WE ARE THE MISSION-CRITICAL TECHNOLOGY EXPERTS.

WE ARE KORDIA.

KORDIA GROUP ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2019

kordia®

SAFETY OF LIFE

CYBER SECURITY

BROADCAST & COMMUNICATIONS

BUSINESS TELECOMMUNICATIONS NETWORKS

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CHAIR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2019

Kordia Group posted revenue of $203 million for the year ended 30 June 2019. The company's earnings before income tax, depreciation and amortisation (EBITDA) is $17 million, and the company reports a full year loss after tax of $149,000.

While the Group's New Zealand business units performed exceptionally well, the Australian business unit struggled in a highly volatile and disruptive Australian telecommunications market. This was largely due to Australia's Chinese vendor ban which resulted in delays to several projects and significantly affected the Group's overall performance.

Pleasingly, the Group had record growth in many other areas, with the Networks and Cyber divisions experiencing particularly strong growth over the past year.

As cyber threats continue to skyrocket, so too does demand for expert advice and support – something Kordia's independent cyber security division, Aura Information Security, has been extremely well placed to leverage.

Aura continues to carve out a solid reputation as the 'go to' provider in the cyber security market. As a result, the company has experienced rapid growth with revenue up 36 percent on the previous year. The company also won the iSANZ Best Security Company Award for the second year running, which is testament to the superb talent of the entire Aura team.

The Networks division continues to perform strongly in the corporate sector, with the introduction of innovative new technology solutions – including Unified Security Management, SD-WAN and SIP for Microsoft Teams – all being welcomed by customers.

The New Zealand Solutions division successfully completed several large-scale projects over the past year, including a comprehensive upgrade of the Radio 2AP AM broadcast transmission infrastructure in Apia, Samoa, on behalf of ABC International Development.

With 5G rollout gaining momentum, the New Zealand Solutions team was involved in the design, planning and implementation of several significant 5G in-building coverage (IBC) projects. We expect this activity to increase over the coming years.

During the second half of the year, the Australian Solutions team secured two significant 5G projects, something the Group sees as a positive indication that 5G investment is reigniting, albeit with a different set of underlying technology providers.

Kordia's Media business continues to place a big focus on innovation and disruption in the broadcast space. The completion of Kordia's new state-of-the-art digital playout facility – and home of Parliament TV – the Kordia Media Hub, and the introduction of Kordia Pop Up TV, all rounded off another eventful and successful year for this business.

Kordia's Maritime division continues to achieve positive results, with the business securing several significant long-term contracts and contract extensions for marine distress and critical communications systems.

While there were many highlights over the past 12 months, underpinning and driving the ongoing success of the Group is Kordia's team of highly skilled experts.

Our people are what makes Kordia Group what it is. With the appointment of a new EGM of People & Culture, I'm delighted to say the areas of wellbeing, diversity and inclusion are receiving more attention than ever before. This focus will continue over the coming year and beyond, with a wide range of new initiatives on the horizon.

SUMMARY

It's been a superb year for our New Zealand based businesses, however over the past 12 months, the Australian telecommunications industry has undergone significant disruption and change. This has resulted in several project delays impacting the Kordia Group performance.

We are now seeing positive signs that this period of market disruption is coming to a close, and the Group is confident the Australian Solutions business is well poised to leverage its strong reputation, expertise and long-standing relationships with major telco carriers to maximise on future opportunities.

As a technology company, innovation and evolution is vital. It's for this reason that Kordia Group's primary goal for the coming year is to actively seek out and develop offers of new technologies and services that will better help our customers navigate what is an increasingly fast moving and complex digital world.

For the Board,

JOHN QUIRK
CHAIR - KORDIA GROUP

"...I'M DELIGHTED TO SAY THE AREAS OF WELLBEING, DIVERSITY AND INCLUSION ARE RECEIVING MORE ATTENTION THAN EVER BEFORE. THIS FOCUS WILL CONTINUE OVER THE COMING YEAR AND BEYOND, WITH A WIDE RANGE OF NEW INITIATIVES ON THE HORIZON."

JOHN QUIRK, CHAIR OF THE BOARD - KORDIA GROUP

CEO'S REPORT

FOR THE YEAR ENDED 30 JUNE 2019

The last 12 months have brought much change to Kordia Group, and the technology industry in general. With exciting advancements in technology happening on a near-daily basis, the challenge for businesses like Kordia is, what is the next big thing in technology and how do we help our customers succeed in a digital world?

Artificial intelligence, robotics, the Internet of Things, quantum computing – the coming years are going to be nothing short of exciting. The opportunities for businesses to embrace and unleash the power of these new technologies are going to be endless.

At Kordia, we're big believers in being innovators. We have a real thirst for learning and we constantly strive to stay one step ahead, because we know that our customers expect nothing less from us. We're also big believers in being agitators and that shaking things up to help drive competition is a good thing for our business, our customers, and the wider industry.

However, in today's hyper-connected world, businesses are up against some very hairy challenges. The cyber threat landscape is constantly evolving, and the need to implement new technology to aid and augment customer experiences, business operations, and general day-to-day tasks is no longer something that needs to be addressed on a three-to-five-year basis, it needs to be addressed constantly.

Kordia understands the opportunities our customers face, and that puts us in a unique position to better serve them. As a company that started out in radio broadcasting more than 60 years ago, Kordia Group has a fair amount of experience when it comes to the art of evolution. We've taken a few knocks along the way, but for the most part we've effectively managed to not only stay one step ahead of technology trends, but to use them to our advantage.

Reflecting on the year that was at Kordia Group, there were many notable achievements, as well as some challenges. By far the highlight for me is our people, all of whom turn up to work every day with a genuine interest in making a difference to our customers, and who truly represent our core values of being collaborative, trustworthy, humble, courageous and expert.

CYBER AWARENESS DRIVES GROWTH

The penny has well and truly dropped for businesses as far as cyber security is concerned. This comes as no surprise with over a quarter of New Zealand businesses, and more than 30 percent of Australian businesses*, saying that they have fallen victim to a cyber-attack over the past year, and that they expect to be subject to further attacks over the next 12 months.

Thanks to a renewed understanding and awareness of cyber risk, demand for expert cyber security services, support and advice has increased significantly – on both sides of the Tasman. So much so, our independent cyber security consultancy, Aura Information Security grew its revenue by an eye-watering 36 percent over the past 12 months; and this growth trajectory looks set to continue.

While rapid growth often brings challenges to business, for the team at Aura it has simply inspired them to continue to do more of what they're doing – that is, being a trusted advisor to customers and continuing to stay at the cutting edge of research and developments in information security. Testament to this is the fact the team took out the Best Security Company award for the second year running at the iSANZ Awards, and that several members of our team were invited to present their research at security conferences all over the world.

FUTURE-PROOFING NETWORKS AND ANTICIPATING CUSTOMER NEEDS

For our Networks business, the ongoing need for secure, reliable and resilient connections continues, and has resulted in solid growth.

Driving this growth is our continued commitment to innovation and our focus on ensuring our product suite comprises best-in-breed solutions that meet our customers' current and future technology needs. Over the past year, we've had particular success with new product and service offerings, including Unified Security Management, SD-WAN, SecureWAN, Microsoft Teams and Managed Firewall.

...we're big believers in being innovators. We have a real thirst for learning and we constantly strive to stay one step ahead, because we know that our customers expect nothing less from us.

SCOTT BARTLETT, CEO - KORDIA GROUP

MOVING BEYOND TRADITIONAL BROADCAST SERVICES

While the trend towards online content continues, our Media team is meeting the challenge head on by choosing to innovate, not stagnate. Testament to this is the 2019 launch of the Kordia Media Hub, a brand-new custom-built facility, located at Avalon Studios in Wellington. This facility is designed to provide cost-effective digital playout services to customers further up the value chain. In 2019, the Media team also launched a Pop Up TV service, which has attracted a range of customers – from cultural events, to fashion shows, corporate AGMs and sporting events.

EXPERTISE IN ACTION – ON THE GROUND, IN THE AIR AND BEYOND

Our Solutions business has a proven track record in the design, build and maintenance of a wide range of technology solutions; with a particularly good reputation when it comes to solving complex issues.

Last year, our Solutions business was engaged by ABC International Development to replace the Radio 2AP AM broadcast transmission mast, located in Apia, Samoa. This mast plays a critical role in ensuring communications remain up-and-running, including in times of national emergency. Projects such as these allow us to bring the best of Kordia to the Pacific.

As the Chairman noted in his report, we've experienced unprecedented disruption in the Australian market over the past year. The Chinese vendor ban in deploying 5G networks in Australia has had a material impact on our business and softened demand while the industry digested the impact of this disruptive action.

While the impact on our business was significant, our strategy has been to maintain our capability and secure our share of the growth that will inevitably occur. This belief in the future appears to have paid off, with multiple large-scale contracts secured in Q4, with work expected to flow in FY20.

*Aura Information Security Market Research Report, September 2018.

CONTINUED

CEO'S REPORT

FOR THE YEAR ENDED 30 JUNE 2019

MARITIME

To our Maritime team, network connectivity and reliability can be a matter of life and death. Our team is responsible for managing and operating the network that monitors around a quarter of the world's oceans for mariners in distress – whether they be large ships, or small hobby vessels. Last year our experts located in Australia and New Zealand responded to 1,148 distress calls, of which 260 were declared MAYDAY calls, indicating they were in grave or imminent danger.

Notable projects over the past 12 months included the completion of Coastguard Northern Region's VHF Network upgrade in New Zealand, providing reliable communications and cost efficiencies for the not-for-profit organisation.

ACTING ON DIVERSITY AND INCLUSION

As someone who is a proud member of the LGBTQI community, I'm honoured to be part of an organisation that places a strong focus on diversity and inclusion. Spearheading this focus is our new EGM of People and Culture, Anna Ferguson, who alongside our Executive team and Board, is working to ensure Kordia is seen as an employer of choice for all members of society – regardless of race, religion, gender or sexual orientation.

