

Kordia Group Limited

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

For the Six Months Ended 31 December 2013

Kordia Group Limited

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Kordia Group Limited

Chair's Report

Revenue for the half year to 31 December 2013 of \$159.7m was favourable to budget by \$17.2m. The Group revenue is lower than the prior year by \$8m, due to the strengthening NZ dollar in 2013, which impacted the Australian business (KSA) result in New Zealand dollar terms on consolidation. In Australian dollar terms, KSA grew by 8% over the prior year and delivered a record first half of revenues.

Group EBITDA of \$7m for the half year delivered a NLAT of (\$3.8m). The NZ business was profitable and tracked ahead of targets for the half. This was however offset by Kordia Solutions Australia experiencing difficult trading conditions with competitor pressure reducing margins, combined with the termination of a long term contract, which impacted profitability. Kordia has commenced proceedings disputing the termination of the agreement and seeking judgment on other contractual issues.

Net debt at 31 December 2013 is \$59.1m which is \$4m favourable to budget and \$21m lower than the prior year (31 December 2012) with gearing at 41.0% at 31 December 2013. The net debt is favourable to budget despite KSA funding its working capital requirements through borrowings, with significant overdue receivables as a result of the termination and contractual dispute mentioned above.

Kordia New Zealand

On the 1st December 2013 the final phase of the analogue television Digital Switch Over (DSO) was successfully completed. The Minister of Broadcasting, Craig Foss, was present at the Kordia Waiatarau broadcast station to push the button on the closure of analogue TV. DSO enabled the Crown to release spectrum, which has raised a "digital dividend" of over \$200m for the Crown.

Despite DSO and the associated drop in earnings for Kordia, the New Zealand business remains profitable and has encouraging underlying performance, with growth in new revenue streams, and is on track to become New Zealand's leading provider of business critical networks.

Kordia Solutions Australia

Kordia Solutions Australia has consolidated on its year-on-year revenue growth in FY14 reporting record first half revenues, growing 8% over the prior year. This growth is the result of Kordia Solutions Australia broadening its range of service offerings and consolidating its end to end services across its increasingly diverse customer base.

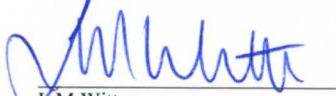
Despite strong revenues, earnings have been significantly impacted by a disputed termination of a long-term contract. This has resulted in the reporting of substantial disputed stranded costs and operating losses on that contract. Kordia has commenced proceedings disputing the termination of the agreement. Kordia also asserts that it is entitled to significant damages against the other party in relation to the termination. Kordia is also involved in litigation with that party in respect of other substantive contractual matters. The outcome of these disputes is unlikely to be determined this financial year.

The deployment and evolution of technology within the mobile and broadband sectors has assisted Kordia in reporting substantial project revenues from all major telecommunications carriers. Business continues to grow across the government and corporate sectors with the Energy and Natural Resources sector comprising a large proportion of non-carrier revenues.

Continued industry consolidation and aggressive price competition has seen margin pressure across the board and the company has reacted to this with general cost cutting measures however margins are lower than the company's historical performance. This is forecast to continue in the second half of the year.

Dividends

Consistent with the disclosure in the Statement of Corporate Intent (SCI), the Group has declared no interim dividend.



L M Witten
28 February 2014

Kordia Group Limited

Condensed Consolidated Income Statement

For the Six Months Ended 31 December 2013

Audited 30/6/13	In thousands of New Zealand dollars	Note	Unaudited 31/12/13	31/12/12
309,134	Revenue	3	159,688	167,733
573	Finance income		843	106
309,707			160,531	167,839
121,372	Direct costs and overheads		84,361	71,414
143,048	Employee and contractor expenses		68,102	75,891
24,697	Depreciation and amortisation expense		10,464	12,442
6,213	Finance costs		2,894	3,102
14,377	(Loss)/profit before income tax		(5,290)	4,990
3,698	Income tax (benefit)/expense		(1,508)	1,584
10,679	(Loss)/profit from continuing operations		(3,782)	3,406
(7,010)	(Loss)/profit from discontinued operations net of tax		-	(1,143)
3,669	(Loss)/profit for the period attributable to the equity holder		(3,782)	2,263

