

Kordia Group Limited

Condensed Consolidated Interim Financial Statements (unaudited)

For the Six Months Ended 31 December 2018

Kordia Group Limited

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	<i>Page</i>
Chair's Report	2
Condensed Consolidated Income Statement	3
Condensed Consolidated Statement of Comprehensive Income	4
Condensed Consolidated Statement of Changes in Equity	5-6
Condensed Consolidated Statement of Financial Position	7
Condensed Consolidated Statement of Cash Flows	8-9
Notes to the Interim Financial Statements	10-12

Kordia Group Limited

Chair's Report

Kordia Group

Specialist telecommunications, broadcast and cyber security business Kordia Group has reported a revenue of \$109m for the half year ended 31 December 2018. The Group's EBITDA was \$10.5m and the company posted a profit after tax of \$0.7m.

The majority of Kordia's business units are performing exceptionally well and are expected to continue doing so over the second half of the year.

In New Zealand, our Networks division continues to be a star performer and it's increasingly evident that our product and service offerings – including SecureWAN and SIP for Microsoft Teams – are hitting a real sweet spot for customers.

With growing appreciation and awareness around the need for robust cyber security practices, Kordia's specialist cyber security division, Aura Information Security, also continues to experience exceptional growth, with revenue up 39% on the year prior. Aura's team of experts continues to be highly regarded amongst both the InfoSec and business community, as evidenced by the company winning 'Best Security Company' for the second year running at the 2018 iSANZ Awards. With growing demand for expert advice and support, both in New Zealand and Australia, we expect the Aura business will continue on its path of strong growth.

Kordia's Media and Maritime divisions also performed strongly during the first half, with both securing significant long-term contracts and contract extensions.

Summary

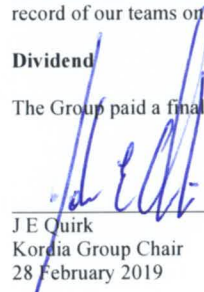
While the Group is on track for a profitable full year performance, the uncertainty in the Australian Telco market will influence the Group's 2019 performance.

With the Australian Telco industry going through a period of evolution and disruption, the first half of the year has brought some challenges to the business – notably in the form of delayed projects. However, with significant 5G investment on the horizon, the Australian Solutions team is well placed to leverage its solid reputation, expertise and long-standing relationships with major Telco carriers to improve its financial performance in the second half of 2019 and beyond.

As is the case with most industries, evolution and change brings both challenges and opportunities. Given the expertise and proven track record of our teams on both sides of the Tasman, Kordia Group is well positioned to capture these opportunities.

Dividend

The Group paid a final dividend of \$3m in September 2018. An interim dividend has not been declared for the 2019 year.



J E Quirk
Kordia Group Chair
28 February 2019

Kordia Group Limited

Condensed Consolidated Income Statement

For the Six Months Ended 31 December 2018

Audited 30/6/18	In thousands of New Zealand dollars	Unaudited	
		31/12/18	31/12/17
101,152	Revenue – New Zealand	54,606	50,108
116,084	Revenue - Australia	54,271	59,788
217,236	Total revenue	108,877	109,896
99,919	Direct costs and overheads	51,562	52,969
90,295	Employee and contractor expenses	46,779	45,172
27,022	Earnings before interest, tax, depreciation and amortisation (EBITDA)	10,536	11,755
18,395	Depreciation and amortisation expense	9,089	9,139
1,649	Finance costs	714	725
739	Finance income	241	383
7,717	Profit before income tax	974	2,274
2,055	Income tax expense	229	666
5,662	Profit for the period attributable to the equity holder	745	1,608

The notes set out on pages 10 to 12, form part of, and should be read in conjunction with, the Interim Financial Statements.

Kordia Group Limited

Condensed Consolidated Statement of Comprehensive Income

For the Six Months Ended 31 December 2018

Audited 30/6/18	In thousands of New Zealand dollars	Note	Unaudited	
			31/12/18	31/12/17
5,662	Profit for the period attributable to the equity holder		745	1,608
(187)	Foreign currency translation differences		(597)	(253)
25	Effective portion of changes in the fair value of cashflow hedges		(7)	5
(7)	Tax effect of the effective portion of changes in the fair value of cashflow hedges		1	(1)
<u>(169)</u>	Other comprehensive income for the period		<u>(603)</u>	<u>(249)</u>
<u>5,493</u>	Total comprehensive income for the period		<u>142</u>	<u>1,359</u>

