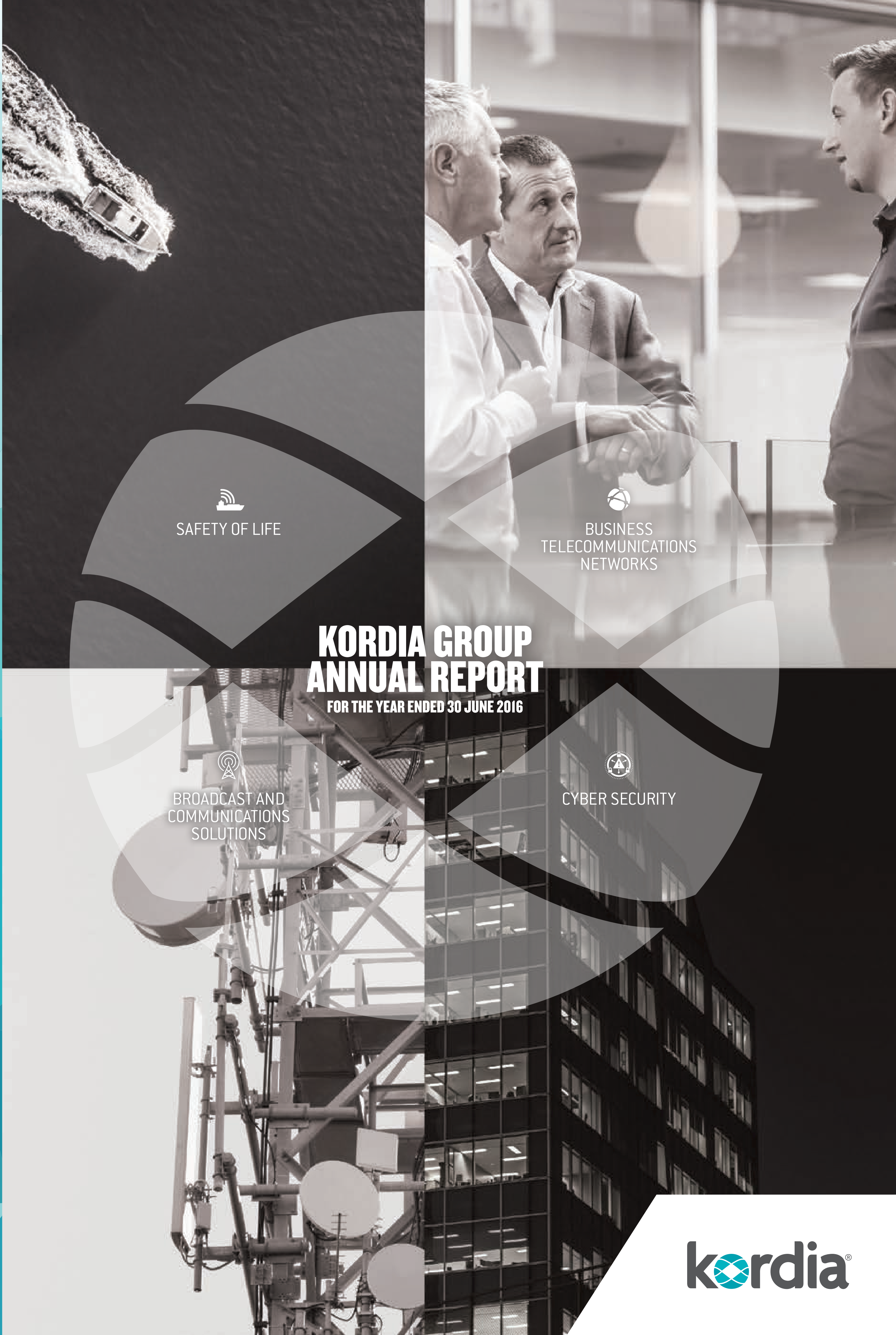

KORDIA GROUP ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

kordia®


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CHAIR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2016

KORDIA GROUP DELIVERS BUMPER $12.3M PROFIT

Specialist telecommunications, broadcast and cyber security business Kordia Group has reported a 2016 net profit after tax of $12.3m, exceeding its target by $5.6m (85 per cent) and achieving a 33 per cent increase over the preceding year's $9.2m.

Kordia has also delivered special and interim dividends during the past year with a final dividend of $7.5m, bringing the total for the year to more than $13m.

Return on equity is 13 per cent (up 2 per cent), and the company ends the financial year with no debt and $6.8m in cash.

Group Revenue for the year was $240.7m, down 3 per cent. In Australia, the focus was on profitable revenue, which was 8 per cent lower than the previous year. This was partially offset by revenue in New Zealand, which grew by 3 per cent.

Despite overall revenues being down by 3 per cent, substantial growth in profitability was realised through a strong result from the New Zealand operations and the completion of large scale projects in Australia.

Kordia's strategy has been focused on profitability and we've maximised the profitability of our Australian contracting, engineering and consulting businesses, completing substantial design work on infrastructure projects. Our New Zealand business has also delivered a strong year, with good growth in our cyber security, telecommunications and media businesses.

Group net cash is $6.8m at the end of June and has improved significantly this financial year. The favourable variance is attributable to improvements in working capital, in particular Australia receiving final payments from key projects.

Kordia New Zealand is well positioned with a strong balance sheet and a diversified business. We have made a significant investment during the year with the purchase of Aura InfoSec, New Zealand's leading cyber security firm, and we have the flexibility to both return money to the shareholder and invest in strategic initiatives.

In the competitive telecommunications space; where Kordia differentiates itself through a focus on delivering mission-critical networks for business customers, the company is growing well. Our telecommunications business has seen positive growth in service offerings and customers. It's the diversity of our services offering – which spans radio, IP networks, infrastructure, design and engineering, consulting, and cyber security – that provides resilience and positions the company well for the future.

DIVIDEND

The Group paid a special dividend of $5m in October 2015 given the strong result and the strength of its balance sheet. A further interim dividend of $1m was paid on 31 March on the basis that the Group was tracking ahead of targets for the year.

Given the full year result the Group is forecasting a final dividend of $7.5m to be paid in September.

SUMMARY

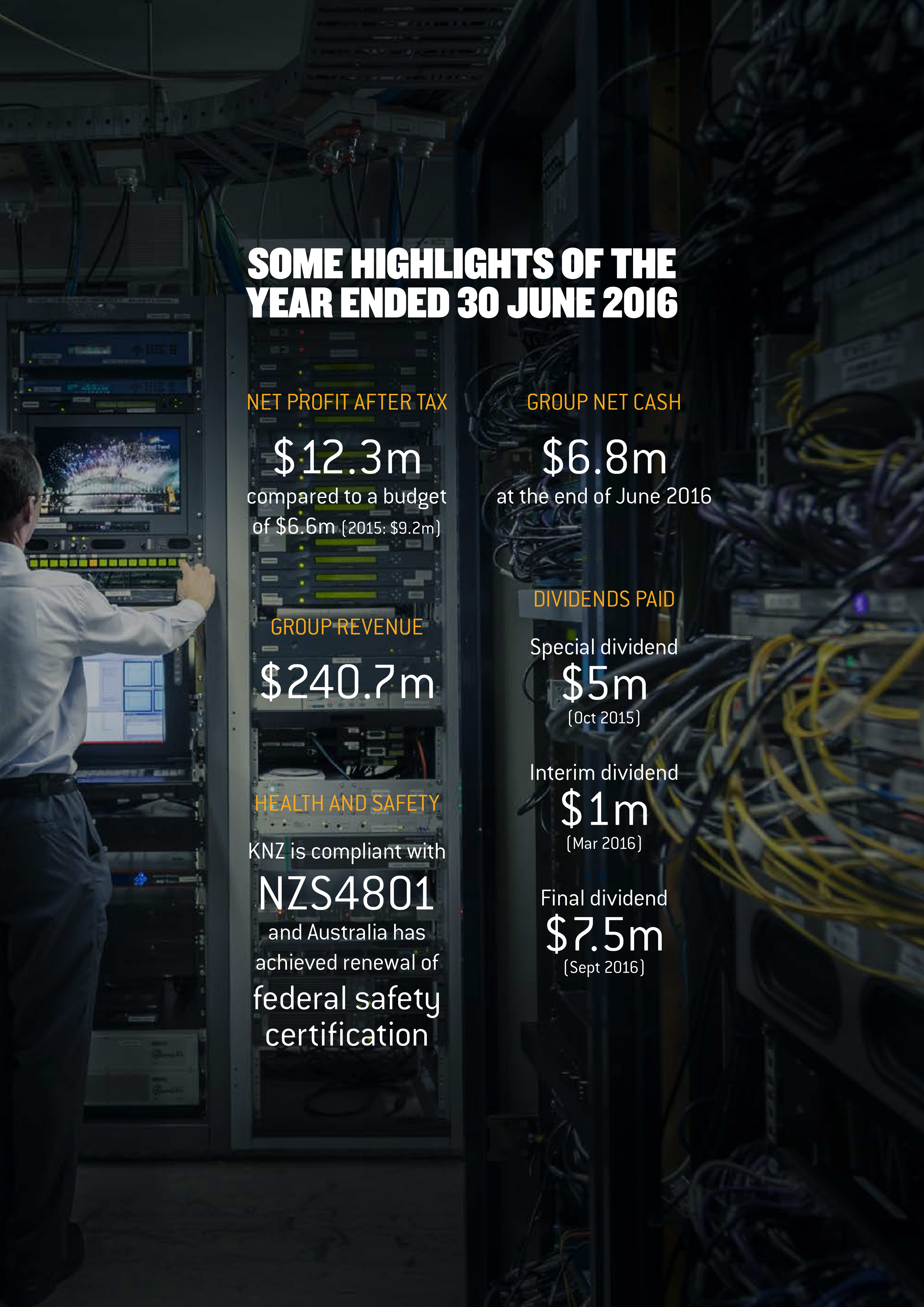
FY2016 featured a number of large projects – all of which have reflected positively on Kordia Group's results for the year.

While the project pipeline for FY2017 looks positive, the conclusion of several large projects in the Australian business unit means that overall the Group is expecting the coming year to be slightly leaner.

That being said, Kordia Group is a business that prides itself on its ability to adapt and evolve to meet the growing needs of its customers and the market. Our balance sheet, proven track record and broad service offering puts Kordia in a strong position to rise to any challenges the coming year presents.

Lorraine Witten

CHAIR OF THE BOARD



SOME HIGHLIGHTS OF THE YEAR ENDED 30 JUNE 2016

NET PROFIT AFTER TAX

$12.3m

compared to a budget of $6.6m (2015: $9.2m)

GROUP REVENUE

$240.7m

HEALTH AND SAFETY

KNZ is compliant with

NZS4801

and Australia has achieved renewal of

federal safety certification

GROUP NET CASH

$6.8m

at the end of June 2016

DIVIDENDS PAID

Special dividend

$5m

(Oct 2015)

Interim dividend

$1m

(Mar 2016)

Final dividend

$7.5m

(Sept 2016)

CEO'S REPORT

FOR THE YEAR ENDED 30 JUNE 2016

THE YEAR IN REVIEW

In any business growth is key to success. In the case of Kordia Group – which provides mission critical technology spanning maritime, telecommunications and broadcast – the ability to adapt in the face of an ever-changing technology market is crucial.