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 2013

Audited 30/6/13	In thousands of New Zealand dollars	Unaudited	
		31/12/13	31/12/12
3,669	(Loss)/profit for the period attributable to the equity holder	(3,782)	2,263
(1,504)	Foreign currency translation differences	(1,513)	(291)
2,018	Effective portion of changes in the fair value of cashflow hedges	1,040	621
(572)	Tax effect of the effective portion of changes in the fair value of cashflow hedges	(294)	(178)
105	Ineffective portion of changes in the fair value of cashflow hedges	14	-
(29)	Tax effect of the ineffective portion of changes in the fair value of cashflow hedges	(4)	-
18	Other comprehensive (loss)/income for the period	(757)	152
3,687	Total comprehensive (loss)/income for the period	(4,539)	2,415

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 Six Months Ended 31 December 2013 (unaudited)

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
Balance 1 July 2013	87,696	8,249	(769)	(1,751)	93,425
Net loss for the period	-	(3,782)	-	-	(3,782)
Other comprehensive income					
Foreign currency translation differences	-	-	(1,513)	-	(1,513)
Effective portion of changes in fair value of cashflow hedges, net of tax	-	-	-	951	951
Fair value of cashflow hedges transferred to income statement, net of tax	-	-	-	(195)	(195)
Total other comprehensive income	-	-	(1,513)	756	(757)
Total comprehensive loss for the period	-	(3,782)	(1,513)	756	(4,539)
Transactions with owners					
Dividends	-	(4,000)	-	-	(4,000)
Balance 31 December 2013	87,696	467	(2,282)	(995)	84,886

Kordia Group Limited

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 31 December 2012 (unaudited)

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
Balance 1 July 2012	87,696	6,580	735	(3,273)	91,738
Net profit for the period	-	2,263	-	-	2,263
Other comprehensive income					
Foreign currency translation differences	-	-	(291)	-	(291)
Effective portion of changes in fair value of cashflow hedges, net of tax	-	-	-	399	399
Fair value of cashflow hedges transferred to income statement, net of tax	-	-	-	44	44
Total other comprehensive income	-	-	(291)	443	152
Total comprehensive income for the period	-	2,263	(291)	443	2,415
Transactions with owners					
Dividends	-	(1,000)	-	-	(1,000)
Balance 31 December 2012	87,696	7,843	444	(2,830)	93,153

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 2013 (audited)

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
Balance 1 July 2012	87,696	6,580	735	(3,273)	91,738
Net profit for the year	-	3,669	-	-	3,669
Other comprehensive income					
Foreign currency translation differences	-	-	(1,504)	-	(1,504)
Effective portion of changes in fair value of cashflow hedges, net of tax	-	-	-	1,939	1,939
Fair value of cashflow hedges transferred to income statement, net of tax	-	-	-	(417)	(417)
Total other comprehensive income	-	-	(1,504)	1,522	18
Total comprehensive income for the year	-	3,669	(1,504)	1,522	3,687
Transactions with owners					
Dividends	-	(2,000)	-	-	(2,000)
Balance 30 June 2013	87,696	8,249	(769)	(1,751)	93,425

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 2013

Audited 30/6/13	In thousands of New Zealand dollars	Note	Unaudited	
			31/12/13	31/12/12
	Assets			
86,579	Property, plant and equipment		82,855	112,081
22,356	Intangible assets		22,962	54,893
7,500	Loans receivable		7,500	-
1,716	Finance lease receivable		922	-
3,576	Deferred tax assets		4,806	2,427
121,727	Total non-current assets		119,045	169,401
4,114	Cash		3,625	6,996
82,833	Trade and other receivables and contract work in progress		91,753	85,887
1,163	Taxation receivables		933	1,788
2,500	Loans receivable		2,500	-
1,388	Finance lease receivable		1,535	-
22	Derivative assets		6	5
1,335	Inventories		1,543	2,421
93,355	Total current assets		101,895	97,097
215,082	Total assets		220,940	266,498
	Equity and Liabilities			
87,696	Share capital		87,696	87,696
(769)	Foreign currency translation reserve		(2,282)	444
(1,751)	Cashflow hedge reserve		(995)	(2,830)
8,249	Retained earnings		467	7,843
93,425	Total equity attributable to the equity holder		84,886	93,153
5,413	Trade and other payables and deferred income		5,903	4,835
1,788	Derivative liabilities		917	3,565
5,174	Provisions		5,060	5,001
43,840	Loans and advances	4	25,472	60,845
56,215	Total non-current liabilities		37,352	74,246
46,716	Trade and other payables and deferred income		57,865	68,629
1,558	Taxation payable		262	298
833	Derivative liabilities		580	498
3,235	Provisions		2,765	3,441
33	Finance lease liability		-	170
13,067	Loans and advances	4	37,230	26,063
65,442	Total current liabilities		98,702	99,099
121,657	Total liabilities		136,054	173,345
215,082	Total equity and liabilities		220,940	266,498