Over the past 12 months, Kordia Group has placed a big focus on shifting the dial on gender imbalance in our organisation. This includes updating policies and procedures relating to recruitment, performance and promotion, and carrying out a full gender parity pay review. To help encourage and support more women to consider a career in technology, Kordia Group also launched the Kordia Women in Technology Scholarship in partnership with the University of Waikato. We look forward to rolling out further initiatives over the coming year and actively raising the profile of women in technology and leadership across a range of forums.

A RELENTLESS COMMITMENT TO EMPLOYEE WELLBEING

As I often say to our team, 'if any member of our team is hurt or injured while at work, then we have failed.' This doesn't just extend to physical harm, but also emotional and mental harm.

Over the past year, Kordia Group has implemented a range of initiatives to help our managers live up to their promise of ensuring the health, safety and general wellbeing of our people. These include awareness raising initiatives, manager training programmes, and updates to our internal policies and procedures to ensure appropriate attention and support is given to mental health issues at work. All Kordia Group employees, and their families, have access to EAP support services.

Our employee representative health and safety committee, otherwise known as the 'Hard Hats', continue to do an exceptional job of fostering an environment of 'Zero Harm' across the business in conjunction with our QHSE team. Initiatives introduced over the past year include a Group Safety Risk Assurance Framework Manual, a Safety Improvement Plan, and the installation of dash cams on all Kordia vehicles. Kordia Solutions Australia was also named as a finalist in the AU National Safety Awards of Excellence in the Best Continuous Improvement of a WHS Management System category. Last year, the Group had a TRIFR (total recordable injury frequency rate) of 1.16, well ahead of our target of <5.

CONCLUSION

If the past year is anything to go by, the coming 12 months are going to be nothing short of eventful for both Kordia Group and the wider technology industry.

Our ability and willingness to embrace this constant evolution and translate it into meaningful business outcomes for our customers, is what sets Kordia Group apart in what is a competitive market; as does our ability to deliver 'The Kordia Experience' for our customers.

With the Australian Telco market now starting to stabilise, and with many of our New Zealand business units continuing to experience strong growth, I am confident the coming year will see Kordia Group in an ideal position to not only embrace new technologies on the horizon, but also to invest in new areas that add value to our business, our customers, and will help us achieve our vision of being the leading Australasian provider of mission-critical technology.

SCOTT BARTLETT
CEO - KORDIA GROUP

OUR PEOPLE

HEALTH & SAFETY

FOR THE YEAR ENDED 30 JUNE 2019

Thanks to the introduction of several health & safety initiatives Kordia achieved a 66% decrease in workplace injuries:

GROUP TRIFR

FY19	FY18
1.16	3.43

▼ 66%

DIVERSITY STATISTICS

AS AT 30 JUNE 2019

AGE / GENDER	TOTAL	WOMEN		MEN	
Brackets	**#**	**#**	**%**	**#**	**%**
18-25	35	10	29%	25	71%
26-35	159	35	22%	124	78%
36-45	196	44	22%	152	78%
46-55	156	22	14%	134	86%
56 and over	125	15	12%	110	88%
Total	**671**	**126**	**19%**	**545**	**81%**

LEVEL / GENDER	TOTAL	WOMEN		MEN	
Directors	7	3	43%	4	57%
Exec	10	1	10%	9	90%
Direct reports	49	10	20%	39	80%
Other managers	42	8	19%	34	81%
Staff	563	104	18%	459	82%
Across group	**671**	**126**	**19%**	**545**	**81%**

BOARD MEMBERS

FOR KORDIA GROUP

JOHN QUIRK

CHAIR OF THE BOARD. MEMBER OF KORDIA'S PEOPLE & CULTURE, AUDIT & RISK AND HEALTH & SAFETY COMMITTEES

John Quirk is actively involved in governance, investment, M&A and strategy activities across the New Zealand ICT sector. Throughout his career, John has held several key leadership roles including Chairman, CEO and Managing Director. John has extensive experience in high growth, high tech companies.

He is currently Chairman of FrameCAD Group, Farm-IQ Systems, SMX Limited, Kordia Group, Clearpoint Group, WhereScape Software and Cumulo9 Ltd.

John is a Chartered Member of the NZ Institute of Directors.

SHERIDAN BROADBENT

DEPUTY CHAIR OF THE BOARD. CHAIR OF KORDIA'S HEALTH & SAFETY COMMITTEE

Sheridan Broadbent (BCom, Advanced Management Program, Harvard Business School) is an experienced ICT, utilities and energy executive having held senior positions with Downer in New Zealand and Australia, Genesis Energy and most recently as Chief Executive for Counties Power.

She is an independent Director for Transpower and Timberlands and is an interim board member of NZTA.

Sheridan is also the Secretary of the Business Leaders' Health and Safety Forum, a Chartered Member of the Institute of Directors and an inaugural graduate of the IOD-administered Future Directors' Scheme.

SIR PAUL ADAMS (KNZM)

MEMBER OF KORDIA'S HEALTH & SAFETY COMMITTEE AND KORDIA'S AUDIT & RISK COMMITTEE

Sir Paul Adams (KNZM) is a Chartered Fellow of the Institute of Directors, and a member of the Institute of Professional Engineers.

He is Group Chairman of Carrus Group and Managing Director of Carrus Corporation, a property development and ownership group.

Paul has built a successful career in civil engineering contracting and is also well regarded for his philanthropic activities. He is a Trustee of Te Aho O Te Kura Pounamu and is also Patron of the Te Tuinga Whanau Support Services Trust and Waipuna Hospice.

SOPHIE HASLEM

CHAIR OF KORDIA'S AUDIT & RISK COMMITTEE

Sophie Haslem is a Chartered Member of the Institute of Directors NZ and has a BCom and Post-Graduate Diploma in Management from the University of Melbourne.

Over her 20 year executive career, Sophie worked with a diverse range of companies in both Australia and New Zealand; and built a strong background in corporate finance and strategy consulting. Previous roles included senior positions within Citibank NA, ANZ Investment Bank, Ernst & Young and New Zealand Post.

Sophie is currently Chair of The Akina Foundation and Deputy Chair of The MetService. She is a Director of CentrePort, Livestock Improvement Corporation (NZX:LIC), Rangatira Investments, Oyster Property Group, and Rainbows End Theme Park. She is also on the Investment Committee of the Impact Enterprise Fund.

PETER ENNIS

CHAIR OF KORDIA'S PEOPLE & CULTURE COMMITTEE. MEMBER OF HEALTH & SAFETY COMMITTEE

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. Peter 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.

After 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. He recently completed a five year term as Senior Vice President of Global Services and Delivery for Avid Technology Inc and is now a media technology consultant working with a variety of clients in Australia, New Zealand and the United States.

SUE O'CONNOR

MEMBER OF KORDIA'S AUDIT & RISK COMMITTEE

Sue O'Connor is an experienced business leader with more than 25 years' experience in executive leadership. Sue has served as a Chairman, Director and senior executive with ASX Top 10 and unlisted global organisations as well as high profile government GBEs and not for profits.

Prior to joining the Kordia board, Sue served as a non Executive Director for over 10 years and spent 13 years as a senior executive at Telstra Corporation. Her company leadership values include a commitment to ensuring communities are prosperous, equitable and sustainable. Sue is Currently Chair of Yarra Valley Water and is also a Director on the boards of ClimateWorks Australia, Mercer Superannuation and Treasury Corporation Victoria.

DAVID HAVERCROFT

MEMBER OF KORDIA'S PEOPLE & CULTURE COMMITTEE

David Havercroft's career in the technology industry spans more than 35 years. Previously COO and CTO of Spark New Zealand, David is now Chairman of the fibre and mobile infrastructure company, Connect8, and is the Director on multiple New Zealand boards including Southern Cross Cables and KiwiWealth.

With a track record in designing and leading complex business and information technology transformation programmes, David's focus on strategic and radical change within companies makes him a valued advisor to Kordia.

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 & CULTURE COMMITTEE

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

HEALTH & SAFETY COMMITTEE

The Health & 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 2019

The Directors have pleasure in presenting their report, together with the audited Financial Statements of the Group for the year ended 30 June 2019.

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:

Minister of Finance	Hon Grant Robertson
Minister of State Owned Enterprises	Rt Hon Winston Peters

RESULTS FOR THE YEAR

The Group's consolidated net profit/(loss) after taxation for the year was ($149,000) (2018: $5,662,000).

DIVIDEND

The Directors recommend no final dividend for the year ended 30 June 2019 (2018: $2,963,000). Taking into account no interim dividend (2018: $1,000,000), the total dividend for the year will be nil (2018: $3,963,000).

AUDITOR

The Controller and Auditor-General is the auditor of the Group in accordance with Section 19 of the State Owned Enterprises Act 1986 and has appointed Mark Crawford of KPMG to act for and on behalf of the Auditor-General, as auditor in respect of the year ended 30 June 2019.

On behalf of the Board

J E Quirk	S Haslem	
Chair	Director	29 August 2019

STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2019

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 2019.

J E Quirk Chair	S Haslem Director	29 August 2019

SAFETY OF LIFE

GUARDIANS OF THE OCEANS

KORDIA OPERATES AND MONITORS THE NETWORK THAT PROVIDES CRITICAL COMMUNICATIONS FOR ALMOST A 1/4 OF THE WORLD'S OCEANS.

