NEW ZEALAND POST GROUP

annual review 2013

Volume 1 of 2 of the
New Zealand Post Group Annual Report 2013

NEW ZEALAND POST GROUP

NEW ZEALAND POST GROUP

2012/13 – at a glance

Major business units within the Group

NEW ZEALAND POST GROUP

New Zealand Post

New Zealand Post handled 771.5 million letters and parcels in 2012/13 – delivering to more than 1.9 million homes, businesses, rural delivery addresses and private boxes around the country. In addition it provides a range of digital services, and operates a network of postal outlets that provide postal and courier solutions and process over 25 million financial transactions each year.

For corporate clients, New Zealand Post assists with the management of communications through both physical and digital channels, in document printing and mail-processing services and direct-marketing delivery.

Kiwi bank.

Kiwibank is a 100 percent New Zealand-owned bank that provides a range of financial services across personal markets, business markets and wealth and insurance. It has a 10 percent main bank share in personal markets.

CourierPost

Express Couriers Ltd, through its brands CourierPost, Pace and Contract Logistics, is a leading express courier, logistics and distribution business. Delivering over 44 million courier parcels throughout New Zealand and operating a fleet of trucks, aircraft, bikes, vans and 680 uniformed couriers, Express Couriers Ltd is the service provider of choice for many New Zealand businesses and consumers.

converga
your business process partner

Converga is a leader in advanced information logistics, software as a service and business process outsourcing, delivering strategic cost-saving solutions to clients.

books distributed through Travelling Books programme

7,000

680 uniformed couriers

3,200

KiwiBank customers found homes in 2012

during the Hobbit stamps and coins promotion:

tallest dwarf on NZ Post House

6½ metres

over 820 000 KIWIBANK CUSTOMERS

SEVEN HUNDRED SEVENTY-ONE AND A HALF MILLION letters and parcels

NEW ZEALAND'S 1st INTEGRATED ANNUAL REPORT

BUILDING our relationships

GROWING our networks

EXPANDING our expertise

VALUING our people

SUSTAINING our environment

PROTECTING our finances

reduction in energy use 5%

88,274 customers switched to Kiwibank

delivery to 1.9 million New Zealand addresses

drop in mail volumes, year-on-year 7.5%

2800 community organisations supported through Community Post

96,000 KMS EVERY DAY the distance travelled by rural delivery drivers = 4 DAYS TO REACH THE MOON

CONTENTS

Audited accounts and statutory information is located in Volume 2 of this report, available from www.nzpost.co.nz.

Annual Report

This document – in two volumes: *Volume 1: Annual Review* and *Volume 2: Supporting Information* – constitutes the New Zealand Post Group's Annual Report for the year ended 30 June 2013. The New Zealand Post Group comprises New Zealand Post Limited and its subsidiaries. The Group reports annually and half-yearly and its previous annual report, for the year ended 30 June 2012, was tabled in the House of Representatives on 19 October 2012. New Zealand Post Limited is incorporated under the Companies Act 1993 and has its headquarters in Wellington, New Zealand. It is a state-owned enterprise, with 100 percent of its ordinary shares owned by the Ministers of Finance and State-Owned Enterprises on behalf of the Crown. The Group operates predominantly in New Zealand and Australia, and serves a range of government, commercial and personal customers in the postal, banking, payments, courier, logistics and customer communications management markets. This report covers all of the New Zealand Post Group's operations.

FOREWORD

Overview

The New Zealand Post Group had a successful year, with the majority of businesses across our portfolio improving on their 2011/12 performance at a financial level.

This is reflected in an increase in the Group result at an operating level from $80 million to $111 million (up 41 percent).

Kiwibank's growth continued, with increased loans and advances and customer deposits. Express Couriers Limited (ECL), in its first year of returning to full New Zealand Post ownership, achieved top-line growth in a highly competitive environment. Revenue from the letters business declined more rapidly than forecast – this was offset though by improved cost savings as expenses were actively managed down.

Further progress on the rationalisation of the Group balance sheet was made with the divestment of assets and the release of capital tied up in non-core activities. In particular, the sale of New Zealand Post House in Wellington together with the divestment of our 35 percent stake in Datacom contributed to the release of over $200m in capital. These funds are being utilised for re-investment in the business and for paying down debt.

During the year the Group's credit rating was downgraded from AA– to A+ by Standard and Poor's due to the overall decrease in credit ratings being applied to financial institutions, concerns around the structural decline in the letters business and the growing proportion of the Group's earnings being generated by Kiwibank. The A+ rating was subsequently placed on negative outlook with a factor being the rating agency's concerns regarding the Auckland housing market.

We successfully implemented changes to our organisational structure, to drive faster execution of strategy, enhance delivery of service to customers, and improve bottom line performance. Two new business units were created – Mail and Communications, which links senders and receivers, and Channels and Digital Platforms, which provides interfaces for our customers across the Group to use our services.

Financial Services Growth

Kiwibank now has more than 10 percent of the bank market share, with customer numbers hitting a new high of 820,000. The Bank produced a strong performance to increase after-tax profit by nearly 23 percent to $97m. Growth in loans, helped in part by a favourable interest rate environment that saw customers staying on floating rates for longer than expected, improved the Bank's net interest income margin. Customer deposits also increased. There has also been a significant reduction in bad debt provisioning as market conditions improved.

Changes in the Reserve Bank's regulatory requirements and general market growth mean Kiwibank will require further capital. Kiwibank can meet some of this demand itself, while New Zealand Post plans to commit $100 million over the next two years.

We successfully implemented changes to our organisational structure, to drive faster execution of strategy, enhance delivery of service to customers, and improve bottom-line performance.

Store Network Development

Kiwibank and New Zealand Post continued to make good progress on enhancing banking and postal services in the Group's store network. Following successful testing in Kapiti, several outlets on Auckland's North Shore are being revamped. Part of the change process is the continued introduction of self-service kiosks for bill payment and postal services in high transaction areas and in limited other areas where the economics justify the investment.

Lessons learned from both Kapiti and the North Shore will be progressively applied across the remainder of the network where appropriate, in particular reflecting the economics of customer demand and commercial arrangements. The solutions will inevitably vary to reflect the characteristics of different population densities.

Traditional Letters Business challenged

In line with global trends, the decline in letter mail volumes has accelerated. The volume of mail processed fell by 7.5 percent (compared to a 6 percent drop in the previous year) resulting in 63 million fewer items in our network.

The accelerated decline occurred as new trends emerged, fundamentally challenging our traditional letters business. There was an increase seen in businesses requiring customers to actively 'opt in' if they wished to receive physical communications, rather than the previous approach of customers having to choose to opt out. Other developments, including improvements in the convenience and availability of electronic solutions and security by digital encryption, further undermined the position of traditional letter mail.

Deed of Understanding Proposal

New Zealand Post provided the Government with proposed changes to the Deed of Understanding in January 2013. In particular, the changes sought would provide the business with flexibility regarding delivery and the provision of postal and bill payment services through outlets, which are required in order for New Zealand Post to respond to changes in the way people communicate. The proposals were the subject of a period of public consultation. A decision from the Government on our proposals is expected shortly.

Network Changes

Work continued on the implementation of our 'Network of the Future' strategy in response to market changes. We announced the streamlining of our mail processing operations. In the next 12–18 months the number of mail processing centres will reduce from six to three, and processing at more than 50 satellite sites will be relocated to these three centres. These changes will improve efficiency, while still enabling us to meet key service standards.

Parcels Provide Growth Potential

While there is an irreversible decline in letter volumes, parcel volumes remained solid with ongoing potential for growth. In the first year of returning to 100 percent New Zealand Post ownership, ECL achieved top line growth in a very competitive market. We are also leveraging the strength of owning two nationwide delivery networks: postal and courier. The process of integrating these networks where it makes sense has commenced.

The physical product carried in our network will eventually shift to being dominated by parcels and small packages. Our strategy recognises that the future of the logistics business is going to be underpinned by the physical delivery of items, rather than letters. While we believe there will be the need for a letter mail service for at least some decades to come – and we are committed to providing that service – the shape of the delivery network is changing irrevocably. The 100 percent ownership of ECL places New Zealand Post in a good position to address those changes.

The successful launch of YouShop combined our expertise in large-scale logistics with providing customers with a digital channel to ship their shopping from off-shore vendors. The service initially focused on vendors in the United States, and it will be expanded as market conditions allow.

From Physical to Digital Services

Digital services are moving from being an adjunct to our core business activities, to being a core part of our business service strategy. It is increasingly clear that a large number of our customers are looking to digital and mobile channels as a way of communicating.

We have developed a platform that will provide a solution that supports our customers in their digital ambitions, and cements an ongoing relationship between New Zealand Post and both its sending and receiving customers. The need for continued development meant we did not achieve the goal of bringing this to market this year, but we are well placed to do so in 2013/14.