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 2013

Audited 30/6/13	In thousands of New Zealand dollars	Unaudited	
		31/12/13	31/12/12
	Cash flows from operating activities		
344,508	Receipts from customers	148,207	198,520
(332,615)	Payments to suppliers and employees	(142,672)	(190,678)
11,893		5,535	7,842
2	Dividends received	1	2
571	Interest received	842	60
(6,606)	Interest paid - other	(2,550)	(3,285)
(10)	Interest paid - finance lease	(1)	(6)
(4,754)	Taxes paid	(1,557)	(3,641)
1,096	Net cash from/(used in) operating activities	2,270	972
	Cash flows from investing activities		
8,376	Proceeds from sale of property, plant and equipment	142	89
1,984	Proceeds from the sale of intangibles and frequency licences	-	-
23,582	Proceeds from the sale of a company, net of cash disposed	-	-
(20,031)	Acquisition of property, plant and equipment	(7,523)	(13,064)
(3,106)	Acquisition of intangibles and frequency licences	(3,274)	(1,518)
(176)	Loan to associate	-	-
10,629	Net cash from/(used in) investing activities	(10,655)	(14,493)
	Cash flows from financing activities		
(10,141)	Proceeds from/(repayment of) loans and advances	11,452	16,878
146	Proceeds from finance lease assets	648	-
(375)	Repayment of finance lease liabilities	(33)	(258)
(2,000)	Dividends paid	(4,000)	(1,000)
(12,370)	Net cash from/(used in) financing activities	8,067	15,620
(645)	Net increase/(decrease) in cash and cash equivalents	(318)	2,099
4,922	Cash and cash equivalents at beginning of the period	4,114	4,922
(163)	Effect of exchange rate fluctuations on cash	(171)	(25)
4,114	Cash and cash equivalents at end of the period	3,625	6,996

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 2013

Audited		Unaudited	
30/6/13	In thousands of New Zealand dollars	31/12/13	31/12/12
Reconciliation of net surplus for the period with cash flows from operating activities			
3,669	Net surplus/(deficit) as per income statement	(3,782)	2,263
Add/(deduct) non cash items:			
27,003	Depreciation	9,349	14,404
5,337	Amortisation of licences and intangibles	1,115	3,023
(2,576)	Unrealised foreign currency losses/(gains)	(4,084)	(256)
2,424	Change in deferred tax/(future income tax benefit)	(2,000)	1,839
815	Movement in provision for doubtful debts	447	516
280	Unwind/change in make good	130	195
35	Impairment of advance to associate	-	-
105	Hedging losses	14	-
(262)	Movement in other provisions	(413)	(27)
36,830		776	21,957
Items classified as investing activities:			
(7,065)	Loss/(gain) on disposal of property, plant and equipment	496	(162)
(1,456)	Loss/(gain) on disposal of intangibles	-	-
4,503	Loss on the sale of discontinued operations	-	-
9,212	Working capital on disposal	-	-
5,194		496	(162)
Movements in working capital:			
(11,910)	Receivables and prepayments	(9,137)	(10,795)
938	Inventories	(208)	(148)
(29,956)	Payables	10,343	(9,880)
(40,928)		998	(20,823)
1,096	Net cash flows from operating activities	2,270	972

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 2013

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 1993 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 2013.

The financial statements were authorised for issue by the directors on 28 February 2014.

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 consolidated financial statements of the Group comprising Kordia Group Limited and its subsidiaries, for the six months ended 31 December 2013 and 2012. Both periods are unaudited. The audited annual results for the year ended 30 June 2013 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 2013 and the six months ended 31 December 2012 with the exception of the following new standard which has been adopted in the Interim Financial Statements:

NZ IFRS 13 Fair Value Measurement

NZ IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirement about fair value measurement in other IFRSs, including IFRS 7.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

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

On 31 March 2013, The Group sold its investment in Orcon Limited. Orcon was not a discontinued operation or classified as held for sale on 31 December 2012. The comparative Statement of Comprehensive Income has been re-presented to show the discontinued operation separately from the continuing operations.

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 2013

Audited 30/6/13	In thousands of New Zealand dollars	Unaudited	
		31/12/13	31/12/12
3. Revenue			
308,590	Transmission services	159,688	167,188
544	Other revenue	-	545
309,134	Total Revenue	159,688	167,733

Other revenue includes settlements received from insurance companies.