2016 saw Kordia do exactly that. While all areas of the business contributed to its overall success, the purchase of leading New Zealand cyber security business – Aura InfoSec – in November 2015 marked a significant step-change for the business and its customers.

Combine this with the completion of several large-scale projects, further growth in our Australian maritime business and significant upgrades to our core infrastructure and you have a strong base for a successful year; and a good result for the Shareholder.

MOVE INTO CYBER SECURITY

The business case for cyber security is one that needs little explanation. Virtually every business that has an online presence or conducts business online is at risk of compromise by hackers, malware and other information related-crimes.

A 2015 Sentiment Survey published by the Institute of Directors found only 27% of New Zealand Boards are confident of their ability to deal with a cyber-security incident. This not only highlights the risk to New Zealand business, but also why there is a need for the sort of expert, trusted advice Aura provides.

Through the acquisition of Aura Information Security, Kordia is now New Zealand's leading cyber security business and now owns the entire security process for our customers – from consulting and penetration testing to website shielding and security, managed firewall and remote backup and restore.

Kordia takes pride in enabling businesses to take advantage of connectivity while also giving them peace of mind in knowing important and business-critical information and systems are safeguarded from attack.

STRENGTH IN TELECOMMUNICATIONS AND BROADCAST

Our Networks business, which is predominantly New Zealand based, has been instrumental in broadcasting the world to people's living rooms for more than 60 years. While there has been some discussion around the topic of convergence and its impact on traditional TV and radio formats, the business case for traditional TV and radio remains.

In the last year there has been strong demand in New Zealand for digital television transmission services and the telecommunications sector in general has shown good growth. We expect this to continue into the coming financial year.

We also continue to provide market-leading telecommunications services to corporate businesses ensuring they are able to operate with minimal disruption to business-critical services. These include voice, WAN, remote backup, and business internet services.

In the current year we also made significant progress in upgrading core infrastructure – including new fibre backhaul systems – in order to future-proof our core networks and enable businesses to unleash the power of the Internet of Things (IoT).

PROVIDING CRITICAL SERVICES VIA KORDIA SOLUTIONS

Kordia's Australian contracting, engineering and consulting business has completed several large-scale projects – all of which have reflected positively on our bottom line.

This includes the APLNG project, which spanned 3 years and was completed in the current financial year. Kordia successfully designed and built critical infrastructure and supplied telecommunications services to one of the most significant energy and resources projects undertaken in Australia. The end-to-end telecommunications solution scope incorporated network design formulation, engineering, procurement, construction, commissioning and handover.

Kordia successfully upgraded the coverage in the rail tunnels and stations between Sydney airport and the central business district. It is also providing mobile blackspot solutions to Telstra as part of the Australian Government's initiative to improve mobile phone coverage and competition in regional and remote Australia.

In New Zealand the Rimutaka Tunnel was provided with crisp, clear radio communications boosting safety by providing the ability to easily exchange vital information. On the back of the success of this project, Kordia is delivering a similar solution to the Kaimai tunnel.

SAFETY OF LIFE

Both Australia and New Zealand pride themselves in being nations that love the ocean. Kordia Group provides reliable, mission critical radio communications to the maritime industry – for over 20 years in NZ and 15 years in Australia – to ensure safety at sea.

Our technology covers a quarter of the world's oceans providing both short range and long range radio coverage. In addition commercial ships are fitted with Automatic Identification System transponders which allows accurate tracking of vessels.

During the year Kordia was awarded a 5+1 year contract for a Marine Distress Emergency and Monitoring Service (MDEMS). This will provide an additional safety service for the boating public along the Victorian coastline.

STAFF AND CUSTOMER FOCUS

Our employees are experts in their field – some have honed and developed their skills over the more than 40 years they've been with Kordia. Staff engagement for the year was 75% compared to our SCI target of 71%, and prior year's target of 70%. Staff engagement bears a direct correlation to Kordia's bottom line and it's a positive sign this continues to improve year-on-year.

Kordia places a strong focus on providing a safe and healthy work environment for our employees. It's this focus that has yielded improvements with Kordia Group's lost time injury rate. As a responsible employer Kordia targets zero-harm in the work place; and this remains our number one objective as a business.

CONCLUSION

Throughout 2016, it was our ability to meet the increasing demands of our customers, combined with the expertise of our staff, which resulted in a successful year.

Going forward, it's the diversity of our services offering – which spans radio, IP networks, infrastructure, design and engineering, consulting, and cyber security – that provides resilience and positions the company well for the future.

Scott Bartlett

GROUP CEO

KORDIA GROUP CEO AND CFO

SCOTT BARTLETT

CHIEF EXECUTIVE OFFICER, KORDIA GROUP

Scott Bartlett brings to Kordia experience from both the Internet and telecommunications industries. Scott has a strong sense of where the company has come from and what its potential is.

Before joining Kordia as CEO, Scott headed up Orcon. Orcon was New Zealand's first ISP to unbundle the Local Loop and bring about both change and real competition to the market. Orcon also won numerous awards including Telecommunications Carrier of the Year 2008. Prior to Orcon Scott was the General Manager of Quik Internet.

SHAUN RENDELL

CHIEF FINANCIAL OFFICER, KORDIA GROUP

Shaun Rendell (BA (Hons)) comes to Kordia from Renaissance Corporation, where he was acting CEO for the past year and CFO for the last two years. There, he led a strong team and was instrumental in the transformation of loss-making subsidiaries into a profitable businesses.

Prior to his tenure at Renaissance, Shaun acquired extensive experience in the telco industry with senior roles in both New Zealand and U.K. telecommunications companies. Before immigrating to New Zealand, he started his career in the communications industry with British Telecom and O2 in the late 1990s.

KORDIA GROUP BOARD MEMBERS

Lorraine Witten

CHAIR OF THE BOARD

Lorraine Witten (BMS Hons, CA) is a chartered fellow of the New Zealand Institute of Directors and a member of Chartered Accountants Australia and New Zealand. She has extensive experience in the telco and ICT sector, with 25 years experience in senior management and finance roles and 20 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 Star Now Limited, Soltius Limited, VWork Limited and Director of Wellington Regional Development Agency Limited.

Peter Ennis

Peter Ennis I. Eng MIET MBA is an experienced senior media executive with extensive international experience in media and broadcast operations, technology, distribution, business development and sales. He headed up the operations, technology and digital media functions of the TV3 Group, the Irish National commercial broadcaster, where he was also a main Board Director.

Moving to New Zealand in 2009 Peter headed up the technology function at TVNZ before a stint in Qatar, where he served on the executive board of Al Jazeera as Executive Director of Technology and Broadcasting, charged with the delivery of Al Jazeera's content across six continents and online. Peter is now vice president Asia Pacific and Director Strategic Solutions for Avid Technology Inc, the world's leading provider of audio and video technology for media organizations and independent professionals.

Peter is a member of Kordia's People and Culture Committee.

John Quirk

DEPUTY CHAIR OF THE BOARD

John Quirk is a partner in strategic investment and advisory company Howard & Company. 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.

He is currently Chairman of Wherescape, Farm IQ Systems, FrameCAD Group, SMX, Cumul09 and Merlot.aero. He is also an advisor to the Board of Clearpoint.

John is a chartered member of the NZ Institute of Directors and is the Chair of Kordia Group's People and Culture 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, Harvard Business School Advanced Management Program, CMInstD) 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 on the steering group of the Business Leaders' Health and Safety Forum, a chartered member of the Institute of Directors and an inaugural graduate of the Institute-administered Future Directors' Scheme.

Sheridan is a member of Kordia Group's Health and Safety and Audit and Risk Committees.

Paul Adams

Paul Adams (CNZM), is a Chartered Fellow of Institute of Directors, and a member of Institute of Professional Engineers. After qualifying as a Civil Engineer, Paul developed a career in civil engineering contracting, not only representing the New Zealand Contractors Federation on various committees, but also commencing his own practice in civil engineering becoming heavily involved in arbitration and contract law. He has built up one of the largest land development operations in the Bay of Plenty and in the past few years he has extended his business nationwide including areas such as Rotorua, Taupo, Hamilton, Palmerston North and Wellington. Paul was voted 2013 Westpac Business Leader of the Year in the Bay of Plenty and has recently been appointed a Companion of the New Zealand Order of Merit for his services to business and philanthropy.

Paul is a member of Kordia's Health and Safety 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.

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.

PEOPLE AND CULTURE COMMITTEE

The People and Culture 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 2016

The Directors have pleasure in presenting their report, together with the audited Financial Statements of the Group for the year ended 30 June 2016.

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 Todd McClay	Minister of State Owned Enterprises

RESULTS FOR THE YEAR

The Group's consolidated net profit after taxation for the year was $12,260,000 (2015: $9,234,000).

DIVIDEND

The Directors recommend a final dividend of $7.5m for the year ended 30 June 2016. Taking into account the $1m interim dividend, the total dividend for the year will be $8.5m (2015: nil).

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 Ian Proudfoot of KPMG to act for and on behalf of the Auditor-General, as auditor in respect of the year ended 30 June 2016.

On behalf of the Board

L M Witten Chair	R H Farrant Director	25 August 2016

STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2016

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.

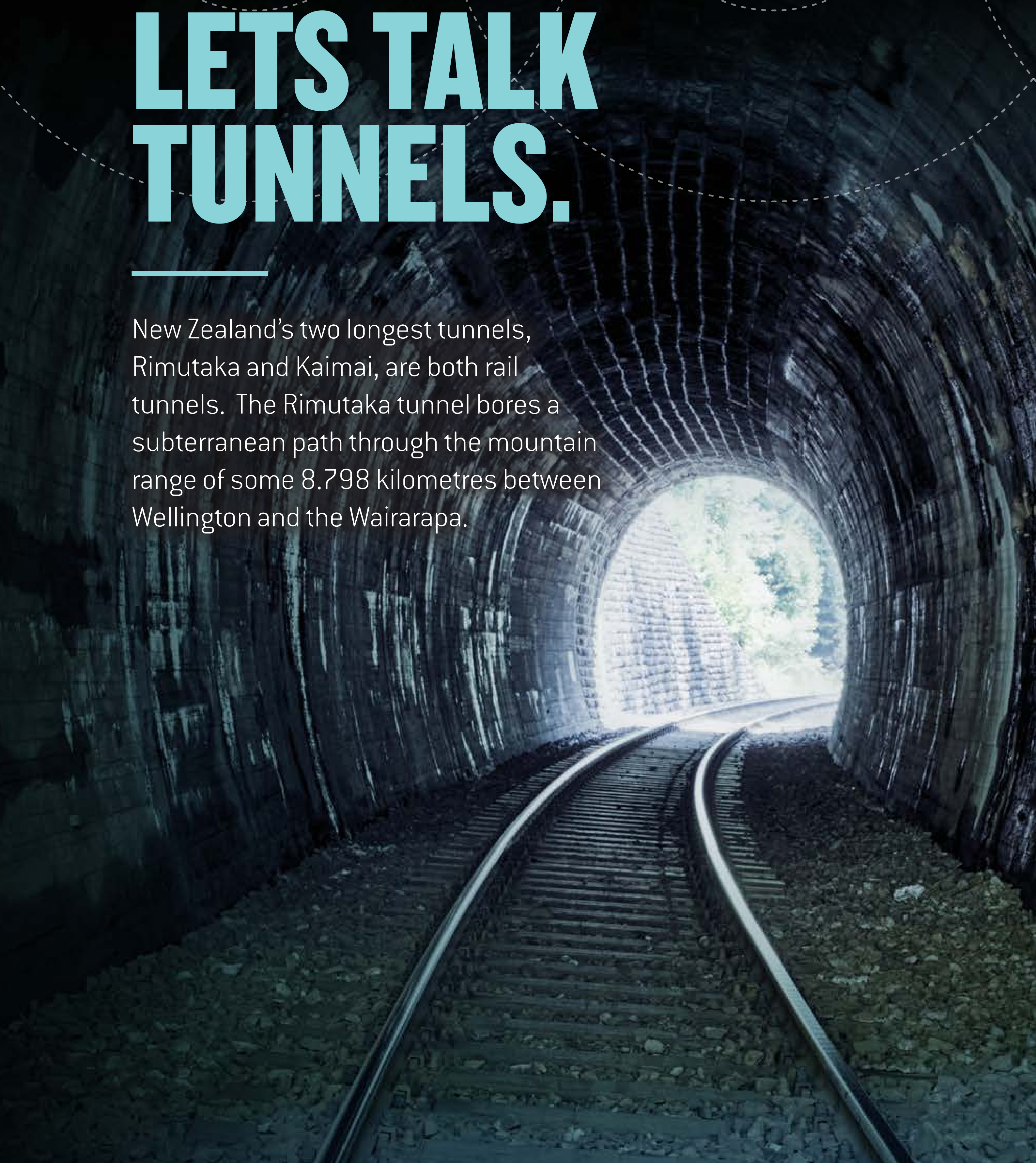
In the opinion of the Board and management these financial statements fairly reflect the financial position, operations and cashflows of Kordia Group Limited for the year ended 30 June 2016.

