ESSENTIAL TECHNOLOGY EXPERTS.

CLOUD | CONNECTIVITY | CYBER SECURITY | COMMUNICATIONS

KORDIA GROUP ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2020

kordia®

CONTENTS

CHAIR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2020

Kordia Group has delivered revenue of $223 million for the year ended 30 June 2020, an increase of 10 percent year-on-year, with a net profit of $9.6 million.

Despite our successes this year, like all businesses Kordia has not fully escaped the impacts of the pandemic. COVID-19 has been unprecedented in terms of its impact on health, wellbeing, the economy and the way we all go about daily life.

We are aware of a number of customers whose business operations have been impacted, in some cases severely, by the pandemic. This is particularly the case for those in the hospitality, tourism, sport and retail sectors. In recent months several customers have reached out requesting assistance as a result of financial and business constraints, which has put some pressure on our business.

NETWORKS

Kordia's Networks business units had a strong year despite a relatively flat market. Year-on-year revenue was up slightly, driven by continued customer growth in SecureWAN. Kordia continues to differentiate itself through reliability, security and excellent servicing of customers, which is reflected through a high NPS score of more than 50.

The acquisition of cloud consultancy Emerging Technology Partners in February will usher in new streams of work, complementing Kordia's existing cloud connectivity and cyber security businesses.

Cloud migration and digital transformation will be key to many businesses to ensure resilience and continuity in the post-COVID environment, presenting new growth opportunities to explore. With new specialist skills to provide strategic planning, architecture, design, implementation and managed services, the Group can expand its current cloud offerings for both current and new customers.

MEDIA

On 23 April 2020, the New Zealand Government announced a financial support package for the New Zealand media industry to help organisations weather the initial impacts of COVID-19. As part of the package, Manatū Taonga, the Ministry for Culture and Heritage, is funding television and radio transmission fees for six months from May 2020.

Kordia notes that there are significant industry pressures being faced by our media customers. Despite significant challenges facing the media industry, Kordia was able to secure several significant re-signs, with customers Māori TV and Prime renewing their service agreements for digital terrestrial and satellite transmission respectively.

CYBER SECURITY

The cyber business continues its growth trajectory. Revenues are up 14 percent year-on-year, an outstanding result reflective of the exceptional performance by Aura Information Security and the development of Kordia's managed security services. We continue to outperform the market for both consulting services and managed security services, proving that our strategy has set us on the right path.

With the cyber threat landscape evolving rapidly due to increased ransomware attacks and the incoming Privacy Act 2020, confirmed for December 2020, the Group is well placed to meet the growing demands of the cyber security market.

Despite fierce market competition from both new and existing players, Aura has carved a name for itself as the premier cyber security consultancy in New Zealand. The highly skilled consulting team can service a wide range of customer needs, from penetration testing and security audits through to employee training and virtual security officer services. This makes Aura a versatile partner for both Government and enterprise clients.

> **"THE CYBER BUSINESS CONTINUES ITS GROWTH TRAJECTORY. REVENUES ARE UP 14 PERCENT YEAR-ON-YEAR, AN OUTSTANDING RESULT REFLECTIVE OF THE EXCEPTIONAL PERFORMANCE BY AURA INFORMATION SECURITY AND THE DEVELOPMENT OF KORDIA'S MANAGED SECURITY SERVICES."**
>
> JOHN QUIRK, CHAIR OF THE BOARD - KORDIA GROUP

KORDIA SOLUTIONS AUSTRALIA

Last financial year Kordia Solutions Australia (KSA) felt the impact of the Australian Government's Chinese vendor ban, which saw major telco players pause their implementation of 5G networks while they took stock of the changes required by this announcement. This trailed into the start of the current financial year, however from late Q1 work volumes began to pick up again.

In 2019, KSA was awarded several large telco customer contracts. Initial work volumes commenced in September and will ramp up as the programmes grow. This sees the business continuing to recover with revenue and EBIT improving.

MARITIME

Our Maritime division, which monitors close to one quarter of the world's oceans, continues its robust performance. The critical safety of life communication services delivered by our Maritime division was illustrated during the Whakaari / White Island eruption disaster in December 2019, which saw the Maritime Operations Centre (MOC) respond to the distress call and coordinate with first responders. The MOC was also acknowledged with a New Zealand Search and Rescue Certificate of Achievement for Operational Activity for its role in the rescue of survivors of the yacht Essence, which sank off the coast of Cape Brett in October 2019.

KORDIA SOLUTIONS NEW ZEALAND

The Solutions business saw work put on hold by customers or access to sites restricted due to lockdown measures. However, as the Group was considered an essential service provider and business continuity plans were successfully deployed, the impact was minimised. Kordia's resilience and capability meant there was virtually no impact on services to customers.

CONCLUSION AND OUTLOOK

While the Group's performance should be commended, it is acknowledged by the board that there is significant uncertainty in how COVID-19 will impact the New Zealand and Australian markets in the future.

The level of volatility and economic uncertainty over the next 12 months has called for an appropriate level of prudence, and as such no dividend will be payable while we reassess the situation.

Kordia recently refinanced its bank facilities and, combined with low gearing and a strong balance sheet, is well placed to manage contingencies that may arise due to the uncertain future caused by COVID-19.

For the Board,

JOHN QUIRK

CHAIR - KORDIA GROUP

CEO'S REPORT

FOR THE YEAR ENDED 30 JUNE 2020

It would be impossible to discuss the past 12 months without a nod to the impacts of COVID-19. As the pandemic continues to disrupt the economy, restrict our travel, and strain entire industries, technology and critical networks have become more vital than ever.

Without technology, keeping the wheels of business turning through these tumultuous times would be impossible. In a world where social distancing has become our new reality, digital connectivity provides the lifeline that keeps people working, communicating and connecting. It's in this environment that Kordia's purpose and value to our customers really shines through.

ESSENTIAL TECHNOLOGY PARTNERS

Our business is built around providing mission-critical technologies, and the pandemic has been the ultimate pressure test of our networks and our people. I'm pleased to say that our resilience, commitment to our customers and reliability has stood firm in the face of a disrupted workforce and economy.

As an essential service, and a key supplier to other essential businesses and Government departments, Kordia Group has great responsibility to persevere with our work across both sides of the Tasman.

Seeing a large part of our workforce getting on with the job while working remotely was a proud moment for myself and the entire Executive team. Whether working in the field to perform critical maintenance work on infrastructure of national importance, or creating a makeshift office from the spare room or kitchen table, each and every one of our employees went above and beyond during lockdown, which is testament to the resourcefulness and strength of our team culture.

Our cyber security division also swung into action during the pandemic. As businesses found themselves rapidly deploying new technology to enable working from home, Aura's consultants worked to guide our customers on how to secure remote workers during the lockdown period. With cyber criminals actively exploiting the pandemic for their own gain, we worked closely with businesses to assess their new perimeter and issued guidance on how to spot and avoid COVID-19 themed phishing scams. This allowed our customers to pivot to a safer mode of working, even from beyond the safety of the corporate firewall.

A CULTURE OF HEALTH, SAFETY AND WELLNESS

Being able to deliver the Kordia experience has always come down to our people, which is why health and safety has always been a critical part of our strategy.

We continue to make great progress in embedding health and safety into every aspect of our culture, and for three successive years we've come in well under our target for incidents.

The pandemic threw a curve ball for our safety operations. Suddenly, we had the added layer of maintaining social distancing too. Through the tireless efforts of our QHSE team, we were able to develop a new set of guidelines, processes and procedures to follow on site, in the office and at home – so our people were able to carry out essential work without compromise.

Beyond physical safety, we also had the challenge of increasing our focus on wellbeing and inclusivity, despite spending weeks apart from one another. Creating connections through online means was not easy, but if there's a silver lining from the pandemic so far, it would be witnessing the camaraderie of our team and how we pulled together in a time of need. Whether it be managers taking deeper accountability for their teams' wellbeing or creating communities to support vulnerable and isolated team members, we've collectively emerged from lockdown stronger than ever, and I'm excited for what we will achieve in the next 12 months.

“OUR JOB NOW IS TO HELP MOVE BUSINESSES INTO THE FUTURE, AND WE WILL ACHIEVE THIS BY MEETING OUR CUSTOMERS’ EVOLVING NEEDS AS THEY RECOVER AND REBUILD.”

SCOTT BARTLETT, CEO - KORDIA GROUP

INTEGRATING CONNECTIVITY, CLOUD AND CYBER

Cloud transformation and modernisation are the new challenges every business must bridge to thrive in the new era of business, particularly post-COVID.

We’ve seen increasing demand from our customers for specialist support with their workload transformation. Whether it’s pulling legacy apps into the future, moving your infrastructure off dated inhouse servers or developing and integrating cloud native apps to make your operations more efficient, having a trusted partner to guide you through the process ensures you get the most out of your cloud strategy.