LAST YEAR, OUR CANBERRA MARITIME OPERATIONS CENTRE (MOC)

RESPONDED TO **91** MAYDAY CALLS

HELPED SAVE **155** PEOPLE

LAST YEAR, OUR AVALON MARITIME OPERATIONS CENTRE (MOC)

RESPONDED TO **169** MAYDAY CALLS

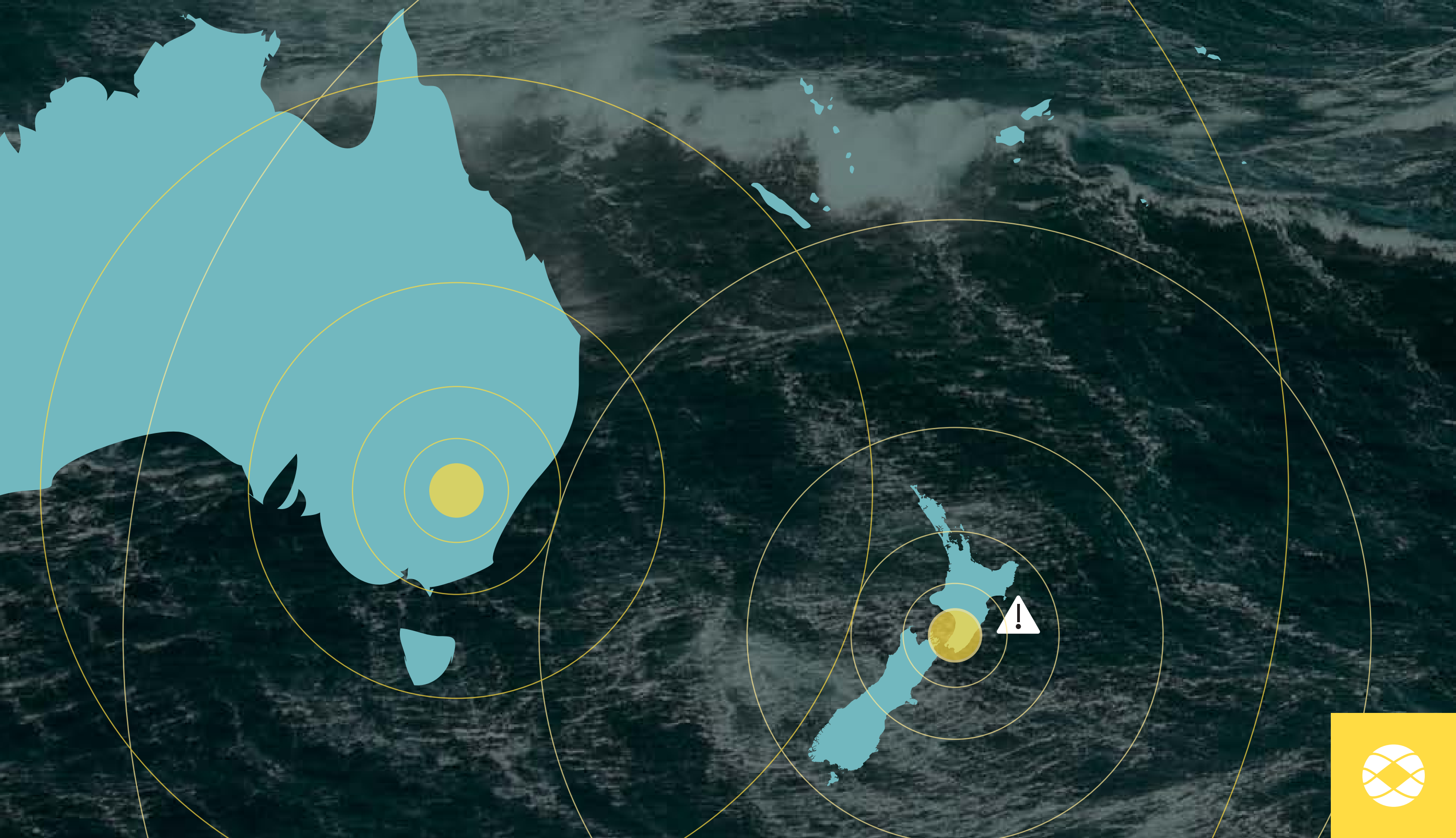
HELPED SAVE MORE THAN **3000** PEOPLE

MAYDAY, MAN OVERBOARD

ON MARCH 6 2019, THE AVALON MARITIME OPERATIONS CENTRE (MOC) RECEIVED A DESPERATE MAYDAY CALL FROM A MAN WHOSE BROTHER HAD BEEN LOST OVERBOARD IN ROUGH SEAS.

The MOC responded using its Tolaga Bay maritime radio site, acknowledging the distress call and commencing MAYDAY broadcasts immediately.

Two hours later, the man who had gone overboard was located, rescued and taken to hospital for observation.



BROADCAST & COMMUNICATIONS

kordia® | MEDIA HUB

INNOVATING IN AN EVOLVING MARKET

THE MEDIA AND BROADCAST INDUSTRY IS CONSTANTLY EVOLVING. KORDIA IS MEETING THIS CHALLENGE HEAD-ON BY DIVERSIFYING ITS OFFERING TO APPEAL TO AN EVEN GREATER AUDIENCE.

Launched in 2019, the Kordia Media Hub is a state-of-the art digital playout facility that's designed to provide exciting new services further up the value chain for both new and existing customers. It's also the home of Parliament Television.


kordia | MEDIA


kordia

HELPING TO KEEP BUSINESSES SAFE ONLINE...

AND ONE STEP AHEAD OF CYBERCRIMINALS

AS AWARENESS OF CYBER SECURITY THREATS AND RISKS GROWS, SO DOES DEMAND FOR EXPERT ADVICE AND SUPPORT.

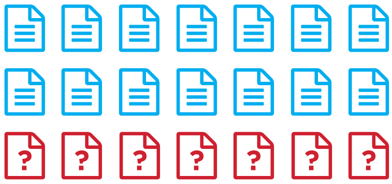
Kordia, and its independent cyber security division, Aura Information Security, work alongside a wide range of corporate and government customers throughout New Zealand and Australia to help ensure they have the necessary security defences to help protect them against a growing number of online threats.

We also help educate them on the regulatory landscape, and how they can best ensure they are keeping up with legislation relating to disclosure, privacy and their general duty of care when it comes to the data of others. We do this by taking a top down approach through strategic partnerships with both the Institute of Directors and the Trans-Tasman Business Circle.

Institute of DIRECTORS NEW ZEALAND

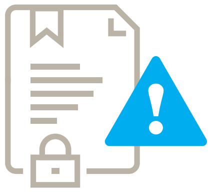
trans-tasman BUSINESS CIRCLE

NZ UNDERSTANDING OF LEGISLATION*



OVER A
THIRD
of New Zealand businesses have reporting requirements under **GDPR legislation.**

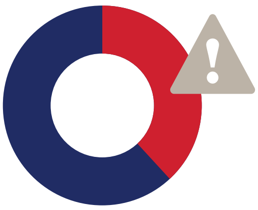
However, the same amount are unsure as to whether this legislation applies to them.



50%
of businesses are aware of the impending **changes to New Zealand's Privacy Bill** regarding mandatory data breach notification.

THIS MEANS HALF HAVE NO IDEA WHAT IT INVOLVES

PROGRESS IN AUSTRALIA*



NEARLY
2/3
of businesses say the introduction of the **NDB scheme** prompted them to review their cyber policies.

HOWEVER 38% HAVE TAKEN NO ACTION

SINCE ITS INTRODUCTION, ALMOST
35%
of businesses have **reported a data breach** under the NDB scheme.

Before its introduction,
ONLY A QUARTER
of Australian businesses say they would have **alerted customers of a data breach.**

*Aura Information Security Market Research Report, September 2018.

FOSTERING THE NEXT GENERATION OF CYBER TALENT...

At Aura Information Security, we've adopted a 'grow your own' mentality – that is, working with local tertiary institutions to assist, inspire and foster the next generation of cyber security professionals. This approach, which sees Aura work alongside institutions including the University of Waikato and Victoria University of Wellington, has seen us secure exceptional talent for our team – with three graduates having joined on a full-time basis over the past year, and a further four individuals joining us as interns.

Aura is also actively working to address the gender diversity gap by involving ourselves in initiatives that are designed to encourage more women to consider a career in information security.

aura INFORMATION SECURITY

POWERED BY KORDIA

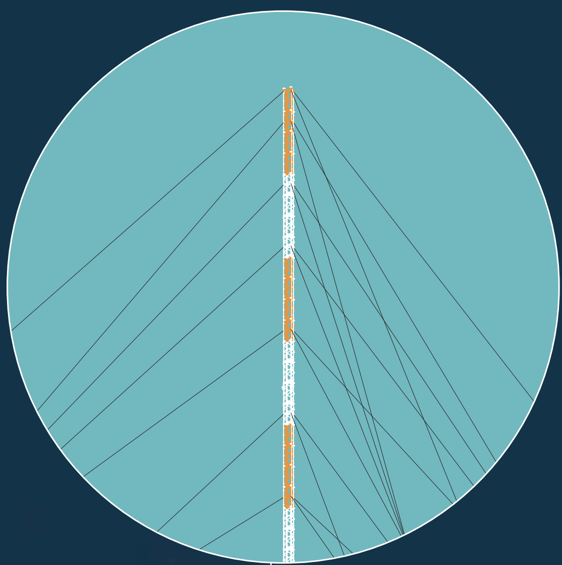
THE CYBER SECURITY SKILLS SHORTAGE IS NOT JUST A LOCAL PROBLEM, IT'S A GLOBAL PROBLEM. ACCORDING TO RSA, WE'RE CURRENTLY SHORT BY 1.5 MILLION SECURITY PROFESSIONALS GLOBALLY, AND THIS NUMBER WILL GROW TO 3 MILLION BY 2024.

KORDIA SOLUTIONS

CONNECTING COMMUNITIES

FOR REMOTE PACIFIC COMMUNITIES, HAVING ACCESS TO RELIABLE FORMS OF COMMUNICATION IS IMPORTANT - PARTICULARLY DURING TIMES OF EMERGENCY.

Recently, Kordia Solutions was engaged by ABC International Development to carry out a comprehensive upgrade of the Radio 2AP AM infrastructure in Apia, Samoa. This aid project, which was funded by the Australian Department of Foreign Affairs and Trade, involved demolishing the existing 120m mast, the construction of a new mast, building, transmitter and electrical upgrades, and civil works to raise the site by 1m to protect it against rising sea levels.



