

Kordia Group Limited

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

For the Six Months Ended 31 December 2019

Kordia Group Limited

Condensed Consolidated Interim Financial Statements (unaudited)

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Kordia Group Limited

Chair's Report

Kordia Group

Telecommunications, broadcast and cyber security business Kordia Group has reported a revenue of \$101.2m for the half year ended 31 December 2019. The Group's EBITDA was \$13.6m and the company posted a profit after tax of \$1.02m. The Group's balance sheet remains strong with net debt of \$3.7m at the half year.

The figures reflect the solid performance by Kordia's New Zealand business units, coupled with improved stability of the Australian telecommunications market which has enabled the Australian Solutions business to recover.

Kordia's New Zealand business units continue to go from strength-to-strength, with a wide range of projects and initiatives scheduled to commence in the coming financial year. 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.

Our New Zealand networks division had a strong first half, driven by continued customer growth in Secure WAN. The business is optimistic heading into the latter part of the year, with the introduction of new connectivity and cloud solutions providing ongoing opportunities.

Kordia's specialist cyber security division, Aura Information Security, made pleasing progress with 18% year on year revenue increases. Cyber security is now firmly on the agenda for most Boards, and Aura has elevated itself as a market leader in the field. With updates to the Privacy Act due later this year affirming the need for organisations to adopt a robust digital risk strategy, we expect Aura's work will continue to be in demand by enterprise and Government clients alike.

Kordia's Media division achieved notable results, securing significant long-term contract renewals and new business wins with the new Pop-Up TV channel service. Our Maritime business continued its steady performance, with the New Zealand Maritime Operations Centre heavily involved in distress communications associated with the White Island eruption in December.

In New Zealand, the Solutions business is currently delivering several significant projects, including a project in Vanuatu to upgrade the national infrastructure, as well as a Wi-Fi and LAN install for the Christchurch Convention Centre.

The board is optimistic that a more stable Australian Telco market will see the Group's 2020 full year financial performance return to a more positive position year on year. While the impact of the Chinese vendor ban trailed into the start of the current financial year, from late Q1 work volumes have begun to pick up on the back of various 5G roll-out programs.

At the start of September, Kordia Solutions Australia was awarded the Optus Mobile contract which covers work for a term of 3 years. Initial work volumes have been received with work commencing in September and will ramp as the programme grows in 2020. Our Australian contracting business is recovering, with revenue and EBIT improving quarter on quarter.

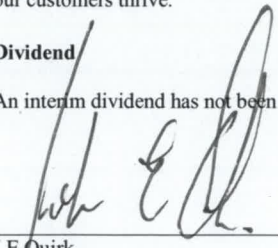
The Group's health and safety performance has remained strong with TRIFR at 2.55 versus a target of <5, with a strong emphasis on high potential health and safety risks.

Customer satisfaction as measured by net promoter score continues to be an industry leading 50 and we expect this to continue to grow. Similarly employee net promoter score is strong at 28.

As a digital technology business, Kordia's commitment lies in positioning itself as a trusted partner to its customers with the high-tech capability to aid business transformation, capitalising on new business opportunities within our connectivity, cyber security and cloud offerings, and bringing more and more relevant digital services to market. Combined this puts the company in a better position to help our customers thrive.

Dividend

An interim dividend has not been declared for the 2020 year.


J E Quirk
Kordia Group Chair
28 February 2020

Kordia Group Limited

Condensed Consolidated Income Statement

For the Six Months Ended 31 December 2019

Audited 30/6/19	In thousands of New Zealand dollars	Unaudited	
		31/12/19	31/12/18
110,032	Revenue - New Zealand	56,915	54,606
93,341	Revenue - Australia	44,275	54,271
-	Revenue - Insurance proceeds	272	-
203,373	Total revenue	101,462	108,877
96,354	Direct costs and overheads	43,930	51,562
90,340	Employee and contractor expenses	43,901	46,779
16,679	Earnings before interest, tax, depreciation and amortisation (EBITDA)	13,631	10,536
16,580	Depreciation and amortisation expense	11,429	9,089
1,327	Finance costs	1,212	714
589	Finance income	365	241
(639)	Profit/(loss) before income tax	1,355	974
(490)	Income tax expense/(benefit)	335	229
(149)	Profit/(loss) for the period attributable to the equity holder	1,020	745