Kordia is an established leader in providing secure, resilient connections to cloud environments. In February, we welcomed specialist cloud consultancy Emerging Technology Partners into the fold. The acquisition of new talent and skills puts us in a better position to assist Kiwi businesses to execute their cloud strategy, while complementing our existing connectivity and cyber security offerings.

Emerging Technology Partners is best known for delivering business-critical infrastructure and cloud technology projects to enterprise customers, providing strategic planning, architecture, design, implementation and managed services. As a Microsoft Azure Gold partner, they specialise in workload transformation to Azure, with notable skill in containerisation, microservices, application modernisation and DevOps practices.

With our triple threat of Kordia’s networking leadership, Aura’s cloud security consulting skills and now Emerging Technology Partner’s skill in workload transformation, the Kordia Group is in an excellent position to address our customers’ holistic cloud needs.

MEDIA SPACE

Kordia’s foundations began more than 60 years ago in the media space, and our heritage is entwined with that of television and radio broadcasting in New Zealand. From humble origins as a provider of transmission services, we’ve grown to become the diverse and dynamic technology business we are today.

The media has faced countless challenges over the past decade and has gone through intense periods of rapidly reworking its model to continue serving the public in the era of the internet. This has been aggravated by falling advertising revenues due to COVID-19.

We will continue to work closely with our media customers where possible, who play a vital role in keeping our society informed – something particularly evident during the pandemic.

While more challenges may await the industry in the future, there is a sense of optimism and we’re excited to partner with our media customers on new innovative solutions to help them evolve their operations and better serve audiences today and tomorrow.

CONCLUSION

This year has shown us what really matters in business; keeping people productive, safe and well. As a team, the Kordia Group truly delivered on our values and vision. I’m grateful to our people for stepping up to the plate when it counted the most.

With the effects of COVID-19 still lingering over the economy, having a plan and a clear set of goals is our ticket to ensuring we focus on the things that matter.

Our job now is to help move businesses into the future, and we will achieve this by meeting our customers’ evolving needs as they recover and rebuild.

While I anticipate future impacts, we’re in a fortunate position to start our journey into FY21. With opportunities at hand from cyber security and cloud to 5G, Kordia Group is ready to seize the next 12 months.

SCOTT BARTLETT
CEO - KORDIA GROUP

HEALTH, SAFETY & CULTURE

FOR THE YEAR ENDED 30 JUNE 2020

Excellence in QHSE is integral to the Kordia workplace culture. **For three consecutive years**, our total recorded incidents have been below our Group target of **fewer than five** incidents per year.

GROUP TRIFR
FY20: 2.86
FY19: 1.16
FY18: 3.43

INCREASING DIVERSITY

Many of Kordia's core industries lack diversity, both in experienced workers and those looking to enter the field. We see our opportunity as opening more career possibilities to a larger cross section of society, through the promotion of careers in technology, engineering, telecommunications and security.

Our vision is to create a more inclusive and diverse Kordia, where talented people from all walks of life can work successfully together to achieve great things.

The journey is underway, and this year we implemented several initiatives to support this.

- Ensuring our recruitment practices are free from bias, with new processes and training for hiring managers.
- Investing in a more diverse talent pool by promoting our sector and businesses to higher education students. Activities include internships, programmes and community outreach.
- Support for the 'Women in Technology Scholarship' at the University of Waikato, now in its second year.

AGE AND GENDER DIVERSITY AT THE KORDIA GROUP AS AT 30 JUNE 2020

AGE BRACKETS	TOTAL	WOMEN		MEN	
	#	#	%	#	%
18-25	29	7	24%	22	76%
26-35	181	44	24%	137	76%
36-45	232	52	22%	180	78%
46-55	179	27	15%	152	85%
56 and over	137	12	9%	125	91%
Total	**758**	**142**	**19%**	**616**	**81%**

LEVEL	TOTAL	WOMEN		MEN	
	#	#	%	#	%
Directors	7	3	43%	4	57%
Exec	11	1	10%	10	90%
Direct reports	63	17	27%	46	73%
Other managers	91	10	11%	81	89%
Staff	586	111	19%	475	81%
Across group	**758**	**142**	**19%**	**616**	**81%**

> "OUR STRATEGY IS TO FOSTER A CULTURE OF DIVERSITY AND INCLUSION WITHIN KORDIA, ENSURING THAT THE COMPOSITION OF OUR WORKFORCE IS REFLECTIVE OF THE COMMUNITY WITHIN WHICH WE OPERATE, THAT EVERY ONE OF OUR EMPLOYEES FEELS SAFE, RESPECTED, EMPOWERED AND ABLE TO ACHIEVE THEIR GOALS AND POTENTIAL."

KORDIA GROUP DIVERSITY AND INCLUSION STRATEGY

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, mergers and acquisitions 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 Farm-IQ Systems, SMX Limited, Cumulo9 Ltd, Kordia Group and Portainer Ltd. He is also a Director of FrameCAD Group and Aeroqual Limited.

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, Harvard Business School AMP) is an experienced Director and senior executive, with a background in leading utilities, contracting, energy and ICT businesses and business units in New Zealand and Australia.

She is the Deputy Chair of the New Zealand Business Leaders' Health and Safety Forum, a Director of Transpower, a graduate member of the Australian Institute of Company Directors and a Chartered Member of the NZ Institute of Directors.

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 MetService and the Akina Foundation and Deputy Chair of CentrePort. She is a Director of Livestock Improvement Corporation (NZX:LIC), Rangatira Investments, and Oyster Property Group. She is also on the investment committee of the Impact Enterprise Fund.

PETER ENNIS

CHAIR OF KORDIA'S PEOPLE AND CULTURE COMMITTEE

Peter Ennis is an experienced senior media and technology executive with extensive international senior leadership experience in media and broadcast, technology, distribution, business development and sales.

He heads up a media and technology consultancy providing M&A and business optimisation expertise to clients in New Zealand, Australia and the United States.

He is a former CTO, Operations Director and main Board Director of the TV3 Group, the Irish national commercial broadcaster. He headed up the technology function at TVNZ, then served as CTO at Al Jazeera Media Network (AJMN) in Qatar, leading all technology and operational aspects of AJMN globally. Most recently Peter was Senior Vice President of Global Services and Delivery at Avid Technology Inc, a US publicly-quoted media technology provider, where he also served on the executive leadership team.

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 Chair, 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 more than 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 Bush Heritage Australia, 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 a Director on a number of New Zealand company boards including Connect 8, 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.

TONY O'BRIEN

MEMBER OF KORDIA'S HEALTH & SAFETY COMMITTEE

Tony's marketing and broadcasting career spans many years, holding several key commercial roles at SKY TV plus Director of Communications and Director of Regulatory & Corporate Affairs. Tony has been a member of the Advertising Standards Authority, the Online Media Standards Authority and the Broadcasting Sector Advisory Group for the Digital Television Switchover. He chaired the Government Marketing & Communications Committee from 2010 to 2014.

Tony is a Director of Antarctica New Zealand and a Trustee of the New Zealand Antarctic Research Institute. He was previously a Director of Pacific Cooperation Broadcasting Ltd and served on the Board of the Health Promotion Agency.

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 2020

The Directors have pleasure in presenting their report, together with the audited Financial Statements of the Group for the year ended 30 June 2020.

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 $9,623,000 (2019: ($149,000)).

DIVIDEND

The Directors recommend no final dividend for the year ended 30 June 2020 (2019: nil). Taking into account no interim dividend (2019: nil), the total dividend for the year will be nil (2019: nil).

AUDITOR

The Controller and Auditor-General is the auditor of the Group in accordance with Section 19 of the State Owned Enterprises Act 1986 and has appointed Mark Crawford of KPMG to act for and on behalf of the Auditor-General, as auditor in respect of the year ended 30 June 2020.

J E Quirk Chair	S Haslem Director	27 August 2020

STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2020

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 2020.

J E Quirk
Chair

S Haslem
Director

27 August 2020

CYBER SECURITY

STRENGTHENING THE HUMAN FIREWALL

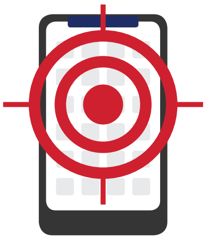
CYBER SECURITY ISN'T JUST A MATTER FOR THE CISO OR IT DEPARTMENT. IT'S AN AREA OF RISK THAT CAN IMPACT EVERY LEVEL OF THE BUSINESS. LIKE HEALTH AND SAFETY, IT NEEDS SUPPORT FROM THE WIDER BUSINESS TO BE FULLY INTEGRATED INTO A COMPANY CULTURE. WHEN IT COMES TO ONLINE SECURITY, PEOPLE ARE THE NEW PERIMETER.