ENABLING 5G TECHNOLOGY:

IN-BUILDING COVERAGE SOLUTIONS

WHEN YOU CONSIDER THAT MOST PEOPLE USE THEIR DEVICES INDOORS, AND AN ESTIMATED 80% OF MOBILE PHONE CALLS AND DATA USE NOW ORIGINATE AND TERMINATE FROM INSIDE A BUILDING, IN-BUILDING COVERAGE (IBC) IS A CRUCIAL COMPONENT OF 5G'S FUTURE, PARTICULARLY IF IT MEANS A BUILDING – AND ALL INSIDE IT – WILL HAVE FAST AND RELIABLE ACCESS TO CELLULAR NETWORKS.

Whether 2G, 3G, 4G, 4G+ or beyond, Kordia has been solving indoor coverage problems across Australia and New Zealand for 15 years. From multi-story buildings, a University /Hospital campus, or a transport tunnel, Kordia's Special Coverage Solutions team are often the 'go-to' when it comes to solving complex mobile coverage issues for clients – including 5G connectivity.

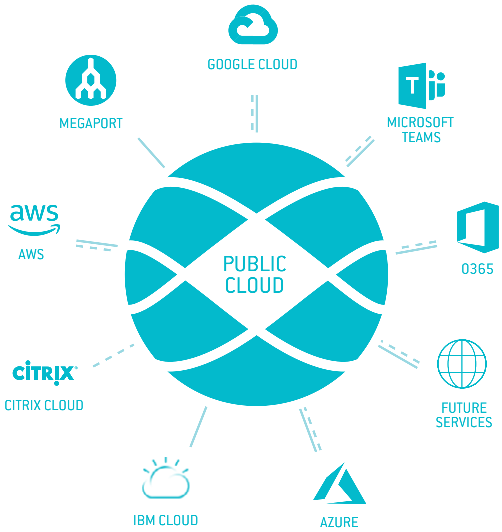
BUSINESS TELECOMMUNICATIONS NETWORKS

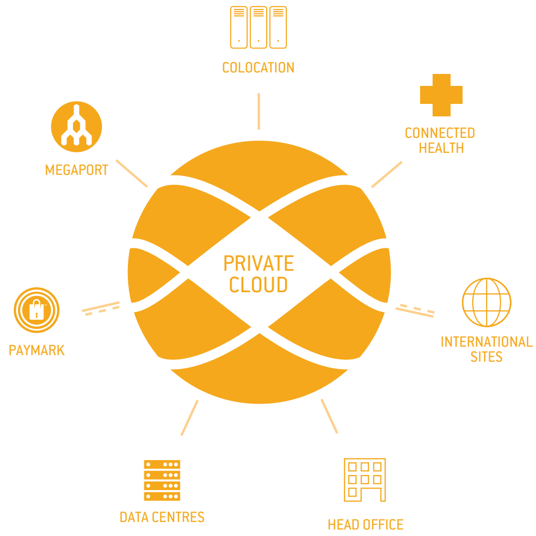
KEEPING NEW ZEALAND BUSINESS CONNECTED

For most businesses a fast, reliable and secure internet connection is crucial. Kordia owns and operates its own core network that's monitored and serviced by an in-house team of field technicians and configured to ensure maximum availability and reach.

HELPING BUSINESSES ON THEIR CLOUD JOURNEY

Kordia's 'Best Connected' philosophy means that regardless of whether they are connecting to public or private cloud services, our primary focus is to provide businesses with the connection that best meets their individual needs. To support this, we've partnered with global organisations, including Microsoft, Google and Amazon, to ensure our customers are getting access to the latest and greatest services in the market.





ENCOURAGING KIWI BUSINESSES TO GIVE IOT A TRY

At Kordia, we believe every business has a use case for IoT, they just haven't discovered it yet. To help simplify the proof of concept process, Kordia launched its own online IoT store, kordiathings.io. This site provides both ideas and examples for how IoT devices can be deployed across various industries, for a wide range of uses.

KORDIA GROUP LIMITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2019

In thousands of New Zealand dollars	Notes	2019	2018
Revenue - New Zealand		**110,032**	101,152
Revenue - Australia		**93,341**	116,084
Total revenue		**203,373**	217,236
Direct costs and overheads	3	**96,354**	99,919
Employee and contractor costs	4	**90,340**	90,295
Earnings before interest, tax, depreciation and amortisation (EBITDA)	26	**16,679**	27,022
Finance income	5	**589**	739
Finance expense	5	**1,327**	1,649
Depreciation and amortisation expense	8, 9	**16,580**	18,395
Profit/(loss) before income tax		**(639)**	7,717
Income tax expense/(benefit)	6	**(490)**	2,055
Profit/(loss) for the year attributable to the equity holder		**(149)**	5,662

The accompanying notes set out on pages 31 - 57 are to be read as part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

In thousands of New Zealand dollars	**2019**	2018
Profit/(loss) for the year attributable to the equity holder	**(149)**	5,662
Foreign currency translation differences	**(689)**	(187)
Effective portion of changes in the fair value of cashflow hedges	**(9)**	25
Tax effect of the effective portion of changes in the fair value of cashflow hedges	**2**	(7)
Other comprehensive (loss)/income for the year	**(696)**	(169)
Total comprehensive income/(loss) for the year attributable to the equity holder	**(845)**	5,493

The accompanying notes set out on pages 31 - 57 are to be read as part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

In thousands of New Zealand dollars	Notes	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total Attributable to Owners
Balance 1 July 2017		**87,696**	**2,448**	**(2,368)**	**(9)**	**87,767**
Net profit for the year		-	5,662	-	-	5,662
Other comprehensive income						
Foreign currency translation differences		-	-	(187)	-	(187)
Effective portion of changes in fair value of cashflow hedges, net of tax		-	-	-	14	14
Fair value of cashflow hedges transferred to income statement, net of tax		-	-	-	4	4
Total other comprehensive income		-	-	(187)	18	(169)
Total comprehensive income		**-**	**5,662**	**(187)**	**18**	**5,493**
Transactions with owners						
Dividends	7	-	(1,000)	-	-	(1,000)
Balance 30 June 2018		**87,696**	**7,110**	**(2,555)**	**9**	**92,260**
Adjustment on initial application of IFRS 15, net of tax	21	-	1,136	-	-	1,136
Adjusted balance 30 June 2018		**87,696**	**8,246**	**(2,555)**	**9**	**93,396**
Net profit for the year		-	(149)	-	-	(149)
Other comprehensive income						
Foreign currency translation differences		-	-	(689)	-	(689)
Fair value of cashflow hedges transferred to income statement, net of tax		-	-	-	(7)	(7)
Total other comprehensive income		-	-	(689)	(7)	(696)
Total comprehensive income		**-**	**(149)**	**(689)**	**(7)**	**(845)**
Transactions with owners						
Dividends	7	-	(2,963)	-	-	(2,963)
Balance 30 June 2019		**87,696**	**5,134**	**(3,244)**	**2**	**89,588**

The accompanying notes set out on pages 31 - 57 are to be read as part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

In thousands of New Zealand dollars	Notes	2019	2018
Assets			
Property, plant and equipment	8	**59,289**	62,771
Intangible assets and goodwill	9	**27,011**	28,175
Finance lease receivable	18	**1,607**	1,867
Deferred tax asset	10	**12,098**	12,604
Trade and other receivables	12	**1,400**	628
Total non-current assets		**101,405**	106,045
Cash		**13,267**	15,740
Inventories	11	**1,790**	1,555
Trade and other receivables	12	**48,820**	41,855
Asset held for sale	8	**-**	943
Finance lease receivable	18	**260**	240
Derivative assets		**5**	12
Total current assets		**64,142**	60,345
Total assets		**165,547**	166,390
Equity and Liabilities			
Share capital	7	**87,696**	87,696
Foreign currency translation reserve		**(3,244)**	(2,555)
Cashflow hedge reserve		**2**	9
Retained earnings		**5,134**	7,110
Total equity attributable to the equity holder		**89,588**	92,260
Trade and other payables	13	**3,350**	4,122
Loans and advances	14	**19,847**	19,056
Provisions	15	**11,379**	8,781
Total non-current liabilities		**34,576**	31,959
Taxation payable		**1,505**	411
Trade and other payables	13	**38,696**	40,996
Derivative liabilities		**2**	-
Provisions	15	**1,180**	764
Total current liabilities		**41,383**	42,171
Total liabilities		**75,959**	74,130
Total equity and liabilities		**165,547**	166,390

The accompanying notes set out on pages 31 - 57 are to be read as part of these financial statements.

On behalf of the Board

J E Quirk
Chair

S Haslem
Director

29 August 2019

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

In thousands of New Zealand dollars	Notes	2019	2018
Cash flows from operating activities			
Receipts from customers		**196,196**	204,012
Payments to suppliers and employees		**(189,682)**	(187,920)
		6,514	16,092
Dividends received		**2**	3
Interest received		**586**	736
Interest paid - other		**(1,024)**	(1,053)
Taxes (paid)/refunded		**1,235**	(2,826)
Net cash from/(used in) operating activities	22	**7,313**	12,952
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		**1,208**	54
Acquisition of property, plant and equipment		**(9,755)**	(12,360)
Acquisition of intangibles	9	**(326)**	(508)
Net cash (used in)/from investing activities		**(8,873)**	(12,814)
Cash flows from financing activities			
Proceeds/(repayment) of loans and advances		**1,955**	(739)
Proceeds from finance lease assets		**240**	214
Dividends paid		**(2,963)**	(1,000)
Net cash from/(used in) financing activities		**(768)**	(1,525)
Net increase/(decrease) in cash and cash equivalents		**(2,328)**	(1,387)
Cash and cash equivalents at beginning of year		**15,740**	16,957
Effect of exchange rate fluctuations on cash		**(145)**	170
Cash and cash equivalents at end of year		**13,267**	15,740

The accompanying notes set out on pages 31 - 57 are to be read as part of these financial statements.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INFORMATION SECURITY

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2019

1. ABOUT THIS REPORT

(A) 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 and its subsidiaries.

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.

(B) 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 29 August 2019.

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.

