

KORDIA
GROUP LIMITED
STATEMENT
OF CORPORATE INTENT
2013

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1. INTRODUCTION

Kordia Group Limited (“Kordia”) has the following operating subsidiaries:

1. Kordia Limited
2. Kordia Pty Limited
3. Kordia Solutions Pty Limited
4. Orcon Limited

plus a 49% equity investment in Kordia Solutions (Thailand) Co. Ltd (Thailand), established in December 2006.

2. BUSINESS OBJECTIVES

The principal objective of Kordia Group Limited and its subsidiaries (“Kordia”) is to be a commercially successful business. To this end, it is required to be a profitable and efficient business, to be a good employer and to exhibit a sense of social and community responsibility.

Kordia is a telecommunications and media business providing network and technology solutions that enable customers with specialised communications needs to succeed.

Kordia intends to:

- Provide high quality services and products at competitive prices;
- Manage its financial assets and liabilities on a prudent basis;
- Make investment and business decisions that protect and add Shareholder value;
- Operate an efficient, effective and profitable business and provide to the owners a commercial return on the capital employed.

In pursuing the objective to increase the value of shareholder investment, Kordia will take a medium to long-term view appropriate to the nature of the business and its assets. Kordia will pursue policies designed to maximise the net present value of future earnings, based on a long-term perspective of those earnings.

3. SCOPE OF THE BUSINESS

The agreed scope of functions and activities of Kordia is the:

- i. Ownership, maintenance and operation of telecommunications and broadcast networks in New Zealand and Australia.
- ii. Provision of a range of services, applications and content over its infrastructure.
- iii. Delivery of design, build, operation, and maintenance services to telecommunications and broadcast companies in New Zealand, Australia and internationally.
- iv. Provision of consultancy services in the technology, media and telecommunications markets in New Zealand, Australia and internationally.
- v. Provision of broadcasting, telecommunications and customised services both directly and indirectly to end users.

In undertaking its activities the Board of Kordia notes that from time to time it might be necessary to both buy and sell assets and raise capital to achieve its objectives.

4. SOCIAL RESPONSIBILITIES AND COMMUNITY INTEREST

Kordia has developed a formal Corporate Social Responsibility (CSR) programme. Its key focus is the social investment programme that will deliver on Kordia Group's core brand, bottom line, and single organising idea – harmonising people and technology.

Kordia is also conscious of the impacts it has on the environment and the community and has sustainability as a core focus.

KORDIA SOCIAL INVESTMENT PROGRAMME

Kordia is committed to investing in the communities it operates in, and is focused on aligning these social investments with its brand and core business requirements by building an educated future workforce for New Zealand and Australia through our work with the Liggins Institute, the Square Kilometre Array project, IPENZ FutureInTech, WorkChoice Day and the Centre for Advanced Engineering.

5. GOOD EMPLOYER

Kordia will operate as a Good Employer as defined in the SOE Act. Kordia has a commitment to:

- i. Benchmark all remuneration against the prevailing market and remunerate accordingly;
- ii. Work closely with employees, and their nominated representatives if appointed, in the negotiation of their employment contracts.
- iii. Conduct regular training sessions for all employees in the areas of compliance with legislation covering health and safety;
- iv. Continue the emphasis on maintaining a safe working environment for all staff;
- v. Invest in the training and development needs of its staff;
- vi. Provide employees with the opportunity of participating in a company-wide performance management system;
- vii. Being an equal opportunity employer and discouraging all forms of discrimination in employees' career development, including sexist and racist language;
- viii. Provide effective and current employee assistance programmes and employee information services;
- ix. Offer employees the opportunity to participate in a subsidised superannuation scheme.

6. PERFORMANCE TARGETS

Kordia aims to maintain and increase shareholder value. To achieve this, Kordia targets a rate of return on equity (net trading profit after tax as a percentage of average shareholders' funds) of 9%.

Achieving a return on equity of 9% will depend on the company re-engineering the Kordia Networks business and investing in new business areas to replace the analogue television business. The future commercial performance stated below includes the projected returns from Kordia's existing businesses and future investments.

In the table below FY14 is the year of the maximum impact on the business performance from ASO.