Kordia, and its independent cyber security division Aura Information Security, work alongside a wide range of corporate and government customers to train employees on how to stay safe online, building cyber resiliency from top to bottom. Being able to understand and deal with the risk of cyber threats not only protects customers from breaches, but also helps leadership teams put robust plans in place so businesses have the best chance of recovering swiftly should the worst happen.

aura
INFORMATION SECURITY

POWERED BY KORDIA

AURA INFORMATION SECURITY MARKET RESEARCH REPORT 2019* FINDINGS:



1/5

of NZ businesses are

NOT AWARE HACKERS CAN GET ACCESS TO WORK DATA THROUGH THEIR EMPLOYEES' PERSONAL DEVICES

MORE THAN 1/3

of NZ businesses

DO NOT HAVE POLICIES IN PLACE RELATING TO THE PERSONAL USE OF WORK DEVICES

MORE THAN HALF

of NZ businesses

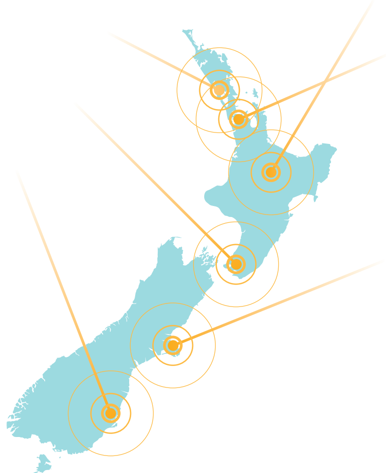
ENCOURAGE THE USE OF A PASSWORD MANAGER

MORE THAN 40%

of NZ businesses

DON'T CARRY OUT EMPLOYEE CYBER SECURITY TRAINING EXERCISES

* Conducted September 2019



VISIBILTY IS KEY TO DEFENCE

MANY BUSINESSES UNDERESTIMATE HOW VULNERABLE WE ARE TO CYBER CRIMINALS. WE MISTAKENLY BELIEVE THAT OUR GEOGRAPHIC DISTANCE MAKES US AN 'ISLAND' ON THE INTERNET. HOWEVER, THE STARK REALITY IS THAT EVERYBODY IS CONNECTED IN THIS DIGITAL WORLD.

The Kordia Security Operations Centre (SOC) manages and responds to a vast range of threats and alerts for our Unified Security Management (USM) customers, successfully detecting and mitigating numerous attacks and intrusions on Kiwi businesses.

Our SOC team work around the clock, combining technical know-how with expert analysis to keep New Zealand businesses safe, providing them with everything they need to identify and better manage threats and attacks.

MEDIA

CRITICAL BROADCASTING

KORDIA'S POP UP TV CHANNEL WAS LEVERAGED BY DEAF AOTEAROA AND ITS INTERPRETING SERVICE iSIGN TO BROADCAST FULL SCREEN NEW ZEALAND SIGN LANGUAGE INTERPRETING OF THE DAILY COVID-19 ADDRESSES BY THE PRIME MINISTER AND DIRECTOR GENERAL OF HEALTH.

We designed Kordia's Pop Up TV service to be easy for any organisation to share information through, and the important role the channel played in keeping the deaf community informed at the height of lockdown is testament to its value.

kordia | POP UP TV

CRITICAL COMMUNICATIONS EXPERTS

KORDIA IS RESPONSIBLE FOR OPERATING AND MONITORING THE NETWORK THAT PROVIDES CRITICAL SAFETY OF LIFE AT SEA COMMUNICATIONS FOR ALMOST 1/4 OF THE WORLD'S OCEANS.

LAST YEAR, OUR CANBERRA MARITIME OPERATIONS CENTRE (MOC)

RESPONDED TO
264
INCIDENTS

WITH
463
PERSONS SAVED

LAST YEAR, OUR AVALON MARITIME OPERATIONS CENTRE (MOC)

ASSISTED MORE THAN
1858
PEOPLE

RESPONDING TO
759
CALLS FOR ASSISTANCE

OF WHICH
139
CALLS WERE DECLARED A MAYDAY INDICATING GRAVE AND IMMINENT DANGER

WHEN TIME IS OF THE ESSENCE

AT THE RECENT NZ SEARCH AND RESCUE (NZSAR) AWARDS, THE AVALON MOC WAS RECOGNISED FOR THE ROLE IT PLAYED IN THE SEARCH AND RESCUE OF THE YACHT 'ESSENCE' IN OCTOBER 2019.

The 14m yacht was on a return voyage from Fiji when it found itself caught in a storm 20km off the coast of Cape Brett. Taking on water, the crew made a final distress call before abandoning their sinking vessel in swells of 5-6m.

The MOC responded to the Mayday call and helped maintain communications with response crews deployed to locate and assist the Essence crew.

NZSAR said teamwork, cooperation and communication were crucial to the rescue of the three survivors. The quick response of the MOC radio operator helped the rescuers recover the survivors within four hours of the distress call.

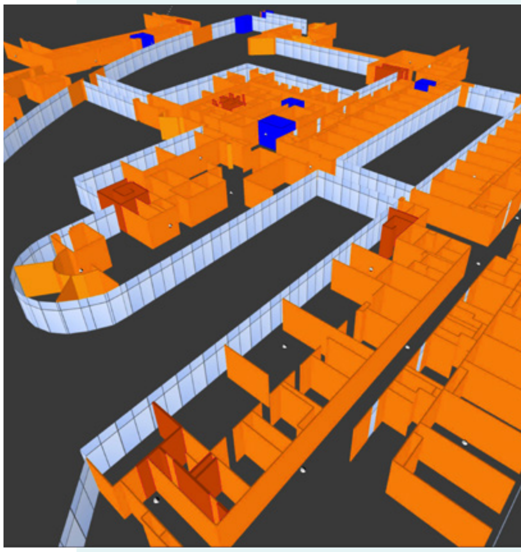
ESSENTIAL CONNECTIVITY SUPPORT

FOR MOST BUSINESSES A SECURE, RELIABLE AND RESILIENT NETWORK IS ESSENTIAL FOR MAINTAINING PRODUCTIVITY THROUGH THE PANDEMIC. TO ENSURE WE COULD DELIVER ON OUR COMMITMENTS TO OUR CUSTOMERS DURING LOCKDOWN, OUR NATIONAL OPERATIONS CENTRE PIVOTED TO A NEW WAY OF FUNCTIONING THAT ALLOWED FOR WORKING FROM HOME.

Despite our team being spread across different locations, our network engineers and analysts were able to successfully align remotely, ensuring our networks were monitored and maintained throughout the lockdown with minimal disruption to our customers.

> **"KORDIA IS A TRUSTED SERVICE PROVIDER. WE ALWAYS GET GREAT SUPPORT AND THEY ARE THERE FOR US WHEN WE NEED THEM. KORDIA ALWAYS HAS OUR BACK."**
>
> Mike Mason
> Global Infrastructure Tech Lead
> Les Mills International

CONNECTING COMMUNITIES THROUGH 5G



5G WILL CHANGE THE WAY WE EXPERIENCE THE WORLD, WITH THE POTENTIAL TO MAKE OUR LIVES SMARTER, SAFER AND MORE EFFICIENT.

With 5G rolling out across cities and regional centres across Australia, next generation telecommunications are just around the corner and Kordia Solutions is trusted by our industry partners to build the new networks and inbuilding coverage.

In Australia, Kordia Solutions has assisted mobile carriers in achieving their 2019 5G deployment goals and will continue to be an integral part of plans for 2020 and beyond.

When it comes to building networks, Kordia's 60-year-plus legacy in providing business-critical solutions sets us apart from the competition. Our experienced and skilled team of consultants, engineers, technicians and project managers understand the demands in deploying complex mobile solutions to meet ubiquitous coverage and capacity goals.