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Kordia Group Limited

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 31 December 2018 (unaudited)

In thousands of New Zealand dollars	Note	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
Balance 1 July 2018		87,696	7,110	(2,555)	9	92,260
Adjustment on initial application of IFRS 15, net of tax	3	-	1,136	-	-	1,136
Adjusted balance 1 July 2018		87,696	8,246	(2,555)	9	93,396
Net profit for the period		-	745	-	-	745
Other comprehensive income						
Foreign currency translation differences		-	-	(597)	-	(597)
Fair value of cashflow hedges transferred to income statement, net of tax		-	-	-	(6)	(6)
Total other comprehensive income		-	-	(597)	(6)	533
Total comprehensive income for the period		-	-	(597)	(6)	533
Transactions with owners						
Dividends		-	(2,963)	-	-	(2,963)
Balance 31 December 2018		87,696	6,028	(3,152)	3	90,575

Kordia Group Limited

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 31 December 2017 (unaudited)

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
Balance 1 July 2017	87,696	2,448	(2,368)	(9)	87,767
Net profit for the period	-	1,608	-	-	1,608
Other comprehensive income					
Foreign currency translation differences	-	-	(253)	-	(253)
Effective portion of changes in fair value of cashflow hedges, net of tax	-	-	-	(5)	(5)
Fair value of cashflow hedges transferred to income statement, net of tax	-	-	-	9	9
Total other comprehensive income	-	-	(253)	4	249
Total comprehensive income for the period	-	1,608	(253)	4	1,359
Balance 31 December 2017	87,696	4,056	(2,621)	(5)	89,126

The notes set out on pages 10 to 12, form part of, and should be read in conjunction with, the Interim Financial Statements.

Kordia Group Limited

Condensed Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2018 (audited)

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
Balance 1 July 2017	87,696	2,448	(2,368)	(9)	87,767
Net profit for the year	-	5,662	-	-	5,662
Other comprehensive income					
Foreign currency translation differences	-	-	(187)	-	(187)
Effective portion of changes in fair value of cashflow hedges, net of tax	-	-	-	14	14
Fair value of cashflow hedges transferred to income statement, net of tax	-	-	-	4	4
Total other comprehensive income	-	-	(187)	18	(169)
Total comprehensive income for the year	-	5,662	(187)	18	5,493
Transactions with owners					
Dividends	-	(1,000)	-	-	(1,000)
Balance 30 June 2018	87,696	7,110	(2,555)	9	92,260

The notes set out on pages 10 to 12, form part of, and should be read in conjunction with, the Interim Financial Statements.

Kordia Group Limited

Condensed Consolidated Statement of Financial Position

As at 31 December 2018

Audited 30/6/18	In thousands of New Zealand dollars	Note	Unaudited	
			31/12/18	31/12/17
	Assets			
62,771	Property, plant and equipment		58,796	64,505
28,175	Intangible assets and goodwill		29,180	28,501
1,867	Finance lease receivable		1,739	1,989
12,604	Deferred tax asset		13,983	13,156
628	Trade and other receivables		662	-
106,045	Total non-current assets		104,360	108,151
15,740	Cash		8,073	22,054
41,855	Trade and other receivables and contract work in progress		49,430	44,930
943	Asset held for sale		883	-
240	Finance lease receivable		250	226
12	Derivative assets		6	-
1,555	Inventories		1,487	1,210
60,345	Total current assets		60,129	65,420
166,390	Total assets		164,489	173,571
	Equity and Liabilities			
87,696	Share capital		87,696	87,696
(2,555)	Foreign currency translation reserve		(3,152)	(2,621)
9	Cashflow hedge reserve		3	(5)
7,110	Retained earnings		6,028	4,056
92,260	Total equity attributable to the equity holder		90,575	89,126
4,122	Trade and other payables and deferred income		3,846	3,700
-	Derivative liabilities		-	2
8,781	Provisions		8,792	7,585
19,056	Loans and advances	4	18,495	27,270
31,959	Total non-current liabilities		31,133	38,557
40,996	Trade and other payables and deferred income		40,667	43,905
411	Taxation payable		1,262	713
-	Derivative liabilities		2	5
764	Provisions		850	1,265
42,171	Total current liabilities		42,781	45,888
74,130	Total liabilities		73,914	84,445
166,390	Total equity and liabilities		164,489	173,571

The notes set out on pages 10 to 12, form part of, and should be read in conjunction with, the Interim Financial Statements.