Financial Performance Targets Post Impairment	FY13	FY14	FY15
ROE% (net trading profit after tax as a percentage of average shareholders' funds)	9.3%	5.4%	10.5%
EBITDA	\$55.4m	\$50.9m	\$57.8m
EBIT	\$18.4m	\$13.8m	\$20.8m
NPAT	\$8.5m	\$5.2m	\$10.5m
Shareholders' Funds	\$93m	\$99m	\$102m
SH Funds to Total Assets %	38.5%	40.1%	42.3%
Commercial value (mid point of enterprise value range)	\$210m	\$210m	\$210m
Commercial value of the Crown's investment (enterprise value-net debt)	\$142m	\$144m	\$152m
Total shareholder return ((Commercial value end less commercial value beg plus dividends paid less equity injected)/commercial value beg)	6%	1%	11%
Dividend yield (dividends paid/average commercial value)	4%	0%	5%
Dividend payout (dividends paid/net cash flow from operating activities less depreciation expense)	310%	0%	110%
Return on equity (ROE) (NPAT/average equity)	9.3%	5.4%	10.5%
ROE adjusted for IFRS fair value movements and asset revaluations (NPAT adjusted for IFRS fair value movements (net of tax)/average of share capital plus retained earnings)	9.3%	5.4%	10.5%
Return on capital employed (EBIT adjusted for IFRS fair value movements/ average capital employed)	11%	8%	12%
Operating margin (EBITDAF/Revenue)	14%	11%	12%
Gearing ratio (net debt/net debt+equity)	42%	40%	36%
Interest cover (EBITDAF/interest paid)	9.2	8.5	10.5
Solvency (current assets/current liabilities)	1.3	1.3	1.4

Revenue Performance Targets	FY13	FY14	FY15
Kordia Networks	\$76.1m	\$84.3m	\$94.0m
Kordia Solutions	\$236.8m	\$257.9m	\$275.1m
Orcon	\$96.4m	\$111.9m	\$130.6m
Corporate Elimination	(\$5.5m)	(\$5.5m)	(\$5.5m)
Total Revenue	\$403.8m	\$448.6m	\$494.2m
Revenue per FTE (1)	\$336k	\$337k	\$338k

Note: (1) Revenue per Full Time Equivalent (FTE) is the total amount of revenue received in Kordia's financial year divided by the number of FTEs. This measure links the time and effort associated with Kordia's human resources to its revenue output.

Non-Financial Performance Targets	FY13	FY14	FY15
Customer Satisfaction [1]	80%	80%	80%
Staff engagement index [2]	73%	74%	75%
Group Lost Time Injury Frequency Rate (LTIFR) [3]	<5	<5	<5
NZ Digital Television Transmission (DTT) Network Availability (main metro sites measured annually) [4]	99.9%	99.9%	99.9%
Number of significant RMA non-compliances [5]	0	0	0

Notes:

- (1) Annual survey of Kordia Limited customers. The measure for customer satisfaction is “intention to stay”.
- (2) The staff engagement index measures the engagement and attitude of our employees. Staff engagement is measured as we consider that the more engaged our staff the better the organisational results.
- (3) The Lost Time Injury Frequency Rate (LTIFR) is an industry measure of the number of Lost Time Injuries over a period of 12 months per million hours worked. A Lost Time Injury (LTI) is a work-related injury or illness resulting in an employee or contractor being unable to attend work for a full working day after the day of the injury.
- (4) The measure of the availability of the DTT network is a measure of the reliability of the DTT network and the performance against customer service level agreements.
- (5) A measure of Kordia’s compliance with its Resource Management Act consents. Significant means those incidents which are more than minor and for which it is appropriate to notify the consent authority (over and above standard notification of minor consent non compliances).

7. COMPARISON WITH PRIOR YEAR SCI PERFORMANCE TARGETS

The Broadcast to Broadband transformation (FY06-FY11) successfully positioned Kordia Group for a future beyond analogue TV switch-off in New Zealand. Indeed 60% of current revenues are from products and services which did not exist in FY05.

Strong growth paths have been established in Kordia Solutions (Australia), Orcon and Kordia Networks. The growth opportunities, coupled with the need to pay down debt to reach a more appropriate gearing level, mean that alternative sources of funding are required to support the growth opportunities in the three businesses.

The market place is being transformed due to the commencement of the UFB initiative and changes in regulatory policy, with both positive and negative outcomes for Orcon and Kordia Networks. Both businesses are being reviewed, including the re-engineering of Kordia Networks that will commence in FY13 to ensure that that business is “match fit” for ASO (FY14) when the revenue from analogue TV transmission ends.