(C) 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 9.
- Provisions – Note 15.
- Valuation of financial instruments – Note 16.
- Deferred tax assets – Note 10.
- Useful life of property, plant, equipment and intangibles – Notes 8 and 9.

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.

(D) CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The accounting policies and methods of computation applied in the financial statements are consistent with those of the previous financial year except for the adoption of the new revenue standard NZ IFRS 15 Revenue from Contracts with Customers and the new financial instrument standard NZ IFRS 9 Financial Instruments during the year ended 30 June 2019.

The Group has initially adopted these new accounting standards and its impact is disclosed in note 21. In accordance with elections available under the relevant accounting standards, new accounting policies are only effective from 1 July 2018 and comparative information has not been restated and continues to be prepared under policies disclosed in the 30 June 2018 financial statements.

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 is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point or over time – requires judgement.

Sale of Goods

Revenue is recognised when the customer obtains control of the goods and services. This occurs at a point in time.

Rendering of Services

Services revenue is primarily generated from maintenance and other services supplied to infrastructure assets. Typically, under the performance obligations of service contract, the customer consumes and receives the benefit of the service as it is provided. As such, service revenue is recognised over time as the services are provided.

The new standard provides a higher threshold for the recognition of variations, claims and incentives which only allows revenue from variations and claims to be recognised to the extent they are approved or enforceable under the contract. The amount of revenue is then recognised to the extent it is highly probable that a significant reversal of revenue will not occur.

Construction Revenue

The contractual terms and the way the Group operates its construction contracts is predominantly derived from projects containing one performance obligation. Under these performance obligations, customers simultaneously receive and consume the benefits as the Group performs. Therefore contracted revenue is recognised over time based on stage of completion of a contract.

As with services revenue the new standard provides higher thresholds for recognition of variations, claims and incentives such that they are only recognised to the extent they are approved and enforceable under the contract. The amount of revenue is then recognised to the extent that it is highly probable that a significant reversal of revenue will not occur.

Contract Modifications

Revenue in relation to modifications, such as a change in the scope of the contract, will only be included in the transaction price, when it is approved by the parties to the contract, the modification is enforceable and the amount becomes highly probable.

Revenue in relation to claims and variations, there the Group has an approved enforceable right to payment is only included in the transaction price when the amount claimable becomes highly probable. In making this assessment, the Group considers a number of factors including nature of the claim, formal or informal acceptance by the customer of the validity of the claim and stage of negotiations to determine whether the enforceable and “highly probable” threshold has been met.

CONTINUED

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2019

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Performance Obligations and Contract Duration

Revenue is allocated to each performance obligation and recognised as the performance obligation is satisfied which may be at a point in time or over time.

NZ IFRS 15 requires a granular approach to identify the different revenue streams in a contract by identifying the different activities that are being undertaken and then aggregating only those where the different activities are significantly integrated or highly interdependent. Revenue will continue to be recognised, on certain contracts over time, as a single performance obligation when the services are part of a series of distinct goods and services that substantially integrated with the same pattern of transfer.

NZ IFRS 15 provides guidance in respect of the term over which revenue may be recognised and is limited to the period for which the parties have enforceable rights and obligations. When the customer can terminate a contract for convenience, the contract term and related revenue is limited to the termination period.

The Group has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component is the period between the transfer of services to the customer and the customer's payment for these services is expected to be one year or less.

Measure of Progress

The Group measures revenue using the measure of progress that best reflects the Group's performance in satisfying the performance obligation within the contracts over time. The different methods of measuring progress include an input method (e.g. costs incurred) or an output method (e.g. milestones reached). The same method of measuring progress is consistently applied to similar performance obligations.

Loss Making Contracts

Loss making contracts are now recognised under NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets as onerous contracts.

(C) LEASES

Consolidated Entity as the Lessee

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

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

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

Lease Incentives

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

Consolidated Entity as the Lessor

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

(D) FINANCE INCOME AND EXPENSES

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

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

(E) TAXATION

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

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

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

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

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

(F) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

CONTINUED

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2019

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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.

The Group classifies property, plant and equipment as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Property, plant and equipment are not depreciated once classified as held for sale.

(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

(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.

CONTINUED

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2019

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(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 with a forward looking "expected credit loss" (ECL) method. Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach. For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on number of days overdue, and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

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

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

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

(L) PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

(M) EMPLOYEE BENEFITS

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

(N) FOREIGN CURRENCIES

Transactions

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

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

Translation of Foreign Group Entities

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

(O) CONTINGENCIES

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

(P) DETERMINATION OF FAIR VALUES

Fair values have been determined for measurement and/or disclosure purposes in Note 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.

CONTINUED

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2019

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(Q) STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards and interpretations are not yet effective for the year ended 30 June 2019 and have not been applied in preparing these consolidated financial statements. The Directors expect to adopt the standards and interpretations in the period in which they become effective:

- 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.

  As at 30 June 2019, management have reviewed the current lease related business processes, controls and governance. Detailed contract reviews have been undertaken to determine whether contracts contain or should be accounted for as a lease under NZ IFRS 16. Analysis of existing lease databases has also been performed, a lease data enrichment process completed and an IFRS 16 module within lease databases implemented. Management had to make some key judgements including:

  - The incremental borrowing rate used to discount lease assets and liabilities; and
  - The lease term including potential rights of renewal.

  Based on the initial assessment, the Group expects the following impact on implementation date:

  - Recognition of a "Right of Use Asset" of approximately $15 million.
  - Recognition of a "Lease Liability" of approximately $17 million.
  - Increase in deferred tax asset of approximately $1 million.
  - Decrease in opening retained earnings of approximately $1 million.

  The impact on the consolidated income statement for the year ended 30 June 2020 is expected to be:

  - Decrease in direct costs and overhead expenses of approximately $8 million.
  - Increase in depreciation and amortisation expense of approximately $7 million.
  - Increase in finance expense (interest) of approximately $1 million.

  The above had no cash effect to the Group and the change is for financial reporting purposes only.

  The Group plans to adopt NZ IFRS 16 in its consolidated financial statements for the year ended 30 June 2020 using the modified retrospective approach. As a result, the Group will apply the requirements of NZ IFRS 16 to the most current period in the financial statements and recognise the cumulative effect of initially applying NZ IFRS 16 as an adjustment to the opening balance of retained earnings. Comparative periods will be presented under the existing lease standard.

  Current estimates are likely to change for the period ended 30 June 2020 mainly due to:

  - Finalisation of management's judgements and subsequent movements in the inherent borrowing rate (interest rates);
  - New lease contracts entered into by the Group;
  - Any changes to existing lease contracts; and
  - Change in management's judgements to exercise rights of renewals under lease arrangements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

In thousands of New Zealand dollars	Notes	2019	2018
3. DIRECT COSTS AND OVERHEADS INCLUDE:			
Auditor's fees			
- audit services		**292**	292
- other audit related services		**13**	13
Directors' fees		**261**	227
(Gain)/loss on disposal of property, plant and equipment		**(80)**	(265)
Impairment loss on trade receivables		**49**	237
Rental and operating lease costs		**9,202**	9,116
Project material and subcontractor costs		**60,354**	64,091
Direct network costs		**12,767**	12,484
Fair value (gains)/losses on de-designated swaps		**-**	(43)
4. EMPLOYEE AND CONTRACTOR COSTS INCLUDE:			
Redundancy		**1,186**	682
Defined contribution plan		**5,410**	5,206
5. FINANCE INCOME AND EXPENSE			
Interest income on bank deposits and loan receivable		**470**	606
Interest income on finance leases		**117**	130
Dividend income		**2**	3
Finance income		**589**	739
Interest expense on loans and borrowings		**993**	1,055
Net interest expense on financial assets designated at fair value through the income statement		**-**	18
Unrealised foreign exchange loss		**38**	10
Realised foreign exchange loss		**21**	215
Unwind the discount on provisions	15	**275**	351
Finance expense		**1,327**	1,649
Net finance expense		**738**	910

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

In thousands of New Zealand dollars	2019	2018
6. INCOME TAX EXPENSE		
Current tax expense	**(484)**	3,002
Adjustment from prior periods	**(53)**	(32)
Deferred tax (benefit)	**47**	(915)
Total income tax expense/(benefit)	**(490)**	2,055
Reconciliation of effective tax rate		
Net profit/(loss) before taxation	**(639)**	7,717
Taxation at 28%	**(179)**	2,161
Adjusted for the tax effect of:		
Difference in subsidiary income tax rates	**(374)**	(150)
Non-deductible expenses	**116**	76
Under/(over) provided in prior periods	**(53)**	(32)
Taxation expense/(benefit)	**(490)**	2,055
Imputation Credit Account		
Imputation credits available to shareholders in future periods	**16,623**	15,152

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

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

	2019	2018
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 2019 the Group paid no interim dividend (2018: $1,000) and a prior year final dividend of $2,963 (2018: nil).

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 2018 and June 2019 is due to the capitalisation of transmission equipment which were under construction at June 2018.

Impairment of a Cash-Generating Unit

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 2018. 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% (2018: 0%) was assumed. A real post tax discount rate of 6.1% (2018: 6.6%) 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 2019, the carrying amount of the Network property, plant and equipment was determined to be below with the recoverable amount indicating that no 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.

