

Kordia Group Limited

**Condensed Consolidated Interim Financial Statements
(unaudited)**

For the Six Months Ended 31 December 2017

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 strong start to the year, delivering revenue of \$109.8m for the half year ended 31 December 2017 (up 8.2% on the previous year) and a profit after tax of \$1.6m.

EBITDA was boosted to \$11.8m, 6.6% higher than the previous year, and off the back of this positive result, the Group will pay an interim dividend of \$1m as it continues to improve its financial performance.

Kordia Group's net debt position was \$5.2m at the end of December 2017 and the balance sheet remains strong.

The positive half year results are attributable to the strong growth experienced across all divisions of the business (Solutions, Cyber Security, Networks and Maritime) in both Australia and New Zealand. All areas of the business are performing well and with several large projects due to kick off in Australia and New Zealand during the second half of the year, we expect this growth to continue.

In New Zealand, the Networks division performed particularly well, with the Media and Telco divisions contributing strongly to the Group's overachievement on both revenue and EBIT. Solid progress is also being made in the Internet of Things (IoT) space with Kordia being awarded the contract to build and operate Spark's nationwide LoRA IoT network.

Kordia's specialist cyber security division, Aura Information Security, continues to carve out a successful path for growth and is increasingly gaining recognition as a leading cyber security provider. The company won 'Best Security Company' at the 2017 iSANZ Awards and was also selected as a Primary Supplier across all five categories of the NZ Government Security and Related Services Panel.

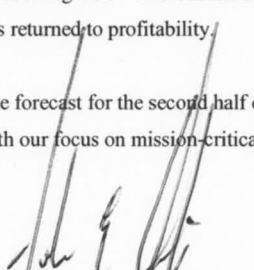
In Australia, the investment outlook continues to improve as network operators look to transition from legacy technology to 5G. The Solutions team also won several large project bids, positioning the business well for the future.

Dividend

While no dividends were paid off the back of the Group's 2017 financial results, a dividend of \$1m will be paid off the back of the strong first half results.

Last year we took significant steps to return Kordia Group to profitability – particularly in our Australian business where the completion of several key projects and delays in the commencement of new projects impacted on revenue. These steps have had a positive impact on our operations and Kordia Group has been able to start the current financial year on solid footing. All areas of the business are performing well – with substantial progress being made across the Tasman by our Solutions and Maritime businesses – and the Group has returned to profitability.

The forecast for the second half of the year is looking positive and we're confident our unique approach to customer service, combined with our focus on mission-critical technology solutions, will deliver a positive outcome for the shareholder.


J E Quirk
Kordia Group Chair
23 February 2018

Kordia Group Limited

Condensed Consolidated Income Statement

For the Six Months Ended 31 December 2017

Audited 30/6/17	In thousands of New Zealand dollars	Unaudited	
		31/12/17	31/12/16
200,914	Revenue	109,896	101,550
92,082	Direct costs and overheads	52,969	46,416
90,647	Employee and contractor expenses	45,172	48,039
18,185	Earnings before interest, tax, depreciation and amortisation (EBITDA)	11,755	7,095
19,318	Depreciation and amortisation expense	9,139	9,290
1,171	Finance costs	725	658
571	Finance income	383	259
(1,733)	Profit/(loss) before income tax	2,274	(2,594)
(579)	Income tax expense/(benefit)	666	(758)
(1,154)	Profit/(loss) for the period attributable to the equity holder	1,608	(1,836)

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 2017

Audited 30/6/17	In thousands of New Zealand dollars	Unaudited	
		31/12/17	31/12/16
(1,154)	Profit/(loss) for the period attributable to the equity holder	1,608	(1,836)
(43)	Foreign currency translation differences	(253)	18
178	Effective portion of changes in the fair value of cashflow hedges	5	87
(53)	Tax effect of the effective portion of changes in the fair value of cashflow hedges	(1)	(26)
41	Ineffective portion of changes in the fair value of cashflow hedges	-	-
(12)	Tax effect of the ineffective portion of changes in the fair value of cashflow hedges	-	-
111	Other comprehensive income for the period	(249)	79
(1,043)	Total comprehensive income for the period	1,359	(1,757)