Kordia Group Limited

Condensed Consolidated Statement of Cash Flows

For the Six Months Ended 31 December 2018

Audited 30/6/18	In thousands of New Zealand dollars	Unaudited	
		31/12/18	31/12/17
	Cash flows from operating activities		
204,012	Receipts from customers	98,526	103,230
(187,920)	Payments to suppliers and employees	(96,809)	(98,621)
16,092		1,717	4,609
3	Dividends received	1	1
736	Interest received	239	368
(1,053)	Interest paid	(386)	(507)
(2,826)	Taxes paid	(1,620)	(1,585)
12,952	Net cash from/(used in) operating activities	(49)	2,886
	Cash flows from investing activities		
54	Proceeds from sale of property, plant and equipment	163	24
(12,360)	Acquisition of property, plant and equipment	(4,836)	(5,226)
(508)	Acquisition of intangibles and frequency licences	(475)	(81)
(12,814)	Net cash from/(used in) investing activities	(5,148)	(5,283)
	Cash flows from financing activities		
(739)	Proceeds from/(repayment of) loans and advances	510	7,173
214	Proceeds from finance lease assets	118	106
(1,000)	Dividends paid	(2,963)	-
(1,525)	Net cash from/(used in) financing activities	(2,335)	7,279
(1,387)	Net increase/(decrease) in cash and cash equivalents	(7,532)	4,882
16,957	Cash and cash equivalents at beginning of the period	15,740	16,957
170	Effect of exchange rate fluctuations on cash	(135)	215
15,740	Cash and cash equivalents at end of the period	8,073	22,054

The notes set out on pages 10 to 12, form part of, and should be read in conjunction with, the Interim Financial Statements.

Kordia Group Limited

Condensed Consolidated Statement of Cash Flows (continued)

For the Six Months Ended 31 December 2018

Audited		Unaudited	
30/6/18	In thousands of New Zealand dollars	31/12/18	31/12/17
	Reconciliation of net surplus for the period with cash flows from operating activities		
5,662	Net surplus as per income statement	745	1,608
	Add/(deduct) non-cash items:		
17,168	Depreciation	8,526	8,568
1,227	Amortisation of licences and intangibles	563	571
(518)	Realised foreign currency losses/(gains)	(471)	(606)
(43)	Hedging losses net of payment made to exit	-	(43)
(752)	Change in deferred tax/(future income tax benefit)	(2,241)	(1,202)
(68)	Movement in provision for doubtful debts	83	181
351	Unwind/change in make good	168	173
(74)	Movement in other provisions	(15)	(43)
22,953		7,358	9,207
	Items classified as investing activities:		
(265)	Loss/(gain) on disposal of property, plant and equipment	(63)	(23)
(265)		(63)	(23)
	Movements in working capital:		
(2,073)	Receivables, prepayments and contract work in progress	(7,659)	(1,770)
(234)	Inventories	69	111
(7,429)	Payables and deferred income	246	(4,639)
(9,736)		(7,344)	(6,298)
12,952	Net cash flows from operating activities	(49)	2,886

The notes set out on pages 10 to 12, form part of, and should be read in conjunction with, the Interim Financial Statements.

Kordia Group Limited

Notes to the Interim Financial Statements (continued)

For the Six Months Ended 31 December 2018

1. Reporting Entity

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

The condensed consolidated financial statements presented here are for the reporting entity Kordia Group Limited 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.

Statement of Compliance

The Interim Financial Statements have been prepared in accordance with NZ IAS 34, Interim Financial Statements. The consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2018.

The financial statements were authorised for issue by the directors on 28 February 2019.

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

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

Estimates and Judgements

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

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

2. Statement of Accounting Policies

The Interim Financial Statements presented here are the condensed consolidated financial statements of the Group comprising Kordia Group Limited and its subsidiaries, for the six months ended 31 December 2018 and 2017. Both periods are unaudited. The audited annual results for the year ended 30 June 2018 are also presented.

The accounting policies used in the preparation of the Interim Financial Statements are consistent with those used for the year ended 30 June 2018 and the six months ended 31 December 2017 except for the adoption of new standards effective 1 July 2018 as disclosed in note 3 below.

The Group has not applied any standards, amendments to standards and interpretations that are not yet effective.

