | **$12.9m** | $49.7m |
| Earnings before interest and taxes (EBIT) | $7.1m | **($8.7m)** | $12.9m |
| Group net profit after tax (NPAT) | $1.7m | **($8.6m)** | $3.7m |
| Shareholders' equity | $87m | **$81m** | $93m |
| Capital structure (shareholders' equity to total assets) | 45% | **38%** | 43% |
| Commercial value (enterprise value) | $168m | **$175m** | $185m |
| Commercial value of the Crown's investment (enterprise value - net debt) | $126m | **$115m** | $132m |
| Total shareholder return<br>((commercial value end - commercial value beg + dividends)/ commercial value beg) | (2%) | **(10%)** | (7%) |
| Dividend yield (dividends/avg commercial value) | 3% | **3%** | 1% |
| Dividend payout<br>(dividend paid/(net cashflow from operating activities – depreciation and amortisation expense)) | 40% | **37%** | 6% |
| ROE adjusted for IFRS fair value movements and asset revaluations<br>(NPAT adjusted for IFRS fair value movements (net of tax)/average share capital + retained earnings) | 1.8% | **(9.1%)** | 4.0% |
| Return on capital employed<br>(EBIT adjusted for IFRS fair value movements/average capital employed) | 5% | **(5%)** | 8% |
| Operating margin (EBITDAF/Revenue) | 11% | **4%** | 16% |
| Gearing ratio<br>(net debt/(net debt + shareholders' funds)) | 33% | **43%** | 36% |
| Interest cover (EBITDA/ net interest) | 7.3 | **5.0** | 7.9 |
| Solvency (current assets/current liabilities) | 1.2 | **1.2** | 1.4 |
| **Revenue Performance Targets (Consolidated)** | | | |
| Kordia Networks | $67.5m | **$73.7m** | $76.3m |
| Kordia Solutions | $249.7m | **$232.2m** | $236.0m |
| Corporate elimination | ($5.4m) | **($4.5m)** | ($3.0m) |
| Total revenue | $311.8m | **$301.4m** | $309.3m |
| Revenue per FTE | $322k | **$426k** | $320k |

| | Statement of Corporate Intent - Target 2014 | **2014 Actual** | 2013 Actual |
|---|---|---|---|
| **Non - Financial Performance Targets (Consolidated)** | | | |
| Customer satisfaction [a] | 80% | **Refer note** | Refer note |
| Staff engagement index [b] | 73% | **70%** | Refer note |
| Group lost time injury frequency rate (LTIFR) [c] | <5 | **4.02** | 5 |
| NZ Digital Television Transmission (DTT) network availability (main metro sites measured annually) [d] | 99.9% | **99.9%** | 99.9% |
| Number of significant RMA non-compliances [e] | Nil | **Nil** | Nil |

**Notes**

(a) Customer satisfaction is based on an annual survey of Kordia Limited customers. The measure for customer satisfaction is 'intention to stay'. During the 2013 and 2014 financial years no survey was conducted and no results have been presented.

(b) The staff engagement index measures the engagement and attitude of our employees. Staff engagement is measured as we consider that the more engaged our staff the better the organisational results. During the 2013 financial year no survey was conducted and no results have been presented.

(c) The Lost Time Injury Frequency Rate (LTIFR) is an industry measure of the number of Lost Time Injuries over a period of 12 months per million hours worked. A Lost Time Injury (LTI) is a work-related injury or illness resulting in an employee or contractor being unable to attend work for a full working day after the day of the injury.

(d) The measure of the availability of the DTT network is a measure of the reliability of the DTT network and the performance against customer service level agreements.

(e) A measure of Kordia's compliance with its Resource Management Act consents. Significant means those incidents which are more than minor and for which it is appropriate to notify the consent authority (over and above standard notification of minor consent non compliances).

# ADDITIONAL INFORMATION

## PRINCIPAL ACTIVITIES

The Group's principal activiy during the year was telecommunications services (transmission, linking of telecommunications and broadcasting signals as well as design, build, operations and maintenance of transmission networks).

## GENERAL DISCLOSURES

The following disclosure of interests were made to the Board.