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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/(loss) 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

Kordia Group Limited

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 31 December 2016 (unaudited)

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
Balance 1 July 2016	87,696	11,102	(2,325)	(163)	96,310
Net profit/(loss) for the period	-	(1,836)	-	-	(1,836)
Other comprehensive income					
Foreign currency translation differences	-	-	18	-	18
Effective portion of changes in fair value of cashflow hedges, net of tax	-	-	-	65	65
Fair value of cashflow hedges transferred to income statement, net of tax	-	-	-	(4)	(4)
Total other comprehensive income	-	-	18	61	79
Total comprehensive income for the period	-	(1,836)	18	61	(1,757)
Transactions with owners					
Dividends	-	(7,500)	-	-	(7,500)
Balance 31 December 2016	87,696	1,766	(2,307)	(102)	87,053

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 2017 (audited)

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
Balance 1 July 2016	87,696	11,102	(2,325)	(163)	96,310
Net profit/(loss) for the year	-	(1,154)	-	-	(1,154)
Other comprehensive income					
Foreign currency translation differences	-	-	(43)	-	(43)
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	-	-	-	140	140
Total other comprehensive income	-	-	(43)	154	111
Total comprehensive income for the year	-	(1,154)	(43)	154	(1,043)
Transactions with owners					
Dividends	-	(7,500)	-	-	(7,500)
Balance 30 June 2017	87,696	2,448	(2,368)	(9)	87,767

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 2017

Audited 30/6/17	In thousands of New Zealand dollars	Note	Unaudited	
			31/12/17	31/12/16
	Assets			
67,468	Property, plant and equipment		64,505	68,141
28,284	Intangible assets and goodwill		28,501	27,923
2,107	Finance lease receivable		1,989	2,215
11,507	Deferred tax asset		13,156	10,636
109,366	Total non-current assets		108,151	108,915
16,957	Cash		22,054	3,847
40,342	Trade and other receivables and contract work in progress		44,930	36,114
214	Finance lease receivable		226	205
5	Derivative assets		-	2
1,321	Inventories		1,210	1,427
58,839	Total current assets		65,420	41,595
168,205	Total assets		173,571	150,510
	Equity and Liabilities			
87,696	Share capital		87,696	87,696
(2,368)	Foreign currency translation reserve		(2,621)	(2,307)
(9)	Cashflow hedge reserve		(5)	(102)
2,448	Retained earnings		4,056	1,766
87,767	Total equity attributable to the equity holder		89,126	87,053
3,956	Trade and other payables and deferred income		3,700	4,057
6	Derivative liabilities		2	118
7,812	Provisions		7,585	8,445
18,767	Loans and advances	3	27,270	-
30,541	Total non-current liabilities		38,557	12,620
48,572	Trade and other payables and deferred income		43,905	46,951
430	Taxation payable		713	840
52	Derivative liabilities		5	4
843	Provisions		1,265	1,221
-	Loans and advances	3	-	1,821
49,897	Total current liabilities		45,888	50,837
80,438	Total liabilities		84,445	63,457
168,205	Total equity and liabilities		173,571	150,510

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 2017

Audited 30/6/17	In thousands of New Zealand dollars	Unaudited	
		31/12/17	31/12/16
	Cash flows from operating activities		
203,453	Receipts from customers	103,230	108,493
(181,881)	Payments to suppliers and employees	(98,621)	(94,750)
21,572		4,609	13,743
2	Dividends received	1	-
556	Interest received	368	259
(815)	Interest paid	(507)	(341)
(5,962)	Taxes paid	(1,585)	(4,572)
15,353	Net cash from/(used in) operating activities	2,886	9,089
	Cash flows from investing activities		
39	Proceeds from sale of property, plant and equipment	24	7
(15,077)	Acquisition of property, plant and equipment	(5,226)	(6,346)
(1,517)	Acquisition of intangibles and frequency licences	(81)	(148)
(16,555)	Net cash from/(used in) investing activities	(5,283)	(6,487)
	Cash flows from financing activities		
18,643	Proceeds from/(repayment of) loans and advances	7,173	(1,841)
196	Proceeds from finance lease assets	106	96
(7,500)	Dividends paid	-	(7,500)
11,339	Net cash from/(used in) financing activities	7,279	(5,563)
10,137	Net increase/(decrease) in cash and cash equivalents	4,882	(2,961)
6,820	Cash and cash equivalents at beginning of the period	16,957	6,820
-	Effect of exchange rate fluctuations on cash	215	(12)
16,957	Cash and cash equivalents at end of the period	22,054	3,847

