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FY17 HALF-YEAR REVIEW

The Directors present the Half-Year Financial Report of Ariadne Australia Ltd (Ariadne) for the period ended 31 December 2016.

The first half of the 2017 financial year has produced a very good result for shareholders.

For the half-year period Ariadne reported a net profit after tax attributable to members of \$6.3 million – a material increase compared to the result for the same period last year (2015: \$3.7 million).

In addition, a positive contribution net of deferred tax of \$8.4 million was reported through the Statement of Comprehensive Income, increasing the Total Comprehensive Income attributable to members to \$14.8 million (2015: \$3.9 million).

The net tangible assets per share increased by 15% during the half-year from 43.09 cents per share to 49.43 cents per share at balance date, despite a reduction in the carrying value of the Group's Deferred Tax Asset (DTA) of \$3.3 million (1.64 cents per share).

Subsequent to the reporting date, the sale of Ariadne's 50% interest in Secure Parking Pty Ltd (Secure Parking) (announced on 7 December 2016) was completed at a significant premium to book value and gross proceeds of approximately \$75.0 million were received on settlement. The sale materially increased Ariadne's net assets as reflected in the Statement of Assets and Liabilities set out below.

Total comprehensive earnings per share were 7.34 cents compared to 1.93 cents for the previous half-year.

The improved net operating cash flow during the period of \$8.1 million (2015: \$4.6 million) is due in part to the results of the Investment and Car Parking segments.

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A number of factors contributed to the result:

- **ClearView Wealth Ltd (CVW)** – The decision of CVW, announced in May 2016, to evaluate strategic options for the company culminated in the acquisition by Sony Life Insurance Co Ltd (Sony Life) of a 14.99% stake in CVW in October 2016. The acquisition of this holding by Sony Life – at a price of \$1.48 per share – led to a substantial re-rating of CVW's share price. The value of Ariadne's investment in CVW increased by \$11.0 million during the period and this is reflected net of deferred tax through other comprehensive income in the half-year accounts. The terms of Sony Life's acquisition of its stake in CVW presage the potential for further corporate activity in relation to CVW over the next 12 months. Ariadne remains a holder of its position and may continue to add to its position over time.
- **Hillgrove Resources Ltd (HGO)** – HGO has been a serial stock market under-performer for a number of years and Ariadne's investment in HGO has, as a result, incurred numerous mark-to-market losses over the last few years – indeed, as at 30 June 2016, Ariadne's investment in HGO had a book value of \$1.0 million compared with a cost of \$5.9 million. To assist HGO in meeting its financial challenges during a period of significant capital expenditure relating to the cutback of the Giant Pit – and despite Ariadne's past unhappy experience as a shareholder in HGO – Ariadne Capital Pty Ltd agreed to underwrite a \$5.0 million capital raising for HGO. Ariadne took up its full entitlement under the issue as well as subscribing for its portion of the underwriting shortfall. Fortunately and fortuitously, there has been a significant increase in the copper price since last October and this, in turn, has led to a re-rating of the share prices for many of the ASX-listed copper producers, including HGO. As a result, based on current market prices of HGO's listed securities, Ariadne has (on a mark-to-market basis) largely recovered its loss on investment in HGO. Prior to reporting date, there had already been a modest increase in prices of HGO's securities and a revaluation gain of \$1.3 million on Ariadne's holdings of HGO convertible notes and options was recognised in net profit.
- **Secure Parking** – Secure Parking continued to experience subdued trading conditions across the various markets in which it operates and its contribution to Ariadne's results for the half-year of \$1.3 million was lower than for the same period last year (2015: \$2.1 million).

Investments

The Investment division recorded a net profit of \$4.8 million (2015: \$3.1 million).

The division's result is derived from interest on cash reserves, share of profits from the Group's investments in associates, dividend and trading income from the trading portfolio and net gains from the strategic portfolio (discussed below) revalued through profit or loss.

The strategic portfolio, revalued through other comprehensive income rather than included in the reported net profit, recorded a net gain after deferred tax of \$8.1 million (2015: \$0.4 million net loss) for the period.