L M Witten Chair	R H Farrant Director	25 August 2016

KORDIA SOLUTIONS:

LETS TALK TUNNELS.

New Zealand's two longest tunnels, Rimutaka and Kaimai, are both rail tunnels. The Rimutaka tunnel bores a subterranean path through the mountain range of some 8.798 kilometres between Wellington and the Wairarapa.



8.798 KM OF UNINTERRUPTED SUBTERRANEAN COMMUNICATIONS

A tunnel of this length presents a number of communication difficulties, with hundreds of metres of rock above and below rendering usual terrestrial and satellite solutions inadequate. That's why KiwiRail looked to Kordia for the radio design expertise to provide a solution to meet the demanding brief "eliminate all communication black spots in the tunnel".

Kordia designed and implemented a 'radiating cable' solution, sometimes referred to as 'leaky feeder' or 'leaky cable'. Essentially a line of coaxial cable the diameter of a golf ball acts as an extended antenna. The 'leaky' part refers to holes in the cable through which radio transmissions pass. With independent transmitters at both ends of the tunnel, a diverse design ensures reliability.

The inside of a tunnel is a demanding environment in which to work, while the passage of trains adds a further unusual dimension to an already-challenging deployment. However, through careful planning and working closely with KiwiRail, over a project which spanned 18 months, the whole length of the Rimutaka Tunnel now enjoys crisp, clear radio communications and delivers the safety boost achieved by having the ability to easily exchange vital information.

While the initial project provided voice and machine communications for train management, a second component of the project consisted of Kordia equipping the length of the tunnel with an emergency radio phone system, similar to those seen on some of New Zealand's major motorways.

The other most significant tunnel in New Zealand is the one which passes beneath the Kaimai Ranges and which exceeds the measure of the Rimutaka Tunnel by 20 metres. With the success of the mission critical network deployed under the Rimutakas, Kordia was again the choice to deliver a similar solution for the Kaimai tunnel. This work is underway and scheduled for completion before the end of 2016.

THE WHOLE LENGTH OF THE RIMUTAKA TUNNEL NOW ENJOYS CRISP, CLEAR RADIO COMMUNICATIONS AND DELIVERS THE SAFETY BOOST ACHIEVED BY HAVING THE ABILITY TO EASILY EXCHANGE VITAL INFORMATION.

KORDIA CONTENT SERVICES:

BEAMING THE ALL BLACKS HOME.

There is perhaps no more important service to the nation than reliably bringing the All Blacks and other top-flight sporting fixtures home to local televisions when teams are playing abroad.

BOXING
PARKER VS BERGMAN

INTERNATIONAL RUGBY
ALL BLACKS VS SAMOA

SUPER RUGBY
CHIEFS VS CRUSADERS

To meet a brief that demanding, Sky TV looks to Kordia Content Services. Three recent trips to the Pacific Islands put the company through its paces with Kordia coming up trumps.

In Samoa, the task was to facilitate broadcasts of the New Zealand national rugby team taking on the home team, and also to broadcast Joseph Parker's boxing match against Jason Bergman. From Fiji, it was the Gallagher Chiefs playing the BNZ Crusaders in a first-ever Super Rugby match in Suva.

The logistics of doing a major outside broadcast are significant. Everything required is shipped ahead of the fixtures, including back-up kit, with equipment totalling about 400 kilograms and filling two pallets.

With Sky TV producing the pictures, Kordia Content Services gets them on to the airwaves and, ultimately, on to the screens of fans in New Zealand. For the Samoa/All Blacks game Kordia worked closely with Samoa TV, using its recently installed uplink capability. This provided an alternate satellite path as a back-up for the main circuit, using terrestrial microwave linking from the ground to Samoa TV.

Complications arose for the Joseph Parker fight, which provided an opportunity for Kordia to demonstrate their ability to flexibly respond to the unexpected. On making bookings for the main feed, it emerged that the satellite operator had misallocated capacity; Kordia successfully negotiated access to an alternate system at no additional cost.

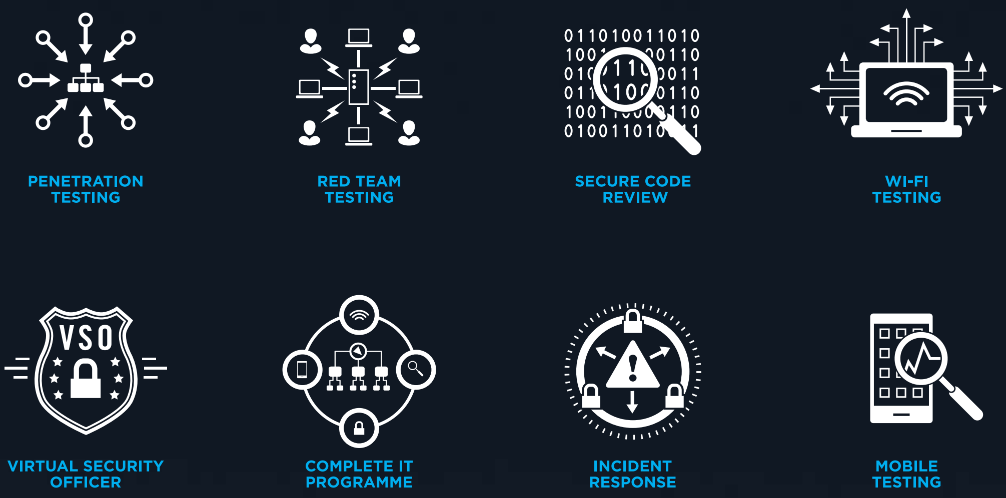
With the historical Super Rugby fixture, Kordia opted for complete self-sufficiency, shipping a complete complement of equipment to the islands to be assured of a quality, dependable broadcast. The decision to do this was validated when the local broadcaster experienced issues with its satellite equipment. Working with their own satellite provider, Kordia arranged the provision of dual formats for broadcast redundancy, delivering a fully backed up operation using diverse paths.

The results of these assignments were clear: quality pictures on television screens across the nation, and a satisfied client in Sky TV.

CYBER SECURITY:

KEEPING NEW ZEALAND SAFE ONLINE.

Virtually every company today conducts business online – and with that comes the considerable risk of compromise by hackers, malware and other information-related crimes. Kordia's Cyber Security discipline provides the necessary services that help Kiwi businesses take advantage of connectivity, while knowing information is appropriately safeguarded and protected from attack.



STRENGTHENED BY THE 2015 ACQUISITION OF AURA INFORMATION SECURITY, KORDIA IS NOW THE COUNTRY'S LEADING CYBER SECURITY BUSINESS, ADDRESSING UNPRECEDENTED DEMAND FOR SERVICES IN THIS SECTOR.

Up to 7 out of 10 Kiwi businesses have experienced a successful cyber-attack, while Kordia research shows that some 80 per cent of local customers believe it is necessary to improve investment in security.

That makes the availability of a proven capability to meaningfully address information security concerns rapidly and at a reasonable cost, invaluable.

Offering a full complement of managed security services, Kordia owns the entire security process for our customers, from consulting and penetration testing, to website shielding (as a RedShield partner) and security, managed firewall and remote backup and restore.

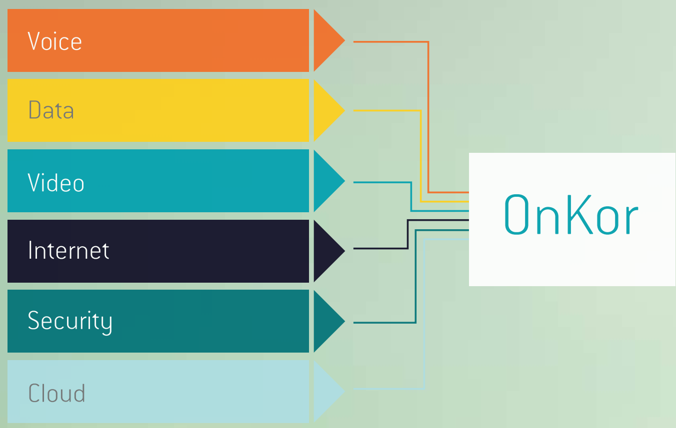
Further security is uniquely provided to Kordia clients through network diversity: by virtue of our multiple connections (diverse fibre, microwave, 3G/4G) resilience is assured should any one link become compromised.

The world wide web presents unprecedented opportunities for commerce. It also presents unprecedented opportunities for a new breed of criminal. With Kordia Cyber Security, trade with the confidence of knowing your data is safe.

KORDIA TELECOMMUNICATIONS:

MISSION-CRITICAL CONNECTIVITY POWERS KIWIFRUIT LEADER.

Like many other industries, agribusiness depends on quality connectivity for efficient operations. When leading kiwifruit orcharding and post-harvest company Seeka Kiwifruit Industries reached the limitations of a locally provided internet service, it looked to Kordia for their high performance OnKor WAN solution.



For Seeka, connectivity is crucial to tie the regions, where fruit is produced and packed, right through the supply chain to where it is marketed, shipped and ultimately consumed. In the harvest season, data is gathered on every tray packed and immediately shared with global exporter Zespri. If information can't be readily exchanged kiwifruit can't be optimally handled and with a short shelf-life accuracy and reliability of information exchange is paramount.

