

**Kordia Group Limited**

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

**For the Six Months Ended 31 December 2016**

# **Kordia Group Limited**

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

### **For the Six Months Ended 31 December 2016**

---

	<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 delivered revenue of \$102m for the half year ended 31 December 2016, with a net loss after tax of \$1.8m. This compares with revenue of \$124m and profit of \$5.8m last year.

While \$13.5m in dividends were paid last year, due to a strong result for the year ended 30 June 2016, an interim dividend will not be paid on the back of the half year results. Kordia's net cash is \$2.1m and the balance sheet remains strong for the Group.

The completion of several large projects in the Australian contracting business has impacted Kordia's half year results.

While the New Zealand business performed well, and is ahead of its targets, revenue from our Australian operations was down – owing to the completion of several key projects and delays in the commencement of new contracts. As a result, the Board has taken a series of actions to return the business to profit, such as the appointment of a Group Chief Executive and renewed leadership in Australia. While the lumpiness in our contracting business is less than ideal, the Board is committed to our Contracting business in Australia and is confident it will emerge as a fitter and faster business under new leadership.

Over the past six months, we've carried out a full restructure of the Australian business, including the introduction of workforce flexibility to meet the needs of a largely a contract-based environment. This is now complete and with a lower cost base, and less risk, the Group is now in a solid position for growth.

The appointment of industry expert Hamish Guild as CEO of Kordia Solutions is also expected to bolster the company's leadership capacity. We're confident that alongside Group CEO Scott Bartlett, Hamish will help lead the business to improved resilience, better positioning it for future growth.

The New Zealand business continues to perform well, with strong growth in the telecommunications and media businesses. Aura Information Security, the specialist cyber security consulting business acquired by Kordia Group in November 2015, also met its first 12 months' performance targets.

Kordia is well positioned to capitalise on the growing demand for business-critical technology solutions on both sides to the Tasman. With cyber security, 5G and the Internet of Things squarely in the company's sights. Kordia has a best-in-breed offering when it comes to providing trusted and secure business-critical solutions. This is what sets us apart from other players in the market; and it is also what sets the foundation for future growth.

### **Dividend**

The Group paid a special dividend of \$5m in October 2015 given the strong result and the strength of its balance sheet. A further interim dividend of \$1m was paid on 31 March 2015 and this was followed by a final dividend of \$7.5m in September 2016.

Given the dividends paid last financial year (\$13.5m in total) an interim dividend has not been declared on the back of the half year results.



---

L M Witten  
Kordia Group Chair  
24 February 2017

# Kordia Group Limited

## Condensed Consolidated Income Statement

### For the Six Months Ended 31 December 2016

Audited 30/6/16	In thousands of New Zealand dollars	Unaudited	
		31/12/16	31/12/15
240,687	Revenue	101,550	124,139
105,177	Direct costs and overheads	46,416	56,597
96,916	Employee and contractor expenses	48,039	48,482
38,594	Earnings before interest, tax, depreciation and amortisation (EBITDA)	7,095	19,060
20,289	Depreciation and amortisation expense	9,290	10,174
1,331	Finance costs	658	787
734	Finance income	259	501
17,708	<b>Profit/(loss) before income tax</b>	<b>(2,594)</b>	8,600
5,448	Income tax expense/(benefit)	(758)	2,817
12,260	<b>Profit/(loss) for the period attributable to the equity holder</b>	<b>(1,836)</b>	5,783

*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 2016

Audited 30/6/16	In thousands of New Zealand dollars	Unaudited	
		31/12/16	31/12/15
12,260	<b>Profit/(loss) for the period attributable to the equity holder</b>	<b>(1,836)</b>	5,783
(684)	Foreign currency translation differences	<b>18</b>	(367)
41	Effective portion of changes in the fair value of cashflow hedges	<b>87</b>	29
(10)	Tax effect of the effective portion of changes in the fair value of cashflow hedges	<b>(26)</b>	(10)
(653)	<b>Other comprehensive income for the period</b>	<b>79</b>	(348)
11,607	<b>Total comprehensive income for the period</b>	<b>(1,757)</b>	5,435

*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 2016 (unaudited)

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
<b>Balance 1 July 2016</b>	<b>87,696</b>	<b>11,102</b>	<b>(2,325)</b>	<b>(163)</b>	<b>96,310</b>
Net profit/(loss) for the period	-	(1,836)	-	-	(1,836)
<b>Other comprehensive income</b>					
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
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(1,836)</b>	<b>18</b>	<b>61</b>	<b>(1,757)</b>
<b>Transactions with owners</b>					
Dividends	-	(7,500)	-	-	(7,500)
<b>Balance 31 December 2016</b>	<b>87,696</b>	<b>1,766</b>	<b>(2,307)</b>	<b>(102)</b>	<b>87,053</b>