Asset Held for Sale

On 29 June 2018 Kordia acquired 9.7 hectares of land. Kordia has a transmission site on the acquired land. At 30 June 2018 Kordia had agreed in principle with another party to subdivide the section, retain the transmission site land and sell the residual land to the other party. At 30 June 2018 the residual land was classified as held for sale. The land was sold on 20 June 2019.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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 2017	31,027	8,167	68,245	245,832
Additions	1,837	584	1,117	4,919
Transfers	927	-	1,555	372
Asset held for sale	(943)	-	-	-
Disposals/adjustments	-	263	(279)	(1,939)
Reclassifications	110	-	-	97
Effect of movements in exchange rates	29	106	50	1,009
Balance at 30 June 2018	**32,987**	**9,120**	**70,688**	**250,290**
Additions	17	2,854	13	7,720
Transfers	3	-	12	802
Disposals/adjustments	(18)	(59)	(82)	(5,254)
Reclassifications	-	-	-	(4)
Effect of movements in exchange rates	(34)	(124)	(65)	(1,182)
Balance at 30 June 2019	**32,955**	**11,791**	**70,566**	**252,572**
Depreciation and Impairment Losses				
Balance at 1 July 2017	(22,760)	(3,366)	(58,024)	(211,182)
Depreciation for the year	(1,005)	(744)	(1,644)	(10,244)
Disposals	-	27	261	1,912
Effect of movements in exchange rates	1	(107)	(1)	(926)
Balance as at 30 June 2018	**(23,764)**	**(4,190)**	**(59,408)**	**(220,440)**
Depreciation for the year	(1,153)	(887)	(1,824)	(8,868)
Disposals	18	13	71	5,128
Effect of movements in exchange rates	8	58	14	1,148
Balance as at 30 June 2019	**(24,891)**	**(5,006)**	**(61,147)**	**(223,032)**
Carrying amounts				
At 30 June 2018	**9,223**	**4,930**	**11,280**	**29,850**
At 30 June 2019	**8,064**	**6,785**	**9,419**	**29,340**

Furniture & fittings	Office equipment	Motor vehicles	Information systems	Work in progress	Total
1,416	2,201	1,653	34,902	4,192	397,635
56	94	176	1,854	2,284	12,921
15	20	3	1,221	(4,236)	(123)
-	-	-	-	-	(943)
-	(9)	(106)	(74)	-	(2,144)
(110)	-	-	(97)	-	-
8	53	30	1,024	1	2,310
1,385	**2,359**	**1,756**	**38,830**	**2,241**	**409,656**
15	131	3	1,126	692	12,571
2	6	50	33	(1,111)	(203)
(4)	(334)	(129)	(2,574)	-	(8,454)
-	4	-	-	-	-
(10)	(68)	(29)	(1,068)	(1)	(2,579)
1,388	**2,100**	**1,651**	**36,347**	**1,821**	**410,991**
(904)	**(1,919)**	**(1,224)**	**(30,788)**	**-**	**(330,167)**
(65)	(127)	(165)	(3,174)	-	(17,168)
-	5	100	56	-	2,361
(8)	(52)	(24)	(794)	-	(1,911)
(977)	**(2,093)**	**(1,313)**	**(34,700)**	**-**	**(346,885)**
(80)	(151)	(168)	(2,327)	-	(15,458)
4	334	129	2,572	-	8,269
9	59	18	1,058	-	2,372
(1,044)	**(1,851)**	**(1,334)**	**(33,397)**	**-**	**(351,702)**
408	**266**	**443**	**4,130**	**2,241**	**62,771**
344	**249**	**317**	**2,950**	**1,821**	**59,289**

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

9. INTANGIBLE ASSETS

In thousands of New Zealand dollars	Trademarks	Frequency Licences	Software	Goodwill	Total
Cost					
Balance at 1 July 2017	**125**	**9,512**	**25,283**	**22,966**	**57,886**
Additions	-	-	508	-	508
Transfers	-	-	123	-	123
Disposals	-	-	(33)	-	(33)
Effects of movements in exchange rates	-	-	-	494	494
Balance at 30 June 2018	**125**	**9,512**	**25,881**	**23,460**	**58,978**
Additions	-	-	326	-	326
Transfers	-	-	203	-	203
Disposals	-	-	(23)	-	(23)
Effects of movements in exchange rates	-	-	-	(571)	(571)
Balance at 30 June 2019	**125**	**9,512**	**26,387**	**22,889**	**58,913**
Amortisation and Impairment losses					
Balance at 1 July 2017	**(42)**	**(6,273)**	**(23,287)**	**-**	**(29,602)**
Amortisation for the year	(25)	(396)	(806)	-	(1,227)
Disposals	-	-	26	-	26
Balance at 30 June 2018	**(67)**	**(6,669)**	**(24,067)**	**-**	**(30,803)**
Amortisation for the year	(25)	(397)	(700)	-	(1,122)
Disposals	-	-	23	-	23
Balance at 30 June 2019	**(92)**	**(7,066)**	**(24,744)**	**-**	**(31,902)**
Carrying amounts					
At 30 June 2018	**58**	**2,843**	**1,814**	**23,460**	**28,175**
At 30 June 2019	**33**	**2,446**	**1,643**	**22,889**	**27,011**

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 $13,803 (2018: $14,374) has been allocated to Kordia Pty Limited and $9,086 (2018: $9,086) has been allocated to the Aura business unit.

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 6.7% (2018: 6.8%) was applied to Kordia Pty Limited and subsidiary and 8.9% (2018: 10.1%) was applied to Aura and was derived from the real post tax weighted average cost of capital. The year-on-year change in discount rate for Kordia Pty Limited and Subsidiary and Aura reflects a decrease in the risk free rate. 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 2019 using the financial budgets approved by management. Beyond year five a real growth rate of 0% (2018: 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.

10. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	ASSETS		LIABILITIES		NET	
In thousands of New Zealand dollars	**2019**	2018	**2019**	2018	**2019**	2018
Property, plant and equipment	**-**	-	**(1,200)**	(321)	**(1,200)**	(321)
Intangible assets	**-**	-	**(74)**	(201)	**(74)**	(201)
Derivatives	**-**	-	**(1)**	(3)	**(1)**	(3)
Trade and other receivables	**-**	-	**(5,833)**	(4,671)	**(5,833)**	(4,671)
Inventories	**105**	111	**-**	-	**105**	111
Employee entitlements	**1,785**	2,330	**-**	-	**1,785**	2,330
Other payables	**1,383**	2,740	**-**	-	**1,383**	2,740
Provisions	**3,546**	2,704	**-**	-	**3,546**	2,704
Tax losses	**12,387**	9,915	**-**	-	**12,387**	9,915
Net tax assets/(liabilities)	**19,206**	17,800	**(7,108)**	(5,196)	**12,098**	12,604

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

In thousands of New Zealand dollars	**2019**	2018
New Zealand	**1,593**	1,964
Australia	**10,505**	10,640
Net tax asset	**12,098**	12,604

All movements in deferred tax have been recognised in the Income Statement except for ($2) (2018: $7) relating to derivatives which have been recognised in the cash flow hedge reserve, $20 (2018: $187) that have been recognised in the foreign currency translation reserve and $441 (2018: nil) recognised in retained earnings on transition to IFRS 15 (refer to note 21).

Gross tax losses of $41,290 (2018: $33,050) 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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

11. INVENTORIES

In thousands of New Zealand dollars	2019	2018
Inventory	**2,348**	2,038
Provision for write down	**(558)**	(483)
Total inventories	**1,790**	1,555

12. TRADE AND OTHER RECEIVABLES

Current		
Trade receivables	**21,872**	19,857
Provision for doubtful debts	**(435)**	(581)
Trade prepayments	**4,115**	4,587
Costs to obtain a contract	**924**	-
Contract asset – contract work in progress	**22,344**	17,992
	47,896	41,855
Non-current		
Costs to obtain a contract	**748**	-
Other receivables	**652**	628
	2,324	628

During the year, the Group utilised $192 (2018: $305) of the provision for doubtful debts and increased the provision by $54 (2018: $237).

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 2019, contract work in progress was $22,344 (2018: $17,992).

Deferred income, where billing exceeds recognised revenue, is disclosed in note 13 and amounts to $8,349 (2018: $8,366).

Trade receivables are financial assets categorised as loans and receivables.

13. TRADE AND OTHER PAYABLES

Current		
Trade payables and accruals	**25,995**	26,707
Contract liability - deferred income	**7,461**	7,806
Employee entitlements	**5,240**	6,483
	38,696	40,996
Non-current		
Trade payables and accruals	**1,337**	1,878
Contract liability - deferred income	**888**	560
Employee entitlements	**1,125**	1,684
	3,350	4,122

Payables are categorised as financial liabilities measured at amortised cost.

14. LOANS AND ADVANCES

In thousands of New Zealand dollars	2019	2018
Bank loans (unsecured)	**19,847**	19,056

Loan facilities are repayable as follows:		
Within one year	**-**	-
One to two years	**19,847**	-
Two to five years	**-**	19,056
	19,847	19,056

Weighted average interest rates:		
Bank loans	**2.5%**	3.2%
Bank loans amended for derivatives, line fees and margin	**4.3%**	4.5%

The loan facilities comprise a syndicated revolving cash advance facility, dated 29 June 2017 and amended and restated from time to time (2018: 29 June 2017), committed to a maximum amount of AUD40 million (2018: NZD30 million). The loans drawn and facility available is analysed as follows:

	2019				2018			
	Balance Drawn		**Available Facility**		Balance Drawn		Available Facility	
In thousands of New Zealand dollars	**Current**	**Non-current**	**Current**	**Non-current**	Current	Non-current	Current	Non-current
Tranche A	**-**	**-**	**-**	**-**	-	-	-	-
Tranche B	**-**	**18,801**	**-**	**31,394**	-	19,056	-	30,000
Tranche C	**-**	**1,046**	**-**	**10,465**	-	-	-	-
	-	**19,847**	**-**	**41,859**	-	19,056	-	30,000

On 29 June 2017 a facility agreement was entered into between Kordia and the members of the banking syndicate. The facility is split into three tranches (A, B and C) with different fee and margin structures. The available facility can be allocated between the tranches as forecasts require. There is a right of set off between the tranches of the loan facility. The facility expires on 1 July 2020.

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 2018 and 2019 financial years.