The FY13-FY15 business plan reflects the reduced funds available for future investment post-ASO, and also reflects an increase in joint venturing and alternative funding strategies.

Kordia will exceed its FY12 SCI targets (NPAT and ROE) and has resumed payment of dividends from free cash flow. This overachievement is the result of a strong underlying trading result and the receipt of a settlement with respect to the unavailability of Sub Loop Extension

Services (SLES) on a commercially viable and timely basis. The SLES settlement has been traded in FY12 as per GAAP but the benefits more correctly relate to FY12 and beyond with respect to Orcon's performance.

- Kordia Networks' forecast revenue is slightly less than the previous SCI for FY13 and will exceed the previous SCI for FY14.
- Orcon's forecast revenue is slightly less than the previous SCI for FY13 and FY14.
- Kordia Solutions NZ forecast revenue is slightly less than the previous SCI for FY13 and FY14.
- Kordia Solutions Australia forecast revenue is higher than the previous SCI for FY13 and FY14.
- The NPAT and ROE targets for FY12 in the previous SCI will be overachieved. The forecast NPAT and ROE will be slightly less than the previous SCI target for FY13 and more than the previous SCI forecast for FY14. The shift is a result of a reduction in Orcon's forecast performance offset by an increase in Kordia Solutions Australia's performance.
- The Group's gearing is forecast to continue to reduce to 36% with an increased dividend level proposed in this SCI compared to the previous SCI.

8. COMMENTARY ON ANTICIPATED BUSINESS PERFORMANCE DURING THE SCI PERIOD (FY13-FY15) ➡

FY12 has been a period of very significant market place changes for Kordia Group with important implications for FY13 – FY15.

The major trends relevant to Kordia Group remain similar to those in the FY12 Five Year Plan:

- Massive on-going growth in broadband (wired and wireless) on the back of video and rich media demand by consumers.
- The corporate sector engagement with the possibilities of cloud services and associated ICT simplification.
- The design and build activities in Australia on the back of growth in data over the mobile network, the NBN and mining sector.
- On-going strength of the broadcast and heavy infrastructure business in NZ.

A coalescence of market trends, individual business five year forecasts and Group capabilities define three growth engines for Kordia Group:

- Managed Services (OnKor/Cloud/Ethernet Exchange)
- Internet Services (Orcon)
- Solution Services (Kordia Solutions Australia)
- While not high growth, Media Services has grown above expectations and broadcast TV revenue is likely to remain strong until the end of the decade.

Kordia is well positioned to continue to benefit from these trends, with the main challenge being the need of the Group to gain sufficient scale quickly in each segment.

Kordia will consider acquisitions to enable the provision of new services, and the forecast assumes an acquisition in FY14. In addition, Kordia is considering asset rationalisation to improve free cash flow, but no asset rationalisation is included in the forecasts.

KORDIA NETWORKS**BROADCASTING**

Kordia will be working with its customers during the planning period on the switch off of analogue television (ASO), which commences in 2012. The switch off of analogue television will have a significant negative impact on Kordia Networks EBIT. There has continued to be good demand for the Digital Television transmission services.

TELECOMMUNICATIONS

A significant proportion of the value of the Kordia Group is derived from the Kordia Limited network assets, and a key focus for the SCI period will be driving performance from the investments in these assets. Kordia has seen an upturn in sales activity for all its products including KorKor[®] (integrated two-way digital radio) and OnKor[®] (Carrier Ethernet) in New Zealand. From this core capability Kordia Networks will increase the range of products, encompassing Ethernet and Cloud Services.

ORCON

Orcon continues its strong customer, revenue and value growth in a very competitive market. Orcon will continue with the rapid delivery to market of innovative services such as Genius (IP telephony) and UFB services.

KORDIA SOLUTIONS

The outlook for the NZ business has improved with good progress towards redefining the business to meet the change in work with ASO.

The Australian business has progressively achieved a more diversified portfolio of customers. The impact of delays in the NBN fibre projects has been very successfully mitigated by growth with other customers, particularly in the telco and mining sectors with continuing strong growth anticipated with the rapid growth in mobile voice and data services in Australia and continued investment in the mining sector. A key challenge is meeting the demand for skilled staff and financing this growth.

9. CAPITAL STRUCTURE

Kordia is a limited liability company incorporated in New Zealand under the Companies Act 1993 and is wholly owned by the Crown. The liabilities of Kordia are not guaranteed in any way by the Crown.