Another key digital initiative was the launch in July 2013 of RealMe. The online identity verification system RealMe was developed in partnership with the Department of Internal Affairs and has significant potential across both the public and private sectors. Identity management is a major growth area in today's digital economy. In a space where trust and privacy are paramount, RealMe is a powerful advance for New Zealand Post in its digital service offerings.

Converga is growing and evolving its digital offerings such as its e-invoicing 'D-Hub' service. We continued to develop other digital services, including Localist, which over the last year re-oriented its business model and achieved significant revenue growth.

More Success in Sustainability

We have built on our significant sustainability achievements at the end of the first five years of our sustainability strategy. In 2012/13 we reconfirmed our commitment by setting new targets for the next three years across all areas of our sustainability programme.

As well as a continued focus on environmental efficiencies in fuel energy and waste there was a renewed focus on workplace sustainability with a programme focused on ethics, diversity and people capability.

New Zealand Post Connecting with Communities

Despite the challenges in our core business, through a range of initiatives New Zealand Post continues to play an active role in the communities in which we operate, reflecting the importance of their resilience for our future business and New Zealand as a whole.

By working with, and through, established community organisations we have been able to ensure that the initiatives are delivered so as to make positive impacts in the areas of health, wellbeing and literacy.

We were delighted to welcome double Olympic gold medallist and now four times World Champion shot-putter Valerie Adams, as official ambassador for ActivePost – our programme to encourage Kiwis to participate in healthy activities such as sport. We also partnered with Athletics New Zealand, Hockey New Zealand, Water Safety New Zealand, and Waka Ama New Zealand to help achieve ActivePost goals with tens of thousands of Kiwis.

We continued to support and promote literacy through the New Zealand Post Children's Book Awards and the New Zealand Post Book Awards. We are also helping to address the problem of illiteracy amongst prisoners through our partnership with the Howard League. Through our Community Post Programme, nearly 2,800 community organisations received postal, marketing and development services to help them achieve their goals in communities throughout the country.

63 MILLION
fewer items in our network

23%
increase in after-tax profit for Kiwibank

Recognising Our Heritage

As an organisation of more than 170 years' standing, New Zealand Post is committed to recognising the heritage and national dimensions of our country. This is typically captured by our commemorative stamp and coin issues.

Along with the New Zealand Defence Force, New Zealand Post was proud to host a commemoration ceremony in October 2012 to honour the Pacific Coastwatchers who served during WWII, several of whom were New Zealand Post & Telegraph (P&T) employees. A ceremony held at the New Zealand National War Memorial in Wellington recognised the sacrifice of 22 Coastwatchers (including seven P&T employees) who were executed by the Japanese forces.

In a continuation of the Group's role in marking our heritage, New Zealand Post will be playing its part in the World War I centenary activities commencing in 2014.

A New Approach to Our Annual Report

This Annual Report reflects a new approach by New Zealand Post in reporting on the Group's strategy, governance, performance and prospects. We have adopted 'Integrated Reporting', joining over 90 businesses worldwide, and becoming the first in New Zealand to do so.

Integrated Reporting reviews the business across six key value areas. This provides a deeper and more comprehensive assessment of our activities, beyond traditional financial and narrative reporting.

Coastwatchers Memorial Service, October 2012

Returns to Our Shareholder

Dividends for the year totalled $5m – the same as in 2011/12.

The dividend accords with the Dividend Policy set out in the Company's Statement of Corporate Intent. New Zealand Post aims to distribute funds surplus to its ongoing and forecast operating and investment requirements, subject to meeting the solvency requirements of the Companies Act 1993. The actual level of distribution is subject to annual review by the Directors of New Zealand Post Limited.

A minimum dividend return of $5 million will be targeted each year. Additional dividend payments may be made from surplus funds at the end of each year depending on the circumstances of the business.

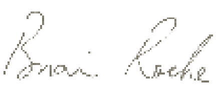
Outlook

The next few years provide significant opportunities and challenges for the Group as we focus on maintaining strong earnings and growing value. The fundamental changes necessary will impact on the nature and number of roles for our people employed in the Group. We are committed to working closely with those affected to help them through that change process.

There are clear opportunities for the Group in the financial services and parcels/logistics businesses as well as the provision of services through digital channels. The need for innovation, being able to differentiate our service offerings from our competitors and ensuring our service offerings reflect the needs of our customers is paramount. This will require investment.

We face significant challenges in our traditional letters business and the maintenance of our store network. Change is therefore inevitable as we design and execute a new service model that allows for a financially sustainable future.

Hon Sir Michael Cullen, KNZM
Chairman
New Zealand Post Group



Brian Roche
Chief Executive Officer
New Zealand Post Group

about INTEGRATED REPORTING

This Annual Report expands on the traditional approach to documents of its type. The New Zealand Post Group has joined more than 90 businesses worldwide in a pilot programme for 'Integrated Reporting', a new approach that seeks to evaluate the effects an organisation's activities have across a broad range of value areas.

As a result this report includes traditional financial reporting, but it also recognises the value that exists in other areas – such as the environment, our staff and our expertise – and seeks to inform our stakeholders about how we have created value in each of these areas in the reporting period, and how we plan to keep doing so over the medium and long term.

The New Zealand Post Group is the first (and currently only) business in this country to participate in the worldwide pilot programme, led by the International Integrated Reporting Council. Other participants include Microsoft (US), Volvo, Coca Cola (US), Unilever (UK), Deutsche Bank and Marks & Spencer.

We view our movement toward Integrated Reporting as an ongoing process. While the audit and evaluation measures for some Capital areas (such as financial value and environmental value) are well established, in other areas they are a work in progress. The new approach in this report represents a commitment to the principles of Integrated Reporting, and our initial steps toward fully integrated reports in the future.

The Six Capitals

Integrated Reporting recognises six key value areas – known as the Six Capitals. We have interpreted these capitals, and what they mean for the New Zealand Post Group, as follows:

Our People *[Human Capital]*
The composition of our people, their skills, engagement and how we are developing them

Our Environment *[Natural Capital]*
How we have used natural resources to carry out our business

Our Relationships *[Social & Relationship Capital]*
The relationships we have, and how we have added value to those stakeholders

Our Networks *[Manufactured Capital]*
The physical assets we hold that combine to create our nationwide network

Our Finances *[Financial Capital]*
The pool of funds available to us, and where it comes from

Our Expertise *[Intellectual Capital]*
Our knowledge, skills and special abilities, and how we have developed these

In the pages that follow we examine each of these Capitals in turn. For ease of navigation we have created a key (above) which illustrates the linkage between our strategies and the capitals that they most directly impact upon.

Materiality and Stakeholder Engagement

In line with the principles of Integrated Reporting, this report focuses on the issues that are most material to our business, and those issues that are affected most by the execution of our strategy.

Our stakeholders are those who are affected by our business, or who can have an effect on our business. This includes central government, regulators, local government, shareholders, staff, customers, the postal sector, the business community, suppliers, unions and communities. Engagement with these stakeholders is our primary means of identifying and understanding the issues that affect them.

We engage with these groups on a regular basis in a variety of ways, including meetings, participation in relevant forums, briefings on specific issues, customer surveys and our Annual Public Meeting, which is open to all.

Engaging on the Deed of Understanding

In the past year we have had extended engagement with stakeholders over the Deed of Understanding – our agreement with the Government on the delivery of postal services, which was last updated in 1998.

People living in rural areas are a primary stakeholder in this process, in particular those in locations where alternative communications options such as the internet are limited. Many are members of Federated Farmers of New Zealand or Rural Women New Zealand. These groups are key stakeholders in regards to our call for the Deed's restrictions on the frequency of postal delivery of non-urgent mail to be eased to allow New Zealand Post flexibility for the future as postal volumes continue to decline. We continue to work closely with both organisations to ensure their members are well informed and have the ability to provide feedback.

This issue also involved engagement with a number of government agencies – including the Ministry of Business, Innovation and Employment (to scope and draft a discussion document on the Deed), the Crown Ownership Monitoring Unit within Treasury (to test the rationale underpinning the proposed changes) and Ministers' offices (to ensure they were well informed).

The issue was also discussed in depth with a variety of other groups, including numerous Grey Power groups across the country. It was further tested through the use of surveys and focus groups, which provided New Zealand Post with a greater degree of confidence that we are addressing the issues that matter to the community.

Between January and March 2013 the Ministry of Business, Innovation and Employment, on behalf of the New Zealand Government, ran a consultation process that allowed New Zealanders to formally respond to the proposals raised by New Zealand Post. The issue will be considered by Cabinet.

... this report focuses on the issues that are most material to our business, and those issues that are affected most by the execution of our strategy.

Pages 10-15 discuss the strategies New Zealand Post set for itself in the 2012 Statement of Corporate Intent, and our progress against those strategies in 2012/13.

Strategy 1

BUILDING *a sustainable physical network*

Between 2002 and 2012 the number of mail items handled annually by New Zealand Post reduced significantly – from 1.1 billion to 834.5 million. This worldwide trend, driven by the growth of electronic communications, continues apace – with volumes falling a further 7.5 percent in 2012/13 to 771.5 million items.

