

Kordia Group Limited

Statement of Corporate

Intent 2019



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Introduction

Kordia Group's vision is to become the leading Australasian provider of mission-critical technology. By harmonising our Solutions, Cyber Security, Networks and Maritime capability, we bring a unique approach to building, operating and maintaining critical technology that will enhance the communities we live and work in.

Kordia Group comprises:

- Kordia Networks & Cyber: whose strategic focus is on being a leading provider of Mission-critical networks and cyber security. Kordia own's Aura Infosec, a leading provider of cyber security to further enhance capability in this area
- Kordia Solutions: a Trans-Tasman service and solutions provider to the ICT industry and a trusted partner to our customers across many industries including Telecommunications, Government, Utilities and Industrial and Infrastructure Private Network owners.
- Maritime & Critical communications An international Maritime business forms a key part of the operation providing safety of life at sea for over a quarter of the world's oceans.

Kordia Group Limited ("Kordia") has the following operating subsidiaries:

- Kordia Limited
- Kordia Pty Limited
- Kordia Solutions Pty Limited

Business Objectives

At Kordia we believe every staff member has a role to play in the overall success of the business, whether it is through our working relationships, technology or skills. Our purpose is to build connection's you can trust that make our digital world more secure, reliable and resilient. 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 whilst ensuring it is a good employer.

Kordia is a mission-critical technology 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 market 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.

Scope of the Business

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

- Ownership, maintenance and operation of telecommunications, broadcast and private networks in New Zealand and Australia.
- Provision of a range of services, applications and content over its infrastructure.
- Delivery of design, build, operation, and maintenance services to telecommunications, broadcast and private companies in New Zealand, Australia and internationally.
- Provision of consultancy services in the technology, media and telecommunications markets in New Zealand, Australia and internationally.
- 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.

Social Responsibilities and Community Interest

Kordia has a Corporate Social Responsibility (CSR) programme. Its key focus is the social investment programme that will deliver on Kordia Group's vision of becoming the leading Australasian provider of mission critical technology.

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

Kordia is committed to investing in the communities it operates in, and is focused on aligning these social investments with its vision.

Good Employer

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

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

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 at least 11%.

Achieving a return on equity of at least 11% will depend on the company re-engineering the New Zealand business and continuing to invest in new business areas to replace media revenues as well as transform the Australian operations and return it to profitability. The future commercial performance stated below includes the projected returns from Kordia's existing businesses.

Financial Performance Targets	FY19	FY20	FY21
EBIT	\$10.3m	\$14.0m	\$16.9m
NPAT	\$6.7m	\$9.4m	\$11.5m
Shareholders' Funds	\$91m	\$94m	\$97m
Shareholders' Funds to Total Assets % (shareholders' funds/total current and non current assets)	56%	59%	61%
Commercial value (mid point of enterprise value range)	\$145m	\$145m	\$145m
Commercial value of the Crown's investment (enterprise value-net debt)	\$124m	\$130m	\$135m
Total shareholder return ((Commercial value end less commercial value beg plus dividends paid less equity injected)/commercial value beg)	(1%)	11%	9%
Dividend yield (dividends paid/average commercial value)	4%	5%	6%
Dividend payout (dividends paid/net cash flow from operating activities less depreciation expense)	(463%)	60%	65%
Return on equity (ROE) (NPAT/average equity)	7.5%	10.2%	12%
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%	9.8%	11.6%
Return on capital employed (EBIT adjusted for IFRS fair value movements/average capital employed)	9.2%	12.4%	15.2%

Operating margin (EBITDAF/Revenue)	12%	13%	13%
Gearing ratio (net debt/net debt+equity)	19%	13%	10%
Interest cover (EBITDAF/interest paid)	35	40	48
Solvency (current assets/current liabilities)	1.9	1.9	1.9

Non- Financial Performance Targets	FY19	FY20	FY21
Net Promoter Score ¹	50+	50+	50+
Total Recordable Injury Frequency Rate (TRIFR) ²	<5	<5	<5
NZ Digital Television Transmission (DTT) Network Availability (main metro sites measured annually) ³	99.9%	99.9%	99.9%

¹ Net Promoter Score (NPS), is a metric used globally to measure customer loyalty and advocacy levels. NPS establishes the likelihood of a customer to recommend a product or service to another person on a scale of 0-10. The overall NPS score is the percentage of customers who are detractors is subtracted from the percentage who are promoters, providing a score between -100 and 100.