Kordia aims to maintain a capital structure that is similar to other comparable businesses not owned by the Crown. Based on the future commercial performance outlined below, it is expected that the ratio of net debt to net debt plus shareholders' funds (gearing) at year end will be:

Capital Structure Measure	FY13	FY14	FY15
Gearing % (Debt to Debt plus Equity)	42%	40%	36%

10. ACCOUNTING POLICIES

Kordia's financial statements comply with the Companies Act 1993, the Financial Reporting Act 1993 and the Public Finance Act 1989 and are prepared on the basis of historic cost unless otherwise noted within the specific accounting policies contained in Appendix I.

11. DIVIDENDS

In normal circumstances the company would intend the dividend to be the surplus level of funds taking into account:

- Meeting banking covenant requirements with a prudent margin for unforeseen events
- Medium term fixed asset expenditure programme, including replacement of core operating assets that have reached the end of their operating life
- Investment in new business opportunities
- Working capital requirements.

Notwithstanding the switch-off of analogue television that commences in 2012 and will conclude in 2013, Kordia will meet its dividend forecast for FY12 and forecasts that a dividend of \$5m will be paid in FY13. The impact of ASO on the business means that Kordia forecasts that there will be no dividend in FY14, but forecasts that a dividend of \$7.3m will be paid in FY15.

Kordia has also reduced its debt by \$50m since the second half of FY09, which has increased the value of the Crown's investment in Kordia.

12. INFORMATION TO BE PROVIDED

In accordance with Section 15 of the SOE Act, Kordia will provide to Shareholding Ministers an Annual Report and will report on the achievement of the objectives and targets set out in this Statement of Corporate Intent.

In accordance with Section 16 of the SOE Act, Kordia will also provide to Shareholding Ministers a half-yearly report, which will include an unaudited Income Statement, a Statement of Comprehensive Income, a Statement of Changes in Equity, a Statement of Financial Position, a Statement of Cash Flows and such details as are necessary to permit an informed assessment of the Company's performance during that reporting period.

Kordia will deliver a summary Business Plan to Shareholding Ministers for discussion prior to the commencement of each financial year.

Kordia will deliver a Quarterly Report to Shareholding Ministers no later than the end of the month following the quarter.

In accordance with Section 18 of the SOE Act, Kordia will provide other information relating to the affairs of the Company as requested by the Shareholding Ministers.

13. CONSULTATION, SUBSIDIARY AND ASSOCIATED COMPANIES

Consultation will take place with Shareholding Ministers relating to the material expansion of Kordia's activities into new business areas as well as the sale of existing activities or shares and details relating to subsidiary and associate companies. Consultation arrangements are detailed in Appendix II.

14. POLICY FOR SHARE ACQUISITIONS

Any share or equity (or asset) acquisitions (or sales) will reflect our business strategy requirements for achieving our vision. Kordia will consult Shareholding Ministers before:

- Acquiring shares in a business or assets that are outside the business activities reported in this SCI, are based overseas and material to Kordia or are otherwise significant; or
- Disposing of shares in a business or business activities material in the context of the Company.

15. COMPENSATION FROM THE CROWN

Kordia will seek full compensation from the Crown for any activities or obligations which will result in a reduction of Kordia's net profit or net worth, which Kordia is required by the Crown to undertake and for which a normal commercial return is not forthcoming. At the time of preparing this Statement of Corporate Intent no such requests had been received.

16. INVESTMENT IN THE COMPANY

The investment in Kordia as at 30 June, as measured by Shareholders' equity, is estimated to be:

Date	\$million
30 June 2013	\$93m
30 June 2014	\$99m
30 June 2015	\$102m

17. COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

2012 Estimated Valuation (\$m)	Lower	Upper
Commercial value of the enterprise	187	248
Less Net debt¹	71	71
Commercial value of the Crown's investment	116	177
Less Equity book value¹	90	90
Valuation in excess of equity	26	87
Implied EV/EBITDA multiple	3.6x	4.9x

¹Forecast as at 30 June 2012

STATEMENT OF CORPORATE INTENT 

2011 Estimated Valuation (\$m)	Lower	Upper
Commercial value of the enterprise	165	221
Less Net debt¹	80	80
Commercial value of the Crown's investment	85	141
Less Equity book value¹	82	82
Valuation in excess of equity	3	59
Implied EV/EBITDA multiple	3.3x	4.5x

¹ Forecast as at 30 June 2009

The Board has estimated the commercial value of the Group and the Crown's investment in the Group for the financial year ending 30 June 2012. As part of this assessment the Board obtained an independent valuation, the results of which are depicted in the table above.