KORDIA GROUP LIMITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2020

In thousands of New Zealand dollars	Notes	2020	2019
Revenue - New Zealand		**111,513**	110,032
Revenue - Australia		**111,473**	93,341
Other income		**272**	-
Total revenue and other income		**223,258**	203,373
Direct costs and overheads	3	**100,199**	96,354
Employee and contractor costs	4	**92,587**	90,340
Earnings before interest, tax, depreciation and amortisation (EBITDA)	25	**30,472**	16,679
Finance income	5	**633**	589
Finance expense	5	**2,070**	1,327
Depreciation of property, plant and equipment	8	**12,262**	15,458
Depreciation of right of use assets	9	**6,800**	-
Amortisation of intangibles	11	**962**	1,122
Profit/(loss) before income tax		**9,011**	(639)
Income tax expense/(benefit)	6	**(612)**	(490)
Profit/(loss) for the year attributable to the equity holder		**9,623**	(149)

The accompanying notes set out on pages 27 - 58 are to be read as part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

In thousands of New Zealand dollars	**2020**	2019
Profit/(loss) for the year attributable to the equity holder	**9,623**	(149)
Foreign currency translation differences	**258**	(689)
Effective portion of changes in the fair value of cashflow hedges	**(3)**	(9)
Tax effect of the effective portion of changes in the fair value of cashflow hedges	**1**	2
Other comprehensive (loss)/income for the year	**256**	(696)
Total comprehensive income/(loss) for the year attributable to the equity holder	**9,879**	(845)

The accompanying notes set out on pages 27 - 58 are to be read as part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

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 2018		**87,696**	**7,110**	**(2,555)**	**9**	**92,260**
Adjustment on initial application of IFRS 15, net of tax		-	1,136	-	-	1,136
Adjusted balance 1 July 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**
Adjustment on initial application of IFRS 16, net of tax	23	-	(1,437)	-	-	(1,437)
Adjusted balance 30 June 2019		**87,696**	**3,697**	**(3,244)**	**2**	**88,151**
Net profit for the year		-	9,623	-	-	9,623
Other comprehensive income						
Foreign currency translation differences		-	-	258	-	258
Fair value of cashflow hedges transferred to income statement, net of tax		-	-	-	(2)	(2)
Total other comprehensive income		-	-	258	(2)	256
Total comprehensive income		**-**	**9,623**	**258**	**(2)**	**9,879**
Balance 30 June 2020		**87,696**	**13,320**	**(2,986)**	**-**	**98,030**

The accompanying notes set out on pages 27 - 58 are to be read as part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

In thousands of New Zealand dollars	Notes	2020	2019
Assets			
Property, plant and equipment	8	**58,020**	59,289
Right of use assets	9	**15,690**	-
Intangible assets and goodwill	11	**27,030**	27,011
Finance lease receivable	10	**1,326**	1,607
Deferred tax asset	12	**18,032**	12,098
Trade and other receivables	14	**644**	1,400
Total non-current assets		**120,742**	101,405
Cash		**17,386**	13,267
Inventories	13	**3,176**	1,790
Trade and other receivables	14	**63,534**	48,820
Finance lease receivable	10	**281**	260
Derivative assets		**40**	5
Total current assets		**84,417**	64,142
Total assets		**205,159**	165,547
Equity and Liabilities			
Share capital	7	**87,696**	87,696
Foreign currency translation reserve		**(2,986)**	(3,244)
Cashflow hedge reserve		**-**	2
Retained earnings		**13,320**	5,134
Total equity attributable to the equity holder		**98,030**	89,588
Trade and other payables	15	**1,904**	3,350
Derivative liabilities		9	-
Loans and advances	16	**6,000**	19,847
Provisions	18	**13,025**	11,379
Lease liabilities	17	11,701	-
Total non-current liabilities		**32,639**	34,576
Taxation payable		**2,218**	1,505
Trade and other payables	15	**65,095**	38,696
Derivative liabilities		**30**	2
Provisions	18	**578**	1,180
Lease liabilities	17	6,569	-
Total current liabilities		**74,490**	41,383
Total liabilities		**107,129**	75,959
Total equity and liabilities		**205,159**	165,547

The accompanying notes set out on pages 27 - 58 are to be read as part of these financial statements.

On behalf of the Board

J E Quirk
Chair

S Haslem
Director

27 August 2020

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

In thousands of New Zealand dollars	Notes	2020	2019
Cash flows from operating activities			
Receipts from customers		**201,759**	196,196
Receipt from Manatū Taonga, Ministry for Culture and Heritage	15	**17,060**	-
Payments to suppliers and employees		**(177,511)**	(189,682)
		41,308	6,514
Dividends received		**2**	2
Interest received		**327**	586
Interest paid - other		**(1,795)**	(1,024)
Taxes (paid)/refunded		**(3,763)**	1,235
Net cash from/(used in) operating activities	26	**36,079**	7,313
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		**8**	1,208
Acquisition of property, plant and equipment		**(9,694)**	(9,755)
Acquisition of intangibles	11	**(530)**	(326)
Net cash (used in)/from investing activities		**(10,216)**	(8,873)
Cash flows from financing activities			
Proceeds/(repayment) of loans and advances		**(14,648)**	1,955
Proceeds from finance lease assets		**260**	240
Repayment of finance lease liabilities	17	**(7,495)**	-
Dividends paid		**-**	(2,963)
Net cash from/(used in) financing activities		**(21,883)**	(768)
Net increase/(decrease) in cash and cash equivalents		**3,980**	(2,328)
Cash and cash equivalents at beginning of year		**13,267**	15,740
Effect of exchange rate fluctuations on cash		**139**	(145)
Cash and cash equivalents at end of year		**17,386**	13,267

The accompanying notes set out on pages 27 - 58 are to be read as part of these financial statements.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2020

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 27 August 2020.

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 11.
- Provisions – Note 18.
- Valuation of financial instruments – Note 19.
- Deferred tax assets – Note 12.
- Useful life of property, plant, equipment and intangibles – Notes 8 and 11.
- Lease liabilities and right of use assets – Notes 9 and 17.

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 lease standard NZ IFRS 16 Leases on 1 July 2019.

The Group has initially adopted this new accounting standard and its impact is disclosed in note 23. In accordance with elections available under the relevant accounting standard, new accounting policies are only effective from 1 July 2019 and comparative information has not been restated and continues to be disclosed under policies disclosed in the 30 June 2019 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.

Revenue from variations and claims is 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.

Variations, claims and incentives 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.

CONTINUED

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2020

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Contract Modifications

Revenue in relation to modifications, such as a change in the scope of the contract, is 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, where 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.

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 in the period between the transfer of services to the customer and the customer's payment for these services if 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

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in NZ IFRS 16.

As a Lessee

At commencement, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise fixed payments, including in-substance fixed payments and variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or if the Group changes its assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

As a Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

(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.

CONTINUED

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2020

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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

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

(F) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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.

CONTINUED

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2020

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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

(I) INVENTORIES

Inventories comprise technical stores and customer premises equipment. All inventories are measured at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(J) CONTRACTS WORK IN PROGRESS

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

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

(K) IMPAIRMENT

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

The recoverable amount of receivables carried at amortised cost is calculated 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.

CONTINUED

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2020

2. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(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 20 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

In thousands of New Zealand dollars	Notes	2020	2019
3. DIRECT COSTS AND OVERHEADS INCLUDE:			
Auditor's fees			
- audit services		**301**	292
- other audit related services		**23**	13
Directors' fees		**297**	261
(Gain)/loss on disposal of property, plant and equipment		**22**	(80)
Impairment loss on trade receivables		**431**	49
Rental costs		**771**	9,202
Project material and subcontractor costs		**72,036**	60,354
Direct network costs		**13,390**	12,767
4. EMPLOYEE AND CONTRACTOR COSTS INCLUDE:			
Redundancy		**340**	1,186
Defined contribution plan		**5,321**	5,410
5. FINANCE INCOME AND EXPENSE			
Interest income on bank deposits and loan receivable		**225**	470
Interest income on finance leases		**102**	117
Unrealised foreign exchange gain		**234**	-
Realised foreign exchange gain		**70**	-
Dividend income		**2**	2
Finance income		**633**	589
Interest expense on loans and borrowings		**897**	993
Interest expense on lease liabilities		**903**	-
Unrealised foreign exchange loss		**-**	38
Realised foreign exchange loss		**-**	21
Unwind the discount on provisions	18	**270**	275
Finance expense		**2,070**	1,327
Net finance expense		**1,437**	738

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

In thousands of New Zealand dollars	2020	2019
6. INCOME TAX EXPENSE		
Current tax expense	**4,814**	(484)
Adjustment from prior periods	**62**	(53)
Deferred tax (benefit)	**(2,185)**	47
Future tax depreciation on buildings	**(3,303)**	-
Total income tax expense/(benefit)	**(612)**	(490)
Reconciliation of effective tax rate		
Net profit/(loss) before taxation	**9,011**	(639)
Taxation at 28%	**2,523**	(179)
Adjusted for the tax effect of:		
Difference in subsidiary income tax rates	**(3)**	(374)
Non-deductible expenses	**109**	116
Future tax depreciation on buildings	**(3,303)**	-
Under/(over) provided in prior periods	**62**	(53)
Taxation expense/(benefit)	**(612)**	(490)
Imputation Credit Account		
Imputation credits available to shareholders in future periods	**20,330**	16,623

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

In March 2020, the New Zealand Government announced a reinstatement of tax depreciation on buildings with a life of 50 years or more. This change is effective from the 30 June 2021 income year. The change in tax legislation has resulted in an increase in the Group's net deferred tax asset of $3,303 in 2020.