To build a sustainable physical network that offers the flexibility to align to changes in demand.

(New Zealand Post Group Limited Statement of Corporate Intent 2012-2015)

The postal network remains a vital component of the New Zealand economy and community – and in the face of declining postal revenues, its future viability can only be achieved through significant structural changes.

In June 2013 New Zealand Post announced a streamlining of its mail processing operations. Within the next two years the number of mail processing centres will reduce from six to three, and processing at more than 50 satellite sites will be relocated to those three mail centres. These changes will significantly improve efficiency and reduce overheads, while allowing key service standards to be preserved.

Another improvement in the efficiency of mail processing is the introduction of Sequence Sorting, an option where large senders can receive a discount if they (or their mail house) print and lodge large runs of mail in the same order as posties will deliver it – thereby reducing the amount of sorting required at mail centres and delivery branches.

Working Together

The Group is also seeking to leverage the strength of owning two nationwide delivery networks: postal and courier. Teams from the postal and courier businesses already share premises in more than 20 locations, with more than 30 other co-locations under consideration.

In April 2013 CourierPost began sorting and processing one category of package sent via New Zealand Post, 'ParcelPost Tracked' items, thereby removing duplication in our networks and taking cost out of the business.

Another co-operative approach that has been tested in the past year is having the same person delivering both postal and courier items. This is already the case with Rural Delivery, where the owner-drivers deliver everything from mail and courier items to milk and newspapers. A pilot in which the same person delivered postal and courier items in residential Tauranga began in July 2012. The pilot has provided valuable information that will guide the future development of our network especially around the need for flexibility in how we service diverse markets and communities.

DELIVERING good customer experiences

Strategy 2

The Group's customers come in all shapes and sizes – from individuals to large government agencies or private sector companies – and it makes sound business sense to place their experience and expectations at the very centre of how we do business.

For example, we have simplified the range of packaging options sold in our stores, with a new streamlined domestic parcels range which will begin rolling out across New Zealand from July 2013. New Zealand Post places a lot of emphasis on ensuring we meet the needs of our customers, and making processes like selecting the right packaging more straightforward and less time-consuming is an important aspect of that.

We have also continued to improve the retail experience for customers in our store network. This process was launched in 2011, with a remit to deliver a fundamentally new people model, a radically simplified product and service approach, and a totally new design ethos that removed physical barriers between our staff and our customers.

The principles of this project have been incorporated into our stores on Auckland's North Shore in a rollout that will continue through to October 2013 across a total of 31 locations. These stores have staff with a greater level of specialisation to better meet the needs of Kiwibank customers, and also feature customer-centric design, including open counters with no wires or barriers between staff and customers, as well as clear separation of service and sales areas.

Technology is also being used to improve customer experiences – both through digital services (see Strategy 6 on page 15) and with hardware such as self-service kiosks for parcel sending and bill payment. In late 2012 we launched a trial of 'ParcelPod' – centrally located lockers in places like train stations and malls – where recipients can direct their parcels to be delivered. The customer receives a code via text or email to claim their parcel.

While ParcelPod lockers are currently only in trial locations, customer feedback has been positive, describing them as convenient and time-saving.

Kiwibank's innovative Online Relationship Managers service allows customers to receive personalised banking assistance online. This service has now expanded to over 200,000 customers, and receives 17,000 messages each month.

To develop and deliver, in an economic and sustainable way, a good customer experience, by providing effective products and services.

(New Zealand Post Group Limited Statement of Corporate Intent 2012-2015)

We've also worked to improve the experience of our business customers – including bulk senders. The vast majority of domestic mail takes the form of bulk addressed mail lodged in our postal system by mail houses and large senders. In 2013 we introduced a new mail lodgement system, which makes ordering postal services (like bulk mail lodgements) easy for the customer. The new lodgement management software is simpler, faster, more stable and much more intuitive to use than its predecessor – creating a much improved customer experience while laying the foundation for changes to our current products and services, and the introduction of new ones.

Strategy 3

DEVELOPING *and growing Kiwibank*

Kiwibank continues to target growth in the personal retail banking market and SME (small and medium enterprise) business banking sector. Significant emphasis is being placed on the quality of its lending in these sectors.

To ensure long-term value creation for the Group through the further development and growth of Kiwibank.

(New Zealand Post Group Limited Statement of Corporate Intent 2012-2015)

The total customer base increased from 808,000 to 820,000 for the 12 months to June 2013. Total new customers acquired for the 12 months to June 2013 was 88,274, which was ahead of plan, boosted by strong acquisition periods after the National Bank and ANZ were merged. Training is in place to support the staff in our store network to deliver excellent service, identify customer needs and help our customers understand how Kiwibank can help them.

Compliance continues to be a priority, with a focus in the past year on embedding Anti-Money Laundering and Qualifying Financial Entity/Financial Advisors Act compliance procedures, policies and controls to detect, manage and mitigate risk.

Kiwibank has seen a steady recovery from the impact of both the Global Financial Crisis and the Christchurch earthquakes. There has been significant reduction in the Bank's provisioning for bad debts. Total provisions for impairment losses stood at $72m as at 30 June 2013, compared to $91 million at 30 June 2012.

Net Interest Income (NII) increased during the year, despite customers switching from floating to fixed mortgages. The margin compared to average assets has increased from 1.7 percent to 1.9 percent year on year.

Customer deposits accounted for 67 percent of all bank funding – with customer numbers now representing a more than 10 percent share of the main bank market.

During the calendar year Kiwibank's credit rating was downgraded from AA– to A+ by international credit rating agency Standard & Poor's. The accompanying outlook was initially stable, but this was downgraded to negative late in the financial year to reflect the rating for New Zealand Post Limited.

In recent years, the Reserve Bank of New Zealand has made various changes to its banking regulations, partly in response to the Global Financial Crisis. The impact of these changes is that all New Zealand banks will need to hold more capital. Kiwibank's capital requirements are forecast to rise dependent on the growth in customer lending and the speed of regulatory changes, over the next three years. This will be funded by retained earnings and by injections of capital from New Zealand Post.

ENSURING our internal structure is efficient

Strategy 4

The New Zealand Post Group has made a number of structural changes in the past year to better position the organisation for the future.

A strategic approach was adopted to simplify the business and concentrate on New Zealand-based postal, financial and digital services.

The major changes in terms of ownership during this period were:

- Software development company ECN Group (ECN) was sold to business solutions company B2BE
- Roadstar – the palletised transport arm of Express Couriers Limited (ECL) – was sold to Transport Investments Limited
- New Zealand Post sold its 35 percent stake in information and technology company Datacom to the Guardians of New Zealand Superannuation (NZ Super Fund)
- The proceeds of these sales were primarily used to reduce debt and help pay for strategic investments in other parts of the business.

In terms of operations, the main changes during this period were:

- Three brands – Datam, Datamail and Kinetic 121 – were rebranded as New Zealand Post. A major investment was then made in new printing technology for this part of the business – investing in new colour printers that will improve services to existing and new customers through faster colour printing on plain white paper
- Reachmedia, our unaddressed circular and mailer joint venture, has formed a closer operating relationship with our courier business, ECL, with the latter's transport division now collecting and moving promotional materials from the printer to the distribution centre, and between distribution centres to distributors across the country
- As discussed under Strategy 1 (page 10) mail processing operations will also be streamlined over the next two years, from six mail centres to three.

To ensure the internal structure, processes and frameworks in operation at the New Zealand Post Group are positioned to offer the most efficient and profitable outcome for the Group.

(New Zealand Post Group Limited Statement of Corporate Intent 2012-2015)

There were also changes in corporate structure – with around 100 administrative and management positions disestablished in June 2013, primarily in Wellington. This flattens management structures, and is largely related to a change in the structure of New Zealand Post's postal business – where two business units were restructured to execute their strategy faster, deliver for customers, and improve bottom-line performance.

We also formed a Digital Platforms team during this year – demonstrating our commitment to digital as a business enabler and a core part of our business strategy. This team is working to grow new digital revenue streams, to provide a seamless customer experience that spans our channels, and to unify our digital platforms and processes to provide ubiquitous, nationwide services.

ENSURING *our people have the right skills*

Strategy 5

Our people, and the experience they create for our customers, will always be our point of difference.

The development of our staff is a key focus for the Group. This means getting the right structures in place (see Strategy 4 on page 13) – then enabling our teams to work in ways that promote excellent customer service.

> *To ensure that our people have the skills and capabilities they require to succeed, and to create a culture in the organisation that enables and encourages our people to strive for great customer outcomes.*
>
> *(New Zealand Post Group Limited Statement of Corporate Intent 2012-2015)*

In PostShop stores this is supported by a sales and service excellence programme called 'eXcelerate' – which enables our people to gain a better understanding of customers' needs, and to deliver consistently great customer experiences with every interaction.