The Group is generally not subject to significant seasonal or cyclical variations.

3. New Standards Adopted by the Group

NZ IFRS 9 Financial Instruments. NZ IFRS 9 (2014), published in July 2014 replaces the existing guidance in NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. This standard is effective for the Group from 1 July 2018. The Group completed an assessment of the potential impact of the adoption of NZ IFRS 9 on its consolidated financial statements and did not identify any significant impact.

NZ IFRS 15 Revenue from Contracts With Customers. NZ IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognised. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. This standard is effective for the Group from 1 July 2018.

Kordia Group Limited

Notes to the Interim Financial Statements (continued)

For the Six Months Ended 31 December 2018

3. New Standards Adopted by the Group (continued)

The Group has adopted IFRS 15 in its consolidated financial statements for the six months ended 31 December 2018 using the modified retrospective approach to those contracts not complete. As a result, the Group has applied the requirements of IFRS 15 to the most current period presented in the financial statements, i.e. the six months ended 31 December 2018, and recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings. Comparative periods have been presented under IAS 18 *Revenue* and IAS 11 *Construction Contracts*.

The impact of the adoption of NZ IFRS 15 on the Group's consolidated financial statements is as follows:

(i) Agency

The Group has determined that it acts in the capacity of an agent for certain transactions. Under IFRS 15, the assessment is based on whether the Group controls the specific goods before transferring them to the end customer, rather than whether it has exposure to significant risks and rewards associated with the sale of the good. Had the standard been in effect for the year ended 30 June 2018, both Revenue and Direct Costs in the Income Statement would be lower by \$2.56 million. The impact of the standard for the six months ended 31 December 2018 is to lower both Revenue and Direct Costs in the Income Statement by \$1.65m.

(ii) Incremental Costs of Obtaining a Contract

Incremental costs are those that would not have been incurred if the contract had not been obtained. Under IFRS 15, such costs are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Under IFRS 15 \$1.577 million of incremental costs and the related deferred tax effect of \$0.441m were deferred to the balance sheet on application of the standard. The incremental costs of obtaining a contract are reflected in intangible assets and goodwill on the balance sheet. As at 31 December 2018, the value of the incremental costs of obtaining a contract on the balance sheet was \$1.566m.

Audited		Unaudited	
30/6/17	In thousands of New Zealand dollars	31/12/18	31/12/17
4.	Loans and Advances		
19,056	Bank loans (unsecured)	18,495	27,270
	Loan facilities are repayable as follows:		
-	Within one year	-	-
-	One to two years	18,495	-
19,056	Two to five years	-	27,270
19,056		18,495	27,270
	Weighted average interest rates:		
3.2%	Bank loans	3.5%	2.7%
4.5%	Bank loans amended for derivatives, line fees and margin	4.9%	3.7%

The loan facilities comprise a syndicated revolving cash advance facility, dated 29 June 2017 (2017: 29 June 2017), committed to a maximum amount of \$30 million (2017: \$30 million). The loans drawn and facility available is analysed as follows:

	31/12/18				31/12/17			
	Balance Drawn		Available Facility		Balance Drawn		Available Facility	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Tranche A	-	-	-	-	-	-	-	-
Tranche B	-	18,495	-	30,000	-	27,270	-	30,000
	-	18,495	-	30,000	-	27,270	-	30,000

Kordia Group Limited

Notes to the Interim Financial Statements (continued)

For the Six Months Ended 31 December 2018

Audited 30/6/18	In thousands of New Zealand dollars	Unaudited	
		31/12/18	31/12/17

4. Loans and Advances (continued)

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

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

The facility is subject to various covenants such as limitations on gearing, interest cover, minimum shareholders' funds and coverage (the proportion of the consolidated group that forms the guaranteeing group under the negative pledge). The Group was in compliance with all covenants for the interim periods ended 31 December 2018 and 2017 and the year ended 30 June 2018.

5. Commitments

39,961	Operating lease commitments	35,289	46,076
732	Capital commitments	974	1,381

Operating lease commitments comprise property related commitments for office space and operational sites, and commitments to Optus for satellite transponder capacity through to 2022.

6. Contingencies

As part of its contractual obligations with clients, the Group has an undertaking to provide services at a certain level and should this not be achieved, the Group 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.

7. Events Subsequent to Balance Date

On 28 February 2019 the Board of Directors declared no interim dividend (2017: nil).

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