² The Total Recordable Injury Frequency Rate (TRIFR) is an industry measure of the number of Recordable Injuries over a period of 12 months per million hours worked. A Recordable Injury 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.

³ 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.

Comparison With Prior Year SCI Performance Targets




The focus is on becoming a leading provider of mission critical networks and cyber security. The rapid changes in technology means the outlook over the budget period for its traditional media business is changeable. The planned extension of key media contracts is forecast to have an impact on the short term earnings of the group, whilst providing long term certainty. The strategy remains to transform the revenues and of the Networks business from media to a digital technology business and become a significant entity in the cyber security market.

The market in which Solutions operates is extremely competitive with lower margins relative to other business areas. The focus for Solutions is to continue to transform and position Kordia Solutions as the expert and trusted partner to carrier and broadcast operators and a leading solutions provider to Government, Utilities, Industrial and Infrastructure Private Network owners in Australia.

Commentary on Anticipated Performance During the SCI Period

Kordia Group’s vision is to become the leading Australasian provider of mission-critical technology. By harmonising our Solutions, Cyber Security, Networks and Maritime capability, we bring a unique approach to building, operating and maintaining critical technology that will enhance the communities we live and work in.

The Key strategies to deliver on these visions for the group are:-

-  Relentlessly deliver The Kordia Experience for our customers
-  Shift from a networks/telco approach to a digital technology business.
-  Expand our digital media services business leveraging industry and technology changes
-  Grow the Solutions business improving profitability via both fixed and growth in 5G wireless networks and critical infrastructure as a service.
-  Expand our cyber security business capability to grow our cyber services revenues and market share
-  Grow our Maritime/Critical Comms network in Australia and the Indo-Pacific region.

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:

	FY19	FY20	FY21
Gearing % (net debt to net debt plus equity)	19%	13%	10%

As part of the FY19 Statement of Corporate Intent, Kordia is exploring strategic acquisition opportunities.

Accounting Policies

Kordia’s financial statements comply with the Companies Act 1993, the Financial Reporting Act 2013 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.

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 forecasts that a dividend of \$4.7m will be paid in respect of FY19.

Kordia has also reduced its debt by over \$100m since the first half of FY09, which has increased the value of the Crown's investment in Kordia.

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.

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.

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 content of the Company.

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.

Investment in the Company

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

	FY19	FY20	FY21
Shareholders' equity	\$91m	\$94m	\$97m

Commercial Value of the Crown's Investment

2018 Estimated Valuation (\$m)	Lower	Upper
Commercial value of the enterprise	125	166
Less Net debt¹	10	10
Commercial value of the Crown's investment	115	156
Less Equity book value¹	89	89
Valuation in excess of equity	26	67
Implied EV/EBITDA multiple	4.4x	5.8x

¹ Forecast as at 30 June 2018

2017 Estimated Valuation (\$m)	Lower	Upper
Commercial value of the enterprise	120	163
Less Net debt¹	10	10
Commercial value of the Crown's investment	110	153
Less Equity book value¹	85	85
Valuation in excess of equity	25	68
Implied EV/EBITDA multiple	4.5x	6.1x

¹ Forecast as at 30 June 2017

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 2018. 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 2018, gave an estimate of the current commercial value of the Group as being between \$125 million and \$166 million and of the commercial value of the Crown's investment in Kordia as being between \$115 million to \$156 million. The valuation compares with an estimated commercial value of the enterprise as at May 2017 of \$120 million to \$163 million and the commercial value of the Crown's investment in Kordia of \$110 million to \$153 million.