4. Loans and Advances

56,907	Bank loans (unsecured)	62,702	86,908
	Loan facilities are repayable as follows:		
13,067	Within one year	37,230	26,063
25,000	One to two years	25,472	31,500
18,840	Two to four years	-	29,345
56,907		62,702	86,908
	Weighted average interest rates:		
3.8%	Bank loans	3.7%	3.9%
7.2%	Bank loans amended for derivatives, line fees and margin	6.5%	7.5%

The loan facilities comprise a syndicated revolving cash advance facility, dated 21 March 2012, committed to a maximum amount of \$102 million (2012: \$125 million). The loans drawn and facility available is analysed as follows:

	31/12/13				31/12/12			
	Balance Drawn		Available Facility		Balance Drawn		Available Facility	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Tranche A	-	-	-	-	20,000	-	20,000	-
Tranche B	12,230	-	15,000	-	6,063	-	15,000	-
Tranche C	25,000	-	37,000	-	-	31,500	-	40,000
Tranche D	-	37,228	-	40,000	-	26,524	-	40,000
Tranche E	-	(11,756)	-	10,000	-	2,821	-	10,000
	37,230	25,472	52,000	50,000	26,063	60,845	35,000	90,000

On 21 March 2012 a facility agreement was entered into between Kordia and the members of the banking syndicate.

The facility is currently split into four tranches:

- Tranche B for \$15m – Expires 30 June 2014
- Tranche C for \$40m – Expires 30 September 2014
- Tranche D for \$40m – Expires 30 September 2015
- Tranche E for \$10m – Expires 30 September 2015

Tranche B is renewable by agreement between Kordia and the members of the syndicate annually and has a lower fee and margin structure than the longer term Tranche C, D and E facilities.

Tranche E is a working capital facility which enables the Group to manage its cashflow on a daily basis.

Following the sale of Orcon Limited, the available facility under Tranche A was reduced to nil and Tranche C was reduced from \$40m to \$37m.

There is a right of set off between the tranches of the loan facility.

Kordia Group Limited

Notes to the Interim Financial Statements (continued)

For the Six Months Ended 31 December 2013

4. Loans and Advances (continued)

The Board is of the opinion, there is minimal liquidity risk because the split of funding between current and non-current is a conscious decision to be in line with the Group's treasury policy which stipulates progressive expiry/renewal dates for debt facilities. The facility has a portion of one year debt to take advantage of lower bank margins and commitment fees and was used in 2012 in preference to the longer dated and more expensive longer term tranches.

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 2013 and 2012 and the year ended 30 June 2013.

5. Commitments

Audited		Unaudited	
30/6/13	In thousands of New Zealand dollars	31/12/13	31/12/12
89,914	Operating lease commitments	76,268	99,458
3,715	Capital commitments	3,316	1,511

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.

The Company makes advances to its subsidiary companies. The Company's loan facility comprises a syndicated revolving cash advance facility committed to a maximum amount of \$102 million (2012: \$125 million). The facility is supported by a negative pledge by the Company and its guaranteeing subsidiaries over their assets and undertakings. Under the negative pledge, each guaranteeing subsidiary may be liable for indebtedness incurred by the Company and other guaranteeing subsidiaries. The Company considers the negative pledge in the individual subsidiaries financial statements to be an insurance contract. Such contracts and cross guarantees are treated as a contingent liability and only recognised as a liability if a payment becomes probable.

The Group is taking legal action with a customer in relation to performance obligations and fees under a contract. At balance date, there are significant receivables in dispute, however it is not practicable to estimate the ultimate financial impact of the contingency. Based on legal advice and assessment of the facts and circumstances, management expect to fully recover all amounts recorded in the financial statements.

Kordia Group Limited has received notification of claims made against its subsidiary Kordia New Zealand Limited in relation to the divestment of the discontinued operation. The Directors believe the claims are without merit and are taking the appropriate actions to defend the Group's position. At this time, it is not possible to reliably quantify what the potential impact, if any, will be on the Group. In addition, as at balance date, the Group has a \$10m loan receivable owed to it by the new owner of the discontinued operation (Purchaser), and a \$2.46m finance lease receivable owed to it by the discontinued operation, both of which are recorded as assets in the balance sheet. Subsequent to the balance date Kordia Group Limited has been notified by the Purchaser's Senior Lender of Material Default under the Purchaser's loan facility with its Senior Lender. However, all payment obligations to Kordia in respect of the loan receivable and the finance lease receivable are currently being met, and therefore Kordia Group Limited has assessed both of these balances as fully recoverable. Management will continue to monitor this position and will reassess at each reporting date.

7. Events Subsequent to Balance Date

On 28 February 2014 the Board of Directors declared no interim dividend (2012: \$1 million).

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