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 2017

Audited		Unaudited	
30/6/17	In thousands of New Zealand dollars	31/12/17	31/12/16
	Reconciliation of net surplus for the period with cash flows from operating activities		
(1,154)	Net surplus/(deficit) as per income statement	1,608	(1,836)
	Add/(deduct) non-cash items:		
16,836	Depreciation	8,568	8,320
2,482	Amortisation of licences and intangibles	571	970
109	Realised foreign currency losses/(gains)	(606)	362
41	Hedging losses net of payment made to exit	(43)	-
(3,390)	Change in deferred tax/(future income tax benefit)	(1,202)	(2,590)
191	Movement in provision for doubtful debts	181	140
363	Unwind/change in make good	173	220
(2,245)	Movement in other provisions	(43)	(1,695)
13,233		9,207	3,891
	Items classified as investing activities:		
542	Loss/(gain) on disposal of property, plant and equipment	(23)	(7)
-	Loss/(gain) on disposal of intangibles	-	563
542		(23)	556
	Movements in working capital:		
11,794	Receivables, prepayments and contract work in progress	(1,770)	16,074
177	Inventories	111	70
(10,393)	Payables and deferred income	(4,639)	(11,502)
1,578		(6,298)	4,642
15,353	Net cash flows from operating activities	2,886	9,089

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 2017

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 2017.

The financial statements were authorised for issue by the directors on 23 February 2018.

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 2017 and 2016. Both periods are unaudited. The audited annual results for the year ended 30 June 2017 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 2017 and the six months ended 31 December 2016.

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.

Kordia Group Limited

Notes to the Interim Financial Statements (continued)

For the Six Months Ended 31 December 2017

Audited 30/6/17	In thousands of New Zealand dollars	Unaudited	
		31/12/17	31/12/16
3.	Loans and Advances		
18,767	Bank loans (unsecured)	27,270	1,821
	Loan facilities are repayable as follows:		
-	Within one year	-	1,821
-	One to two years	-	-
18,767	Two to five years	27,270	-
18,767		27,270	1,821
	<i>Weighted average interest rates:</i>		
2.6%	Bank loans	2.7%	2.7%
4%	Bank loans amended for derivatives, line fees and margin	3.7%	5%

The loan facilities comprise a syndicated revolving cash advance facility, dated 29 June 2017 (2016: 21 March 2012), committed to a maximum amount of \$30 million (2016: \$30 million). The loans drawn and facility available is analysed as follows:

	31/12/17				31/12/16			
	Balance Drawn		Available Facility		Balance Drawn		Available Facility	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Tranche A	-	-	-	-	-	-	-	-
Tranche B	-	27,270	-	30,000	-	-	-	-
Tranche C	-	-	-	-	-	-	-	-
Tranche D	-	-	-	-	14,511	-	20,000	-
Tranche E	-	-	-	-	(12,690)	-	10,000	-
	-	27,270	-	30,000	1,821	-	30,000	-

On 29 June 2017 (2016: 21 March 2012) 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 2017 and 2016 and the year ended 30 June 2017.

Kordia Group Limited

Notes to the Interim Financial Statements (continued)

For the Six Months Ended 31 December 2017

Audited 30/6/17	In thousands of New Zealand dollars	Unaudited	
		31/12/17	31/12/16
4.	Commitments		
47,630	Operating lease commitments	46,076	53,067
868	Capital commitments	1,381	1,801

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

5. 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.

6. Events Subsequent to Balance Date

On 23 February 2018 the Board of Directors declared no interim dividend (2016: nil).

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