Customer experience in our stores is measured through monthly visits to every store by a mystery shopper. This recorded an average of 86 percent favourability in the 2012/13 year – safely ahead of our target of 75 percent.

The project to transform our corporate stores (see Strategy 2, page 11) includes more staff roles with banking skills – as well as enabling all staff to get out from behind counters and interact with customers. This creates a richer customer experience, and a more positive working experience, as staff spend their days making things easier for customers.

Significant progress has also been achieved in creating a more flexible working environment for posties – with 82 percent of our larger delivery branches (those with five or more delivery rounds) now operating on a model that gives posties more flexibility to match their workload to fit their personal preferences.

Leadership and Capability

Throughout 2012/13 we have continued to build on our leadership skill development pathway programmes aimed at lifting the capability of leaders across the Group. These programmes are:

- *Activate!* (for our team leaders) – 13 programmes have commenced this year involving around 200 team leaders. 11 Activate! programmes are planned for 2013/14
- *Motivate* (for mid-level leaders) – Six programmes have commenced involving around 100 leaders. Six programmes are planned for 2013/14
- *Navigate* (for senior leaders) – programme design and development has been completed and delivery will commence for 17 senior leaders in September 2013.

In addition to these three core programmes, we have also provided Leading Change workshops to leaders accountable for change activity and a number of targeted programmes meeting local or business leadership team needs.

Strategy 6

CREATING a range of digital services

The launch of RealMe – an online identity verification system, developed in partnership with the Department of Internal Affairs – capped off a year in which New Zealand Post truly began enacting its new digital strategy.

As customer behaviours change, we have recognised the potential to use the Group's core competencies (including large-scale logistics and data management expertise) to deliver services in the way many consumers now prefer to receive them – online. As a result, digital services are transitioning from being an adjunct to our core business activities, to being a core part of our business strategy.

RealMe is a Government-backed service that removes the need to show up in person each time to prove your identity. RealMe users register online, then visit a PostShop to have a photo taken and their documents verified. Within five working days, they're verified online for the next five years and can quickly and easily apply for services over the internet as organisations using RealMe come on board.

In the year ahead the first wave of RealMe services are expected to become available online – including banking services, and numerous government departments.

YouShop, which launched in late 2012, responds to the exponential growth in online shopping by New Zealanders. YouShop is a digitally enabled international inbound shipping service for consumers, which enables online shoppers to purchase products from the websites of overseas companies that do not ship to New Zealand. Shoppers direct their purchase to an international address, from which our agents then ship it to New Zealand.

In its first nine months YouShop has been an instant success in terms of revenue, parcel volume generation, and positive feedback from customers. Launched initially for US-based websites, in the coming financial year new markets will be opened up to expand the choice and selection for users of the YouShop service.

Localist – our interactive online guide to services and retailers – enables the public to discover, buy and share the local things they love. It also empowers businesses, by giving them the tools and the expert support they need to get online, get mobile and get social.

In the past year Localist successfully moved to a fully digital platform, and its new focus on delivering enhanced digital services saw it delivering mobile apps and adding new functionality. During 2012/13 it continued to build on its strong Auckland presence, while also launching in Wellington – with a national rollout of its services planned for 2013/14.

Converga's growth during the year included the launch of a new platform, the Digital Hub, which enables organisations to digitise large parts of their business processes including invoice management and archiving. This streamlines what can otherwise be complex processes, simplifying the customer's path to becoming digital.

To create a range of digital services to meet changing customer needs.

(New Zealand Post Group Limited Statement of Corporate Intent 2012-2015)

our CAPITALS

*Pages 17-29 discuss the six value areas (or 'Capitals', see **About Integrated Reporting**, page 8) as they apply to New Zealand Post – and what we have done to increase value in each area during 2012/13.*

OUR PEOPLE

The New Zealand Post Group continues to experience fundamental change, with each business within the portfolio experiencing quite different market forces.

Letter mail is in structural decline, while the Bank continues to grow, our courier business operates in a highly competitive market and our information services are challenged for scale in the digital space. This environment provides a number of challenges to our workforce and we are focused on ensuring that we create the right culture in order to adapt quickly to these changes, and that our people have the right skills and capabilities (see also Strategy 5, page 14).

Our Culture and Capability Strategy FY2014-16 is driven by these business challenges as well as global and local demographic trends impacting New Zealand's workforce.

Our ***'People Aspiration'*** is that we will create a culture where our people feel:

- Inspired and enabled to perform to their best every day
- Empowered to take responsibility for their careers
- They have leaders worth following
- Safe, knowing they work in an environment free from harm
- Their differences are embraced and respected
- Their contribution is valued and recognised
- New Zealand Post Group is a magnet for talent
- Proud to work for a respected, commercially successful organisation.

Over the next 3–5 years we will see a significant shift in our workforce to one that:

- Is relationship-based, focused on the 'whole of customer' and less transactional
- Meets our customers where they are (channel, location and receiver preferences)
- Is leaner and optimises our talent markets to deliver sustainable productivity
- Is stronger in the capabilities that will differentiate us through our brand and customer experience.

Therefore the key focus areas of our strategy include:

1. High-performance Organisation – create an environment where our people want to consistently perform to a high standard
2. Leadership and Talent Management – develop leaders who act decisively, are role models, inspire their teams and build a deep pipeline of talent
3. Capability – develop critical capabilities required to deliver our strategy
4. Optimising our Resource Model – ensure our resourcing model provides greater flexibility to enable us to scale to market demands
5. Diversity – leverage the diversity of our workforce through an inclusive culture
6. Health and Safety – provide an environment that is safe and free from harm.

If we do this well, we believe our people can create a competitive advantage through:

- Continuing levels of high engagement, performance and productivity
- Strengthening our employee value proposition and helping differentiate us as an employer of choice in New Zealand
- Achieving greater levels of sustainable profitable growth in our financial performance
- Being advocates of our valued brand throughout the communities of New Zealand.

total number of New Zealand Post Group employees

10,635

8,761

full-time equivalents

As the business evolves, so does the nature of our workforce.

This table shows how the make-up of our workforce stood at the beginning and end of the 2012/13 financial year.

	AT JUNE 30 2012	AT JUNE 30 2013
Workforce size:		
Total employees (permanent, fixed term and casual)	10,650	10,635
FTE (full-time employee) equivalent	8,638	8,761
Workforce Location:		
New Zealand	91.9%	91.3%
Australia	8.0%	8.7%
Other	0.1%	
Employment status:		
Permanent	87%	86.7%
Fixed term	3.2%	2.7%
Casual	9.8%	10.6%
Gender:		
Male	43%	42%
Female	57%	58%
Age:		
Under 30	18%	18%
30-50	51%	50%
Over 50	31%	32%
Ethnicity:		
NZ European	62.71%	61.98%
Māori	12.48%	11.35%
Pacific Islands	12.28%	10.9%
Asian	7.41%	9.22%
Other	5.12%	6.52%

Over the last year there has been a significant focus on ensuring our leaders are visible across the business

Highlights in 2012/13:

Engagement

Each year the New Zealand Post Group undertakes a survey of all employees to assess their level of engagement with the business. The survey is provided by Kenexa. For the latest survey conducted in May 2013, 84 percent of employees participated. This was a slight increase on last year's participation (which was 83 percent) but compares favourably with the average response rate of 78.2 percent in the JRA Best Workplaces survey.

The 2013 engagement score for the New Zealand Post Group was 73.8 percent. This compares favourably to the Kenexa Total Database Benchmark of 72.3 percent and an increase of 1 percent on last year's result.

This is a pleasing result given the amount of change that has been experienced across the business during this year. This year's survey again showed that New Zealand Post Group people value most highly the people they work with who make this a great place to work.

Over the last year there has been a significant focus on ensuring our leaders are visible across the business, bringing our Values to life and implementing a number of recognition programmes. A particular highlight was our HEROES (Honoring Excellence and Recognising Outstanding EmployeeS) programme, where staff could nominate colleagues they felt had been exceptional in living our Values. During the year, 210 employees or teams were nominated for HEROES awards.

Safety and wellbeing in the workplace

The New Zealand Post Group maintained 'tertiary' status under its independently audited ACC Partnership programme. Approximately 48 Safety and Wellbeing Action Groups (SWAGs) of employee representatives operate throughout the Group.

Although our performance was not as strong as last year, this has been attributed more to our leaders dealing with significant changes across the business than to our environment being more unsafe than 12 months ago. Our Posties continue to be exposed to hazards outside our control such as dog bites, people backing out of driveways, uneven footpaths and surfaces, and collisions with vehicles. We are very focused on raising the awareness of hazards and actively managing incidents as they occur.

During the year, the Group maintained its strong focus on safety and wellbeing across all businesses. However, we experienced a significant deterioration in our Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR) over the course of the year. At a Group level the LTIFR (Lost Time Injuries per 1,000,000 hours worked) increased 28 percent from 5.64 to 7.21. At a Group level, our Total Recordable Injury Frequency Rate (the number of injuries recorded per 1,000,000 hours worked) increased 16 percent from 50.44 to 58.68. There were no work-related fatalities during the year.