The notes set out on pages 11 to 13, 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 2019

Audited 30/6/19	In thousands of New Zealand dollars	Unaudited	
		31/12/19	31/12/18
(149)	Profit/(loss) for the period attributable to the equity holder	1,020	745
(689)	Foreign currency translation differences	(191)	(597)
(9)	Effective portion of changes in the fair value of cashflow hedges	(1)	(7)
2	Tax effect of the effective portion of changes in the fair value of cashflow hedges	-	1
(696)	Other comprehensive income/(loss) for the period	(192)	(603)
(845)	Total comprehensive income/(loss) for the period	828	142

The notes set out on pages 11 to 13, 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 2019 (unaudited)

In thousands of New Zealand dollars	Note	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
Balance 1 July 2019		87,696	5,134	(3,244)	2	89,588
Adjustment on initial application of IFRS 16, net of tax	3	-	(1,437)	-	-	(1,437)
Adjusted balance 1 July 2019		87,696	3,697	(3,244)	2	88,151
Net profit for the period		-	1,020	-	-	1,020
Other comprehensive income						
Foreign currency translation differences		-	-	(191)	-	(191)
Fair value of cashflow hedges transferred to income statement, net of tax		-	-	-	(1)	(1)
Total other comprehensive income		-	-	(191)	(1)	(192)
Total comprehensive income/(loss) for the period		-	1,020	(191)	(1)	828
Balance 31 December 2019		87,696	4,717	(3,435)	1	88,979

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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	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	-	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)	(603)
Total comprehensive income/(loss) for the period	-	745	(597)	(6)	142
Transactions with owners					
Dividends	-	(2,963)	-	-	(2,963)
Balance 31 December 2018	87,696	6,028	(3,152)	3	90,575

The notes set out on pages 11 to 13, 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 2019 (audited)

In thousands of New Zealand dollars	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	-	1,136	-	-	1,136
Adjusted balance 1 July 2018	87,696	8,246	(2,555)	9	93,396
Net loss for the period	-	(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/(loss) for the period	-	(149)	(689)	(7)	(845)
Transactions with owners					
Dividends	-	(2,963)	-	-	(2,963)
Balance 30 June 2019	87,696	5,134	(3,244)	2	89,588

The notes set out on pages 11 to 13, 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 2019

Audited 30/6/19	In thousands of New Zealand dollars	Note	Unaudited 31/12/19	31/12/18
Assets				
59,289	Property, plant and equipment		56,141	58,796
-	Right of use assets	3	14,814	-
27,011	Intangible assets and goodwill		26,424	27,063
1,607	Finance lease receivable		1,469	1,739
12,098	Deferred tax asset		13,781	13,983
1,400	Trade and other receivables		1,332	1,353
101,405	Total non-current assets		113,961	103,474
13,267	Cash		8,975	8,073
48,820	Trade and other receivables and contract work in progress		52,225	50,316
-	Asset held for sale		-	883
260	Finance lease receivable		270	250
5	Derivative assets		44	6
1,790	Inventories		1,881	1,487
64,142	Total current assets		63,395	61,015
165,547	Total assets		177,356	164,489
Equity and Liabilities				
87,696	Share capital		87,696	87,696
(3,244)	Foreign currency translation reserve		(3,435)	(3,152)
2	Cashflow hedge reserve		1	3
5,134	Retained earnings		4,717	6,028
89,588	Total equity attributable to the equity holder		88,979	90,575
3,350	Trade and other payables and deferred income		2,170	3,846
11,379	Provisions		11,761	8,792
-	Lease liabilities	3	11,907	-
19,847	Loans and advances	4	-	18,495
34,576	Total non-current liabilities		25,838	31,133
38,696	Trade and other payables and deferred income		42,514	40,667
1,505	Taxation payable		471	1,262
2	Derivative liabilities		42	2
1,180	Provisions		648	850
-	Lease liabilities	3	6,163	-
-	Loans and advances	4	12,701	-
41,383	Total current liabilities		62,539	42,781
75,959	Total liabilities		88,377	73,914
165,547	Total equity and liabilities		177,356	164,489

The notes set out on pages 11 to 13, form part of, and should be read in conjunction with, the Interim Financial Statements.

