

Kordia Group Limited

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

For the Six Months Ended 31 December 2015

Kordia Group Limited

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Kordia Group Limited

Chair's Report

Kordia Group

Business telecom and information security provider Kordia Group has maintained its outstanding financial performance in the first half of the current year.

The business has more than doubled its forecast after tax profit to \$5.8m, reduced net debt by more than half and is paying an interim dividend to the government of \$1m.

The half year payment is on top of a special dividend of \$5m late last year, given the strong FY15 results and the continued strength of the group balance sheet.

The directors say the strong result is despite Kordia NZ purchasing Aura Information Security for \$10m during the half year.

Kordia Australia also made a strong contribution to the result with the conclusion of the company's biggest ever design and build contract.

Group net debt has plummeted to \$5.8m from \$12.5m with gearing now at six per cent. The directors say the favourable variance results from improvements in working capital, in particular cash from key Australian projects. There are timing factors and some of the funds will be utilised in the second half of the year.

Kordia Group's net profit after tax of \$5.8m beats its budgeted forecast of \$2.4m by 140 per cent. Profit for the same period last year was \$100,000.

At \$8.9m, group earnings before interest and tax (EBIT) were a little shy of double the budgeted \$4.7m on revenue of \$124m.

Health and safety continues to be a key focus of the board both here and across the Tasman with Kordia New Zealand compliant with NZS4801 and Australia achieving federal certification.

Kordia New Zealand

The acquisition of Wellington-based Aura InfoSec was completed during the half year. The acquisition significantly strengthens Kordia New Zealand's position in the cyber security market locking in a leading position cyber-security consulting business.

There is unprecedented demand for services in this sector and early Aura InfoSec trading has been encouraging. Overall, the New Zealand business has again performed well and is tracking ahead of its targets.

Kordia Australia

Kordia Solutions Australia continued to be a strong contributor to the Group result. The multi-year APLNG project, representing the biggest overseas delivery undertaken in Kordia's history has been successfully completed.

Dividends

Kordia Group's Statement of Corporate Intent (SCI), forecasts a full year dividend of \$4.8m. Because the strong first half performance tracked ahead of target, the board has declared an interim dividend of \$1m.



L M Witten
Kordia Group Chair
26 February 2016

Kordia Group Limited

Condensed Consolidated Income Statement

For the Six Months Ended 31 December 2015

Audited		Unaudited	
30/6/15	In thousands of New Zealand dollars	31/12/15	31/12/14
248,008	Revenue	124,139	121,874
111,511	Direct costs and overheads	56,597	56,919
98,503	Employee and contractor expenses	48,482	51,451
<u>37,990</u>	Earnings before interest, tax, depreciation and amortisation (EBITDA)	<u>19,060</u>	<u>13,504</u>
21,957	Depreciation and amortisation expense	10,174	11,561
3,809	Finance costs	787	2,199
1,043	Finance income	501	414
<u>13,267</u>	Profit before income tax	<u>8,600</u>	<u>158</u>
4,033	Income tax expense	2,817	58
<u><u>9,234</u></u>	Profit for the period attributable to the equity holder	<u><u>5,783</u></u>	<u><u>100</u></u>

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 2015

Audited		Unaudited	
30/6/15	In thousands of New Zealand dollars	31/12/15	31/12/14
9,234	Profit for the period attributable to the equity holder	5,783	100
475	Foreign currency translation differences	(367)	150
269	Effective portion of changes in the fair value of cashflow hedges	29	(58)
(78)	Tax effect of the effective portion of changes in the fair value of cashflow hedges	(10)	16
54	Ineffective portion of changes in the fair value of cashflow hedges	-	211
(15)	Tax effect of the ineffective portion of changes in the fair value of cashflow hedges	-	(59)
<u>705</u>	Other comprehensive income for the period	<u>(348)</u>	<u>260</u>
<u>9,939</u>	Total comprehensive income for the period	<u>5,435</u>	<u>360</u>

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Kordia Group Limited

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 31 December 2015 (unaudited)

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
Balance 1 July 2015	87,696	4,842	(1,641)	(194)	90,703
Net profit for the period	-	5,783	-	-	5,783
Other comprehensive income					
Foreign currency translation differences	-	-	(367)	-	(367)
Effective portion of changes in fair value of cashflow hedges, net of tax	-	-	-	(6)	(6)
Fair value of cashflow hedges transferred to income statement, net of tax	-	-	-	25	25
Total other comprehensive income	-	-	(367)	19	(348)
Total comprehensive income for the period	-	5,783	(367)	19	5,435
Transactions with owners					
Dividends	-	(5,000)	-	-	(5,000)
Balance 31 December 2015	87,696	5,625	(2,008)	(175)	91,138

Kordia Group Limited

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 31 December 2014 (unaudited)