## 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
<b>Balance 1 July 2015</b>	<b>87,696</b>	<b>(4,392)</b>	<b>(1,641)</b>	<b>(194)</b>	<b>80,764</b>
Net profit for the period	-	5,783	-	-	5,783
<b>Other comprehensive income</b>					
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)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>5,783</b>	<b>(367)</b>	<b>19</b>	<b>5,435</b>
<b>Transactions with owners</b>					
Dividends	-	(5,000)	-	-	(5,000)
<b>Balance 31 December 2015</b>	<b>87,696</b>	<b>5,625</b>	<b>(2,008)</b>	<b>(175)</b>	<b>91,138</b>

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 2016 (audited)

In thousands of New Zealand dollars	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Cashflow Hedge Reserve	Total
<b>Balance 1 July 2015</b>	<b>87,696</b>	<b>4,842</b>	<b>(1,641)</b>	<b>(194)</b>	<b>90,703</b>
Net profit for the year	-	12,260	-	-	<b>12,260</b>
<b>Other comprehensive income</b>					
Foreign currency translation differences	-	-	(684)	-	<b>(684)</b>
Effective portion of changes in fair value of cashflow hedges, net of tax	-	-	-	17	<b>17</b>
Fair value of cashflow hedges transferred to income statement, net of tax	-	-	-	14	<b>14</b>
Total other comprehensive income	-	-	(684)	31	<b>(653)</b>
<b>Total comprehensive income for the year</b>	-	12,260	(684)	31	<b>11,607</b>
<b>Transactions with owners</b>					
Dividends	-	(6,000)	-	-	<b>(6,000)</b>
<b>Balance 30 June 2016</b>	<b>87,696</b>	<b>11,102</b>	<b>(2,325)</b>	<b>(163)</b>	<b>96,310</b>

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 2016

Audited 30/6/16	In thousands of New Zealand dollars	Note	Unaudited 31/12/16	31/12/15
	<b>Assets</b>			
70,199	Property, plant and equipment		<b>68,141</b>	71,083
29,443	Intangible assets and goodwill		<b>27,923</b>	30,470
2,321	Finance lease receivable		<b>2,215</b>	2,409
8,190	Deferred tax asset		<b>10,636</b>	5,580
<u>110,153</u>	<b>Total non-current assets</b>		<u><b>108,915</b></u>	<u>109,542</u>
6,820	Cash		<b>3,847</b>	5,003
52,327	Trade and other receivables and contract work in progress		<b>36,114</b>	52,586
196	Finance lease receivable		<b>205</b>	182
-	Derivative assets		<b>2</b>	22
1,198	Inventories		<b>1,427</b>	1,904
<u>60,841</u>	<b>Total current assets</b>		<u><b>41,595</b></u>	<u>59,697</u>
<u>170,994</u>	<b>Total assets</b>		<u><b>150,510</b></u>	<u>169,239</u>
	<b>Equity and Liabilities</b>			
87,696	Share capital		<b>87,696</b>	87,696
(2,325)	Foreign currency translation reserve		<b>(2,307)</b>	(2,008)
(163)	Cashflow hedge reserve		<b>(102)</b>	(175)
11,102	Retained earnings		<b>1,766</b>	5,625
<u>96,310</u>	<b>Total equity attributable to the equity holder</b>		<u><b>87,053</b></u>	<u>91,138</u>
4,425	Trade and other payables and deferred income		<b>4,057</b>	3,911
196	Derivative liabilities		<b>118</b>	247
8,232	Provisions		<b>8,445</b>	6,026
31	Loans and advances	3	<b>-</b>	-
<u>12,884</u>	<b>Total non-current liabilities</b>		<u><b>12,620</b></u>	<u>10,184</u>
55,346	Trade and other payables and deferred income		<b>46,951</b>	52,377
3,580	Taxation payable		<b>840</b>	629
12	Derivative liabilities		<b>4</b>	6
2,862	Provisions		<b>1,221</b>	4,123
-	Loans and advances	3	<b>1,821</b>	10,782
<u>61,800</u>	<b>Total current liabilities</b>		<u><b>50,837</b></u>	<u>67,917</u>
<u>74,694</u>	<b>Total liabilities</b>		<u><b>63,457</b></u>	<u>78,101</u>
<u>170,994</u>	<b>Total equity and liabilities</b>		<u><b>150,510</b></u>	<u>169,239</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 2016