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

	2020	2019
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 2020 the Group paid no interim dividend (2019: nil) and a prior year final dividend of $nil (2019: $2,963).

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 2019 and June 2020 is due to the capitalisation of transmission equipment which were under construction at June 2019.

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 2020. 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% (2019: 0%) was assumed. A real post tax discount rate of 5.1% (2019: 6.1%) 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 2020, 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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

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 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**	**252,372**
Additions	266	1,386	478	5,144
Transfers	44	-	108	571
Disposals/adjustments	(246)	(265)	-	(335)
Reclassifications	17	(17)	-	-
Effect of movements in exchange rates	21	73	38	624
Balance at 30 June 2020	**33,057**	**12,968**	**71,190**	**258,376**
Depreciation and Impairment Losses				
Balance at 1 July 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)**
Depreciation for the year	(1,157)	(632)	(1,334)	(7,439)
Disposals	234	272	-	314
Effect of movements in exchange rates	(8)	(66)	(18)	(604)
Balance as at 30 June 2020	**(25,822)**	**(5,432)**	**(62,499)**	**(230,761)**
Carrying amounts				
At 30 June 2019	**8,064**	**6,785**	**9,419**	**29,340**
At 30 June 2020	**7,235**	**7,536**	**8,691**	**27,615**

Furniture & fittings	Office equipment	Motor vehicles	Information systems	Work in progress	Total
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**
31	99	198	960	2,453	11,015
36	46	-	112	(1,041)	(124)
(22)	(26)	(95)	(9)	-	(998)
-	-	-	-	-	-
6	26	18	690	-	1,496
1,439	**2,245**	**1,772**	**38,100**	**3,233**	**422,380**
(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)**
(85)	(138)	(129)	(1,348)	-	(12,262)
21	24	94	9	-	968
(5)	(27)	(17)	(619)	-	(1,364)
(1,113)	**(1,992)**	**(1,386)**	**(35,355)**	**-**	**(364,360)**
344	**249**	**317**	**2,950**	**1,821**	**59,289**
326	**253**	**386**	**2,745**	**3,233**	**58,020**

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

9. RIGHT OF USE ASSETS

In thousands of New Zealand dollars	Notes	Property	Motor Vehicles	Total
Cost				
Balance at 1 July 2019		-	-	-
Transition to IFRS 16	23	45,553	6,030	51,583
Additions		6,633	686	7,319
Disposals		(597)	(971)	(1,568)
Effect of movements in exchange rates		137	51	188
Balance at 30 June 2020		**51,726**	**5,796**	**57,522**
Depreciation and Impairment Losses				
Balance at 1 July 2019		-	-	-
Transition to IFRS 16	23	(31,853)	(4,564)	(36,417)
Depreciation for the year		(5,484)	(1,316)	(6,800)
Disposals		597	959	1,556
Effect of movements in exchange rates		(98)	(73)	(171)
Balance as at 30 June 2019		**(36,838)**	**(4,994)**	**(41,832)**
Carrying amounts				
At 30 June 2019		-	-	-
At 30 June 2020		**14,888**	**802**	**15,690**

Kordia leases approximately 220 properties or parts of properties for the development of telecommunications infrastructure (e.g. telecommunications towers), office and warehouse space. The duration of such lease agreements is typically five to ten years and often has an option of automatic extension for a further term. The rent of the leases vary according to each location however most are indexed annually in line with the consumer price index.

The Group also leases approximately 160 motor vehicles, with lease terms of up to three years.

Leased assets are capitalised at the commencement date of the lease and comprise the initial lease liability amount less any lease incentives received. The lease term determined by the Group generally comprises the non-cancellable period and option to extend if the Group is reasonably certain to exercise that option.

An impairment review is undertaken for any right of use lease asset that shows indicators of impairment and an impairment loss is recognised against the right of use assets that is impaired.

Depreciation of lease assets is calculated using the straight line method to allocate their cost, net of their residual values over their estimated useful lives being the lesser of the remaining lease term and the life of the asset.

10. FINANCE LEASES

Finance lease receivables are as follows:

	2020			2019		
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	**367**	**86**	**281**	362	102	260
Between one and five years	**371**	**70**	**301**	1,485	240	1,245
More than five years	**1,120**	**95**	**1,025**	373	11	362
	1,858	**251**	**1,607**	2,220	353	1,867

The future lease receivables bear interest at 6% (2019: 6%).

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

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

11. INTANGIBLE ASSETS

In thousands of New Zealand dollars	Trademarks	Frequency Licences	Software	Goodwill	Total
Cost					
Balance at 1 July 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**
Additions	-	-	30	500	530
Transfers	-	-	124	-	124
Effects of movements in exchange rates	-	-	-	327	327
Balance at 30 June 2020	**125**	**9,512**	**26,541**	**23,716**	**59,894**
Amortisation and Impairment losses					
Balance at 1 July 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)**
Amortisation for the year	(25)	(392)	(545)	-	(962)
Balance at 30 June 2020	**(117)**	**(7,458)**	**(25,289)**	**-**	**(32,864)**
Carrying amounts					
At 30 June 2019	**33**	**2,446**	**1,643**	**22,889**	**27,011**
At 30 June 2020	**8**	**2,054**	**1,252**	**23,716**	**27,030**

Impairment

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 $14,130 (2019: $13,803) has been allocated to Kordia Pty Limited, $9,086 (2019: $9,086) has been allocated to the Aura business unit and $500 has been allocated to the Networks 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 6.1% (2019: 6.7%) was applied to Kordia Pty Limited and subsidiary and 7.6% (2019: 8.9%) 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 2020 using the financial budgets approved by management. Beyond year five a real growth rate of 0% (2019: 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.

Refer to note 8 for the impairment testing of the Networks cash generating unit.

Acquisition

On 31 January 2020 the Group acquired the business and assets of Emerging Technology Partners Limited, a provider of cloud technology products to enterprise customers, providing strategic planning, architecture, design, implementation and managed services. The acquisition is expected to provide the Group an increased market share through expanding its existing product offering.

There were no tangible assets associated with the acquisition. As such, the purchase price of $500 has been recorded as goodwill.

In the five months to 30 June 2020, Emerging Technology Partners Limited contributed revenue of $514. If the acquisition had occurred on 1 July 2019, management estimates that the consolidated group revenue would have been $224,500 for the year.

12. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	ASSETS		LIABILITIES		NET	
In thousands of New Zealand dollars	**2020**	2019	**2020**	2019	**2020**	2019
Property, plant and equipment	**1,884**	-	**-**	(1,200)	**1,884**	(1,200)
Right of use assets	-	-	**(4,605)**	-	**(4,605)**	-
Intangible assets	**-**	-	**(107)**	(74)	**(107)**	(74)
Derivatives	**-**	-	**-**	(1)	**-**	(1)
Trade and other receivables	**-**	-	**(10,289)**	(5,833)	**(10,289)**	(5,833)
Inventories	**109**	105	**-**	-	**109**	105
Employee entitlements	**2,178**	1,785	**-**	-	**2,178**	1,785
Other payables	**1,012**	1,383	**-**	-	**1,012**	1,383
Provisions	**3,881**	3,546	**-**	-	**3,881**	3,546
Lease liabilities	**5,419**	-	**-**	-	**5,419**	-
Tax losses	**18,550**	12,387	**-**	-	**18,550**	12,387
Net tax assets/(liabilities)	**33,033**	19,206	**(15,001)**	(7,108)	**18,032**	12,098

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

In thousands of New Zealand dollars	**2020**	2019
New Zealand	**6,025**	1,593
Australia	**12,007**	10,505
Net tax asset	**18,032**	12,098

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

12. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

All movements in deferred tax have been recognised in the Income Statement except for ($1) (2019: ($2)) relating to derivatives which have been recognised in the cash flow hedge reserve, $127 (2019: $20) that have been recognised in the foreign currency translation reserve, $nil (2019: $441) recognised in retained earnings on transition to IFRS 15 and ($572) (2019: nil) recognised in retained earnings on transition to IFRS 16 (refer to note 23).

Gross tax losses of $61,833 (2019: $41,290) 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, subject to certain conditions.

13. INVENTORIES

In thousands of New Zealand dollars	2020	2020
Inventory	**3,743**	2,348
Provision for write down	**(567)**	(558)
Total inventories	**3,176**	1,790

14. TRADE AND OTHER RECEIVABLES

Current		
Trade receivables	**22,724**	21,872
Provision for doubtful debts	**(690)**	(435)
Trade prepayments	**4,276**	4,115
Costs to obtain a contract	**865**	924
Contract asset – contract work in progress	**36,359**	22,344
	63,534	48,820
Non-current		
Costs to obtain a contract	**592**	748
Other receivables	**52**	652
	644	1,400

During the year, the Group utilised $176 (2019: $192) of the provision for doubtful debts and increased the provision by $431 (2019: $54).