## DIRECTORS' DISCLOSURES

General disclosures of interest given by the Company pursuant to Section 211 of the Companies Act 1993 as at 30 June 2014 are as follows. Individual shareholdings that are not considered material, and are not relevant to the operations of the Group have not been included.

| | |
|---|---|
| L M WITTEN | |
| Kordia Limited | Director |
| Kordia Pty Limited | Director |
| Kordia Solutions Pty Limited | Director |
| Kordia New Zealand Limited | Director |
| OIL 2008 Limited (formerly) Optikor International Limited | Director |
| Star Now Limited | Chair |
| Simply Security Limited | Director/Shareholder |
| Open Cloud Limited | Trustee/Shareholder |
| Wellington Venues Limited | Director |
| J E QUIRK | |
| Kordia Limited | Director |
| Kordia New Zealand Limited | Director |
| OIL 2008 Limited (formerly) Optikor International Limited | Director |
| SMX Limited | Chair/Shareholder |
| Wherescape Software Limited | Chair |
| FrameCAD Holdings Limited | Director |
| Service Plus Limited | Director |
| Quirk International Limited | Director/Shareholder |
| Private Flight Global Limited | Director |
| Howard & Company Ventures Limited | Director/Shareholders |
| The Simpl Group Limited | Advisor |
| Clearpoint Limited | Advisor |
| Code Blue Limited | Advisor |
| B D HEMI | |
| Governance Online Ltd | Director/Shareholder |
| R H FARRANT | |
| BDO Wellington Limited | Director/Shareholder |
| Fulton Hogan Group Limited | Director |
| Wellington Museum Trust | Trustee |
| G F SUMNER | |
| Advanced Braking Technology Limited | Managing Director |

## USE OF COMPANY INFORMATION

No notices have been given to the Board under Section 145 of the Companies Act 1993 with regard to the use of company information received by Directors in their capacity as a Director.

## DIRECTORS' INDEMNITY INSURANCE

The Company has arranged directors and officers liability insurance cover with QBE Insurance (International) Limited for $20 million. The 2014 premium (net of GST) was $20,771 (2103: $20,475). This cover is effected for all directors and employees in the Group in respect of directors and officers liability and is in accordance with the Companies Act 1993 and the Company's constitution.

## DIRECTORS' REMUNERATION AND BENEFITS

The following persons held the office of director of the Company during the year and received the total amount of remuneration and other benefits shown.

| **DIRECTOR** | | **COMPANY** $ |
|---|---|---|
| D J Clarke (Chair) | Resigned 31 October 2013 | 24,000 |
| L M Witten (Chair) | | 63,000 |
| J E Quirk | | 42,000 |
| A N Briscoe | Resigned 30 April 2014 | 30,000 |
| J H Allen | | 36,000 |
| B D Hemi | Appointed 1 November 2013 | 24,000 |
| R H Farrant | Appointed 1 November 2013 | 24,000 |
| D R Birch | Resigned 31 October 2013 | 12,000 |
| G F Sumner | Appointed 1 May 2014 | 6,000 |
| | | 261,000 |

CONTINUED

# ADDITIONAL INFORMATION

## EMPLOYEE REMUNERATION

Employee remuneration includes salary, bonuses, payments for projects, motor vehicles, employer's contributions to superannuation and health schemes, severance and other sundry benefits received in their capacity as employees during the year ended 30 June 2014.

| | CONSOLIDATED | |
|---|---|---|
| NZD | Current Employees | Former Employees |
| $100,000 to $110,000 | 74 | 21 |
| $110,001 to $120,000 | 65 | 17 |
| $120,001 to $130,000 | 54 | 10 |
| $130,001 to $140,000 | 19 | 9 |
| $140,001 to $150,000 | 35 | 8 |
| $150,001 to $160,000 | 23 | 5 |
| $160,001 to $170,000 | 33 | 10 |
| $170,001 to $180,000 | 13 | 3 |
| $180,001 to $190,000 | 15 | 5 |
| $190,001 to $200,000 | 6 | - |
| $200,001 to $210,000 | 8 | 5 |
| $210,001 to $220,000 | 13 | 2 |
| $220,001 to $230,000 | 4 | 4 |
| $230,001 to $240,000 | 6 | 1 |
| $240,001 to $250,000 | 4 | 3 |
| $250,001 to $260,000 | 3 | 2 |
| $260,001 to $270,000 | 4 | 3 |
| $270,001 to $280,000 | 1 | 2 |
| $280,001 to $290,000 | 3 | 1 |
| $300,001 to $310,000 | 4 | 1 |
| $310,001 to $320,000 | - | 2 |
| $330,001 to $340,000 | - | 1 |
| $340,001 to $350,000 | - | 4 |
| $360,001 to $370,000 | 2 | 1 |
| $370,001 to $380,000 | 2 | - |
| $400,001 to $410,000 | - | 1 |
| $410,001 to $420,000 | - | 1 |
| $420,001 to $430,000 | - | 1 |
| $470,001 to $480,000 | - | 1 |
| $490,001 to $500,000 | 1 | - |
| $500,001 to $510,000 | - | 2 |
| $510,001 to $520,000 | 1 | - |
| $540,001 to $550,000 | - | 1 |
| $580,001 to $590,000 | - | 1 |
| $620,001 to $630,000 | - | 1 |
| $640,001 to $650,000 | - | 1 |
| $960,001 to $970,000 | - | 1 |
| | 393 | 131 |

KORDIAGROUP.COM


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