For the 2013/14 year, we are very focused on getting our safety performance back on track and are seeking to achieve a 28 percent reduction on the LTIFR and 16 percent reduction of the TRIFR performance for the 2012/13 financial year.

Lost Time Injury Frequency Rate	2012-13 RESULT	2012-13 TARGET	CHANGE FROM 2011-12
Operations	12.57	8.18	-54%
Store Network	8.27	6.27	32%
ECL	2.81	2.61	-8%
Kiwibank	1.39	0	-
New Zealand Post Group Total Group (NZ)	**7.21**	**5.08**	**-28%**

Total Recordable Injury Frequency Rate	2012-13 RESULT	2012-13 TARGET	CHANGE FROM 2011-12
Operations	97.77	69.57	-26%
Store Network	29.65	33.59	21%
ECL	65.74	50.18	-18%
Kiwibank	3.23	4.42	34%
New Zealand Post Group Total Group (NZ)	**58.68**	**45.41**	**-16%**

OUR RELATIONSHIPS

When our business partners and customers succeed, we succeed. In the past year a number of initiatives have seen us partner with business in new and exciting ways.

Partnering with Business

When our business partners and customers succeed, we succeed. In the past year a number of initiatives have seen us partner with business in new and exciting ways.

The adoption of a Group-wide publishing strategy in October 2012 will see the cumulative number of publications (including flyers, mailers, magazines and newspapers) carried through our courier and postal networks top one billion each year – through service agreements with distribution agencies.

This year we also teamed with Australia Post to form a strategic relationship focused on joint business opportunities. This arrangement included winning back the contract to deliver Australia Post packages within New Zealand, a role we last filled in 2009.

In 2012 we won the worldwide exclusive rights to produce coins commemorating *The Hobbit* trilogy of films – a deal that gained worldwide media attention from the likes of MTV, the BBC, *TIME Magazine* and *The Wall Street Journal*. These commemorative legal tender coins complemented our collectable stamp issue. We also teamed up with Weta Workshop to bring Hobbit-related collectables – including swords and figurines – to the market in mainland China via online retailer Ule.

We have continued to grow our support services for businesses – which we provide under our New Zealand Post brand (see Business Expertise, page 28) and through our wholly owned subsidiary Converga business, which provides specialist business services such as mailroom systems, document management services, and financial management systems.

Working with Communities

The Group places a high priority on being a responsible business, and this is reflected in our interactions with communities.

Our Electoral Enrolment Centre team, which plays a key role in democratic representation, launched the 2013 Māori Electoral Option – sending almost 430,000 packs to enrolled voters who identified themselves as being of Māori descent, to see which electoral roll they wish to be on.

Community Investment

New Zealand Post Group invests in communities as a socially responsible corporate member of the community. This investment – $3.67 million in the past year – also builds stakeholder relationships, develops shared value for business and community, and supports and strengthens our brand values.

In the past year we started a programme to support community social enterprise development. This included partnering with the Hikurangi Foundation to better target our community investment, and taking part in the pilot of a UK-based 'Community Footprint' tool to better understand our role in the communities in which we operate.

Over the course of this year, 5.1 percent of our staff used their volunteering day to support community initiatives.

ActivePost

Valerie Adams joined us as our official ambassador for all of our community programmes, including ActivePost, which encourages Kiwis to try healthy activities and sports, with a strong emphasis on school programmes. ActivePost is the national sponsor of Small Sticks hockey, Waka Ama and the 'Get Set Go' programme, which teaches fundamental movement skills to school children.

$3.67 MILLION
invested in communities

postage-included envelopes donated
1.5M

over
ONE BILLION
publications carried through postal and courier agreements

ActivePost's partnership with Water Safety New Zealand reached new corners of the country with our gift of a portable swimming pool, which will be moved around rural centres over the next five years as part of a programme to boost the water safety skills of youth. Three more pools will become part of the programme this coming year.

Literacy and Excellence

New Zealand Post continues to sponsor the country's premier literary awards, and also supports the activities of Duffy Books in Homes, and of Literacy Aotearoa, which teaches literacy and numeracy skills to adults. In October 2012 we began supporting the Howard League's literacy education programme for remand prisoners, in a bid to reduce the factors that contribute to re-offending.

Kiwibank's sponsorship of the New Zealander of the Year Awards continues, and in the past year Kiwibank also supported the Plain English Awards. Kiwibank and New Zealand Post also jointly partnered with Te Matatini to support the 2013 national Kapa Haka competition, a biennial event that is one of the most significant on the Iwi calendar.

Community Organisations

The Community Post programme assisted nearly 2,800 community organisations in the past year – gifting them 1.5 million postage-included envelopes and $100,000 worth of marketing and development services.

In 2011/12 the New Zealand Post Group decided to focus its support for charity on the Heart Foundation, where it was felt our support could make a more significant difference for communities. In the past year we also assisted in funding the operational costs of the Red Cross' new Rescue Fleet, which was recognised with New Zealand Post branding on their 5 rescue trucks and 22 support vehicles for disaster relief in the Asia-Pacific region.

ActivePost ambassador Valerie Adams

OUR ENVIRONMENT

74%

of New Zealand Post waste diverted from landfills

improved our overall carbon efficiency by 23%

The New Zealand Post Group's environmental programme is focused on the reduction of carbon emissions created through transportation, energy use, waste generation and disposal. We aim to be as efficient as we can, and to understand and mitigate the future impacts of a carbon-constrained economy on our business.

A major focus of our environment programme in 2012/13 was establishing our direction for the next five years, building on the success of our programme since 2007. This process has confirmed that our focus areas of fuel, waste and energy remain extremely important. We have also identified emerging issues, which we will turn attention to in the coming year, such as better leveraging technology to reduce environmental impacts across our network.

This year we have achieved a 0.7 percent reduction in carbon emissions across our areas of impact, against our goal of a 2 percent reduction. While our emissions reduction initiatives were successful through the year, growth in parts of our business resulted in more services and consequently more emissions. We have improved our overall carbon efficiency by 23 percent from 94 grams of carbon per dollar revenue to 74 grams of carbon per dollar revenue, which indicates that we have carried out more work for the same or fewer resources, by reducing our resource inputs and using them more efficiently. In the future we will focus more on improving the carbon efficiency of our delivery network.

We reset our baseline carbon emission level to 125,905TCO_2e (tonnes of carbon dioxide equivalents emitted) as at 20 June 2012, and are seeking a six percent reduction on that figure by 2016. Our full carbon inventory is shown in volume 2 of this report.

Inputs

Products

Recyclability of products is a key issue for us. In 2012/13 we continued an industry-first scheme called 'backtrack your Trackpack' – recycling 10,887kg of courier trackpacks that our customers had returned to us.

Our bag and parcel range is fully recyclable, allowing our customers to dispose of these products responsibly. Currently, our box range is made from 69-79 percent recycled content. In the future we plan to explore opportunities to further increase the recycled content of our sending range, and reduce the weight of our bag range to decrease resource use without compromising durability.

Recent investment in new technology for our Printed Mail business offers us efficiency gains of up to 10 percent in our paper use through more effective use of this resource. We expect to see this saving from the middle of the next financial year as our new print platform comes online.

Fuel use

Fuel used in transportation represents 75 percent of our carbon footprint, and continues to be a significant focus for the Group. The range of actions undertaken to date have achieved incremental improvements to our fuel use, and our aim is to continue searching for step-change strategies that will deliver the biggest results. Overall, emissions from fuel use remained stable through the year, with an overall reduction observed through the sale of our Roadstar subsidiary late in the year.

This year's key activities have been:

- The completion of a fuel-efficient driver training programme for heavy commercial drivers
- The roll-out of High-Productivity-Motor-Vehicles (HPMVs) in our line haul operations that has enabled more freight to be carried over fewer vehicles and services
- Operating five vehicles on a B100 bio-fuel blend as a proof-of-concept and to dispel the myths that bio-fuel product can harm engines and/or reduce performance.

Our objective is to minimise emissions throughout our operations, across fuel, energy and resource use.

A senior manager from our transport team has been appointed to the Reference Panel for the Energy Cultures II Research Programme that is being undertaken by the University of Otago. This is an opportunity for the research team to have input from a key operator within the transport sector, and for New Zealand Post to remain at the forefront of new research.

Energy use

Energy consumption in our buildings makes up approximately 25 percent of New Zealand Post's direct carbon emissions. Energy is required to power every aspect of our site operations; from lighting, to running mail processing machinery and recharging the battery packs used for forklifts.

In 2012/13 total building energy consumption has reduced to 41,208kWh. This is a five percent reduction from the 2011/12 base year, and exceeded our target of a three percent reduction in the year. The energy efficiency of our buildings has improved to 110kWh per square metre of footprint, the lowest it has ever been.