That's why Seeka came to Kordia. In a competitive bid process Kordia stood out as the preferred provider capable of delivering high capacity connectivity with a robust and reliable network.

As a business that has experienced substantial growth after recovering from the kiwifruit vine disease PSA, Seeka didn't just want a solution to meet their immediate needs, but sought a partner capable of scaling seamlessly to meet future needs. The business has also expanded into other produce, including avocados, with further ambitions to become New Zealand's leading produce company.

That made Kordia the only fit.

The OnKor WAN solution is comprised predominantly of fibre assets, delivering the associated performance advantages. However, further benefits accrue to Seeka thanks to unique capabilities only available from Kordia: two high sites (Putauaki and Kopukairua), which deliver Digital Microwave Radio and our new Point to Multipoint technologies.

Seeka's General Manager Information Systems sums up the success of this project: "The Kordia cutover has been completed without any issues. [Connectivity] speeds have increased significantly; good stuff guys."

...KORDIA STOOD OUT AS THE PREFERRED PROVIDER CAPABLE OF DELIVERING HIGH CAPACITY CONNECTIVITY WITH A ROBUST AND RELIABLE NETWORK.

SAFETY OF LIFE:

WHERE RELIABILITY IS A MATTER OF LIFE AND DEATH.

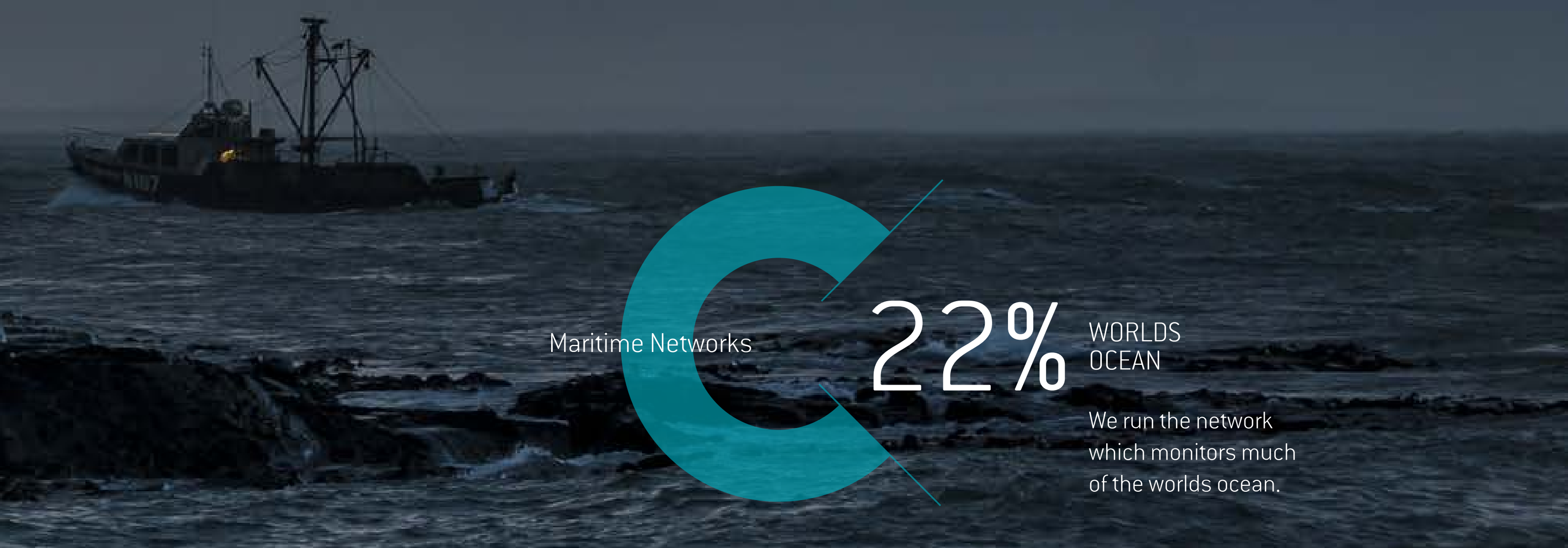
The seas surrounding New Zealand and Australia may be beautiful but they can also become extremely inhospitable in the blink of an eye. Keeping the maritime industry safe depends on reliable radio communications, a service which Kordia has been supplying for over 20 years in NZ and over 15 years in Australia.

Covering some 22 per cent of the world's oceans, Kordia provides and manages both short-range Very High Frequency (VHF) and long-range High Frequency (HF) radio coverage around the coasts of New Zealand. In Australia we provide HF services. When commercial ships, ocean-going recreational sailors and coastal boaties take to the water, they know they are in good hands and that help is just a radio call away.

The direct clients for which Kordia provides these services are Maritime New Zealand, which has its Operations Centre in Wellington, and the Australian Maritime Safety Authority, headquartered in Canberra. These agencies are responsible for the regulation and safety oversight of shipping fleets along with the management of international maritime obligations. Indirectly, every time a sailor initiates radio communication, whether to the local Coastguard station or a long-range distress call, they are a Kordia customer.

In addition to the VHF radios used for coastal communications, and the HF radios used for longer-range communications, commercial ships are fitted with Automatic Identification System (AIS) transponders which allows accurate tracking of vessels around the world. Kordia provides the connectivity for these systems too via satellite and terrestrial network links in NZ. This data is increasingly important to shipping and logistics companies by providing accurate, to the minute data on ship movements. This information is used to accurately plan and manage the movement of freight through complex supply chains.

With mission critical networks forming the core of Kordia's DNA, the seas are made safer thanks to reliable, stable and always available radio networks that maritime operators can – and do - depend upon.



WITH MISSION CRITICAL NETWORKS FORMING THE CORE OF KORDIA'S DNA, THE SEAS ARE MADE SAFER THANKS TO RELIABLE, STABLE AND ALWAYS AVAILABLE RADIO NETWORKS THAT MARITIME OPERATORS CAN – AND DO - DEPEND UPON.

KORDIA SOLUTIONS:

SHINING LIGHTS ON BLACK SPOTS.

In 2015, the Australian Government initiated an ambitious project, the Mobile Black Spot Program, to improve mobile phone coverage and competition in regional and remote Australia. The Government committed $100 million through round one of the program which planned to deliver 499 new or upgraded mobile base stations across Australia.

THE BASE STATIONS WOULD PROVIDE:

New handheld coverage to

68,600 KM²

New external antenna coverage to over

150,000 KM²

New handheld or external antenna coverage to over

5,700 KM's

of major transport routes.

The Commonwealth funding for round one was supplemented by Telstra and Vodafone. In addition, five state governments co-contributed to round one which included New South Wales, Victoria, Queensland, Western Australia, and Tasmania. The total funding package also included contributions from local governments, businesses and community organisations.

FOLLOWING A PROJECT IMPLEMENTATION SUBMISSION TO TELSTRA, KORDIA WAS AWARDED THE END TO END DELIVERY OF BLACK SPOT SITES INCLUDING:

- Site acquisition
- Planning services
- Design and construction
- Integration of the base stations into the existing Telstra network.

The Blackwood site was the first greenfield build for Kordia on the Black Spot project. Greenfield, a term used to describe a brand new build from breaking earth to completion, is a complex build with many regulatory requirements.

Kordia's extensive experience in greenfield and upgrade projects for Telstra allowed it to secure a development permit from the local council, acquire the lease of land, and design and construct the site on time. The build was particularly difficult due to tight access to the construction site; exacerbated due to the protected foliage around the site.

The scope of this project included erecting a 35m steel monopole and hauling 710m of Telstra optical fibre to the site in a small clearing behind the Blackwood cemetery. An approval for Site Acquisition Environment and Design (SAED) and Site Make Ready (SMR) greenfield build during mid-August enabled Kordia to complete site acquisition, through to site on air, in a little under four months. Construction of the Blackwood site took under four weeks, delivering Telstra's first Black Spot greenfield site ahead of the 2015 Christmas holiday season. Local residents and holiday makers were assured that if an emergency occurred, they could have confidence in the Telstra network.

Founded in 1855, Blackwood is a town 89km North West of Melbourne with a local population of approximately 300 residents. Blackwood is a former prospecting town during the gold rush with significant cultural heritage; various areas of Blackwood can be found on the Victorian heritage register.

SAFETY OF LIFE:

AUSTRALIAN BOATING PUBLIC TO BE IN SAFER HANDS.

After first responding to a request for an Expression of Interest (EOI) in December 2013 from the Victorian government, Kordia has now been awarded a 5+1 year contract for a Marine Distress Emergency Monitoring Service (MDEMS).

MDEMS will provide an additional safety service for the boating public along the Victorian coastline. The new professional service will complement the existing services provided by volunteer marine rescue organizations and the Victorian Police.

MDEMS will be operated 24 x 7 on the very high frequency (VHF) band by Kordia's expert Maritime Officers at our Communications Centre in Canberra.

The new MDEMS network will be designed, built, operated and owned by Kordia.

This is a new and exciting investment by Kordia into the critical communications market in Australia.

KORDIA SOLUTIONS:

KORDIA INNOVATION UPGRADING HIGH VOLTAGE TRANSMISSION TOWERS.

Faced with the repair and upgrade of the tower footings of a 22,000 volt overhead transmission line to meet system design life, our customer required an innovative yet practical solution.

The six kilometre transmission line runs up the side of a mountain carried on overhead conductors supported on eleven large steel H-frame towers, connecting a major broadcast site to the Ergon Energy power grid.

The transmission towers constructed in 1972, were showing their age. Located in extremely steep terrain in an environmentally protected rain forest in north Queensland proved challenging. The hazardous yet critical project required careful and detailed planning with onsite inspections identifying structurally unsound tower foundations, requiring immediate repair and upgrade.

Kordia was selected as the preferred specialist tower refurbishment subcontractor. Works included the upgrade of 22 foundation blocks, installation of temporary anchors to support the string of 11 structures, and the replacement of all guy ropes and support wires.

Access was difficult for a majority of the structure and meant that all equipment needed to be airlifted. Helicopter services were used to facilitate all works and tiger tailing (visual warning flags) of the existing lines, ensuring all loads were elevated safely and efficiently between the power lines.

The project is testimony to Kordia's capability and ability to perform works on various types of tower structures and difficult terrain conditions, including the hazardous high voltage environment.

LOCATED IN EXTREMELY STEEP TERRAIN IN AN ENVIRONMENTALLY PROTECTED RAIN FOREST IN FAR NORTH QUEENSLAND WAS CHALLENGING. THE HAZARDOUS YET CRITICAL PROJECT REQUIRED CAREFUL AND DETAILED PLANNING...

KORDIA SOLUTIONS:

KORDIA GOES UNDERGROUND AND COMES UP WITH HAPPY CUSTOMERS.

The Sydney Airport underground railway line was in need of updated mobile coverage. The original distributed antenna system (DAS) technology used by Australian mobile carriers had to be replaced to accommodate the latest frequency channels and come up with improved coverage that Sydney rail commuters demand.

The Airport Link Company (ALC) operates the underground railway line at Green Square, Mascot, Airport Domestic and Airport International Train Stations along the 9 kilometre track. This tunnel links Sydney Airports with Central Station, the Sydney Central Business District and 300 train stations in Greater Sydney and beyond. Rail commuters now more than ever require seamless mobile coverage wherever they are.