This valuation, based on assumptions made by management as at May 2012, gave an estimate of the current commercial value of the Group as being between \$187 million and \$248 million and of the commercial value of the Crown's investment in Kordia as being between \$116 million to \$177 million.

As with the previous valuation, this valuation has been prepared in times of economic uncertainty, in particular post the European debt crisis, and in the context of a fast moving industry, where asset values and cash flows are subject to variation over a relatively short period of time. There have been some changes in the underlying risk free rate and asset beta used in the WACC calculations from the prior year.

Given these factors, the Board considers that, in terms of the environment in which the valuation has been undertaken, a range of \$200 million to \$220 million for the FY12 commercial value of the enterprise is a reasonable assumption.

Key points about the manner in which the valuations were assessed are:

- The valuation was calculated as at 9 May 2012.
- The valuation was prepared for each Cash-Generating Unit (CGU): Kordia Networks, Kordia Solutions NZ, Kordia Solutions Australia and Orcon. The discounted cash flow (DCF) and Capitalisation of Future Maintainable Earnings (CME) methodologies were used in the assessment. All valuations were prepared on an after-tax basis.
- The DCF valuations were based on the real (i.e. not inflation-adjusted) future cash flows set out in the 2013-2015 Budget Summary with forward projections then also made for 2016 – 2018, to cover for Kordia Networks, as with last year, the Analogue Switch Off time period which commenced in 2012.
- The growth assumption in the DCF terminal value calculation was 0% for all four CGUs.
- Post tax discount rates of 8.4%, 11.1%, 8.2%, and 9.2% were assumed for Kordia Networks, Kordia Solutions NZ, Kordia Solutions Australia, and Orcon businesses respectively. For the 2011 valuation, the discount rates were, for comparison 9.2%, 10.3%, 8.8%, and 9.3%.
- The valuation was prepared externally by Bancorp Corporate Finance Ltd based on financial forecasts and supporting information provided by Kordia. The valuation was prepared in conjunction with Management prior to approval by the Board.

The valuation compares with an estimated commercial value of the enterprise as at May 2011 of \$165 million to \$221 million and the commercial value of the Crown's investment in Kordia of \$85 million to \$141 million. The key reason for the increase in the lower and upper end of the values from the prior year is the continued growth in the Kordia Solutions Australia business that has expanded its employee base and secured contracts ahead of original expectations.

18. ECONOMIC VALUE ADDED (EVA) CALCULATION

EVA is an estimate of economic profit, which is determined by making corrective adjustments to accounting, including deducting the opportunity cost of all capital, equity and loans invested in a company. It is the amount by which earnings exceed or fall short of the required minimum rate of return that shareholders and lenders could get by investing in other securities or businesses of comparable risk.

	FY13	FY14	FY15
EVA (\$m) ¹	\$1.2m	[\$2.1m]	\$2.1m

¹EVA is based on management's estimate using the forecasts and assumptions as for the commercial value of the enterprise (above). The calculations are prepared as at 31 May 2012 and based on market factors at this date.

19. BOARD COMMITTEES

Details of the two standing committees of Kordia are contained in Appendix III.

APPENDIX I – STATEMENT OF ACCOUNTING POLICIES

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 4, Fidelity House, 81 Carlton Gore Road, Newmarket, Auckland, New Zealand.

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 financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (“NZ GAAP”). They comply with New Zealand equivalents to International Financial Reporting Standards (“NZ IFRS”), and other applicable Financial Reporting Standards, as appropriate for profit-oriented Crown entities. These financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on the basis of historical cost unless otherwise noted within the specific accounting policies below.

ESTIMATES AND JUDGMENTS

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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are:

- Measurement of the recoverable amounts of cash-generating units
- Provisions
- Valuation of financial instruments
- Deferred tax assets
- Useful life of property, plant, equipment and intangibles.

In the opinion of management, 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

BASIS OF PREPARING GROUP FINANCIAL STATEMENTS

Subsidiaries are those entities controlled, directly or indirectly, by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies are eliminated on consolidation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies. The Group’s share of the net surplus of associates is recognised as a component of profit/(loss) before income tax in the Income Statement, after adjusting for differences between accounting policies of the Group and Associate. Associates are accounted for using the equity method. When the Group’s share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued.