Our energy efficiency strategy in 2012/13 focused on implementing and trialling new LED lighting and HVAC control innovation at new sites, while we continue to improve the energy efficiency of existing sites through investment. This builds on the ongoing energy audit and investment programme we have in place.

The data from our smart meters is a vital tool in helping to pinpoint energy waste. Every month we scan the smart meter data, looking for energy use where it shouldn't be. This approach has found a number of sites where heating and cooling equipment was coming on at times when sites were unoccupied. The regular measurement and reporting of our energy consumption has also assisted with organisational decision-making as our business changes.

Outputs

Waste

The New Zealand Post Group's objective is to minimise waste throughout our operations, and all of our sites adhere to the waste hierarchy – reduce, reuse and recycle.

In 2012/13 we reduced waste being sent to landfill to 795 tonnes, diverting approximately 74 percent of our waste from landfills. This is a 19 percent reduction in waste to landfill, well exceeding our goal of reducing waste to landfill by nine percent from the 2011/12 baseline year by 2015. Waste to landfill per square metre has improved to 2.1kg per square metre. This very good reduction is attributable to tighter controls, improved categorisation, providing access to reporting to our employees and the sale of our Roadstar subsidiary. We will continue to reduce our waste further, and improve upon our 74 percent recycling rate.

Every year we continue to look for new recycling opportunities within our waste streams. This year we introduced the recycling of plastic strapping in regions where no recycling facilities are available. We now use our transport network to consolidate plastic strapping to sites that are located closer to recycling facilities, enabling us to recycle strapping that would otherwise have gone to landfill.

This year we also explored an opportunity to repurpose and upcycle retired uniforms, through partnerships across our supply chain and with other organisations. This extends our responsibility beyond the use of resources through to the end-of-life for those items, to develop 'closed loop' systems.

OUR NETWORKS

The New Zealand Post Group's success is built on the efficient and profitable operation of a number of complex networks. Each network presents its own opportunities and challenges, and the Group has actively responded to these during the 2012/13 year.

Properties

Our staff work from a diverse range of premises throughout New Zealand – ranging in scale from the massive Auckland Mail Centre where millions of pieces of mail are processed every week, to delivery branches in provincial towns, some not much larger than a garage. The safety of those staff and of visitors to our sites is paramount, and the Group has adopted a policy that requires a robust standard of seismic compliance for all of the premises we occupy. We are now midway through a programme where those premises are being seismically assessed, and if they fail to meet our standards we look to strengthen the building or relocate. This programme will continue into the next financial year.

In the past year we have also shifted our focus to the issue of property ownership, which is not in itself part of our core business. To support our drive to be commercial, competitive and sustainable, our Properties team has begun evaluating the Group's properties throughout New Zealand, looking for opportunities to work more as 'One Team' and use space more efficiently and cost effectively. In the past year this resulted in the relocation of some of our teams, and the agreement to sell our two largest office buildings: New Zealand Post House in Wellington, and CourierPost House in Auckland.

Postal and Courier Networks

As discussed in Strategy 1 (page 10), a major focus is being put on ensuring we make these two networks sustainable for the future – including trials to see how we can reduce duplication of effort between our postal and courier teams.

Postal volumes continue to decline – by 7.5 percent in 2012/13 – driven by the worldwide shift towards electronic communications. While this equates to 63 million fewer items than in 2011/12, it still saw us handle 771.5 million mail items in the past year, a vast logistical exercise. In the past year we delivered 92.3 percent of mail within our delivery service standards of two to three days, and overnight across major towns and cities. This is down from 93.9 percent in the previous year, and falls short of our internally set performance target of 96.5 percent.

In the past 12 months the number of delivery points (letterboxes, PO Boxes and other places we deliver mail to) grew slightly, by 0.1 percent, to 1.914 million.

On the courier end of the business, Express Couriers Limited (ECL) commenced a restructure of its Air Fleet, starting in September 2012 with the retirement of an F27 aircraft, and sub-contracting airfreight capacity from another operator. ECL also introduced a range of new "high-productivity" trailer designs including a new loose-loaded trailer unit. This strategy has reduced the unit cost of moving parcels and the number of vehicles required.

Reachmedia

Reachmedia, our joint venture unaddressed circular and mailer delivery network, became more closely allied with our courier company (ECL) during 2012/13 – with ECL in October 2012 taking on the role of transporting all product from printing houses to Reachmedia's processing sites, creating savings for the business.

The Reachmedia network is made up of three types of contractors: distributors (who consolidate and place mailers into letterboxes twice a week); drivers (who deliver product to the distributors from our processing sites in Auckland, Palmerston North, Wellington and Christchurch); and supervisors (who oversee the distributors, and investigate delivery queries from our clients).

volume declined by

7.5%

771.5m

mail items in 2012

In 2012/13 Reachmedia introduced a new model in the Wellington metropolitan area, which combined the supervisor and driver roles, creating efficiencies and ensuring full responsibility for each delivery area sits with a single contractor. This approach may be expanded to Christchurch in the coming year.

PostShop Kiwibank Outlets

Our stores are used by consumers in communities throughout New Zealand. Around 1,400 of our staff work in, or in support of, this retail network.

	CORPORATE	FRANCHISE	POST CENTRE
Number of Stores	139	138	609

In the past year customers carried out 19 million transactions with us via our corporate stores – with a further 13 million customers being served by our franchises and 8 million through our PostCentres. Between January and November we serve an average of 155,000 customers per working day, jumping to 205,000 in December.

The teams in our PostShop Kiwibank stores processed 17 million bill payments over the past year. They were also responsible for 85 percent of Kiwibank new customer acquisition, and helped 3,200 Kiwis into a home in the past year. With one in ten Kiwis now calling Kiwibank their main bank, our outlets also helped thousands of Kiwis save for their retirement, and save $600 million in term deposits.

Outside of the traditional stores, significant progress is also being made in making services and products available in other ways – including digitally and through self-service kiosks.

Postal Network Access

In 2010 New Zealand Post was involved with the postal industry in establishing the Postal Network Access Committee (PNAC), which determines the terms and conditions for other postal operators to access New Zealand Post's postal network services for the delivery of letters. PNAC also considers and resolves any disputes between New Zealand Post and its access operators.

Most of its members are independent, bringing a blend of commercial, economic, regulatory and network skills to PNAC. It is chaired by Dr Arthur Grimes (chair of the Reserve Bank) and its other independent members are professional director Trevor Janes, consultant David Hunt, and former High Court Judge Hon Barry Paterson. New Zealand Post's representative is Mark Yeoman, our Chief Financial Officer.

In the past year the committee completed the annual review of our pricing for prepaid operators and determined the pricing for operators who lodge mail directly into the network. New Zealand Post also established an access regime for its bulk mail services alongside that for its full-rate mail services.

A major focus is being put on ensuring we make Postal and Courier networks sustainable for the future.

OUR FINANCES

This section describes the financial capital we had at our disposal at the beginning of the year – with which we fund the activities of the Group – and how much we generated, used and sourced during the year through our normal operations and investments. Financial capital refers to our total equity and borrowings.

We started the year with financial capital totalling ***$15,428 million.***

This was made up of:

- *Shareholders Equity:* This includes the shares held by the Crown of $192m plus the non-controlling interests of preference shareholders of $146m. ***$338m***
- *Retained Earnings and Reserves:* This includes the Group's retained profits from previous years as well as money held in reserve e.g. for revaluing assets and foreign exchange movements. ***$621m***
- *Funding:* The bulk of the ***$14,468m*** of Group funding is supplied by Kiwibank customer deposits of $11,564m used for the lending activities of the bank, and long-term borrowings that help support the ongoing regulatory and financing needs of the Group.

Through the Year

As a state-owned enterprise we're required by law to operate on a commercial basis, which means making a profit and earning our shareholders a return on their investment. This year, all up, the Group generated after-tax profits of ***$121m.*** We then approved a ***$5m*** dividend payment to the Government.

This profit was generated across our streams of business:

Mail & Communications business (Core post)
Our mail and communications businesses comprise the mail processing and delivery activities of New Zealand Post as well as our retail store network. Coping with declining mail volumes, restructuring and constrained resources (an ongoing theme for the foreseeable future), our traditional core-business managed a break-even performance over the year.

Express Couriers Limited (ECL)
The express courier brands of CourierPost, Pace and Contract Logistics made a healthy ***$17m*** contribution, marking its first full year of 100 percent Group ownership.

Financial Services
The largest contributor to self-generated financial resources was Kiwibank and the financial services businesses of Kiwi Wealth (GMI, KiwiSaver and Kiwi Insurance), which together produced ***$97m*** of total profits this year.

Investment businesses
Our investments in Localist, Reachmedia, Converga, CouriersPlease and the Recycle Centre made up the remaining ***$8m*** of the self-generated finances for 2013.