Covenant		**2019**	2018
Gearing ratio	Net debt to EBITDA <3.0:1	**0.4:1**	0.1:1
Interest cover	EBITDA to net interest >3.0 times	**20:1**	30:1
Minimum shareholder funds	> $50 million (2018: $70 million)	**$90m**	$92m
Coverage ratios	Total assets of guaranteeing group to total assets of the consolidated group >95%	**100%**	100%
	Total EBIT of guaranteeing group to total EBIT of the consolidated group >95%	**100%**	100%

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

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

15. PROVISIONS

In thousands of New Zealand dollars	Warranty	Make good	Total
Balance at 1 July 2017	257	8,398	8,655
Provisions made/(adjusted) during the period	-	560	560
Provisions utilised during the period	-	(74)	(74)
Effect of movement in exchange rate	10	43	53
Unwind discount	-	351	351
Balance at 30 June 2018	267	9,278	9,545
Provisions made/(adjusted) during the period	**5**	**2,806**	**2,811**
Provisions utilised during the period	**-**	**(12)**	**(12)**
Effect of movements in exchange rate	**(10)**	**(50)**	**(60)**
Unwind discount	**-**	**275**	**275**
Balance at 30 June 2019	**262**	**12,297**	**12,559**
Current	267	497	764
Non-current	-	8,781	8,781
Balance at 30 June 2018	267	9,278	9,545
Current	**262**	**918**	**1,180**
Non-current	**-**	**11,379**	**11,379**
Balance at 30 June 2019	**262**	**12,297**	**12,559**

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 7% of the liability next year.

16. 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 AUD4,235 ($4,432) {2018: AUD1,271 ($1,377)} and current liabilities of AUD214 ($224) and USD 83 ($123) {2018: AUD405 ($441), USD97 ($144) and EUR58 ($99)}. 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 14, the Group has a syndicated revolving cash advance facility committed to a maximum amount of AUD40,000 (2018: NZD30,000). At 30 June the drawdown on these facilities was $19,847 (2018: $19,056), to fund on-going activities. The facilities expire on 1 July 2020.

The Group has an overdraft facility of $50 (2018: $50) which has a wholesale prime interest rate of 6% (2018: 6%). At 30 June 2019 the drawdown on this facility was nil (2018: nil).

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

In thousands of New Zealand dollars	**2019**	2018
Fixed rate instruments:		
Financial assets (finance leases)	**1,867**	2,107
Variable rate instruments:		
Financial liabilities (debt)	**19,847**	19,056

(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.

				2019			
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	**-**	**(39,000)**	**(3,350)**	**-**	**-**	**(42,350)**	**(42,350)**
Loans and advances	**-**	**(505)**	**(19,848)**	**-**	**-**	**(20,353)**	**(19,847)**
Total liabilities and equity	**-**	**(39,505)**	**(23,198)**	**-**	**-**	**(62,703)**	**(62,197)**

				2018			
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	-	(40,996)	(4,122)	-	-	(45,118)	(45,118)
Loans and advances	-	(606)	(606)	(19,106)	-	(20,318)	(19,056)
Total liabilities and equity	-	(41,602)	(4,728)	(19,106)	-	(65,436)	(64,174)

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

16. FINANCIAL INSTRUMENTS (CONTINUED)

(D) SENSITIVITY ANALYSIS

At 30 June 2019, it is estimated that a general increase of one percentage point in interest rates would increase the Group's equity by approximately nil (2018: nil) and decrease net profit after tax by $139 (2018: $133). At 30 June 2018, it is estimated that a general decrease of one percentage point in interest rates would decrease the Group's equity by approximately nil (2018: nil) and increase net profit after tax by $139 (2018: $133). Interest rate swaps have been included in this calculation.

At 30 June 2019, 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 $92 (2018: $11). At 30 June 2019, 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 $92 (2018: $11). Forward exchange contracts have been included in this calculation.

(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:

	2019		2018	
In thousands of New Zealand dollars	**Gross receivable**	**Impairment**	Gross receivable	Impairment
Not past due	**14,453**	**-**	14,170	-
Past due 0-30 days	**5,387**	**(40)**	3,682	(48)
Past due 31-120 days	**1,770**	**(72)**	1,659	(111)
Past due 121-365 days	**45**	**(132)**	72	(185)
Past due more than 1 year	**217**	**(191)**	274	(237)
Total	**21,872**	**(435)**	19,857	(581)

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.

17. 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.

	2019		2018	
In thousands of New Zealand dollars	**Carrying value**	**Fair value**	Carrying value	Fair value
Loans and advances payable (classified as amortised cost)	**19,847**	**19,847**	19,056	19,056

As at 30 June 2019, no financial assets or liabilities have been offset in the Statement of Financial Position although they are covered by an ISDA/Master netting agreement.

18. FINANCE LEASES

Finance lease receivables are as follows:

	2019			2018		
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	**362**	**102**	**260**	356	116	240
Between one and five years	**1,485**	**240**	**1,245**	1,473	310	1,163
More than five years	**373**	**11**	**362**	747	43	704
	2,220	**353**	**1,867**	2,576	469	2,107

The future lease receivables bear interest at 6% (2018: 6%).

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

19. 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 $50m (2018: $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.

20. 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.

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

21. ADOPTION OF NEW ACCOUNTING STANDARDS

Two new standards were adopted during the period:

(A) NZ IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

Impact on Application

The Group has adopted NZ IFRS 15 Revenue from Contacts with Customers from 1 July 2018. NZ IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It has replaced NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and related interpretations. The core principle of NZ IFRS 15 is that an entity shall recognise revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred rather than on the transfer of risks and rewards.

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 July 2018). Accordingly, the information presented for the period ended 30 June 2018 has not been restated and it is presented, as previously reported, under NZ IAS 18 and NZ IAS 11 and related interpretations.

The following table summarises the Group impact (net of tax) of the transition to NZ IFRS 15 as recognised in retained earnings on 1 July 2018. The table below shows only the balance sheet items impacted by the adoption of NZ IFRS 15.

In thousands of New Zealand dollars	As reported 30 June 2018	IFRS 15 Adjustments	Opening 1 July 2018
Assets			
Deferred tax asset	**12,604**	(441)	12,163
Trade and other receivables	**628**	710	1,388
Total non-current assets	**106,045**	269	106,314
Trade and other receivables	**41,855**	867	42,722
Total current assets	**60,345**	867	61,212
Total assets	**166,390**	1,136	167,526
Equity and Liabilities			
Retained earnings	**7,110**	1,136	8,246
Total equity attributable to the equity holder	**92,260**	1,136	93,396
Total non-current liabilities	**31,959**	-	31,959
Total current liabilities	**42,171**	-	42,171
Total liabilities	**74,130**	-	74,130
Total equity and liabilities	**166,390**	1,136	167,526

The key impacts on transition were as a result of the following changes:

(i) Agency

The Group has determined that it acts in the capacity of an agent for certain transactions. Under NZ IFRS 15, the assessment will be based on whether the Group controls the specific goods before transferring them to the end customer, rather than whether it has exposure to significant risks and rewards associated with the sale of the good. The Group has performed an assessment and expects that revenue, and direct costs and overheads, will be lower. Had the standard been in effect for the year ended 30 June 2018, both revenue and direct costs in the Income Statement would be lower by $2.84 million.

(ii) Incremental Costs of Obtaining a Contract

Incremental costs are those that would not have been incurred if the contract had not been obtained. Under IFRS 15, such costs are amortised on a systematic basis that is consistent with the transfer of the goods or services to the customer to which the asset relates. The Group has performed an assessment and has deferred $1.577 million of incremental costs, and the related deferred tax, to the balance sheet on application of the standard.

The following table summarises the impact of adoption of NZ IFRS 15 on the Group's Statement of Financial Position and Income Statement for the current period in comparison to the results that would have been reported if NZ IFRS 15 had not been applied.

In thousands of New Zealand dollars	As reported 30 June 2019	IFRS 15 Adjustments	Without NZ IFRS 15
Assets			
Deferred tax asset	**12,098**	468	12,566
Trade and other receivables	**1,400**	(748)	652
Total non-current assets	**101,405**	(280)	101,125
Trade and other receivables	**48,820**	(924)	47,896
Total current assets	**64,142**	(924)	63,218
Total assets	**165,547**	(1,204)	164,343
Equity and Liabilities			
Retained earnings	**5,134**	(1,204)	3,930
Total equity attributable to the equity holder	**89,588**	(1,204)	88,384
Total non-current liabilities	**34,576**	-	34,576
Total current liabilities	**41,383**	-	41,383
Total liabilities	**75,959**	-	75,959
Total equity and liabilities	**165,547**	(1,204)	164,343

In thousands of New Zealand dollars	As reported 30 June 2019	IFRS 15 Adjustments	Without NZ IFRS 15
Revenue - New Zealand	**110,032**	3,492	113,524
Revenue - Australia	**93,341**	-	93,341
Total revenue	**203,373**	3,492	206,865
Direct costs and overheads	**96,354**	3,492	99,846
Employee and contractor costs	**90,340**	94	90,434
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**16,679**	(94)	16,585
Profit/(loss) before income tax	**(639)**	(94)	(733)
Income tax expense/(benefit)	**(490)**	(26)	(516)
Profit/(loss) for the year attributable to the equity holder	**(149)**	(68)	(217)

There has been no material impact on other comprehensive income and the statement of cashflow on transition to NZ IFRS 15.

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

21. ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)

(B) NZ IFRS 9 FINANCIAL INSTRUMENTS

The Group has adopted IFRS 9 Financial Instruments from 1 July 2018. 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 new general hedge accounting requirements. It replaces the existing guidance in NZ IAS 39 *Financial Instruments: Recognition and Measurement.*

In accordance with the transitional provisions in NZ IFRS 9, comparative figures have not been restated. The adoption of NZ IFRS 9 has not had a significant effect on the Group's accounting policies related to financial assets.

NZ IFRS 9 replaces the "incurred loss" model in NZ IAS 39 with a forward looking "expected credit loss" (ECL) model. The Group exercises considerable judgement about how changes in economic factors affect ECL, which is determined on a probability-weighted basis. There is consideration around the probability of default upon initial recognition and subsequent assessment as to whether there has been a significant increase in credit risk at each reporting period.

The Group has applied the simplified approach to recognise lifetime expected credit losses for trade receivables and finance lease receivables as permitted by NZ IFRS 9. The Group notes that the impact on transition from application of the expected credit loss model of NZ IFRS 9 is not material.

