

STATEMENT OF
CORPORATE INTENT 2012



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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 Internet 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 equity 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 New Zealand Centre for Social Innovation www.nzcsi.org.

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 between 10% and 12%.

Achieving a return on equity of between 10% and 12% will depend on the company making successful future investments to renew and replace a number of existing business lines, whose current profitability is not expected to be sustained over the period covered by this Statement of Corporate Intent. The future commercial performance stated below includes the projected returns from Kordia's existing businesses and future investments.

Note that as a result of the accounting treatment of an agreement terminated in 2000 and adjusted in 2005, ROE is suppressed by 1% in 2012, the final year that the settlement impacts the result.

Financial Performance Targets	FY12	FY13	FY14
ROE% (net trading profit after tax as a percentage of average shareholders' funds)	7.2%	10.8%	4.3%
EBITDA	\$48.9m	\$52.2m	\$44.5m
EBIT	\$16.2m	\$20.1m	\$11.8m
NPAT	\$6.1m	\$9.7m	\$4.1m
Shareholders' Funds	\$86m	\$94m	\$98m
SH Funds to Total Assets %	39%	43.9%	45.9%
Commercial value (mid point of enterprise value range)	\$193m	\$193m	\$193m
Commercial value of the Crown's investment (enterprise value-net debt)	\$120m	\$131m	\$138m
Total shareholder return [(Commercial value <i>end</i> less commercial value <i>beg</i> plus dividends paid less equity injected)/commercial value beg]	9%	11%	5%
Dividend yield (dividends paid/average commercial value)	2%	2%	0%
Dividend payout (dividends paid/net cash flow from operating activities less depreciation expense)	40%	23%	0%
Return on equity (ROE) (NPAT/average equity)	7.2%	10.8%	4.3%
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)	7.2%	10.8%	4.3%
Return on capital employed (EBIT adjusted for IFRS fair value movements/average capital employed)	10%	12%	7%
Operating margin (EBITDAF/Revenue)	16%	16%	13%
Gearing ratio (net debt/net debt+equity)	46%	39%	36%
Interest cover (EBITDAF/interest paid)	7.0	8.5	7.9
Solvency (current assets/current liabilities)	1.2	1.2	1.3

Revenue Performance Targets	FY12	FY13	FY14
Kordia Networks	\$73.1m	\$77.7m	\$70.0m
Kordia Solutions	\$147.0m	\$152.0m	\$156.5m
Orcon	\$89.3m	\$102.7m	\$115.6m
Corporate Elimination	(\$3.8m)	(\$5.8m)	(\$5.8m)
Total Revenue	\$305.6m	\$326.7m	\$336.3m
Revenue per FTE (1)	\$321k	\$327k	\$336k

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	FY12	FY13	FY14
Customer Satisfaction [1]	80%	80%	80%
Staff engagement index [2]	72%	73%	74%
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. Targets have been altered to align with JRA’s ‘Large Organisation’ benchmark which is a better fit for Kordia than the total BWPS benchmark.
- (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

For the past five years Kordia has been executing a “broadcast to broadband” transformation strategy to enable the business to survive and prosper beyond the termination of the original core activity of analogue television transmission. The Kordia business plans have assumed an analogue television switch-off date (ASO) of 2015. The government decision to commence ASO in 2012 has had a major impact on Kordia. The Board has reviewed the recoverable amount of the Kordia Networks business, being the part of the Group most impacted by earlier ASO. The Board recorded in FY11 an impairment entry of \$29.0m (before tax), covering the write-down of assets associated with the analogue television transmission and an increase in the make –good provision relating to sites on which the transmission equipment is located.

The FY12-14 business plan reflects the reduced funds available for future investment and also reflects an increase in joint venturing and alternative funding strategies.

- Kordia Networks forecast revenue is in line with the restated 2011 SCI for 2012 and 2013.
- Orcon's forecast revenue is in line with the restated 2011 SCI for 2012 and 2013. Revenue is higher for 2012 than forecast in the 2010 SCI due to improved performance.
- Kordia Solutions' revenue is forecast to be in line with the restated 2011 SCI. Revenues are lower than that forecast in the 2010 SCI for 2012 due to the lower than forecast revenues for both the Australian and New Zealand businesses. The reduction in revenue is due to delay in realising sales opportunities in New Zealand as customers delay capital expenditure and the slower than anticipated start to the NBN Fibre and Wireless Broadband rollouts in Australia.
- The NPAT and ROE financial targets for FY12 and FY13 are, when adjusted for the dividend payment, as forecast in the restated 2011 SCI and reflect the impact of an earlier than anticipated switch off of analogue television.
- Before reflecting the impact of the impairment, the Group's gearing had been reduced to 45% and was forecast to continue to decrease. Now, due to the impairment, the gearing is currently at 50%. The Board considers that a gearing of 40% would be acceptable.

8. COMMENTARY ON ANTICIPATED BUSINESS PERFORMANCE DURING THE SCI PERIOD (FY12-FY14)

KORDIA NETWORKS

BROADCASTING

Kordia will be working with its customers during the planning period on the switch off of analogue television, which commences in 2012. The switch off of analogue television will have a significant negative impact on Kordia Networks EBIT. Kordia Network will be extending Digital Television transmission to the Taranaki region in FY12 and implementing the re-channelling of the existing Digital Television services to enable the 700MHz band to be cleared for re-use.

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, in particular in the core transport services. Kordia has seen an upturn in sales activity for new products including KorKor™ (integrated two-way digital radio) and OnKor™ (Carrier Ethernet) in New Zealand. However, we are noting considerable delays in decision-making inside customer organisations - and more generally, across the industry – as a result of the challenging economic climate.