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 2020, contract work in progress was $36,359 (2019: $22,344).

Deferred income, where billing exceeds recognised revenue, is disclosed in note 15 and amounts to $7,580 (2019: $8,349).

Trade receivables are financial assets categorised as loans and receivables.

15. TRADE AND OTHER PAYABLES

In thousands of New Zealand dollars	**2020**	2019
Current		
Trade payables and accruals	**40,145**	25,995
Contract liability - deferred income	**7,015**	7,461
Contract liability – media industry support	**11,373**	-
Employee entitlements	**6,562**	5,240
	65,095	38,696
Non-current		
Trade payables and accruals	**154**	1,337
Contract liability - deferred income	**565**	888
Employee entitlements	**1,185**	1,125
	1,904	3,350

Payables are categorised as financial liabilities measured at amortised cost.

On 23 April 2020, the New Zealand Government announced a financial support package for the New Zealand media industry to help them through the impacts of Covid19. As part of the package, Manatū Taonga, Ministry for Culture and Heritage is funding television and radio transmission fees for six months from May 2020. The Group received $17,060 from Manatū Taonga, Ministry for Culture and Heritage to apply to each broadcasters transmission fees for six months from May 2020. As at June 2020 $11,373 remains unearned as it is in respect of transmission fees for the period July to October 2020.

16. LOANS AND ADVANCES

Bank loans (unsecured)	**6,000**	19,847
Loan facilities are repayable as follows:		
Within one year	**-**	-
One to two years	**-**	19,847
Two to five years	**6,000**	-
	6,000	19,847
Weighted average interest rates:		
Bank loans	**1.3%**	2.5%
Bank loans amended for derivatives, line fees and margin	**1.9%**	4.3%

The loan facilities comprise a syndicated revolving cash advance facility, dated 29 June 2017 and amended and restated from time to time (2019: 29 June 2017), committed to a maximum amount of NZD40 million (2019: AUD40 million). The loans drawn and facility available is analysed as follows:

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

16. LOANS AND ADVANCES (CONTINUED)

	2020				2019			
	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	**-**	**6,000**	**-**	**40,000**	-	-	-	-
Tranche B	**-**	**-**	**-**	**-**	-	18,801	-	31,394
Tranche C	**-**	**-**	**-**	**-**	-	1,046	-	10,465
	-	**6,000**	**-**	**40,000**	-	19,847	-	41,859

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 2023.

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 2019 and 2020 financial years.

Covenant		**2020**	2019
Gearing ratio	Net debt to EBITDA <3.0:1	**0.2:1**	0.4:1
Interest cover	EBITDA to net interest >3.0 times	**21:1**	20:1
Minimum shareholder funds	Covenant removed (2019: >$50 million)	**Removed**	$90m
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.

17. LEASE LIABILITIES

In thousands of New Zealand dollars	Notes	Property	Motor Vehicles	Total
Balance at 1 July 2019		-	-	-
Transition to IFRS 16	23	16,912	1,621	18,533
Additions		6,633	686	7,319
Payments		(6,052)	(1,443)	(7,495)
Variable lease payments (rent concession)		(156)	-	(156)
Effect of movements in exchange rates		86	(17)	69
Balance at 30 June 2020		**17,423**	**847**	**18,270**
Current		5,933	636	6,569
Non-current		11,490	211	11,701
Balance at 30 June 2020		**17,423**	**847**	**18,270**
Maturity analysis of contractual undiscounted cashflows				
Less than one year		6,304	668	6,972
One to five years		9,510	222	9,732
More than five years		4,191	-	4,191
Total undiscounted cashflows		**20,005**	**890**	**20,895**

The lease lability is measured as the present value of the fixed and variable lease payments net of cash lease incentives that are not paid at balance date. Lease payments are apportioned between the finance charge and reduction of the lease liability using the incremental borrowing rate to achieve a constant rate of interest on the remaining balance of the liability. Lease payments for buildings exclude service fees for cleaning and other costs.

Lease modifications are accounted for as a continuation of the existing lease with an effective date of the modification.

In March and April 2020, the Group received rent concessions, in the form of one off reduced rental charges, from it landlords due to the impacts of Covid19. These have been accounted for as a negative variable lease payment thereby reducing the lease liability and charge to the Income Statement.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

18. PROVISIONS

In thousands of New Zealand dollars	Warranty	Make good	Total
Balance at 1 July 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 movement in exchange rate	(10)	(50)	(60)
Unwind discount	-	275	275
Balance at 30 June 2019	262	12,297	12,559
Provisions made/(adjusted) during the period	**-**	**1,092**	**1,092**
Provisions utilised during the period	**(264)**	**(85)**	**(349)**
Effect of movements in exchange rate	**2**	**29**	**31**
Unwind discount	**-**	**270**	**270**
Balance at 30 June 2020	**-**	**13,603**	**13,603**
Current	262	918	1,180
Non-current	-	11,379	11,379
Balance at 30 June 2019	262	12,297	12,559
Current	**-**	**578**	**578**
Non-current	**-**	**13,025**	**13,025**
Balance at 30 June 2020	**-**	**13,603**	**13,603**

Warranties

The provisions for warranties relate mainly to design and build contracts. The provision is based on estimates made from historical data.

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 4% of the liability next year.

19. 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 AUD827 ($886) and USD487 ($758) {2019: AUD4,235 ($4,432)} and current liabilities of AUD1,151 ($1,233) and USD106 ($166) {2019: AUD214 ($224), and USD83 ($123)}. 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 16, the Group has a syndicated revolving cash advance facility committed to a maximum amount of NZD40,000 (2019: AUD40,000). At 30 June the drawdown on these facilities was $6,000 (2019: $19,847), to fund on-going activities. The facilities expire on 1 July 2023.

The Group has an overdraft facility of $50 (2019: $50) which has a wholesale prime interest rate of 6% (2019: 6%). At 30 June 2020 the drawdown on this facility was nil (2019: nil).

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

In thousands of New Zealand dollars	**2020**	2019
Fixed rate instruments:		
Financial assets (finance leases)	**1,607**	1,867
Variable rate instruments:		
Financial liabilities (debt)	**6,000**	19,847

(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.

				2020			
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	**-**	**(65,095)**	**(1,904)**	**-**	**-**	**(66,999)**	**(66,999)**
Loans and advances	**-**	**(79)**	**(79)**	**(6,079)**	**-**	**(6,237)**	**(6,000)**
Total liabilities and equity	**-**	**(65,174)**	**(1,983)**	**(6,079)**	**-**	**(73,236)**	**(72,999)**

				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	-	(38,696)	(3,350)	-	-	(42,046)	(42,046)
Loans and advances	-	(505)	(19,848)	-	-	(20,353)	(19,847)
Total liabilities and equity	-	(39,201)	(23,198)	-	-	(62,399)	(61,893)

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

19. FINANCIAL INSTRUMENTS (CONTINUED)

(D) SENSITIVITY ANALYSIS

At 30 June 2020, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's net profit after tax by $42 (2019: $139). At 30 June 2020, it is estimated that a general decrease of one percentage point in interest rates would increase the Group's net profit after tax by $42 (2019: $139). Interest rate swaps have been included in this calculation.

At 30 June 2020, 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 $31 (2019: $92). At 30 June 2020, 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 $31 (2019: $92). 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:

	2020		2019	
In thousands of New Zealand dollars	**Gross receivable**	**Impairment**	Gross receivable	Impairment
Not past due	**16,191**	**-**	14,453	-
Past due 0-30 days	**4,063**	**-**	5,387	(40)
Past due 31-120 days	**2,019**	**(335)**	1,770	(72)
Past due 121-365 days	**348**	**(262)**	45	(132)
Past due more than 1 year	**103**	**(93)**	217	(191)
Total	**22,724**	**(690)**	21,872	(435)

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.

20. 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.

	2020		2019	
In thousands of New Zealand dollars	**Carrying value**	**Fair value**	Carrying value	Fair value
Loans and advances payable (classified as amortised cost)	**6,000**	**6,000**	19,847	19,847

As at 30 June 2020, no financial assets or liabilities have been offset in the Statement of Financial Position although they are covered by an ISDA/Master netting agreement.

21. 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's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

22. 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.

23. ADOPTION OF NEW ACCOUNTING STANDARDS

The Group has adopted NZ IFRS 16 Leases from 1 July 2019. 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.