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Condensed Consolidated Statement of Cash Flows

For the Six Months Ended 31 December 2019

Audited 30/6/19	In thousands of New Zealand dollars	Unaudited	
		31/12/19	31/12/18
	Cash flows from operating activities		
196,196	Receipts from customers	96,762	98,526
(189,682)	Payments to suppliers and employees	(83,132)	(96,809)
6,514		13,630	1,717
2	Dividends received	2	1
586	Interest received	190	239
(1,024)	Interest paid	(1,006)	(386)
1,235	Taxes paid	(2,562)	(1,620)
7,313	Net cash from/(used in) operating activities	10,254	(49)
	Cash flows from investing activities		
1,208	Proceeds from sale of property, plant and equipment	2	163
(9,755)	Acquisition of property, plant and equipment	(4,163)	(4,836)
(326)	Acquisition of intangibles and frequency licences	(8)	(475)
(8,873)	Net cash from/(used in) investing activities	(4,169)	(5,148)
	Cash flows from financing activities		
1,955	Proceeds from/(repayment of) loans and advances	(6,799)	510
-	Repayment of lease liabilities	(3,674)	-
240	Proceeds from finance lease assets	128	118
(2,963)	Dividends paid	-	(2,963)
(768)	Net cash from/(used in) financing activities	(10,345)	(2,335)
(2,328)	Net increase/(decrease) in cash and cash equivalents	(4,260)	(7,532)
15,740	Cash and cash equivalents at beginning of the period	13,267	15,740
(145)	Effect of exchange rate fluctuations on cash	(32)	(135)
13,267	Cash and cash equivalents at end of the period	8,975	8,073

The notes set out on pages 11 to 13, 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 2019

Audited		Unaudited	
30/6/19	In thousands of New Zealand dollars	31/12/19	31/12/18
	Reconciliation of net surplus for the period with cash flows from operating activities		
(149)	Net surplus as per income statement	1,020	745
	Add/(deduct) non-cash items:		
15,458	Depreciation of property, plant and equipment, and right of use assets	10,913	8,526
1,122	Amortisation of licences and intangibles	516	563
(597)	Realised foreign currency losses/(gains)	(400)	(471)
(350)	Change in deferred tax/(future income tax benefit)	(1,192)	(2,241)
(146)	Movement in provision for doubtful debts	(67)	86
275	Unwind/change in make good	151	168
(95)	Movement in customer acquisition costs	87	-
(16)	Movement in other provisions	(296)	(15)
15,502		10,732	7,358
	Items classified as investing activities:		
(80)	Loss/(gain) on disposal of property, plant and equipment	(2)	(63)
(80)		(2)	(63)
	Movements in working capital:		
(6,199)	Receivables, prepayments and contract work in progress	(3,345)	(7,659)
(235)	Inventories	(91)	69
(1,675)	Payables and deferred income	2,960	246
(8,109)		(476)	(7,344)
7,313	Net cash flows from operating activities	10,254	(49)

The notes set out on pages 11 to 13, 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 2019

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 2019.

The financial statements were authorised for issue by the directors on 28 February 2020.

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 2019 and 2018. Both periods are unaudited. The audited annual results for the year ended 30 June 2019 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 2019 and the six months ended 31 December 2018 except for the adoption of new standards effective 1 July 2019 as disclosed in note 4 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 on 1 July 2019

NZ IFRS 16 Leases

NZ IFRS 16 *Leases*. 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 have reviewed the current lease related business processes, controls and governance. Detailed contract reviews have been undertaken to determine whether contracts contain or should be accounted for as a lease under NZ IFRS 16. Analysis of existing lease databases has also been performed, a lease data enrichment process completed and an IFRS 16 module within lease databases implemented. Management had to make some key judgements including:

- The incremental borrowing rate used to discount lease assets and liabilities; and
- The lease term including potential rights of renewal.