ORCON

Orcon continues its strong customer, revenue and profitability growth. It has achieved good returns from two small acquisitions and there is growing confidence in its ability to generate good returns off modest capital requirements. The key focus for Orcon in the SCI period is the delivery of returns from the investment in customer acquisition on the LLU network and its recent acquisition of BIZO. Orcon is investigating expansion of the LLU network and opportunities with the UFB networks.

KORDIA SOLUTIONS

This contracting and consulting business is the most exposed to the economic down turn and the timing of the recovery. Following a restructuring in 2010 the New Zealand business is improving its performance.

The Australian business has progressively achieved a more diversified portfolio of customers. The impact of delays in the NBN fibre projects has in part been mitigated by growth with other customers, particularly in the telco and mining sectors.

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	FY12	FY13	FY14
Gearing % (Debt to Debt plus Equity)	46%	39%	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

Kordia had forecast a dividend of \$9.0m for FY2012 and \$9.3m for 2013, assuming the switch off of analogue television was no earlier than 2015.

With the switch off of analogue television commencing in 2012, Kordia now forecasts that a dividend of \$2m will be paid in FY12 and in FY13. The impact of ASO on the business means that Kordia forecasts that there will be no dividend in FY14 but that a dividend of \$6.5m will be paid in FY2015.

Kordia considers that although the decision to commence the switch off of analogue television in 2012 has meant that Kordia has had to reduce its forecast dividend payments, the Government has derived significant value from its decision. The Government's wholly owned entity TVNZ has had a significant reduction in its television transmission fees due to the switch off of analogue television commencing three years earlier. The Government is also able to bring forward the date for the re-use of the 700MHz spectrum. This spectrum is currently used for analogue television services and it may have higher value uses for cellular services and broadband wireless networks (the "digital dividend").

Kordia has also in the last three years reduced its debt by \$45m, 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 SCl, 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. As the switch off of analogue television is earlier than the planned for date of 2015, Kordia is reducing its forecast dividends for FY12-14.

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 2012	\$86m
30 June 2013	\$94m
30 June 2014	\$98m

17. COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

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

¹ Forecast as at 30 June 2011

2010 Estimated Valuation – pre-impairment (\$m)	Lower	Upper
Commercial value of the enterprise	239	338
<i>Less Net debt¹</i>	90	90
Commercial value of the Crown's investment	149	248
<i>Less Equity book value¹</i>	101	101
Valuation in excess of equity	48	147
Implied EV/EBITDA multiple	4.3x	6.1x

¹ Forecast as at 30 June 2010

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 2011. 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 2011, gave an estimate of the current commercial value of the Group as being between \$165 million and \$221 million and of the commercial value of the Crown's investment in Kordia as being between \$85 million to \$141 million.

As with the previous valuation, this valuation has been prepared in times of considerable economic uncertainty, significantly greater than last year, in particular post the Christchurch earthquake and US 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 done, a range of \$185 million to \$200 million for the FY2011 year 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 7 June 2011.
- 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 2011-2014 Budget Summary with forward projections then also made for 2015 – 2017, to cover, 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 9.2%, 10.3%, 8.8%, and 9.3% were assumed for the Kordia Network, Kordia Solutions NZ, Kordia Solutions Australia, and Orcon businesses respectively. For the 2010 valuation, the discount rates were, for comparison 8.5%, 10.6%, 8.9% and 8.9%.
- 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 18 May 2010 of \$239 million to \$338 million and the commercial value of the Crown's investment in Kordia of \$149 million to \$248 million. The key reason for the decrease in the lower and upper end of the values from the prior year is the loss of two years revenues and free cash flow associated with analogue transmission income and the resulting impairment entry of \$29.0m (before tax), covering the write-down of assets associated with the analogue television transmission and an increase in the make –good provision relating to sites on which the transmission equipment is located. The Board is of the view that the much reduced ability for the networks business to reinvest, with Analogue Switch Off occurring in 2012, has seriously impacted the outlook of the business.

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.

	FY12	FY13	FY14
EVA (\$m) ¹	[\$4.6m]	[\$1.3m]	[\$8.0m]

¹EVA is based on management's estimate using the forecasts and assumptions as for the commercial value of the enterprise (above).

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 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 State Owned Enterprises. 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 judgments, 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 particular, information about significant areas of estimation of uncertainty and critical judgments 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.

The accounting policies set out below have been consistently applied to all periods presented in the financial statements and have been applied consistently by Group entities.

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 operating revenue 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.

CONTINUED

APPENDIX I – STATEMENT OF ACCOUNTING POLICIES

REVENUE

Revenue from the sale of goods 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 the payment is established.

Finance expenses comprise interest and funding expenses 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 equity, in which case it is recognised in 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 their 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 Lists

Customer lists arise on the acquisition of subsidiaries and represent 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.

Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and accumulated

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APPENDIX I – STATEMENT OF ACCOUNTING POLICIES

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
Development costs	5 years
Subscriber terminal unit customer subsidy	2-5 years
Customer lists	3-5 years
Software	3-5 years
Transmission links	5 years

FINANCIAL INSTRUMENTS

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and advances and trade and 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 is recognised directly in equity 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 equity remains there until the forecast transaction occurs. The amount recognised in equity 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.

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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 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 (or a 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.

FOREIGN CURRENCIES

Transactions

Transactions in foreign currencies are converted 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

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APPENDIX I – STATEMENT OF ACCOUNTING POLICIES

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 Group 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.

DETERMINATION OF FAIR VALUES

Fair values have been determined for measurement and/or disclosure purposes 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 categorized 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 categorized 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. 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. The Risk Committee has been disestablished as 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

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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)