Management reviewed the current lease related business processes, controls and governance. Detailed contract reviews were undertaken to determine whether contracts contain or should be accounted for as a lease under NZ IFRS 16. Analysis of existing lease databases was also performed, a lease data enrichment process completed and an NZ IFRS 16 module within lease databases implemented.

The Group has adopted NZ IFRS 16 using the modified retrospective method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 July 2019). Accordingly, the information presented for the period ended 30 June 2019 has not been restated and it is presented, as previously reported, under NZ IAS 17 and related interpretations.

The following table summarises the Group impact (net of tax) of the transition to NZ IFRS 16 as recognised in retained earnings on 1 July 2019. The table below shows only the balance sheet items impacted by the adoption of NZ IFRS 16.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

23. ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)

In thousands of New Zealand dollars	As reported 30 June 2019	IFRS 16 Adjustments	Opening 1 July 2019
Assets			
Deferred tax asset	**12,098**	572	12,670
Right of use assets	**-**	15,166	15,166
Total non-current assets	**101,405**	15,738	117,143
Total current assets	**64,142**	-	64,142
Total assets	**165,547**	15,738	181,285
Equity and Liabilities			
Retained earnings	**5,134**	(1,437)	3,697
Total equity attributable to the equity holder	**89,588**	(1,437)	88,151
Trade and other payables	**3,350**	(969)	2,381
Lease liabilities	**-**	11,889	11,889
Total non-current liabilities	**34,576**	10,920	45,496
Trade and other payables	**38,696**	(389)	38,307
Lease liabilities	**-**	6,644	6,644
Total current liabilities	**41,383**	6,255	47,638
Total liabilities	**75,959**	17,175	93,134
Total equity and liabilities	**165,547**	15,738	181,285

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

- The accounting of the right of use assets and lease liabilities
- The reclassification of the lease incentive benefits as a reduction to the right of use assets.

The following tables summarise the impact of adoption of NZ IFRS 16 on the Group's Statement of Financial Position, Income Statement and Statement of Cashflows for the current period in comparison to the results that would have been reported if NZ IFRS 16 had not been applied.

In thousands of New Zealand dollars	As reported 30 June 2020	IFRS 16 Adjustments	Without NZ IFRS 16
Assets			
Deferred tax asset	**18,032**	(460)	17,572
Right of use assets	**15,690**	(15,690)	-
Total non-current assets	**120,742**	(16,150)	104,592
Total current assets	**84,417**	-	84,417
Total assets	**205,159**	(16,150)	189,009
Equity and Liabilities			
Retained earnings	**13,320**	1,150	14,470
Total equity attributable to the equity holder	**98,030**	1,150	99,180
Trade and other payables	**1,904**	587	2,491
Lease liabilities	**11,701**	(11,701)	-
Total non-current liabilities	**32,639**	(11,114)	21,525
Trade and other payables	**65,095**	383	65,478
Lease liabilities	**6,569**	(6,569)	-
Total current liabilities	**74,490**	(6,186)	68,304
Total liabilities	**107,129**	(17,300)	89,829
Total equity and liabilities	**205,159**	(16,150)	189,009

In thousands of New Zealand dollars	As reported 30 June 2020	IFRS 16 Adjustments	Without NZ IFRS 16
Direct costs and overheads	**100,199**	7,305	107,504
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**30,472**	(7,305)	23,167
Finance expense	**2,070**	(903)	1,167
Depreciation right of use assets	**6,800**	(6,800)	-
Profit/(loss) before income tax	**9,011**	(398)	8,613
Income tax expense/(benefit)	**(612)**	(111)	(723)
Profit/(loss) for the year attributable to the equity holder	**9,623**	(287)	9,336

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

23. ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)

In thousands of New Zealand dollars	As reported 30 June 2020	IFRS 16 Adjustments	Without NZ IFRS 16
Payments to suppliers and employees	**(177,511)**	6,592	(170,019)
Interest paid	**(1,795)**	903	(892)
Net cash from/(used in) operating activities	**36,079**	7,495	28,584
Net cash from/(used in) investing activities	**(10,216)**	-	(10,216)
Repayment of lease liabilities	**(7,495)**	7,495	-
Net cash from/(used in) financing activities	**(21,883)**	7,495	(14,388)
Net increase/(decrease) in cash and cash equivalents	**3,980**	-	3,980
Cash and cash equivalents at beginning of year	**13,267**	-	13,267
Effect of exchange rate fluctuations on cash	**139**	-	139
Cash and cash equivalents at end of year	**17,386**	-	17,386

A reconciliation of lease liabilities on the date of transition with the opening lease commitments disclosed when applying IAS 17 at 30 June 2019 is as follows:

Operating lease obligations as at 30 June 2019	32,372
Effect of satellite transponder operating lease that doesn't meet the definition of a lease under NZ IFRS 16	(13,013)
Gross lease liabilities at 1 July 2019	19,359
Discounting	(826)
Lease liabilities 1 July 2019	**18,533**

The lease liabilities were discounted at the incremental borrowing rate as at 1 July 2019. The rates used on transition have been calculated for each lease reflecting the underlying lease terms and based on observable inputs. The risk free rate was based on the forward rates available in the same currency as the asset over the same term as the lease and was adjusted for credit and lease specific risk. The discount rates used ranged from 3.45% to 4.56%.

24. CAPITAL COMMITMENTS

In thousands of New Zealand dollars	2020	2019
Capital commitments (including intangible assets) are:		
Within one year	**2,013**	924

25. 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.

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

In thousands of New Zealand dollars	Notes	2020	2019
Net surplus/ (deficit) as per income statement		**9,623**	(149)
Add/(deduct) non-cash items:			
Depreciation of property, plant and equipment	8	**12,262**	15,458
Depreciation of right of use assets	9	**6,800**	-
Amortisation of licences and intangibles	11	**962**	1,122
Realised foreign currency losses/(gains)		**281**	(597)
Change in deferred tax/(future income tax benefit)		**(5,088)**	(350)
Movement in provision for doubtful debts		**255**	(146)
Movement in other provisions		**24**	(16)
Variable lease payments (rent concessions)		**(156)**	-
Unwind/change in make good		**270**	275
Movement in customer acquisition costs		**215**	(95)
		25,448	15,502
Items classified as investing activities:			
Loss/(gain) on disposal of property, plant and equipment		**22**	(80)
		22	(80)
Movements in working capital:			
Receivables, prepayments and contract work in progress		**(15,030)**	(6,199)
Inventories		**(1,385)**	(235)
Payables and deferred income		**27,024**	(1,675)
		10,609	(8,109)
Net cash flows from/(used in) operating activities		**36,079**	7,313

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

27. RELATED PARTY TRANSACTIONS

Kordia Group Limited comprises the following significant subsidiaries:

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

All subsidiaries have balance dates of 30 June.

The Crown is a 100 percent shareholder in Kordia Group Limited. All transactions with other Crown Entities, State Enterprises and Government Departments other than entities included in these consolidated financial statements are on a commercial basis 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	**2020**	2019	**2020**	2019
Revenue from telecommunications services	**28,484**	27,268	**1,234**	975
Direct costs and overheads	**3,666**	3,588	**4**	44

All transactions with Kordia Group and its subsidiary companies are priced on a commercial 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) and note 15 (trade and other payables).

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	**2020**	2019
Short term employee benefits	**2,533**	2,331
Defined contribution plan	**117**	119
Directors fees	**297**	261
	2,947	2,711

Unpaid amounts relating to the above are $579 (2019: $604).

28. COVID19

Covid19 has been unprecedented in terms of its impact on health, wellbeing, the economy and the way we all go about daily life. Like all businesses, Kordia has been affected by Covid19. The cancellation of sports events impacted the Mobile Media business revenue. The Solutions business saw work put on hold by customers or access to sites restricted. However, as the Group was considered an essential service provider in both New Zealand and Australia, and business continuity plans were successfully deployed, the impact has been minimised.

On 23 April 2020, the New Zealand Government announced a financial support package for the New Zealand media industry to help them through the impacts of Covid19. As part of the package, Manatū Taonga, Ministry for Culture and Heritage is funding television and radio transmission fees for six months from May 2020. The Group received $17,060 from Manatū Taonga, Ministry for Culture and Heritage to apply to each broadcasters transmission fees for six months from May 2020. This had a material impact on the cashflow for the year as disclosed in the Statement of Cashflows. At 30 June 2020, $11,373 remains unearned. Refer to note 15.

In recent months a number of customers have reached out requesting assistance as a result of Covid19. To reflect the level of uncertainty, the provision for doubtful debts has been increased in the year to June 2020. Refer to note 14.