Why we retained profits
We need to re-invest in the strategic growth areas of our business – such as improvements to our retail presence for both Kiwibank and New Zealand Post (initially on the North Shore of Auckland); supporting the continuing development of Kiwibank's asset growth as it becomes an even more significant New Zealand bank; and nurturing our other early-stage emerging businesses, like Localist, YouShop and RealMe as they enter new phases of growth.

The financial resources available to us will help us meet our business targets – targets that aim to ensure we generate further resources for the Group and balance the costs of funding those targets by not borrowing too much.

We also sourced funds through borrowing
While generating profits from our operations helps fund further growth, we also need help in the form of borrowed funds. For Kiwibank, that meant increasing the amount of customer deposits it held (that it uses to fund mortgages) by ***$555m.*** Funds must also be held in reserve as a safety buffer, and some of this was sourced from investors as part of the Subordinated Debt issue into the New Zealand market and the Covered Bond sold to Swiss investors.

The largest contributor to self-generated financial resources was Kiwibank retained earnings & reserves ↑ **21%**

debt reduced by ↓ **$100m**

In the postal business we reduced our debt by ***$100m*** in the year but still use ***$383m*** to help to fund our broader activities.

We sold some non-essential assets
Our Group strategy of divesting from non-core assets continued this year with the sale of Datacom and our largest office building – New Zealand Post House in Wellington. This contributed to the release of over ***$200m*** in capital.

Into next year

We've increased the financial capital available to our Group by ***1.9 percent.***

Shareholders Equity has remained steady at ***$338m.***

Retained Earnings and Reserves have increased by 21 percent to ***$750m.***

Funding has increased by ***1.2*** percent to ***$14,641m.***

This give us a total of ***$15,730m*** heading into the next business year, which will support the ongoing activities of all the businesses under the New Zealand Post Group umbrella.

OUR EXPERTISE

TOP 5

New Zealand Post ranking for best business reputation

With more than 170 years' service to the community behind it, the New Zealand Post Group continued to be one of the most trusted and respected brands on the New Zealand market during 2012/13.

For many years the Group, and key brands such as Kiwibank, have consistently placed at, or near, the top of various awards processes recognising public trust and reputation.

This remained true in 2012/13 – a year in which we started public discussions on difficult concepts such as the possibility of, over time, decreasing the frequency of mail deliveries for standard letters as a result of falling mail volumes. The resilience of our reputation in such difficult times is testament to the strength and depth of goodwill that the Group has established.

New Zealand Post was this year ranked in the top five for best business reputation (by AMR Australia), while Reader's Digest once again named Kiwibank the most trusted bank, and PostShops as one of the two most trusted retailers. New parts of the business also came to the fore this year, with Kiwibank's new Sustainable Energy Loans receiving the 2013 Canstar Innovation Excellence Award.

Building on Our Reach

As discussed in Our Networks (see page 24), one of the great strengths of the New Zealand Post Group is its robust and comprehensive store and delivery networks – and the demonstrated excellence in complex large-scale logistics that enables those networks to thrive.

In the past year, the strength of those networks created opportunities to expand our expertise even further, including:

- the launch of the ***New Zealand Post Global Logistics*** business, which will help Kiwi businesses market and sell their products internationally
- our partnership with the Department of Internal Affairs to launch RealMe (see page 15) which, for its success, required an iconic place in the community where people could get their accounts verified.

Collectables

While the Group's postal, banking and courier businesses compete in open markets, there are certain areas where our brands have secured special domain over certain products. A key example is our contract with the Reserve Bank of New Zealand to produce legal tender commemorative coins. This contract, which was recently renewed for a further five years, grants New Zealand Post the exclusive rights to design, procure and market commemorative legal tender coins – such as this year's highly collectable 'The Hobbit: An Unexpected Journey' coins.

Business Expertise

As a consequence of its postal network, the Group has developed a depth of knowledge in how to effectively communicate to audiences. This expertise has, for some years, been leveraged to offer services that assist businesses in connecting with their target audiences. In the past year our activities in supporting business have been consolidated – with three individual stand-alone brands (Datam, Datamail and Kinetic 121) brought under the New Zealand Post brand (see Strategy 4 page 13) – creating a centre of expertise to help guide businesses through the process of connecting with their customers.

This includes planning campaigns, producing collateral like flyers and brochures, and delivering messages to the targeted demographic appropriate for the product or service, through addressed mail (delivered by New Zealand Post) or unaddressed 'direct' mail (delivered by Reachmedia).

As a consequence of its postal network, the Group has developed a depth of knowledge in how to effectively communicate to audiences.

This ability to reach the right audience has been leveraged not only by businesses, but also by government departments and charities. This expertise is also a key reason behind certain government functions with a heavy focus on information and contact management being nested inside New Zealand Post – including the ***Electoral Enrolment Centre*** and the administrative and technical support function for the ***National Cervical Screening Programme.***

our OUTCOMES 2012/13

SCORECARD TARGETS

		2012 ACTUAL	2013 PLAN	2013 ACTUAL
Shareholder Returns				
(a) Total Shareholder Return	%	(4.7%)	0.5%	1.8%
(b) Dividend yield (excl Kiwibank)	%	0.3%	0.5%	0.5%
(c) Return on equity	%	23.2%	12.9%	13.6%
(d) Return on equity adjusted	%	23.1%	12.9%	13.6%
Profitability / Efficiency				
(e) Return on capital employed	%	16.3%	7.8%	7.5%
(f) Operating margin	%	21.4%	13.4%	12.6%
Leverage and Solvency				
(g) Gearing ratio (net)	%	88.3%	88.0%	86.9%
(h) Interest cover	times	19.4	10.5	8.9
(i) Solvency (current ratio)	times	1.0	1.1	1.1
Good Employer				
(j) People engagement index (Raw engagement score per the Annual Employee Engagement Survey)	%	72.9%	73.9%	73.8%
(k) Lost Time Injury Frequency Rate (Lost time injuries per million hours worked)	per M	5.6	5.6	7.2
Corporate Responsibility				
(l) Standard letter service performance (Letters delivered to standard (Testpo Survey))	%	93.9%	96.5%	92.4%
(m) Customer favourability (% Who rate NZP as 'excellent' or 'very good')	%	47.0%	59.0%	48.0%
(n) Emissions reduction	%	16.1%	2.1%*	0.7%*

*year-on-year movement

FIVE-YEAR TREND SUMMARY

		2013	2012	2011	2010	2009
Operating revenue	($m)	1,687.8	1,309.4	1,266.9	1,204.2	1,253.8
Operating expenses	($m)	1,622.5	1,223.5	1,297.2	1,179.8	1,163.4
Operating margin before tax	(%)	3.9	6.6	(2.3)	2.0	7.2
Profit / (loss) before tax	($m)	122.2	190.1	(34.6)	34.1	93.5
Earnings per share	(cents)	63.0	88.0	(18.5)	1.4	37.4
Total assets	($m)	16,139.6	15,851.0	14,682.0	13,075.5	11,304.0
Average shareholders' funds	($m)	878.0	730.7	666.8	677.5	667.9
Return on average shareholders' funds after tax	(%)	13.8	23.2	(5.3)	0.39	10.8
Net asset backing per share	($)	5.7	5.0	3.37	3.91	3.48
Average shareholders' funds to total assets	(%)	5.4	4.6	4.5	5.7	5.9
Interim dividend per share	(cents)	1.3	1.3	0.9	3.0	3.6
Final dividend per share	(cents)	1.3	1.3	0.1	0.004	-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our GOVERNANCE

BOARD OF NEW ZEALAND POST GROUP

(as at 30 June 2013)

Hon Sir Michael John Cullen
KNZM, MA, PhD
Chairman
Ohope
Appointed as Director on 1/5/2009
Appointed as Chairman on 1/11/2010

Murray Ian David Gribben
BA (Hons), MBA
Deputy Chair
Wellington
Appointed as Director on 1/11/2009
Appointed as Deputy Chair on 1/5/2012

Carol Anne Campbell
BCom, CA
Auckland
Appointed as Director on 1/5/2012

Alan Michael Dunn
Mapua
Appointed as Director on 1/11/2010

Philippa (Pip) Jane Dunphy
BHortSci, CFA
Auckland
Appointed as Director on 1/11/2007

William Temuera (Tem) Hall
BSS, AFA
Taupo
Appointed as Director on 1/5/2009

Richard Ian Leggat
BSc
Auckland
Appointed as Director on 1/5/2012

Jacqueline (Jackie) Marie Lloyd
BA, BCom
Wellington
Appointed as Director on 1/11/2010

David Stephen Willis
BCA (Wellington), ICA (New Zealand), ICA (Australia)
Sydney
Appointed as Director on 1/5/2010

Finance, Risk and Investment Committee:
Pip Dunphy (Chair)
Carol Campbell
Michael Cullen
Murray Gribben
David Willis

Human Resources Committee:
Jackie Lloyd (Chair)
Michael Cullen
Tem Hall
Alan Dunn
Richard Leggat

*From left:
Carol Anne Campbell,
Alan Michael Dunn,
William Temuera (Tem) Hall,
Hon Sir Michael John Cullen,
David Stephen Willis,
Jacqueline (Jackie) Marie Lloyd,
Philippa (Pip) Jane Dunphy,
Murray Ian David Gribben,
Richard Ian Leggat*

OUR GOVERNANCE

STATEMENT OF CORPORATE GOVERNANCE

The Board is responsible for the corporate governance of the Group. "Corporate Governance" includes the direction and control of the Group and the accountability of the Board to shareholders and other stakeholders for the organisation's performance, and compliance with laws and standards.