Where an intra-group reconstruction occurs through a subsidiary amalgamating into the company of another subsidiary, the assets and liabilities of the amalgamating subsidiaries are recognised in the financial statements of the company at their previously recorded carrying amounts. The company’s investment in the subsidiary is reduced to zero. Any excess of the carrying amount of the net assets, over the company’s investment in the subsidiary, is recognised in the Statement of Changes in Equity. The results of the amalgamated subsidiary are recognised in the net surplus of the amalgamator from the date of the amalgamation.

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APPENDIX I – STATEMENT OF ACCOUNTING POLICIES

REVENUE

Revenue from the sale of goods and services is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and the associated costs and possible return of goods can be estimated reliably.

Revenue from services rendered is recognised in the Income Statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

LEASES

Group entities lease certain land and buildings, motor vehicles, plant and equipment and information systems.

Operating lease payments are included in the Income Statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments under a finance lease are apportioned between the finance charge and the reduction of the outstanding liability. The interest expense component of finance lease payments is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

FINANCE INCOME AND EXPENSES

Finance income comprises interest income on funds invested, dividend income, foreign currency gains and gains on hedging instruments that are recognised in the Income Statement. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Company's right to receive payment is established.

Finance expenses comprise interest expense on borrowings and leases, unwinding of the discount on provisions, foreign currency losses and losses on hedging instruments that are recognised in the Income Statement. All borrowing costs are recognised in the Income Statement using the effective interest method.

TAXATION

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting dates.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment losses. Cost includes the cost to acquire the asset and other directly attributable costs incurred to bring the asset to the location and condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

CONTINUED

APPENDIX I – STATEMENT OF ACCOUNTING POLICIES 

Where an item of property, plant and equipment is disposed of, the gain or loss recognised in the Income Statement is calculated as the difference between the sale price and the carrying value of the item of property, plant and equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Items of property, plant and equipment that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before reclassification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the Income Statement. Gains are not recognised in excess of cumulative impairment losses.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be reliably measured. The costs of day-to-day servicing of property, plant and equipment are recognised in the Income Statement as incurred.

Depreciation is provided for on a straight-line basis on all tangible items of property, plant and equipment other than freehold land and work in progress, over their estimated useful lives as follows:

Freehold buildings	10 - 40 years
Leasehold improvements	2 - 10 years
Masts and aerials	4 - 25 years
Transmission equipment	3 - 25 years
Furniture and fittings	5 - 10 years
Office equipment	4 - 10 years
Information systems	2.5 - 5 years
Leased information systems	3 - 5 years
Motor vehicles	7 years

Assets under finance leases are initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

INTANGIBLES**Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the purchase consideration over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. When the excess is negative (negative goodwill), it is recognised in the Income Statement. Subsequently, goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted associates, goodwill is included in the carrying amount of the investment.

Customer Acquisition Costs

Customer acquisition costs are those costs incurred in obtaining telecommunication service contracts with subscribers. These costs are amortised over the period of the contract or the period during which the future economic benefits are expected. This period is currently 1 year.

Customer lists

Customer lists are recognised on the acquisition of subsidiaries or trading assets and represents the net fair value of identified assets acquired. Customer lists are measured at cost less accumulated amortisation and accumulated impairment losses.

Research and development costs

Research is original and planned investigation undertaken with the prospect of gaining new technical knowledge. Research costs are recognised in the Income Statement as incurred. Development expenditure is expenditure on the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products, processes, systems or services. Development expenditure is recognised as an asset when it can be demonstrated that the commercial production of the products, processes, systems or services will commence. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Capitalised development costs are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is on a straight line basis over the period of expected future benefits.

CONTINUED

APPENDIX I – STATEMENT OF ACCOUNTING POLICIES

Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the asset to which it relates. All other expenditure is recognised in the Income Statement as incurred.