Audited 30/6/16	In thousands of New Zealand dollars	Unaudited	
		31/12/16	31/12/15
	<b>Cash flows from operating activities</b>		
262,091	Receipts from customers	<b>108,493</b>	141,903
(209,493)	Payments to suppliers and employees	<b>(94,750)</b>	(111,745)
52,598		<b>13,743</b>	30,158
3	Dividends received	-	3
650	Interest received	<b>259</b>	425
(1,052)	Interest paid - other	<b>(341)</b>	(694)
(4,451)	Taxes paid	<b>(4,572)</b>	(2,133)
47,748	Net cash from/(used in) operating activities	<b>9,089</b>	27,759
	<b>Cash flows from investing activities</b>		
9	Proceeds from sale of property, plant and equipment	<b>7</b>	3
(13,135)	Acquisition of property, plant and equipment	<b>(6,346)</b>	(7,289)
(729)	Acquisition of intangibles and frequency licences	<b>(148)</b>	(6)
(9,870)	Acquisition of a business	-	(10,020)
(23,725)	Net cash from/(used in) investing activities	<b>(6,487)</b>	(17,312)
	<b>Cash flows from financing activities</b>		
(12,860)	Proceeds from/(repayment of) loans and advances	<b>1,841</b>	(2,047)
153	Proceeds from finance lease assets	<b>96</b>	79
(6,000)	Dividends paid	<b>(7,500)</b>	(5,000)
(18,707)	Net cash from/(used in) financing activities	<b>(5,563)</b>	(6,968)
5,315	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(2,961)</b>	3,479
1,587	<b>Cash and cash equivalents at beginning of the period</b>	<b>6,820</b>	1,587
(82)	Effect of exchange rate fluctuations on cash	<b>(12)</b>	(63)
6,820	<b>Cash and cash equivalents at end of the period</b>	<b>3,847</b>	5,003

*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 2016

Audited		Unaudited	
30/6/16	In thousands of New Zealand dollars	31/12/16	31/12/15
	<b>Reconciliation of net surplus for the period with cash flows from operating activities</b>		
12,260	<b>Net surplus/(deficit) as per income statement</b>	<b>(1,836)</b>	5,783
	<b>Add/(deduct) non-cash items:</b>		
18,059	Depreciation	<b>8,320</b>	9,144
2,230	Amortisation of licences and intangibles	<b>970</b>	1,030
(81)	Unrealised foreign currency losses/(gains)	<b>362</b>	(125)
(1,487)	Change in deferred tax/(future income tax benefit)	<b>(2,590)</b>	1,150
74	Movement in provision for doubtful debts	<b>140</b>	256
313	Unwind/change in make good	<b>220</b>	172
(15)	Movement in other provisions	<b>(1,695)</b>	1,093
31,353		<b>3,891</b>	18,503
	<b>Items classified as investing activities:</b>		
(181)	Loss/(gain) on disposal of property, plant and equipment	<b>(7)</b>	23
-	Loss/(gain) on disposal of intangibles	<b>563</b>	-
572	Working capital acquired on acquisition of a business	<b>-</b>	508
391		<b>556</b>	531
	<b>Movements in working capital:</b>		
9,958	Receivables and prepayments	<b>16,074</b>	9,518
346	Inventories	<b>70</b>	(61)
5,700	Payables	<b>(11,502)</b>	(732)
16,004		<b>4,642</b>	8,725
47,748	Net cash flows from operating activities	<b>9,089</b>	27,759

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 2016

---

#### 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 2016.

The financial statements were authorised for issue by the directors on 24 February 2017.

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 2016 and 2015. Both periods are unaudited. The audited annual results for the year ended 30 June 2016 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 2016 and the six months ended 31 December 2015.

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 2016

Audited		Unaudited	
30/6/16	In thousands of New Zealand dollars	31/12/16	31/12/15
<b>3. Loans and Advances</b>			
31	Bank loans (unsecured)	<b>1,821</b>	10,782
	Loan facilities are repayable as follows:		
-	Within one year	<b>1,821</b>	10,782
31	One to two years	-	-
<u>31</u>		<u><b>1,821</b></u>	<u>10,782</u>
	<i>Weighted average interest rates:</i>		
2.1%	Bank loans	<b>2.7%</b>	2.2%
11.6%	Bank loans amended for derivatives, line fees and margin	<b>5%</b>	5.9%

The loan facilities comprise a syndicated revolving cash advance facility, dated 21 March 2012, committed to a maximum amount of \$30 million (2015: \$50 million). The loans drawn and facility available is analysed as follows:

	31/12/16				31/12/15			
	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	-
Tranche D	<b>14,511</b>	-	<b>20,000</b>	-	-	-	-	20,000
Tranche E	<b>(12,690)</b>	-	<b>10,000</b>	-	(4,650)	-	-	10,000
	<u><b>1,821</b></u>	<u>-</u>	<u><b>30,000</b></u>	<u>-</u>	<u>10,782</u>	<u>-</u>	<u>20,000</u>	<u>30,000</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, B and C 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 2016 and 2015 and the year ended 30 June 2016.

# Kordia Group Limited

## Notes to the Interim Financial Statements (continued)

### For the Six Months Ended 31 December 2016

Audited 30/6/16	In thousands of New Zealand dollars	Unaudited	
		31/12/16	31/12/15
<b>4.</b>	<b>Commitments</b>		
53,375	Operating lease commitments	<b>53,067</b>	54,598
2,205	Capital commitments	<b>1,801</b>	502

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 24 February 2017 the Board of Directors declared no interim dividend (2015: \$1m).

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