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
Balance 1 July 2014	87,696	(4,392)	(2,116)	(424)	80,764
Net profit for the period	-	100	-	-	100
Other comprehensive income					
Foreign currency translation differences	-	-	150	-	150
Effective portion of changes in fair value of cashflow hedges, net of tax	-	-	-	191	191
Fair value of cashflow hedges transferred to income statement, net of tax	-	-	-	(81)	(81)
Total other comprehensive income	-	-	150	110	260
Total comprehensive income for the period	-	100	150	110	360
Balance 31 December 2014	87,696	(4,292)	(1,966)	(314)	81,124

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 2015 (audited)

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
Balance 1 July 2014	87,696	(4,392)	(2,116)	(424)	80,764
Net profit for the year	-	9,234	-	-	9,234
Other comprehensive income					
Foreign currency translation differences	-	-	475	-	475
Effective portion of changes in fair value of cashflow hedges, net of tax	-	-	-	316	316
Fair value of cashflow hedges transferred to income statement, net of tax	-	-	-	(86)	(86)
Total other comprehensive income	-	-	475	230	705
Total comprehensive income for the year	-	9,234	475	230	9,939
Balance 30 June 2015	87,696	4,842	(1,641)	(194)	90,703

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 2015

Audited 30/6/15	In thousands of New Zealand dollars	Note	Unaudited	
			31/12/15	31/12/14
Assets				
72,560	Property, plant and equipment		71,083	75,640
23,695	Intangible assets		30,470	23,563
2,498	Finance lease receivable		2,409	-
7,050	Deferred tax assets		5,580	8,962
<u>105,803</u>	Total non-current assets		<u>109,542</u>	<u>108,165</u>
Current assets				
1,587	Cash		5,003	4,615
62,359	Trade and other receivables and contract work in progress		52,586	60,314
5,949	Loans and advances	3	-	-
171	Finance lease receivable		182	922
85	Derivative assets		22	1
1,844	Inventories		1,904	1,628
<u>71,995</u>	Total current assets		<u>59,697</u>	<u>67,480</u>
<u><u>177,798</u></u>	Total assets		<u><u>169,239</u></u>	<u><u>175,645</u></u>
Equity and Liabilities				
87,696	Share capital		87,696	87,696
(1,641)	Foreign currency translation reserve		(2,008)	(1,966)
(194)	Cashflow hedge reserve		(175)	(314)
4,842	Retained earnings		5,625	(4,292)
<u>90,703</u>	Total equity attributable to the equity holder		<u>91,138</u>	<u>81,124</u>
Non-current liabilities				
4,130	Trade and other payables and deferred income		3,911	4,470
293	Derivative liabilities		247	252
6,062	Provisions		6,026	6,362
20,000	Loans and advances	3	-	18,495
<u>30,475</u>	Total non-current liabilities		<u>10,184</u>	<u>29,579</u>
Current liabilities				
52,425	Trade and other payables and deferred income		52,377	39,614
1,095	Taxation payable		629	594
67	Derivative liabilities		6	168
3,033	Provisions		4,123	2,383
-	Loans and advances	3	10,782	22,183
<u>56,620</u>	Total current liabilities		<u>67,917</u>	<u>64,942</u>
<u>87,095</u>	Total liabilities		<u>78,101</u>	<u>94,521</u>
<u><u>177,798</u></u>	Total equity and liabilities		<u><u>169,239</u></u>	<u><u>175,645</u></u>

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 2015

Audited 30/6/15	In thousands of New Zealand dollars	Note	Unaudited	
			31/12/15	31/12/14
	Cash flows from operating activities			
277,511	Receipts from customers		141,903	140,794
(222,082)	Payments to suppliers and employees		(111,745)	(122,631)
<u>55,429</u>			<u>30,158</u>	<u>18,163</u>
4	Dividends received		3	3
953	Interest received		425	411
(3,488)	Interest paid - other		(694)	(2,181)
(1,419)	Taxes paid		(2,133)	(340)
<u>51,479</u>	Net cash from/(used in) operating activities		<u>27,759</u>	<u>16,056</u>
	Cash flows from investing activities			
31	Proceeds from sale of property, plant and equipment		3	18
(11,901)	Acquisition of property, plant and equipment		(7,289)	(3,624)
(461)	Acquisition of intangibles and frequency licences		(6)	(210)
-	Acquisition of a business	4	(10,020)	-
<u>(12,331)</u>	Net cash from/(used in) investing activities		<u>(17,312)</u>	<u>(3,816)</u>
	Cash flows from financing activities			
(54,170)	Proceeds from/(repayment of) loans and advances		(2,047)	(22,983)
1,863	Proceeds from finance lease assets		79	795
9,950	Proceeds from loan receivable		-	9,950
-	Dividends paid		(5,000)	-
<u>(42,357)</u>	Net cash from/(used in) financing activities		<u>(6,968)</u>	<u>(12,238)</u>
<u>(3,209)</u>	Net increase/(decrease) in cash and cash equivalents		<u>3,479</u>	<u>2</u>
4,623	Cash and cash equivalents at beginning of the period		1,587	4,623
173	Effect of exchange rate fluctuations on cash		(63)	(10)
<u>1,587</u>	Cash and cash equivalents at end of the period		<u>5,003</u>	<u>4,615</u>