Amortisation is recognised in the Income Statement on a straight line basis over the estimated useful lives of the intangible assets, from the date they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Frequency licences	5-20 years
Transmission link	5 years
Development costs	5 years
Subscriber terminal unit customer subsidy	2-5 years
Customer lists	3-5 years
Software	3-5 years
Customer acquisition costs	1 year

FINANCIAL INSTRUMENTS

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and advances and trade, other payables and finance leases. These are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantively all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

The Group uses derivative financial instruments within predetermined policies and limits in order to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates. The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, they are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement. However, where derivatives qualify for hedge accounting and are designated as cash flow hedges, recognition of any resultant gain or loss are recognised directly in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in the fair value are recognised in the Income Statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs. The amount recognised in other comprehensive income is transferred to the Income Statement in the same period that the hedged item affects profit or loss.

INVENTORIES

Inventories comprise technical stores and subscriber terminal units. All inventories are measured at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

CONTRACTS WORK IN PROGRESS

Contracts work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Contracts work in progress is presented as part of trade and other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

CONTINUED

APPENDIX I – STATEMENT OF ACCOUNTING POLICIES

IMPAIRMENT

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill relating to subsidiaries, the recoverable amount is estimated at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses reduce the carrying amount of assets and are recognised in the Income Statement.

The recoverable amount of receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted. Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach. For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on number of days overdue, and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

The recoverable amount of a non-financial asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the Income Statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

A make-good provision is recognised for the Group's obligation on making-good the leased premises on expiration of the contract. The provision is measured at the present value of the expected cost to be incurred.

EMPLOYEE BENEFITS

A liability for annual leave, long service leave and retirement leave accruing to employees is recognised in the Statement of Financial Position. The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The liability for annual leave is measured on an undiscounted basis and expensed as the related service is provided.

CONTINUED

APPENDIX I – STATEMENT OF ACCOUNTING POLICIES

FOREIGN CURRENCIES

Transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities in foreign currencies at balance date are re-translated to the functional currency at the exchange rates ruling at balance date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Exchange differences arising on the translation of monetary assets and liabilities in foreign currencies are recognised in the Income Statement, except as detailed below.

Translation of Foreign Group Entities

The assets and liabilities of foreign entities with functional currencies other than New Zealand dollars, including goodwill and fair value adjustments arising on acquisition, are translated at the rates of exchange ruling at the reporting date. The revenues and expenses of these entities are translated at rates approximating the exchange rates ruling at the date of transactions. Exchange differences arising on translation are taken directly to the foreign currency translation reserve (FCTR). When such an entity is disposed of in part or in full, the relevant amount in the FCTR is transferred to the Income Statement.

Government Grants

Government grants are recognised at fair value when there is reasonable assurance that the group will comply with the conditions attaching to them and the grants will be received. Grants related to the purchase of assets are treated as a reduction in the carrying amount of the asset.

DETERMINATION OF FAIR VALUES

Fair values have been determined for measurement and/or disclosure purposes in Note 21 based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables

The fair value of trade and other receivables, excluding contracts work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Trade and other receivables are financial assets categorised as loans and receivables.

Trade payables and accruals

The fair value of trade payables and accruals is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Payables are categorised as financial liabilities measured at amortised cost.

Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps and caps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

APPENDIX II - SUBSIDIARY AND ASSOCIATED COMPANIES AND CONSULTATION

SUBSIDIARY AND ASSOCIATED COMPANIES

Kordia will at all times ensure that:

1. Kordia shall appoint the majority of directors for every subsidiary, and shall approve the majority of directors for every subsidiary of a subsidiary
2. All directors approved or appointed by Kordia shall be:
 - a. Directors or employees of Kordia; or
 - b. Directors or employees of another subsidiary of Kordia; or
 - c. Appointed or approved by the directors of Kordia on some other basis.
3. Where permitted by the constitution of the subsidiary, and to the extent permitted by law, the directors of every subsidiary of Kordia (including the subsidiary of a subsidiary) shall control the subsidiary in the best interests of Kordia, as determined by a majority of the Board of Kordia from time to time, even though that might not be in the interests of that subsidiary.
4. The appointment of each director to the board of a subsidiary of Kordia (or to the board of a subsidiary of a subsidiary) shall be voted on individually as required by section 155 of the Companies Act 1993 (N.Z.) and in accordance with the constitution of Kordia.