Kordia were engaged by Telstra to upgrade the DAS covering the tunnels and stations. The objective was to cover all frequency ranges for three mobile phone carriers with an Andrews Ion-M active system and fibre fed remotes. The Kordia scope was to build, project manage and integrate the new system. A key requirement was to retain existing mobile phone services throughout the build then fully cut over, decommission, and remove the superseded equipment.

The DAS technical installation works were staged to provide an overlap of the new system with the old system as to not affect the mobile phone customer experience of rail commuters. A temporary solution was devised and installed that fed both active systems host units, from each of the carriers' base stations for continuous coverage to work before the new system had sufficient coverage in operation.

THE UPGRADE RESULTED IN:

- Expanded coverage and capacity from 3 antenna sectors to 6 antenna sectors.
- Replacement of 29 optical repeater locations and all of the antennas within the tunnel.
- Installation of a new repeater locations and antenna.
- Each of the 4 stations received a complete new DAS as part of the upgrade including refurbishment of the base station room power and air conditioning.

Telstra were very happy with Kordia's delivery and performance of the new DAS for their customers.

KORDIA SOLUTIONS:

ELECTRO-MAGNETIC ENERGY EXPERTISE.

Kordia's electromagnetic energy (EME) assessment services team continue to deliver ongoing high volume professional services throughout the financial year.

Services are provided to mobile telecommunications operators and other customers who transmit a signal and are regulated by the Australian Communications and Media Authority (ACMA).

Kordia utilise industry leading 3D modelling software to carry out compliance verifications and risk assessment according to the Australian Radiation Protection and Nuclear Safety Agency (ARPANSA) safety standards.

On average in FY15/16, the team completed the EME compliance documentation within one business week from receipt of the request, whilst maintaining a peak run rate of more than 100 EME Guides in a month, thus proving to be one of the best performing EME assessors on the market.

In addition, Kordia specialists engaged in various EME consultancy projects including:

- Full assessment and RF Safety training for the motorway project in Brisbane
- Presentations of Australian Centre for Electromagnetic Bioeffects Research (ACEBR) accredited EME Safety Awareness training courses
- Range of National Association of Testing Authorities (NATA) Accredited EME Safety measurements at complex sites throughout Australia.

The KORDIA GROUP LIMITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

In thousands of New Zealand dollars	Notes	**2016**	2015
Revenue (telecommunications services)		**240,687**	248,004
Direct costs and overheads	3	**105,177**	111,511
Employee and contractor costs	4	**96,916**	98,503
Earnings before interest, tax, depreciation and amortisation (EBITDA)	26	**38,594**	37,990
Finance income	5	**734**	1,043
Finance expense	5	**1,331**	3,809
Depreciation and amortisation expense	8, 10	**20,289**	21,957
Profit before income tax		**17,708**	13,267
Income tax expense	6	**5,448**	4,033
Profit for the year attributable to the equity holder		**12,260**	9,234

The accompanying notes set out on pages 35 - 62 are to be read as part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

In thousands of New Zealand dollars	**2016**	2015
Profit/(loss) for the year attributable to the equity holder	**12,260**	9,234
Foreign currency translation differences	**(684)**	475
Effective portion of changes in the fair value of cashflow hedges	**41**	269
Tax effect of the effective portion of changes in the fair value of cashflow hedges	**(10)**	(78)
Ineffective portion of changes in the fair value of cashflow hedges	**-**	54
Tax effect of the ineffective portion of changes in the fair value of cashflow hedges	**-**	(15)
Other comprehensive income for the year	**(653)**	705
Total comprehensive income for the year attributable to the equity holder	**11,607**	9,939

The accompanying notes set out on pages 35 - 62 are to be read as part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total Attributable to Owners
Balance 1 July 2014	**87,696**	**(4,392)**	**(2,116)**	**(424)**	**80,764**
Net profit for the year	-	9,234	-	-	9,234
Other comprehensive income					
Foreign currency translation differences	-	-	475	-	475
Effective portion of changes in fair value of cashflow hedges, net of tax	-	-	-	316	316
Fair value of cashflow hedges transferred to income statement, net of tax	-	-	-	(86)	(86)
Total other comprehensive income	-	-	475	230	705
Total comprehensive income	**-**	**9,234**	**475**	**230**	**9,939**
Balance 30 June 2015	**87,696**	**4,842**	**(1,641)**	**(194)**	**90,703**
Net profit for the year	-	12,260	-	-	12,260
Other comprehensive income					
Foreign currency translation differences	-	-	(684)	-	(684)
Effective portion of changes in fair value of cashflow hedges, net of tax	-	-	-	17	17
Fair value of cashflow hedges transferred to income statement, net of tax	-	-	-	14	14
Total other comprehensive income	-	-	(684)	31	(653)
Total comprehensive income	**-**	**12,260**	**(684)**	**31**	**11,607**
Transactions with owners					
Dividends	-	(6,000)	-	-	(6,000)
Balance 30 June 2016	**87,696**	**11,102**	**(2,325)**	**(163)**	**96,310**

The accompanying notes set out on pages 35 - 62 are to be read as part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

In thousands of New Zealand dollars	Notes	2016	2015
Assets			
Property, plant and equipment	8	**70,199**	72,560
Intangible assets and goodwill	10	**29,443**	23,695
Finance lease receivable	19	**2,321**	2,498
Deferred tax asset	11	**8,190**	7,050
Total non-current assets		**110,153**	105,803
Cash		**6,820**	1,587
Inventories	12	**1,498**	1,844
Trade and other receivables	13	**52,327**	62,359
Loans and advances	15	**-**	5,949
Finance lease receivable	19	**196**	171
Derivative assets	17	**-**	85
Total current assets		**60,841**	71,995
Total assets		**170,994**	177,798
Equity and Liabilities			
Share capital	7	**87,696**	87,696
Foreign currency translation reserve		**(2,325)**	(1,641)
Cashflow hedge reserve		**(163)**	(194)
Retained earnings		**11,102**	4,842
Total equity attributable to the equity holder		**96,310**	90,703
Trade and other payables	14	**4,425**	4,130
Derivative liabilities	17	**196**	293
Loans and advances	15	**31**	20,000
Provisions	16	**8,232**	6,052
Total non-current liabilities		**12,884**	30,475
Taxation payable		**3,580**	1,095
Trade and other payables	14	**55,346**	52,425
Derivative liabilities	17	**12**	67
Provisions	16	**2,862**	3,033
Total current liabilities		**61,800**	56,620
Total liabilities		**74,694**	87,095
Total equity and liabilities		**170,994**	177,798

The accompanying notes set out on pages 35 - 62 are to be read as part of these financial statements.

On behalf of the Board

L M Witten
Chair

R H Farrant
Director

25 August 2016

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

In thousands of New Zealand dollars	Notes	2016	2015
Cash flows from operating activities			
Receipts from customers		**262,091**	277,511
Payments to suppliers and employees		**(209,493)**	(222,082)
		52,598	55,429
Dividends received		**3**	4
Interest received		**650**	953
Interest paid - other		**(1,052)**	(3,488)
Taxes (paid)/refunded		**(4,451)**	(1,419)
Net cash from/(used in) operating activities	20	**47,748**	51,479
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		**9**	31
Acquisition of a business	9	**(9,870)**	-
Acquisition of property, plant and equipment		**(13,135)**	(11,901)
Acquisition of intangibles	10	**(729)**	(461)
Net cash (used in)/from investing activities		**(23,725)**	(12,331)
Cash flows from financing activities			
Proceeds/(repayment) of loans and advances		**(12,860)**	(54,170)
Proceeds from finance lease assets		**153**	1,863
Proceeds from loans receivable		**-**	9,950
Dividends paid		**(6,000)**	-
Net cash from/(used in) financing activities		**(18,707)**	(42,357)
Net increase/(decrease) in cash and cash equivalents		**5,315**	(3,209)
Cash and cash equivalents at beginning of year		**1,587**	4,623
Effect of exchange rate fluctuations on cash		**(82)**	173
Cash and cash equivalents at end of year		**6,820**	1,587

The accompanying notes set out on pages 35 - 62 are to be read as part of these financial statements.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

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 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 2013 and the State Owned Enterprises Act 1986.

For the purposes of financial reporting, the Group is a for-profit public sector entity.

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 public sector entities. These financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the directors on 25 August 2016.

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 8 and 10.
- Provisions – Note 16.
- Valuation of financial instruments – Note 17.
- Deferred tax assets – Note 11.
- Useful life of property, plant, equipment and intangibles – Notes 8 and 10.

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.

2. STATEMENT OF ACCOUNTING POLICIES

(A) BASIS OF PREPARING GROUP FINANCIAL STATEMENTS

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.

CONTINUED

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(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.

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 businesses 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.

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
Software	3-5 years
Trademarks	5 years

CONTINUED

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(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 customer premises equipment. 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.

(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.

CONTINUED

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2016

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(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 17 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 and trade prepayments, 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.

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 2016 and have not been applied in preparing these consolidated financial statements:

- NZ IFRS 9 *Financial Instruments*. NZ IFRS 9 (2014), published in July 2014 replaces the existing guidance in NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. 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 2018.
- NZ IFRS 16 *Leases*. NZ IFRS 16 eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their balance sheets. The standard uses a control model for the identification of leases as opposed to service contracts. This standard is effective for the Group from 1 July 2019.

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 in the period of initial application except for NZ IFRS 16 Leases which could change the net asset position of the Group, however the detailed analysis of these standards and interpretations are in progress. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

In thousands of New Zealand dollars	Notes	2016	2015
3. DIRECT COSTS AND OVERHEADS INCLUDE:			
Auditor's fees			
- audit services		**311**	305
- other audit related services		**13**	12
Directors' fees		**333**	297
Loss/(gain) on disposal of property, plant and equipment		**(181)**	156
Impairment loss on trade receivables		**226**	202
Rental and operating lease costs		**9,618**	9,967
Project material and subcontractor costs		**68,081**	75,365
Direct network costs		**12,509**	11,339
Fair value losses on de-designated swaps		**-**	211
4. EMPLOYEE AND CONTRACTOR COSTS INCLUDE:			
Redundancy		**1,002**	1,150
Defined contribution plan		**6,062**	5,603
5. FINANCE INCOME AND EXPENSE			
Interest income on bank deposits and loan receivable		**498**	671
Interest income on finance leases		**152**	282
Realised foreign exchange gain		**81**	-
Unrealised foreign exchange gain		**-**	86
Dividend income		**3**	4
Finance income		**734**	1,043
Interest expense on loans and borrowings		**862**	3,025
Net interest expense on financial assets designated at fair value through the income statement		**148**	385
Unrealised foreign exchange loss		**8**	-
Realised foreign exchange loss		**-**	31
Unwind the discount on provisions	16	**313**	368
Finance expense		**1,331**	3,809
Net finance expense		**597**	2,766

In thousands of New Zealand dollars	**2016**	2015
6. INCOME TAX EXPENSE		
Current tax expense	**6,860**	3,336
Adjustment from prior periods	**3**	93
Deferred tax (benefit)/expense	**(1,415)**	604
Total income tax (benefit)/expense	**5,448**	4,033
Reconciliation of effective tax rate		
Net profit/(loss) before taxation	**17,708**	13,267
Taxation at 28%	**4,958**	3,715
Adjusted for the tax effect of:		
Difference in subsidiary income tax rates	**212**	146
Non assessable income	**-**	(5)
Non-deductible expenses	**275**	84
Under/(over) provided in prior periods	**3**	93
Taxation expense/(benefit)	**5,448**	4,033
Imputation Credit Account		
Imputation credits available to shareholders in future periods	**12,454**	11,413

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

7. 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

	2016	2015
On issue at beginning and end of the year (number of shares)	**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 2016 the Group paid an interim dividend of $1m (2015: nil), a special dividend of $5m (2015: nil) and a prior year final dividend of nil (2015: nil).