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Notes to the Interim Financial Statements (continued)

For the Six Months Ended 31 December 2019

3. New Standards Adopted by the Group on 1 July 2019 (continued)

Based on the initial assessment, the Group has recorded the following impact on 1 July 2019:

- Recognition of "Right of Use Assets" of \$15,166 thousand.
- Recognition of "Lease Liabilities" of \$18,533 thousand.
- Increase in deferred tax asset of \$572 thousand.
- Decrease in trade and other payables of \$1,358 thousand.
- Decrease in opening retained earnings of \$1,437 thousand.

For the six months ended 31 December 2019 the impact is:

- Depreciation and amortisation expense on the "Right of Use Assets" of \$3,674 thousand.
- Finance expense (interest) on the "Lease Liabilities" of \$481 thousand.
- Net cash used in financing activities representing the payments for the principal portion of recognised lease liabilities of \$3,674 thousand.

The Group adopted NZ IFRS 16 in its consolidated financial statements for the six months ended 31 December 2019 using the modified retrospective approach. As a result, the Group applied the requirements of NZ IFRS 16 to the most current period in the financial statements and recognised the cumulative effect of initially applying NZ IFRS 16 as an adjustment to the opening balance of retained earnings. Comparative periods have been presented under the previous lease standard IAS 17 *Leases* and related determinations.

On adoption Kordia considered the following practical expedients:

- Apply a single discount rate to a portfolio of leases with similar characteristics based on the incremental borrowing rate at the date of application rather than the date the lease was entered into.
- Leases for which the lease term ends within 12 months of the date of initial application was not adopted.
- Initial direct costs have been excluded from the measurement of the right of use asset.

The weighted average discount rate applied to the leases 3.4% - 4.5%. The rates used for each lease varies depending on the term of the lease, jurisdiction and underlying asset.

Audited		Unaudited	
30/6/19	In thousands of New Zealand dollars	31/12/19	31/12/18
4. Loans and Advances			
19,847	Bank loans (unsecured)	12,701	18,495
	Loan facilities are repayable as follows:		
-	Within one year	12,701	-
19,847	One to two years	-	18,495
-	Two to five years	-	-
<u>19,847</u>		<u>12,701</u>	<u>18,495</u>
	<i>Weighted average interest rates:</i>		
2.5%	Bank loans	3.4%	3.5%
4.3%	Bank loans amended for derivatives, line fees and margin	6.2%	4.9%

The loan facilities comprise a syndicated revolving cash advance facility, dated 29 June 2017, committed to a maximum amount of AUD \$40 million (2018: \$30 million). The loans drawn and facility available is analysed as follows:

	31/12/19				31/12/18			
	Balance Drawn		Available Facility		Balance Drawn		Available Facility	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Tranche A	-	-	-	-	-	-	-	-
Tranche B	4,377	-	31,216	-	-	18,495	-	30,000
Tranche C	8,324	-	10,405	-	-	-	-	-
	12,701	-	41,621	-	-	18,495	-	30,000

Kordia Group Limited

Notes to the Interim Financial Statements (continued)

For the Six Months Ended 31 December 2019

4. Loans and Advances (continued)

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 2020. The Group intends on renewing the facility before 30 June 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 2019 and 2018 and the year ended 30 June 2019.

5. Executive Remuneration

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.

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.

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

Fixed Remuneration		Pay for Performance		Total Remuneration
Salary	Benefits	STI	LTI	(NZD)
644,198 ¹	55,900 ²	\$127,120	-	\$827,218

Note 1: Actual salary paid includes holiday pay paid as per New Zealand legislation

Note 2: Benefits include superannuation

6. Commitments

At 31 December 2019 the Group had capital commitments of \$3,393 (2018: \$974).

7. 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.

8. Events Subsequent to Balance Date

On 28 February 2020 the Board of Directors declared no interim dividend (2018: nil).

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