CONSULTATION

Kordia will, in relation to any single or connected series of transactions, consult with its shareholding Ministers on substantial matters not contemplated in the business plan, including:

1. Any substantial capital (or equity) investment above the agreed threshold for activities within Kordia's scope of its core business in Australia or New Zealand;
2. Any substantial capital (or equity) investment outside of Australia or New Zealand above the agreed threshold;
3. Any substantial expansion of activities outside the scope of its core business above the agreed threshold;
4. The sale of any shares or the sale of all or substantially all of Kordia Limited's network assets;
5. The sale or disposal of the whole or any substantial part of the business or undertaking of Kordia;
6. Where Kordia holds more than 20% or more of the shares in any company or body corporate (not being a subsidiary of Kordia), the sale or disposal of any shares in that company.

Shareholder consent will be obtained for the sale of any of the shares of Kordia Limited or the sale of all, or substantially all, of Kordia Limited's network assets.

Shareholding Ministers will continue to be advised of any other significant transactions even if they do not meet the thresholds.

APPENDIX III – BOARD COMMITTEES

The Board currently has two standing committees: Audit and Remuneration. Both strategic risk and operational risk are dealt with by the full Board.

AUDIT COMMITTEE

The Audit Committee assists the Board in fulfilling its responsibilities by providing recommendations, counsel and information concerning its accounting and reporting responsibilities under the Companies Act 1993 and related legislation. Its Terms of Reference also cover the role of Internal Audit and financial risk management.

REMUNERATION COMMITTEE

The Remuneration Committee assists the Board in fulfilling its responsibilities by providing advice and recommendations regarding the appropriate levels of remuneration for executives.

NOTES

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BANKERS

Bank of New Zealand /
National Australia Bank

Commonwealth Bank
of Australia / ASB Bank
Limited

ANZ National Limited

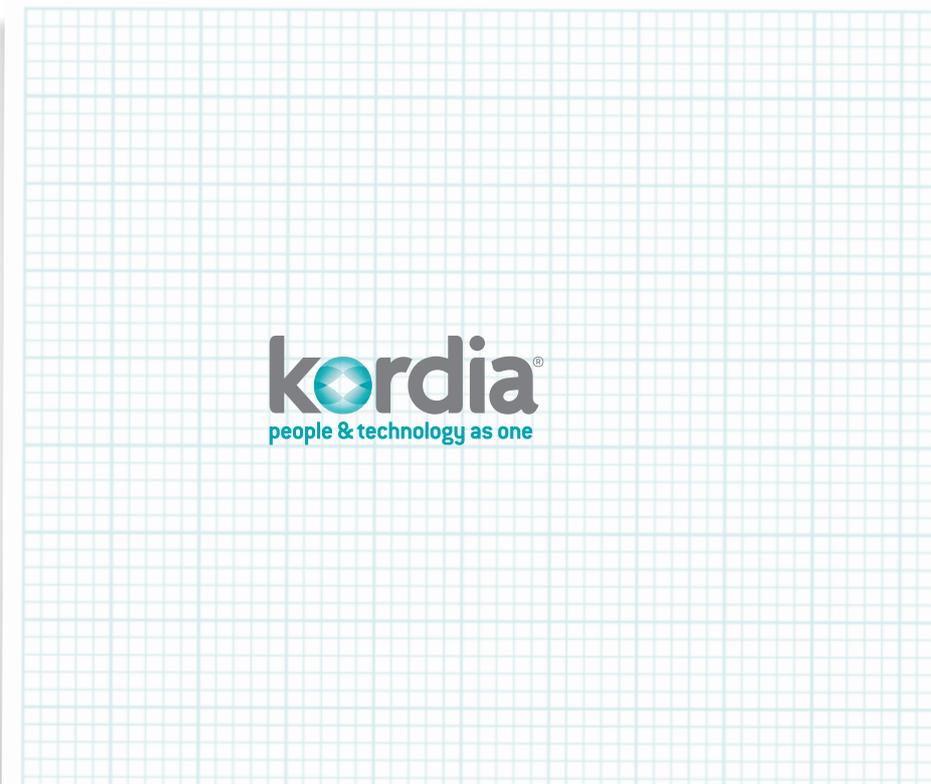
AUDITORS

KPMG on behalf of the
Auditor-General

SOLICITORS

Simpson Grierson
(New Zealand)

Blake Dawson
(Australia)

The image features a light blue grid pattern on a white background. In the center of the grid is the Kordia logo. The logo consists of the word "kordia" in a bold, lowercase, sans-serif font. The letter "o" is replaced by a stylized globe icon with a blue and white color scheme and a central white starburst. Below the word "kordia" is the tagline "people & technology as one" in a smaller, lowercase, sans-serif font.

kordia[®]
people & technology as one