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

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Condensed Consolidated Statement of Cash Flows (continued)

For the Six Months Ended 31 December 2015

Audited			Unaudited	
30/6/15	In thousands of New Zealand dollars	Note	31/12/15	31/12/14
	Reconciliation of net surplus for the period with cash flows from operating activities			
9,234	Net surplus as per income statement		5,783	100
	Add/(deduct) non-cash items:			
19,352	Depreciation		9,144	10,322
2,605	Amortisation of licences and intangibles		1,030	1,239
2,240	Unrealised foreign currency losses/(gains)		(125)	(429)
1,340	Change in deferred tax/(future income tax benefit)		1,150	(1,054)
(253)	Movement in provision for doubtful debts		256	371
368	Unwind/change in make good		172	190
(624)	Hedging losses net of payment made to exit		-	(624)
(748)	Movement in other provisions		1,093	(529)
<u>33,513</u>			<u>18,503</u>	<u>9,586</u>
	Items classified as investing activities:			
156	Loss/(gain) on disposal of property, plant and equipment		23	(4)
-	Working capital acquired on acquisition of a business	4	508	-
<u>156</u>			<u>531</u>	<u>(4)</u>
	Movements in working capital:			
21,948	Receivables and prepayments		9,518	23,370
(367)	Inventories		(61)	(151)
(3,771)	Payables		(732)	(16,745)
<u>17,810</u>			<u>8,725</u>	<u>6,474</u>
<u>51,479</u>	Net cash flows from operating activities		<u>27,759</u>	<u>16,056</u>

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 2015

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 2015.

The financial statements were authorised for issue by the directors on 26 February 2016.

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 2015 and 2014. Both periods are unaudited. The audited annual results for the year ended 30 June 2015 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 2015 and the six months ended 31 December 2014.

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 2015

Audited		Unaudited	
30/6/15	In thousands of New Zealand dollars	31/12/15	31/12/14
3.	Loans and Advances		
14,051	Bank loans (unsecured)	10,782	40,678
	Loan facilities are repayable as follows:		
(5,949)	Within one year	10,782	22,183
20,000	One to two years	-	18,495
<u>14,051</u>		<u>10,782</u>	<u>40,678</u>
	<i>Weighted average interest rates:</i>		
2.1%	Bank loans	2.2%	3.7%
5.9%	Bank loans amended for derivatives, line fees and margin	5.9%	5.5%

The loan facilities comprise a syndicated revolving cash advance facility, dated 21 March 2012, committed to a maximum amount of \$50 million (2014: \$70 million). The loans drawn and facility available is analysed as follows:

	31/12/15				31/12/14			
	Balance Drawn		Available Facility		Balance Drawn		Available Facility	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Tranche A	-	-	-	-	-	-	-	-
Tranche B	-	-	-	-	-	-	-	-
Tranche C	15,432	-	20,000	-	-	18,495	-	20,000
Tranche D	-	-	-	20,000	32,393	-	40,000	-
Tranche E	(4,650)	-	-	10,000	(10,210)	-	10,000	-
	<u>10,782</u>	<u>-</u>	<u>20,000</u>	<u>30,000</u>	<u>22,183</u>	<u>18,495</u>	<u>50,000</u>	<u>20,000</u>

On 21 March 2012 a facility agreement was entered into between Kordia and the members of the banking syndicate. The facility was split into five tranches with different expiry and renewal dates, as well as fee and margin structures. Tranches A and B have subsequently been reduced to nil. Tranche E is a working capital facility which enables the Group to manage its cashflow on a daily basis. Funding levels are actively managed with tranches renewed or repaid as forecasts require. There is a right of set off between the tranches of the loan facility.

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 preference to the longer dated and more expensive longer term tranches, hence the balance drawn as current in the table above.

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 2015 and 2014 and the year ended 30 June 2015.

Kordia Group Limited

Notes to the Interim Financial Statements (continued)

For the Six Months Ended 31 December 2015

Audited		Unaudited	
30/6/15	In thousands of New Zealand dollars	31/12/15	31/12/14

4 Acquisition of a Business

On 1 November 2015, Kordia acquired the business assets of Aura Information Security Limited, New Zealand's leading cyber-security company which provides specialist computer and network security services. As part of the transaction, Kordia became an agent for the RedShield web application shielding service in New Zealand and Australia. The cost of the purchase was \$10,020 and \$595 of net tangible assets have been determined on a provisional basis.

5. Commitments

58,980	Operating lease commitments	54,598	63,229
1,834	Capital commitments	502	597

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 26 February 2016 the Board of Directors declared an interim dividend of \$1m (2014: \$nil).

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