As with the previous valuation, this valuation has been prepared in times of economic uncertainty, 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 \$135 million to \$155 million for the FY18 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 May 2018.
- ▀ The valuation was prepared for each Cash-Generating Unit (CGU): Networks, Solutions NZ, Aura, Maritime and Solutions Australia. 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 2019-2021 Budget Summary with forward projections then also made for 2022–2023 for Kordia Networks which has a longer-term investment horizon.
- ▀ The growth assumption in the DCF terminal value calculation was 0% for all five CGUs.
- ▀ Post tax discount rates of 6.6%, 9.1%, 10.1%, 5.9% and 6.8% were assumed for the Networks, Solutions NZ, Aura, Maritime and Solutions Australia businesses respectively. For the 2017 valuation, the discount rates were, for comparison 6.6%, 9.7%, 10.3%, 6.2% and 7.2%.
- ▀ 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.

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.

	FY19	FY20	FY21
EVA (\$m) ¹	\$0.46m	\$2.6m	\$4.9m

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

Board Committees

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

APPENDIX I – Statement of Accounting Policies

Reporting Entity

Kordia Group Limited (the 'Company') is a limited liability company incorporated and domiciled in New Zealand under the Companies Act 1993 and is wholly owned by the Crown. The registered office of the Company is Level 3, Oracle House, 162 Victoria Street, Auckland 1010, 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 2013 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.

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 over investees, exposure or rights to variable returns and ability to use power to affect returns. 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.

Revenue

Revenue from the sale of transmission and maintenance 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 Group satisfies a performance obligation in the contract with the customer.

Revenue from the sale of operations 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.

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is 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. Minimum lease payments 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.

Other leases are operating leases and are not recognised in the Group's statement of financial position. 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.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight line basis.

Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Finance Income and Expenses

Finance income comprises interest income on funds invested, loans receivable, finance leases, 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.

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.

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 arises on the acquisition of subsidiaries and businesses 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.

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 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
Software	3 - 5 years
Trademarks	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. 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.

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.

Foreign Currencies

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.

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.

Contingencies

Where it is yet to be confirmed whether a present obligation exists, but the likelihood is possible, unless an outflow is deemed remote, a contingent liability is disclosed. Where an inflow of economic benefits is probable, a contingent asset is disclosed. Disclosure includes management's best estimate of the economic effect of the contingent asset or liability.

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.

The fair value of trade and other receivables, excluding contracts work in progress, is estimated as the present value of future cash flows, at a rate that reflects the credit risk associated with the asset. Trade and other receivables are financial assets categorised as loans and receivables.

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.

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.

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:

- Kordia shall appoint the majority of directors for every subsidiary, and shall approve the majority of directors for every subsidiary of a subsidiary
- All directors approved or appointed by Kordia shall be:
 - Directors or employees of Kordia; or
 - Directors or employees of another subsidiary of Kordia; or
 - Appointed or approved by the directors of Kordia on some other basis.
- 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.
- 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 (defined in the Owner's Expectations Manual as >\$5m) not contemplated in the business plan, including:

- 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;
- Any substantial capital (or equity) investment outside of Australia or New Zealand above the agreed threshold;
- Any substantial expansion of activities outside the scope of its core business above the agreed threshold;
- The sale of any shares or the sale of all or substantially all of Kordia Limited's network assets;
- The sale or disposal of the whole or any substantial part of the business or undertaking of Kordia;
- 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 three standing committees: Audit & Risk, People & Culture, and Health & Safety. Strategic risk, operational risk and health and safety risks are dealt with by the full Board.

Audit & Risk Committee

The Audit & Risk 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 and health and safety governance.

People & Culture Committee

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

Health & Safety Committee

The Health & Safety Committee supports the Board to comply with its health and safety obligations and to achieve its health and safety goals.