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

8. PROPERTY, PLANT AND EQUIPMENT

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 2015 and June 2016 is due to the capitalisation of transmission equipment assets which were under construction at June 2015.

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 which undertakes transmission services including linking of telecommunications and broadcasting signals. For the year ended 30 June 2011 a pre-tax impairment loss of $29,054 was recognised in the Income Statement.

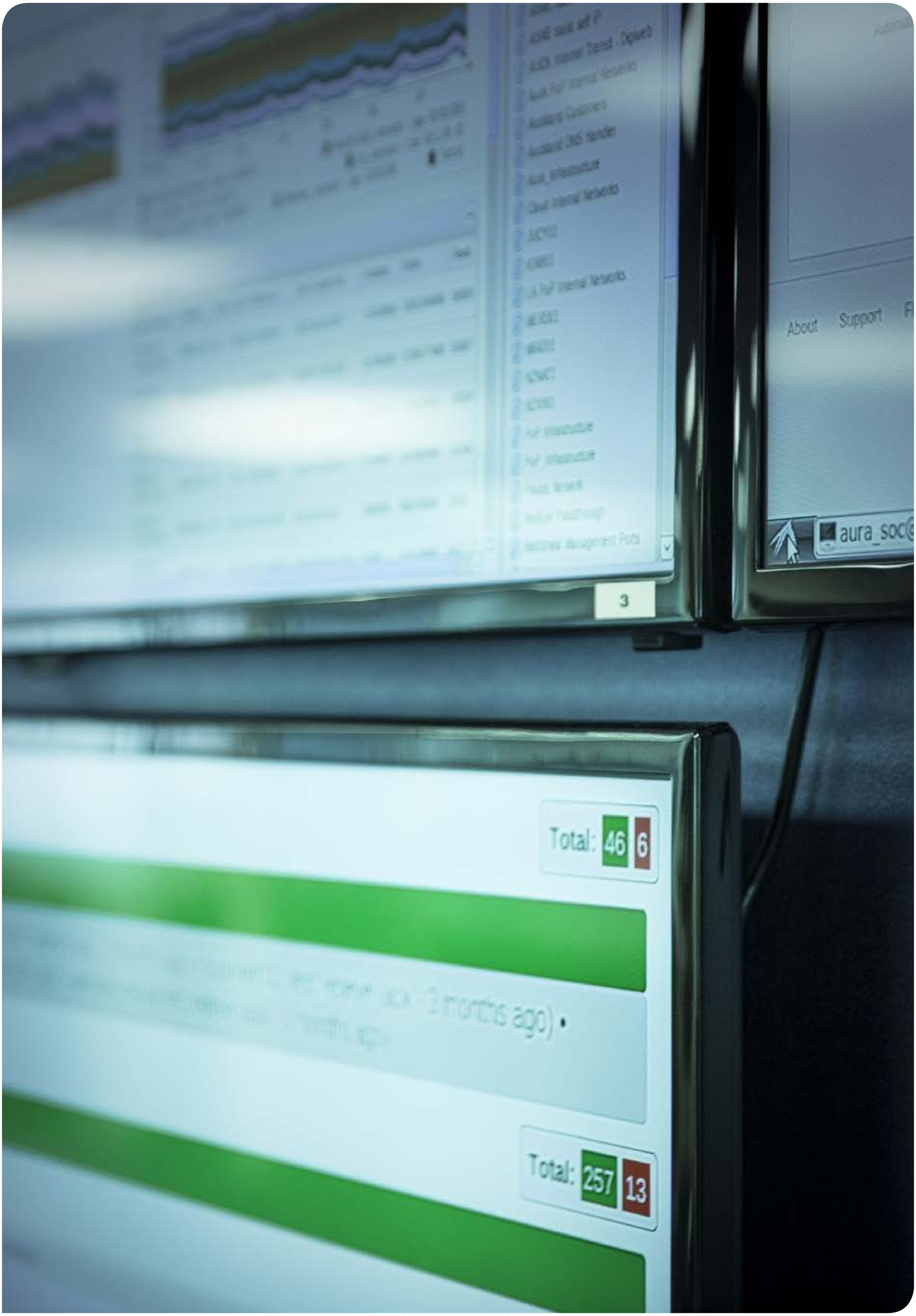
Given the structural changes that continue to occur in broadcast and media markets, the Directors continue to assess the recoverable amount of the Networks cash-generating unit on an annual basis using a value in use calculation based on a discounted cashflow model for five years from 2016. The cashflow projections are based on the financial budgets approved by management. 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% (2015: 0%) was assumed. A real post tax discount rate of 6.5% (2015: 7.3%) was applied. Bancorp Corporate Finance Limited worked with the Group in determining the weighted average cost of capital.

Based on the assessment at 30 June 2016, 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 2016

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In thousands of New Zealand dollars	Land & buildings	Leasehold improvements	Mast and aerials	Transmission equipment
Cost				
Balance at 1 July 2014	**30,133**	**12,214**	**66,709**	**228,009**
Additions	161	478	745	6,147
Transfers	-	-	1	463
Disposals / Adjustments	(329)	(1,461)	(22)	(4,687)
Effect of movements in exchange rates	-	347	1	1,251
Balance at 30 June 2015	**29,965**	**11,578**	**67,434**	**231,183**
Additions	332	2,395	430	9,488
Transfers	-	17	3	1,896
Acquisition of a business	-	-	-	-
Disposals / Adjustments	(2)	(3,622)	(11)	(1,252)
Effect of movements in exchange rates	-	(394)	(1)	(1,924)
Balance at 30 June 2016	**30,295**	**9,974**	**67,855**	**239,391**
Depreciation and Impairment Losses				
Balance at 1 July 2014	**(20,594)**	**(6,731)**	**(53,124)**	**(183,354)**
Depreciation for the year	(851)	(1,475)	(2,250)	(11,515)
Disposals	263	1,661	18	2,222
Effect of movements in exchange rates	-	(286)	-	(1,178)
Balance as at 30 June 2015	**(21,182)**	**(6,831)**	**(55,356)**	**(193,825)**
Depreciation for the year	(781)	(1,379)	(1,427)	(11,360)
Disposals	1	3,836	6	1,226
Effect of movements in exchange rates	-	384	1	1,817
Balance as at 30 June 2016	**(21,962)**	**(3,990)**	**(56,776)**	**(202,142)**
Carrying amounts				
At 30 June 2015	**8,783**	**4,747**	**12,078**	**37,358**
At 30 June 2016	**8,333**	**5,984**	**11,079**	**37,249**

Furniture & fittings	Office equipment	Motor vehicles	Information systems	Work in progress	Total
1,413	**2,016**	**1,487**	**31,723**	**1,284**	**374,988**
31	32	320	975	3,222	12,111
-	-	-	32	(554)	(58)
(14)	(2)	(182)	(1,584)	(628)	(8,909)
23	71	20	1,356	-	3,069
1,453	**2,117**	**1,645**	**32,502**	**3,324**	**381,201**
243	123	70	1,497	513	15,091
-	-	55	211	(1,283)	899
-	-	-	87	-	87
(259)	(7)	(26)	(1,378)	-	(6,557)
(34)	(107)	(33)	(1,980)	(93)	(4,566)
1,403	**2,126**	**1,711**	**30,939**	**2,461**	**386,155**
(876)	**(1,715)**	**(1,150)**	**(25,027)**	**-**	**(292,571)**
(124)	(56)	(116)	(2,965)	-	(19,352)
12	2	175	1,572	-	5,925
(23)	(71)	(14)	(1,071)	-	(2,643)
(1,011)	**(1,840)**	**(1,105)**	**(27,491)**	**-**	**(308,641)**
(109)	(81)	(110)	(2,812)	-	(18,059)
259	6	23	1,372	-	6,729
33	108	28	1,644	-	4,015
(828)	**(1,807)**	**(1,164)**	**(27,287)**	**-**	**(315,956)**
442	**277**	**540**	**5,011**	**3,324**	**72,560**
575	**319**	**547**	**3,652**	**2,461**	**70,199**

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

9. ACQUISITION OF A BUSINESS

On 1 November 2015 the Group acquired the business and assets of Aura Information Security Limited ('Aura') for cash consideration of $9,870. Aura Information Security Limited is the leading specialist IT security testing and consulting company in New Zealand. The acquisition allows the Group to increase its scale, drive growth, de-risk the New Zealand business and grow returns to the shareholder.

For the eight months ended 30 June 2016, Aura contributed revenue of $3,157 and profit of $482 to the Groups' result. If the acquisition had occurred on 1 July 2015, management estimates that consolidated revenue would have been $5,211, and consolidated profit for the year would have been $972. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2015.

The following table summarises the identifiable assets acquired and liabilities assumed at the date of acquisition:

In thousands of New Zealand dollars	2016
Property, plant and equipment	87
Intangible assets	125
Trade receivables	794
Trade prepayments	130
Contract work in progress	85
Trade payables and accruals	(114)
Deferred income	(162)
Employee entitlements	(161)
Total identifiable net assets	784
Consideration transferred	9,870
Goodwill recognised	9,086

The consideration transferred has been determined provisionally pending customer churn to 18 December 2016. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identified adjustments to the above amount, or any provisional estimates that existed at balance date, then the acquisition accounting will be revised.

Under the sale and purchase agreement, if the Group does not become the registered owner of two trademarks by 18 December 2016, $125k is refunded to the Group. As at balance date, the two trademarks have not been registered.

The goodwill is attributable mainly to the skills and technical talent of Aura's work force and the synergies expected to be achieved from integrating the business into the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group incurred acquisition-related costs of $449 on legal fees and due diligence costs. These costs have been included in direct costs and overheads.