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Due to idiosyncrasies arising from the application of the new accounting standard AASB9 – Financial Instruments, Ariadne now maintains two strategic portfolios, both held for long term capital appreciation but differentiated by their accounting treatment: the first strategic portfolio being revalued through profit or loss, and the second strategic portfolio revalued through other comprehensive income. As such the \$1.3 million revaluation gain relating to HGO securities as outlined above which would have ordinarily been recorded in other comprehensive income was recorded in net profit for the half year.

Ariadne's investment in Foundation Life NZ Ltd has been rewarding, returning NZ\$0.4 million during the half-year comprised of loan note interest and loan note redemptions.

Ariadne's 53% interest in Freshxtend International Pty Ltd, with its 17% investment in the NatureSeal group, also contributed positively.

Car Parking

The Group's car parking division recorded a net profit of \$1.9 million (2015: \$2.7 million).

As noted above, the Group's share of profits from Secure Parking for the year was \$1.3 million (2015: \$2.1 million), while trading activities from the Group's leased car parks contributed a net profit of \$0.6 million (2015: \$0.6 million).

Property

The Group's property division recorded a net profit of \$0.5 million (2015: \$0.5 million).

The division's profit is derived from the Group's 50% share of results from Orams Marine Village (Orams) located in Auckland, New Zealand and interest received on its secured loan.

During the half-year, a consortium led by Ariadne Marinas Oceania Pty Ltd, and including Orams and Orams Marine Services, was confirmed as the preferred tenderer for the Wynyard Marine site (Site 18), a major property adjoining Orams. This followed a request on behalf of Auckland Council seeking expressions of interest for the comprehensive redevelopment of Site 18 to transform the site into a high-quality mixed-use area and a world-class marine centre.

The Ariadne-led consortium is uniquely positioned – having both the requisite skills and experience (including extensive property development expertise and globally-leading marine capabilities) as well as the financial resources – to deliver on Council's expressed development outcomes for Site 18. Discussions with Council continue, with a view to achieving the necessary development approvals for the site.

The Board remains confident that the Group's investment in Orams is well placed to capitalise on the future development of the Western Viaduct area and the growth impetus of the New Zealand marine industry, which enjoys an international reputation for product quality, skill base and competitiveness.

Simplified Statement of Assets & Liabilities

Following the sale of its interest in Secure Parking, Ariadne is in a very strong financial position – indeed, in the strongest position since its informal bankruptcy nearly thirty years ago – as shown in the following presentation of the Group's assets and liabilities (adjusted for the disposal of Secure Parking, applying prices for, and acquisitions and disposals of, listed investments as at 17 February 2017 and leaving all other entries at book values as at reporting date):

Assets	\$M	Liabilities	\$M
Cash	91.8	Minority Interests	5.7
ClearView	38.2	Debt	3.6
Orams Marine Village	14.1	Payables and Provisions	0.8
Freshxtend	11.8	Total Liabilities	10.1
Hillgrove Resources	7.4		
Other Investments	4.7		
Foundation Life	4.6	Shareholders' Funds	171.4
Fixed Assets and Receivables	3.5		
Deferred Tax Asset	3.0		
Mercantile Investment	2.4	Total Liabilities &	
Total Assets	181.5	Shareholders' Funds	181.5

The Board believes that this presentation will assist shareholders in better understanding the composition of the Group's assets and liabilities.

Tax

Ariadne has significant carry forward revenue and capital losses available to offset future taxable profits. At 31 December 2016, and before the significant capital gain associated with the Secure Parking sale, these are estimated to be \$74.5 million (30 June 2016: \$82.5 million) and \$159.3 million (30 June 2016: \$159.3 million) respectively.

Dividends and Capital Management

A partially franked interim dividend of 1.0 cent per share (\$2.0 million in total) has been declared in relation to the first half of the 2017 financial year. This represents a 100% increase in the interim dividend over the prior period.

On 24 January 2017, Ariadne announced the reinstatement of its on-market share buy-back facility as part of ongoing capital management initiatives. The buy-back is for the purpose of acquiring shares where they are trading at prices below the Board's view of the intrinsic value of the shares.

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Outlook

Ariadne has had a successful first half for the 2017 financial year.

With the completion of the Secure Parking transaction in January 2017, Ariadne is on-track to report its best results for decades.

The Board looks to the future with confidence.

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