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

In thousands of New Zealand dollars	Notes	2019	2018
Net surplus/ (deficit) as per income statement		**(149)**	5,662
Add/(deduct) non-cash items:			
Depreciation	8	**15,458**	17,168
Amortisation of licences and intangibles	9	**1,122**	1,227
Realised foreign currency losses/(gains)		**(597)**	(518)
Hedging losses net of payment made to exit		**-**	(43)
Change in deferred tax/(future income tax benefit)		**(350)**	(752)
Movement in provision for doubtful debts		**(146)**	(68)
Movement in other provisions		**(16)**	(74)
Unwind/change in make good		**275**	351
Movement in customer acquisition costs		**(95)**	-
		15,502	22,953
Items classified as investing activities:			
Loss/(gain) on disposal of property, plant and equipment		**(80)**	(265)
		(80)	(265)
Movements in working capital:			
Receivables, prepayments and contract work in progress		**(6,199)**	(2,073)
Inventories		**(235)**	(234)
Payables and deferred income		**(1,675)**	(7,429)
		(8,109)	(9,736)
Net cash flows from/(used in) operating activities		**7,313**	12,952

23. LEASE COMMITMENTS

In thousands of New Zealand dollars	2019	2018
Commitments under non-cancellable operating leases are:		
Within one year	**11,930**	12,667
One to five years	**18,138**	26,139
Later than five years	**2,304**	1,155
	32,372	39,961

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.

24. CAPITAL COMMITMENTS

Capital commitments (including intangible assets) are:		
Within one year	**924**	732

25. RELATED PARTY TRANSACTIONS

Kordia Group Limited comprises the following significant subsidiaries:

Entity	*Principal activity of entity*	*% holding*	*Country of Incorporation*
Kordia Limited	Telecommunications and transmission services Operations and maintenance services	100%	New Zealand
Kordia New Zealand Limited		100%	New Zealand
Kordia Pty Limited		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	**2019**	2018	**2019**	2018
Revenue from telecommunications services	**27,268**	27,006	**975**	1,207
Direct costs and overheads	**3,588**	2,918	**44**	86

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	2019	2018
Short term employee benefits	**2,331**	2,431
Defined contribution plan	**119**	115
Directors fees	**261**	227
	2,711	2,773

Unpaid amounts relating to the above are $604 (2018: $855).

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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 29 August 2019 the Board of Directors declared no final dividend for the year ended 30 June 2019.

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 2019

TO THE READERS OF KORDIA GROUP LIMITED'S GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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

OPINION

We have audited the financial statements of the Group on pages 25 to 57, that comprise the statement of financial position as at 30 June 2019, the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of accounting policies for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2019; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards.

Our audit was completed on 29 August 2019. This is the date at which our opinion is expressed.

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

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Director's responsibilities arise from the State Owned Enterprises Act 1986.

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and the performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information obtained at the date of this auditor's report is the Directors' Report, Statement of Responsibility, Statement of Performance and Additional Information, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standards 1 (revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

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

Yours sincerely

M.S. Crawford

Mark Crawford
KPMG
On behalf of the Auditor-General
Auckland, New Zealand
29 August 2019

STATEMENT OF PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2019

	Statement of Corporate Intent - Target 2019	2019 Actual	2018 Actual
Financial Performance Targets (Consolidated)			
Return on equity (net profit after tax as a percentage of average shareholders' equity)	7.5%	**(0.2%)**	6.3%
Earnings before interest and taxes (EBIT)	$10.3m	**$0.1m**	$8.6m
Group net profit after tax (NPAT)	$6.7m	**($0.1m)**	$5.7m
Shareholders' equity	$91m	**$90m**	$92m
Capital structure (shareholders' equity to total assets)	56%	**54%**	56%
Commercial value (enterprise value)	$145m	**$143m**	$145m
Commercial value of the Crown's investment (enterprise value - net debt)	$124m	**$136m**	$142m
Total shareholder return ((commercial value end - commercial value beg + dividends)/commercial value beg)	(1%)	**(2%)**	3%
Dividend yield (dividends/avg commercial value)	4%	**2%**	1%
Dividend payout (dividend paid/(net cashflow from operating activities – depreciation and amortisation expense))	(463%)	**(32%)**	(18%)
ROE adjusted for IFRS fair value movements and asset revaluations (NPAT adjusted for IFRS fair value movements (net of tax)/average share capital + retained earnings)	7.2%	**(0.2%)**	6%
Return on capital employed (EBIT adjusted for IFRS fair value movements/average capital employed)	9.2%	**0%**	8%
Operating margin (EBITDAF/Revenue)	12%	**8%**	12%
Gearing ratio (net debt/(net debt + shareholders' funds))	19%	**7%**	4%
Interest cover (EBITDA/net interest)	35	**23**	30
Solvency (current assets/current liabilities)	1.9	**1.6**	1.4

	Statement of Corporate Intent - Target 2019	**2019 Actual**	2018 Actual
Non - Financial Performance Targets (Consolidated)			
Net promoter score (NPS)[a]	+50	**51**	50
Total recordable injury frequency rate (TRIFR)[b]	<5	**1.16**	-
NZ Digital Television Transmission (DTT) network availability (main metro sites measured annually) [c]	99.9%	**99.9%**	99.9%

Notes

(a) Net Promoter Score (NPS), is a metric used globally to measure customer loyalty and advocacy levels. NPS establishes the likelihood of a customer to recommend a product or service to another person on a scale of 0-10. The overall NPS score is the percentage of customers who are detractors is subtracted from the percentage who are promoters, providing a score between -100 and 100.

(b) The Total Recordable Injury Frequency Rate (TRIFR) is an industry measure of the number of recordable injuries over a period of 12 months per million hours worked. A recordable injury 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 injury. This measure was not reported in 2018.

(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.

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 2019 are as follows. Individual shareholdings that are not considered material, and are not relevant to the operations of the Group have not been included.

J E QUIRK	
Kordia Limited	Director
Kordia New Zealand Limited	Director
SMX Limited	Chair/Shareholder
Wherescape Software Limited	Chair
FrameCAD Holdings Limited	Chair
Quirk International Limited	Director/Shareholder
FarmIQ Systems Limited	Chair
Howard & Company Ventures Limited	Director/Shareholder
Clearpoint Limited	Chair
Cumulo9 Limited	Director
S HASLEM	
Rangatira Limited	Director
The Meteorological Service of New Zealand Limited	Deputy Chair
Magritek Limited	Director
Magritek Holdings Limited	Director
Rainbows End Theme Park Limited	Director
New Zealand Experience Limited	Director
CentrePort Limited	Director
CentrePort Properties Limited	Director
CentrePort Property Management Limited	Director
Harbour Quays Property Limited	Director
The Akina Foundation	Chair
Omphalos Limited	Director
Oyster Property Group Ltd	Director
Livestock Improvement Corporation	Director
MyRepublic	Shareholder
S A BROADBENT	
Transpower New Zealand Limited	Director
Breach Consulting Limited	Director/Shareholder
Spruce Goose Aerospace Limited	Director/Shareholder
Figured Limited	Shareholder
Timberlands Limited	Director
Business Leaders' Health and Safety Forum	Board Member
NZTA	Director

SIR PAUL ADAMS, KNZM	
Carrus Corp Limited	Chair
Waipuna Hospice Building Committee	Chair
Waipuna Hospice	Patron
Denarau Resort Management Limited	Director
Te Tuinga Whanau Support Services Trust	Patron
20 x privately owned land development companies	Managing Director
P M ENNIS	
Greystones Limited	Director
D T HAVERCROFT	
Connect8 Limited	Director
Southern Cross Cables Limited	Director
Feenix Communications Limited	Director
Reflect Limited	Director
KiwiWealth	Director
Spark NZ Limited	Shareholder
Chorus Limited	Shareholder
Nyriad Limited	Shareholder
Kode Biotech Limited	Shareholder
S T O'CONNOR	
Yarra Valley Water	Chair
Mercer Superannuation	Director
Treasury Corporation Victoria	Director
ClimateWorks Australia	Director
Monash Sustainable Development Institute	Advisory Council Member
Bush Heritage Australia	Non-Executive 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 2019 premium (net of GST) was $20,475 (2018: $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 $
J E Quirk (Chair)		72,000
S Haslem		36,000
S A Broadbent		45,000
Sir Paul Adams, KNZM		36,000
P M Ennis		36,000
D T Havercroft	Started 1 Jan 19	18,000
S T O'Connor	Started 1 Jan 19	18,000
		261,000

CONTINUED

ADDITIONAL INFORMATION

EMPLOYEE REMUNERATION

Employee remuneration includes salary, bonuses, payments for projects, motor vehicles, employer's contributions to superannuation and health schemes, severance and other sundry benefits received in their capacity as employees during the year ended 30 June 2019. 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	56	8
$110,001 to $120,000	50	5
$120,001 to $130,000	58	3
$130,001 to $140,000	38	5
$140,001 to $150,000	34	1
$150,001 to $160,000	12	3
$160,001 to $170,000	14	-
$170,001 to $180,000	11	3
$180,001 to $190,000	15	1
$190,001 to $200,000	8	2
$200,001 to $210,000	7	1
$210,001 to $220,000	7	-
$220,001 to $230,000	7	-
$230,001 to $240,000	2	1
$240,001 to $250,000	3	-
$250,001 to $260,000	2	-
$260,001 to $270,000	2	-
$270,001 to $280,000	4	-
$290,001 to $300,000	2	-
$320,001 to $330,000	1	-
$330,001 to $340,000	2	-
$340,001 to $350,000	1	-
$370,001 to $380,000	1	1
$390,001 to $400,000	2	-
$420,001 to $430,000	2	-
$670,001 to $680,000	1	-
$1,020,001 to $1,030,000	1	-
	343	34

NOTES

NOTES


SAFETY OF LIFE
MARITIME
NEW ZEALAND


CYBER SECURITY


BROADCAST &
COMMUNICATIONS


BUSINESS
TELECOMMUNICATIONS
NETWORKS


KORDIA.CO.NZ