10. INTANGIBLE ASSETS

In thousands of New Zealand dollars	Trademarks	Frequency Licences	Software	Goodwill	Total
Cost					
Balance at 1 July 2014	**-**	**9,507**	**24,712**	**14,179**	**48,398**
Additions	-	15	446	-	461
Transfers	-	-	58	-	58
Disposals	-	(10)	(289)	-	(299)
Effects of movements in exchange rates	-	-	56	676	732
Balance at 30 June 2015	**-**	**9,512**	**24,983**	**14,855**	**49,350**
Additions	-	-	729	-	729
Transfers	-	-	(899)	-	(899)
Acquisition of a business	125	-	-	9,086	9,211
Disposals	-	-	(88)	-	(88)
Effects of movements in exchange rates	-	-	(87)	(1,015)	(1,102)
Balance at 30 June 2016	**125**	**9,512**	**24,638**	**22,926**	**57,201**
Amortisation and Impairment losses					
Balance at 1 July 2014	**-**	**(5,092)**	**(18,239)**	**-**	**(23,331)**
Amortisation for the year	-	(398)	(2,207)	-	(2,605)
Disposals	-	10	270	-	280
Effects of movements in exchange rates	-	-	1	-	1
Balance at 30 June 2015	**-**	**(5,480)**	**(20,175)**	**-**	**(25,655)**
Amortisation for the year	(17)	(398)	(1,815)	-	(2,230)
Disposals	-	-	88	-	88
Effects of movements in exchange rates	-	-	39	-	39
Balance at 30 June 2016	**(17)**	**(5,878)**	**(21,863)**	**-**	**(27,758)**
Carrying amounts					
At 30 June 2015	**-**	**4,032**	**4,808**	**14,855**	**23,695**
At 30 June 2016	**108**	**3,634**	**2,775**	**22,926**	**29,443**

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 of $13,840 (2015: $14,855) has been allocated to Kordia Pty Limited and $9,086 (2015; nil) has been allocated to the Aura business unit.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

10. INTANGIBLE ASSETS (CONTINUED)

The recoverable amount of Kordia Pty Limited and subsidiary and Aura 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 7.2% (2015: 8.3%) was applied to Kordia Pty Limited and subsidiary and 10.9% (2015: nil) was applied to Aura and was derived from the real post tax weighted average cost of capital. The year-on-year change in discount rates for Kordia Pty Limited reflect a decrease 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 and Aura was calculated using cash flow projections for the five years from 2016 using the financial budgets approved by management. Beyond year five a real growth rate of 0% (2015: 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 and Aura

- 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.

11. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	ASSETS		LIABILITIES		NET	
In thousands of New Zealand dollars	**2016**	2015	**2016**	2015	**2016**	2015
Property, plant and equipment	**-**	-	**(894)**	(977)	**(894)**	(977)
Intangible assets	**-**	-	**(248)**	(578)	**(248)**	(578)
Derivatives	**62**	84	**-**	-	**62**	84
Trade and other receivables	**-**	-	**(5,626)**	(11,219)	**(5,626)**	(11,219)
Inventories	**25**	71	**-**	-	**25**	71
Employee entitlements	**1,913**	2,007	**-**	-	**1,913**	2,007
Other payables	**9,788**	6,789	**-**	-	**9,788**	6,789
Provisions	**3,170**	2,600	**-**	-	**3,170**	2,600
Tax losses	**-**	8,273	**-**	-	**-**	8,273
Net tax assets/(liabilities)	**14,958**	19,824	**(6,768)**	(12,774)	**8,190**	7,050

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

In thousands of New Zealand dollars	**2016**	2015
New Zealand	**1,768**	866
Australia	**6,422**	6,184
Net tax asset	**8,190**	7,050

All movements in deferred tax have been recognised in the Income Statement except for ($16) (2015: ($93)) relating to derivatives which have been recognised in the cash flow hedge reserve and ($259) (2015: $416) that have been recognised in the foreign currency translation reserve.

Gross tax losses of nil (2015: $27,577) have been recognised on the basis of forecasted operating earnings set out in the Group strategic plan. The Directors consider it probable that future taxable profits will be available against which the recognition of tax losses can be utilised.

12. INVENTORIES

In thousands of New Zealand dollars	**2016**	2015
Inventory	**1,691**	2,099
Provision for write down	**(193)**	(255)
Total inventories	**1,498**	1,844

13. TRADE AND OTHER RECEIVABLES

Trade receivables	**27,695**	20,237
Provision for doubtful debts	**(458)**	(384)
Trade prepayments	**4,503**	3,200
Contract work in progress	**20,587**	39,306
	52,327	62,359

During the year, the Group utilised $152 (2015: $455) of the provision for doubtful debts and released $226 (2015: $202) of the provision to the Income Statement.

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 2016, contract work in progress was $20,587 (2015: $39,306). Deferred income, where billing exceeds recognised revenue, amounted to $27,423 (2015: $20,165).

Trade receivables are financial assets categorised as loans and receivables.

14. TRADE AND OTHER PAYABLES

Current		
Trade payables and accruals	**23,130**	27,158
Deferred income	**27,235**	19,860
Employee entitlements	**4,981**	5,407
	55,346	52,425
Non-current		
Trade payables and accruals	**2,585**	2,452
Deferred income	**188**	305
Employee entitlements	**1,652**	1,373
	4,425	4,130

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 2016

15. LOANS AND ADVANCES

In thousands of New Zealand dollars	**2016**	2015
Bank loans (unsecured)	**31**	14,051

Loan facilities are repayable as follows:		
Within one year	**-**	(5,949)
One to two years	**31**	20,000
	31	14,051

Weighted average interest rates:		
Bank loans	**2.1%**	2.1%
Bank loans amended for derivatives, line fees and margin	**11.6%**	5.9%

The loan facilities comprise a syndicated revolving cash advance facility, dated 21 March 2012, committed to a maximum amount of $50 million (2015: $70 million). The loans drawn and facility available is analysed as follows:

	2016				2015			
	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 C	**-**	**-**	**20,000**	**-**	-	20,000	-	20,000
Tranche D	**-**	**5,246**	**-**	**20,000**	13,515	-	40,000	-
Tranche E	**-**	**(5,215)**	**-**	**10,000**	(19,464)	-	10,000	-
	-	**31**	**20,000**	**30,000**	(5,949)	20,000	50,000	20,000

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. Tranches A and B have 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 2015 and 2016 financial years.

Covenant		**2016**	2015
Gearing ratio	Net debt to EBITDA <3.0:1	**(0.2):1**	0.3:1
Interest cover	EBITDA to net interest >3.0 times	**64:1**	13.7:1
Minimum shareholder funds	> $70 million	**$96m**	$91m
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.

16. PROVISIONS

In thousands of New Zealand dollars	Warranty	Make good	Total
Balance at 1 July 2014	677	8,479	9,156
Provisions made during the period	1,037	209	1,246
Provisions utilised during the period	(677)	(1,108)	(1,785)
Effect of movement in exchange rate	24	76	100
Unwind discount	-	368	368
Balance at 30 June 2015	**1,061**	**8,024**	**9,085**
Provisions made during the period	**1,981**	**1,955**	**3,936**
Provisions utilised during the period	**(993)**	**(1,003)**	**(1,996)**
Effect of movements in exchange rate	**(136)**	**(108)**	**(244)**
Unwind discount	**-**	**313**	**313**
Balance at 30 June 2016	**1,913**	**9,181**	**11,094**
Current	1,061	1,972	3,033
Non-current	-	6,052	6,052
Balance at 30 June 2015	1,061	8,024	9,085
Current	**1,913**	**949**	**2,862**
Non-current	**-**	**8,232**	**8,232**
Balance at 30 June 2016	**1,913**	**9,181**	**11,094**

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 10% of the liability next year.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

17. 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, 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 AUD750 ($793) and USD1 ($2) {2015: AUD492 ($554), USD49 ($59)} and current liabilities of AUD278 ($292) and USD26 ($42) {2015: USD92 ($136) and EUR50 ($82)}. 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 15, the Group has a syndicated revolving cash advance facility committed to a maximum amount of $50 million (2015: $70 million). At 30 June the drawdown on these facilities was $31 thousand (2015: $14 million), to fund on-going activities. $20 million of the facilities expire 30 September 2016 and $30m of the facilities expire on 30 September 2017.

The Group has an overdraft facility of $50 (2015: $50) which has a wholesale prime interest rate of 6% (2015: 6%). At 30 June 2016 the drawdown on this facility was nil (2015: 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 2 years. At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

In thousands of New Zealand dollars	**2016**	2015
Fixed rate instruments:		
Financial assets (finance leases)	**2,517**	2,669
Variable rate instruments:		
Financial assets (forward covers at fair value)	**-**	85
Financial liabilities (debt)	**31**	14,051
Financial liabilities (swaps at fair value)	**196**	360
Financial liabilities (forward covers at fair value)	**12**	-

(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.

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

				2016			
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
Liabilities and equity							
Payables	-	(55,346)	(4,425)	-	-	(59,771)	(59,771)
Loans and advances	-	(1)	(31)	-	-	(32)	(31)
Total liabilities and equity	-	(55,347)	(4,456)	-	-	(59,803)	(59,802)

				2015			
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
Liabilities and equity							
Payables	-	(52,425)	(4,130)	-	-	(56,555)	(56,555)
Loans and advances	-	-	(20,266)	-	-	(20,266)	(14,051)
Total liabilities and equity	-	(52,425)	(24,396)	-	-	(76,821)	(70,606)

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

			2016			
In thousands of New Zealand dollars	Within One Year	One to Two Years	Two to Five Years	More than Five Years	Contractual Cashflows	Carrying Amount
Interest rate swaps:						
Liabilities	(161)	(14)	-	-	(175)	(195)
Forward exchange contracts:						
Liabilities	(14)	(4)	-	-	(18)	(13)
	(175)	(18)	-	-	(193)	(208)

			2015			
In thousands of New Zealand dollars	Within One Year	One to Two Years	Two to Five Years	More than Five Years	Contractual Cashflows	Carrying Amount
Interest rate swaps:						
Liabilities	(205)	(175)	(14)	-	(394)	(360)
Forward exchange contracts:						
Assets	67	-	-	-	67	85
	(138)	(175)	(14)	-	(327)	(275)

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

17. FINANCIAL INSTRUMENTS (CONTINUED)

(D) SENSITIVITY ANALYSIS

At 30 June 2016, it is estimated that a general increase of one percentage point in interest rates would increase the Group's equity by approximately $137 (2015: $118) and decrease net profit after tax by $38 (2015: $61). At 30 June 2016, it is estimated that a general decrease of one percentage point in interest rates would decrease the Group's equity by approximately $137 (2015: $29) and increase net profit after tax by $38 (2015: $61). Interest rate swaps have been included in this calculation.

At 30 June 2016, it is estimated that a general increase 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 $74 (2015: $50 increase). At 30 June 2016, it is estimated that a general decrease 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 $74 (2015: $50 decrease). 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 $13 (2015: $85 gain) had the Group closed the contracts out. None (2015: nil) of these gains were included in the Income Statement.

(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 and contract work in progress is the extension of credit to a majority of its customers for transmission services and contracting services to major telecommunications companies in Australia. As there are a limited number of major telecommunications companies in Australia, there is a concentration of credit risk. 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.

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

	2016		2015	
In thousands of New Zealand dollars	**Gross receivable**	**Impairment**	Gross receivable	Impairment
Not past due	**19,500**	**-**	12,839	(14)
Past due 0-30 days	**5,397**	**(9)**	5,698	(45)
Past due 31-120 days	**2,123**	**(53)**	933	(44)
Past due 121-365 days	**431**	**(184)**	743	(263)
Past due more than 1 year	**243**	**(212)**	24	(18)
Total	**27,694**	**(458)**	20,237	(384)

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.

18. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value measurement: Financial instruments measured and recognised at fair value are derivatives 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 maturity 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.

	2016		2015	
In thousands of New Zealand dollars	**Carrying value**	**Fair value**	Carrying value	Fair value
Loans and advances payable[1]	**31**	**31**	14,051	14,051
Financial derivatives liability[2]	**208**	**208**	360	360
Financial derivatives asset[2]	**-**	**-**	85	85

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, 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).