On 2 August 2020, the State of Victoria, Australia announced stage 4 restrictions for 6 weeks until at least 13 September 2020. On 12 August 2020, Auckland was placed on level 3 lockdown and the remainder of the country at level 2 lockdown until 26 August 2020. Subsequently on 24 August 2020, Auckland's level 3 and the remainder of New Zealand's level 2 lockdown was extended to 30 August 2020. In both New Zealand and Australia, Kordia is an essential service provider. It is acknowledged however that there is significant uncertainty in how Covid19 will impact the New Zealand and Australian economies and Kordia in the future. The level of inherent valuation judgement has increased as a result of the Covid19 pandemic. Assumptions around forecasting future work volumes in New Zealand and Australia require a significant amount of judgement and so an appropriate level of prudence, in relation to estimates and judgements was used based on all information available to the Group at the time of preparing these financial statements.

Kordia recently refinanced its bank facilities and, combined with low gearing is well placed to manage contingencies that may arise due to the uncertain future caused by Covid19.

29. EVENTS AFTER THE BALANCE SHEET DATE

On 27 August 2020 the Board of Directors declared no final dividend for the year ended 30 June 2020.

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

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2020

TO THE READERS OF KORDIA GROUP LIMITED'S GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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 21 to 58, that comprise the statement of financial position as at 30 June 2020, 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 2020; 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 27 August 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to other matters. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Emphasis of matter – impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Group as set out primarily in the Statement of Cash Flows, note 15 and note 28 to the financial statements. In particular we highlight the receipt of $17m directly from the government in the current year to support the media customers of the Group. This had a material positive impact on the cash flow for the year and has been appropriately disclosed in the financial statements.

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
27 August 2020

STATEMENT OF PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2020

	Statement of Corporate Intent - Target 2020	2020 Actual	2019 Actual
Financial Performance Targets (Consolidated)			
Return on equity (net profit after tax as a percentage of average shareholders' equity)	8%	**10%**	(0.2%)
Earnings before interest and taxes (EBIT)	$12.4m	**$10.4m**	$0.1m
Group net profit after tax (NPAT)	$7.6m	**$9.6m**	($0.1m)
Shareholders' equity	$94m	**$98m**	$90m
Capital structure (shareholders' equity to total assets)	50%	**48%**	54%
Commercial value (enterprise value)	$143m	**$146m**	$143m
Commercial value of the Crown's investment (enterprise value - net debt)	$118m	**$139m**	$136m
Total shareholder return ((commercial value end - commercial value beg + dividends)/ commercial value beg)	1%	**2%**	(2%)
Dividend yield (dividends/avg commercial value)	5%	**0%**	2%
Dividend payout (dividend paid/(net cashflow from operating activities - depreciation and amortisation expense))	227%	**0%**	(32%)
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)	8%	**10%**	(0.2%)
Return on capital employed (EBIT adjusted for IFRS fair value movements/average capital employed)	10%	**9%**	0%
Operating margin (EBITDAF/Revenue)	15%	**14%**	8%
Gearing ratio (net debt/(net debt + shareholders' funds))	15%	**7%**	7%
Interest cover (EBITDA/ net interest)	20	**21**	23
Solvency (current assets/current liabilities)	2.0	**1.1**	1.6
Non - Financial Performance Targets (Consolidated)			
Net promoter score (NPS)[a]	+50	**50**	51
Total recordable injury frequency rate (TRIFR)[b]	<5	**2.86**	1.16
NZ Digital Television Transmission (DTT) network availability (main metro sites measured annually) [c]	99.9%	**100%**	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.

(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 2020 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
FrameCAD Holdings Limited	Director
Quirk International Limited	Director/Shareholder
FarmIQ Systems Limited	Chair
Howard & Company Ventures Limited	Director/Shareholder
Aero Qual Limited	Director
S HASLEM	
Rangatira Limited	Director
The Meteorological Service of New Zealand Limited	Chair
CentrePort Limited	Deputy Chair
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/Shareholder
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
D T HAVERCROFT	
Connect8 Limited	Director/Shareholder
Southern Cross Cables Limited	Director
Reflect Limited	Director
KiwiWealth	Director
Spark NZ Limited	Shareholder
Chorus Limited	Shareholder
Nyriad Limited	Shareholder
Kode Biotech Limited	Shareholder

P M ENNIS	
Greystones Limited	Director/Shareholder
Avid Technology Inc	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
A S J O'BRIEN	
A O'Brien & Associates Limited	Director/Shareholder
New Zealand Antarctic Institute	Trustee
Antarctica New Zealand	Director
Reset New Zealand Limited	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 $40 million (2019: $20 million). The 2020 premium (net of GST) was $42,525 (2019: $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	Retired 31 October 2019	12,000
P M Ennis		36,000
D T Havercroft		36,000
S T O'Connor		36,000
A S J O'Brien	Appointed 1 November 2019	24,000
		297,000

CONTINUED

ADDITIONAL INFORMATION

EXECUTIVE REMUNERATION

Kordia's remuneration policy for the Executive Management Team (EMT) is founded on three guiding principles:

- remuneration is aligned to long-term sustainable shareholder value;
- remuneration for individuals will reflect the level of performance and delivery of successful outcomes; and
- simplicity over complexity will be reflected in the design.

Total remuneration of the Executive Team is made up of three components: fixed remuneration, short-term performance incentives and long-term performance incentives. Short and long term performance incentives are deemed "at risk" because the outcome is determined by performance against a combination of predetermined financial and non-financial objectives, the outcome of which is unable to be determined until year end.

The Board reviews the annual performance appraisal outcomes for all members of the Executive Team. The review takes into account external benchmarking to ensure competitiveness with comparable market peers, along with consideration of an individual's performance, skills, expertise and experience.

Fixed remuneration consists of base salary and benefits such as superannuation. Kordia's policy is to pay fixed remuneration with reference to the fixed pay market median. For the year ended 30 June 2020 there are no changes to executive fixed remuneration.

Short-Term Incentives (STI) are at risk payments designed to motivate and reward for performance typically in that financial year. The target value of a short term incentive is set annually, usually as a percentage of base salary. For FY20 the relevant target percentage for the Chief Executive is 40% and for all the other executives it is 15% to 35%. The incentive is related to a set of Key Performance Indicators (KPI's) based on business priorities for the next 12 months, with the objective of aligning the Executive Team's focus with the Group's priorities. The Board retains discretion to ensure the final outcome of STI payments fairly reflects performance over the relevant financial year.

Long-Term Incentives (LTI) are designed to provide a competitive, performance-based incentive aligned to the Group's profitability that drives exceptional and sustainable high performance and retains key executive employees. For FY20 the relevant target percentage for the Chief Executive is 20% of base salary. Under the LTI plan, performance is measured annually against a profit based target with payment due 12 months after it has been earnt.

A summary of the Chief Executive's remuneration earned in respect of the years ended 30 June 2019 and 30 June 2020 is as follows:

	Fixed Remuneration		Pay for Performance		**Total Remuneration**
	Salary	Benefits	STI	LTI	**(NZD)**
FY20	629,486[1]	45,511[2]	$191,880	$124,302	**$991,179**
FY19	644,198[1]	55,900[2]	$127,120	-	**$827,218**

Note 1: Actual salary paid includes holiday pay paid as per New Zealand legislation and sick leave.
Note 2: Benefits include superannuation

A breakdown of the Chief Executives pay for performance (FY20) is as follows:

	Description	Performance Measures
STI	Set at 40% of total fixed salary remuneration. Based on a combination of key financial and non-financial performance measures.	50% based on Company EBIT, Capex and Net debt measures. 50% Based on individual measures.
LTI	Set at 40% of total fixed salary remuneration. Payable 12 months after year end.	Based on Group NPAT financial measures.

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 2020. 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	52	3
$110,001 to $120,000	45	1
$120,001 to $130,000	47	1
$130,001 to $140,000	45	2
$140,001 to $150,000	36	-
$150,001 to $160,000	26	-
$160,001 to $170,000	22	1
$170,001 to $180,000	13	-
$180,001 to $190,000	9	-
$190,001 to $200,000	11	1
$200,001 to $210,000	11	1
$210,001 to $220,000	8	-
$220,001 to $230,000	2	-
$230,001 to $240,000	5	-
$240,001 to $250,000	4	1
$250,001 to $260,000	1	-
$260,001 to $270,000	2	-
$270,001 to $280,000	2	-
$280,001 to $290,000	2	-
$290,001 to $300,000	1	-
$300,001 to $310,000	2	-
$310,001 to $320,000	1	-
$320,001 to $330,000	2	-
$340,001 to $350,000	2	-
$350,001 to $360,000	1	-
$370,001 to $380,000	1	-
$390,001 to $400,000	3	1
$400,001 to $410,000	1	-
$570,001 to $580,000	1	-
$770,001 to $780,000	1	-
$990,001 to $1,000,000	1	-
	360	12

NOTES

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