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

18. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

In thousands of New Zealand dollars	Level 1	Level 2	Level 3	Total
30 June 2016				
Derivative financial liabilities	-	(208)	-	(208)
	-	(208)	-	(208)
30 June 2015				
Derivative financial liabilities	-	(360)	-	(360)
Derivative financial assets	-	85	-	85
	-	(275)	-	(275)

There have been no transfers between levels during the year ended 30 June 2016 (2015: no transfers).

As at 30 June 2016, no financial assets or liabilities have been offset in the Statement of Financial Position although they are covered by an ISDA/Master netting agreement.

19. FINANCE LEASES

Finance lease receivables are as follows:

	2016			2015		
In thousands of New Zealand dollars	**Minimum lease payments**	**Interest**	**Present value of minimum lease payments**	Minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**338**	**142**	**196**	327	156	171
Between one and five years	**1,430**	**436**	**994**	1,400	502	898
More than five years	**1,491**	**164**	**1,327**	1,858	258	1,600
	3,259	**742**	**2,517**	3,585	916	2,669

The future lease receivables bear interest at 6% (2015: 6%).

Finance leases mainly pertain to network equipment. The leases are for a 132 month period.

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

In thousands of New Zealand dollars	Notes	2016	2015
Net surplus/ (deficit) as per income statement		**12,260**	9,234
Add/(deduct) non-cash items:			
Depreciation	8	**18,059**	19,352
Amortisation of licences and intangibles	10	**2,230**	2,605
Realised foreign currency losses/(gains)		**(81)**	2,240
Hedging losses net of payment made to exit		**-**	(624)
Change in deferred tax/(future income tax benefit)		**(1,487)**	1,340
Movement in provision for doubtful debts		**74**	(253)
Movement in other provisions		**(15)**	(748)
Unwind/change in make good		**313**	368
		31,353	33,513
Items classified as investing activities:			
Loss/(gain) on disposal of property, plant and equipment		**(181)**	156
Working capital on the acquisition of a business		**572**	-
		391	156
Movements in working capital:			
Receivables and prepayments		**9,958**	21,948
Inventories		**346**	(367)
Payables		**5,700**	(3,771)
		16,004	17,810
Net cash flows from/(used in) operating activities		**47,748**	51,479

21. LEASE COMMITMENTS

Commitments under non-cancellable operating leases are:		
Within one year	**11,944**	12,591
One to five years	**34,488**	32,840
Later than five years	**6,943**	13,549
	53,375	58,980

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.

22. CAPITAL COMMITMENTS

Capital commitments (including intangible assets) are:		
Within one year	**2,205**	1,834

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

23. 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 (2015: $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.

24. 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.

25. RELATED PARTY TRANSACTIONS

Kordia Group Limited comprises the following significant subsidiaries:

Entity	*Principal activity of entity*	*% holding*	*Country of Incorporation*
Kordia Limited		100%	New Zealand
Kordia New Zealand 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.

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:

Crown Entities, State Enterprises and Government Departments	**Transaction value year ended 30 June**		**Balance outstanding at 30 June**	
In thousands of New Zealand dollars	**2016**	2015	**2016**	2015
Revenue from telecommunications services	**22,413**	21,022	**1,333**	710
Direct costs and overheads	**2,804**	1,974	**-**	75

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.

In addition to the above related party transactions, the Group have transacted with its owner, the Crown. Refer to note 6 (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:

In thousands of New Zealand dollars	**2016**	2015
Short term employee benefits	**2,356**	2,297
Defined contribution plan	**132**	65
Directors fees	**333**	297
	2,821	2,659

Unpaid amounts relating to the above are $487 (2015: $785).

26. NON-GAAP MEASURES

The Group uses EBITDA when discussing financial performance. EBITDA is earnings before interest, tax, depreciation and amortisation. Depreciation and amortisation includes impairment charges recorded in the respective non current assets. EBITDA is a non-GAAP profit measure and is not recognised or standardised with IFRS. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures in accordance with IFRS. Management believes that EBITDA provides useful information, as it is used internally to evaluate performance, and it is also a measure that market analysts focus on for comparative company performance purposes, as the measure removes distortions caused by differences in funding, asset age and depreciation policies.

EBITDA has been clearly labelled and presented on the face of the income statement and is reconciled to profit after tax.

27. EVENTS AFTER THE BALANCE SHEET DATE

On 25 August 2016 the board of directors approved a final dividend of $7.5 million for the year ended 30 June 2016.

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 2016

TO THE READERS OF KORDIA GROUP LIMITED'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of Kordia Group Limited and its New Zealand domiciled subsidiaries. The Auditor-General has appointed me, Ian Proudfoot, using the staff and resources of KPMG, to carry out the audit of the financial statements of the group consisting of Kordia Group Limited and its subsidiaries and other controlled entities (collectively referred to as 'the Group'), on her behalf.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the Group on pages 30 to 62, that comprise the statement of financial position as at 30 June 2016, 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; and

In our opinion the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2016; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 26 August 2016. 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 Group's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the 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.

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 the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand, New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

The Board of Directors is also 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.

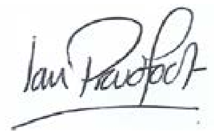
Responsibilities of the Auditor

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.

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, we have no relationship with or interests in the Group.



Ian Proudfoot
KPMG
On behalf of the Auditor-General
Auckland, New Zealand

STATEMENT OF PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2016

	Statement of Corporate Intent - Target 2016	2016 Actual	2015 Actual
Financial Performance Targets (Consolidated)			
Return on equity (net profit after tax as a percentage of average shareholders' equity)	7.7%	**13.1%**	10.8%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	$33.9m	**$38.6m**	$38.0m
Earnings before interest and taxes (EBIT)	$12.1m	**$18.3m**	$16.0m
Group net profit after tax (NPAT)	$6.6m	**$12.3m**	$9.2m
Shareholders' equity	$87m	**$96.3m**	$90.7m
Capital structure (shareholders' equity to total assets)	54%	**56%**	51%
Commercial value (enterprise value)	$155m	**$140m**	$155m
Commercial value of the Crown's investment (enterprise value - net debt)	$127m	**$147m**	$143m
Total shareholder return	(5%)	**7%**	24%
((commercial value end - commercial value beg + dividends)/ commercial value beg)			
Dividend yield (dividends/avg commercial value)	4%	**4%**	0%
Dividend payout	82%	**22%**	0%
(dividend paid/(net cashflow from operating activities – depreciation and amortisation expense))			
ROE adjusted for IFRS fair value movements and asset revaluations	7.4%	**12.8%**	10.7%
(NPAT adjusted for IFRS fair value movements (net of tax)/average share capital + retained earnings)			
Return on capital employed	10%	**18%**	13%
(EBIT adjusted for IFRS fair value movements/average capital employed)			
Operating margin (EBITDAF/Revenue)	13%	**16%**	15%
Gearing ratio (net debt/(net debt + shareholders' funds))	25%	**(8%)**	12%
Interest cover (EBITDA/ net interest)	12.3	**64.3**	13.7
Solvency (current assets/current liabilities)	2.1	**0.98**	1.27
Revenue Performance Targets (Consolidated)			
Kordia Limited	$85.5m	**$89.8m**	$87.1m
Kordia Solutions Pty Limited	$177.0m	**$151.4m**	$165.4m
Corporate elimination	($1.8m)	**($0.5m)**	($4.5m)
Total revenue	$260.7m	**$240.7m**	$248.0m
Revenue per FTE	$351k	**$350k**	$371k

	Statement of Corporate Intent - Target 2016	2016 Actual	2015 Actual
Non - Financial Performance Targets (Consolidated)			
Staff engagement index [a]	71%	**75%**	70%
Group lost time injury frequency rate (LTIFR) [b]	<5	**2.43**	3.33
NZ Digital Television Transmission (DTT) network availability (main metro sites measured annually) [c]	99.9%	**99.99%**	99.9%
Number of significant RMA non-compliances [d]	Nil	**Nil**	Nil

Notes

(a) 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.

(b) 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.

(c) 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.

(d) 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 activity 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 2016 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
Star Now Limited	Chair
Simply Security Limited	Director/Shareholder
Open Cloud Limited	Trustee/Shareholder
Wellington Regional Economic Development Agency	Director
Soltius Limited	Chair
VisFleet Limited	Chair
J E QUIRK	
Kordia Limited	Director
Kordia New Zealand Limited	Director
SMX Limited	Chair/Shareholder
Wherescape Software Limited	Chair
Merlot Aero Limited	Chair
FrameCAD Holdings Limited	Chair
Quirk International Limited	Director/Shareholder
FarmIQ Systems Limited	Chair
Howard & Company Ventures Limited	Director/Shareholder
Clearpoint Limited	Advisor
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
New Zealand Trade and Enterprise	Advisor
National Can Industries Pty Limited	Chair
S A BROADBENT	
Counties Power Limited	Chief Executive
Breach Consulting Limited	Director/Shareholder
Spruce Goose Aerospace Limited	Director/Shareholder

P H ADAMS	
Carrus Corp Limited	Chair
Te Aho O Te Kura Ponamu	Trustee
The University of Waikato	Council Member
Accessible Properties NZ Limited	Chair
Waipuna Hospice Building Committee	Chair
Waipuna Hospice	Patron
Denarau Resort Management Limited	Director
20 x privately owned land development companies	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 2016 premium (net of GST) was $20,475 (2015: $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 $
L M Witten (Chair)		108,000
J E Quirk		45,000
J H Allen	Resigned 31 October 2015	12,000
B D Hemi	Resigned 31 October 2015	12,000
R H Farrant		36,000
G F Sumner		36,000
S A Broadbent		36,000
P H Adams	Appointed 1 November 2015	24,000
P M Ennis	Appointed 1 November 2015	24,000
		333,000

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 2016. Employee remuneration in overseas operations has been converted to New Zealand dollars using the year end exchange rate.

	CONSOLIDATED	
NZD	Current Employees	Former Employees
$100,000 to $110,000	72	5
$110,001 to $120,000	35	3
$120,001 to $130,000	49	2
$130,001 to $140,000	38	1
$140,001 to $150,000	29	1
$150,001 to $160,000	31	-
$160,001 to $170,000	14	1
$170,001 to $180,000	12	-
$180,001 to $190,000	11	1
$190,001 to $200,000	12	-
$200,001 to $210,000	4	1
$210,001 to $220,000	3	-
$230,001 to $240,000	4	-
$240,001 to $250,000	4	-
$250,001 to $260,000	4	-
$260,001 to $270,000	1	-
$270,001 to $280,000	3	-
$280,001 to $290,000	2	1
$300,001 to $310,000	-	2
$310,001 to $320,000	3	-
$320,001 to $330,000	3	
$330,001 to $340,000	2	-
$360,001 to $370,000	1	-
$370,001 to $380,000	1	-
$390,001 to $400,000	-	1
$470,001 to $480,000	1	-
$540,001 to $550,000	1	-
$550,001 to $560,000	1	-
$570,001 to $580,000	1	-
$610,001 to $620,000	1	-
$620,001 to $630,000	1	-
$790,001 to $800,000	1	-
	345	19

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