The New Zealand Post Group has in place a comprehensive system of corporate governance policies, practices and procedures designed to ensure adherence to best practice and high ethical standards.

Shareholders

As a state-owned enterprise, New Zealand Post Limited has two shareholding Ministers acting on behalf of the Crown. The Minister of Finance and the Minister for State-Owned Enterprises hold the company's shares.

Shareholder Communications

An annual business plan and quarterly reports against the performance set out in the plan are provided to shareholding Ministers. A Statement of Corporate Intent, unaudited half-year accounts and audited year-end accounts are tabled in Parliament annually. Shareholding Ministers are also kept informed about developments of significance on an ongoing basis.

Board Governance

The Board

The Board of the New Zealand Post Group may comprise up to 10 Directors. The Directors are not executives of the company.

Shareholding Ministers appoint the Directors. Before appointing new Directors, shareholding Ministers consider the balance of competencies and experience on the Board and also consult with the Chair.

The Chair carries out a leadership role in the conduct of the Board and its relationship with shareholding Ministers and stakeholders. The Chair maintains a close professional relationship with the Chief Executive. The Chair has no external commitments that conflict with the Chair's role.

As at 30 June 2013, the Board comprised nine Directors. Each Director is considered to be 'independent', in that each is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the Directors' unfettered and independent judgement.

Role of the Board

The Board is responsible to shareholding Ministers for directing and monitoring the management and affairs of the New Zealand Post Group. The New Zealand Post Group is made up of a number of companies including the parent company New Zealand Post Limited, and its wholly owned subsidiaries Kiwibank Limited and Express Couriers Limited. Under the State-Owned Enterprises Act 1986, New Zealand Post's principal objective is to operate as a successful business, including:

- to be as profitable and efficient as comparable private sector businesses;
- to be a good employer; and
- to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.

The Board establishes objectives and sets strategies to achieve those objectives. The Board, in the context of the approved policy, risk and compliance framework within which the Group operates, monitors management's performance against those strategies. The Board has delegated the day-to-day management to the Group Chief Executive.

The Board requires a three-year plan (presented annually), which is consistent with the agreed strategic objectives of the New Zealand Post Group, to be submitted to it for approval. The Board closely monitors financial and non-financial performance and compares performance to the annual plan and forecasts at its regular meetings.

Board Meetings

During the period, the Board held 10 regular meetings (together with additional meetings as required). The Board also holds an annual strategic planning session that considers strategic issues in conjunction with the Chief Executive and the Group Leadership Team.

The Chief Executive, Chief Financial Officer and Company Secretary attend all Board meetings. Other managers attend Board meetings in relation to matters regarding their areas of responsibility and Directors have other opportunities, including site visits, for contact with wider Group employees.

Board Committees

A Finance, Risk and Investment Committee and a Human Resources Committee assist the Board in discharging its responsibilities. Both Committees have formal Charters, approved by the Board, setting out the respective Committees' duties and responsibilities.

The Board also establishes ad hoc committees as required, to deal with specific issues.

All Directors are entitled to attend committee meetings and copies of all meeting papers and minutes are available to all Directors. The Chief Executive attends committee meetings. The Finance, Risk and Investment Committee holds regular 'Directors Only' sessions, which provide for discussions with external auditors to ensure a robust and independent audit process.

Finance, Risk and Investment Committee

The Finance, Risk and Investment Committee comprises five Directors and holds four regular meetings a year. In addition, there is provision for additional meetings to be held to deal with other matters as they arise. The Committee's overall function is to assist the Board in fulfilling its responsibilities relating to the management systems, and accounting and reporting practices, including:

- assisting the Board to meet its accounting and reporting responsibilities under the Companies Act 1993, the Financial Reporting Act 1993, and related legislation;
- overseeing and reviewing the quality of internal and external audits;
- ensuring the integrity of internal financial reporting;
- ensuring that the Group has the framework and methodologies in place that will ensure that all strategic and business risks are thoroughly managed; and
- advising the Board in relation to the governance, performance and strategy of investment and divestment activity.

Human Resources Committee

The Committee comprises five Directors and schedules four regular meetings a year. There is provision for additional meetings to be held to deal with other matters as they arise.

The Committee's primary purpose is to assist the Board in fulfilling its oversight of 'good employer' and human resources governance responsibilities relating to the New Zealand Post Group. The responsibilities of the Committee include:

- overseeing, and reviewing performance of, the human resources strategy for the New Zealand Post Group;
- overseeing, and reviewing performance of, the health, safety and wellbeing strategy for the New Zealand Post Group;
- reviewing, and recommending to the Board for approval, the remuneration policy for the Group, consistent with the Group's strategic plan;
- reviewing, and recommending to the Board for approval, remuneration arrangements and performance measures and targets for the Chief Executive; and
- reviewing the performance of the CEO against performance measures and targets.

Access to Independent Information

In circumstances that warrant additional assurance the Board as a whole, and Directors individually, may, in order to assist in carrying out their responsibilities, request independent professional advice at the Company's expense. Such requests are to be made in consultation with the Chair and are facilitated through the Company Secretariat.

New Zealand Post Group has in place a comprehensive system of corporate governance policies, practices and procedures designed to ensure adherence to best practice and high ethical standards.

Risk Management

Management of risk is a key focus of the Board, as it is crucial to the protection of shareholder value. The New Zealand Post Group, therefore, has in place a comprehensive risk management and internal control framework designed to identify and treat all significant business and strategic risks.

The Board approves and monitors policy and processes in significant risk areas. The Board has approved a comprehensive delegated authority structure that clearly states actions reserved to itself and those delegated to management. The Board is also required to approve capital and operational expenditure that exceeds the Chief Executive's delegations. Any such request for approval is required to reflect a formal consideration of the relevant risk and prioritisation issues.

The Group Risk Team takes a systematic, disciplined approach to maintaining and continuously improving the effectiveness of risk management, internal control, project management and associated governance processes.

The following specific actions are taken:

- a Group risk profile that considers the principal risks to the New Zealand Post Group, and the management actions to mitigate such risks, is updated throughout the year;
- the Board's Finance, Risk and Investment Committee periodically reviews the Group's principal risk profile; and
- internal controls are assessed in line with a risk-based internal audit plan, with the outcomes being considered by the Board's Finance Risk and Investment Committee.

Integrity Standards

The Board supports the principles set out in the "Codes of Proper Practice for Directors", as issued by the New Zealand Institute of Directors, under which Directors are expected to:

- act honestly and with integrity;
- comply with the law;
- avoid conflicts of interest;
- use Company assets responsibly and in the best interests of the Company;
- be responsible and accountable for their actions; and
- act in accordance with their fiduciary duties.

The New Zealand Post Group has a suite of policies in which it outlines how it seeks to conduct its business with integrity, honesty, fairness and in compliance with all relevant laws, regulations, codes and standards. These policies clearly set out the ethical standards that are expected of Group employees and contractors in their dealings with customers, the Company, and each other.

Additionally, the Board has adopted a set of Directors' Business Rules and Guidelines to ensure that the practices and procedures of the Board are aligned with the policies applying to New Zealand Post Group employees.

Conflict of Interest

The Companies Act 1993, the Company's Constitution, the Board Charter and the Directors' Business Rules and Guidelines deal with the disclosure of interests by Directors and the participation and voting at Board meetings where any such interests are relevant.

Directors are regularly requested to make general disclosures of interest, which are recorded in the Register of Interests.

Governance Requirements and Best Practice

The Board has confirmed that its corporate governance policies, practices and procedures accord with the Securities Commission's (now the Financial Markets Authority's) "Corporate Governance Principles & Guidelines", in the material respects in which they are appropriate for a state-owned enterprise.

Health and Safety

Health and Safety governance is a key priority for the Board. The Board supports the "Good Governance Practices Guidelines for Managing Health and Safety Risks" produced by the Institute of Directors and the Ministry of Business, Innovation and Employment.

KIWIBANK BOARD

(as at 30 June 2013)

Robert William Bentley Morrison
BCom
Chairman
Independent Director
Appointed as Director on 25/2/2011
Appointed as Chairman from 1/7/2011

Alison Rosemary Gerry
MApp. Fin, BMS (Hons)
Deputy Chair
Independent Director
Appointed as Director on 28/3/2007
Appointed as Deputy Chair from 1/12/2011

Hon Sir Michael John Cullen
KNZM, MA, PhD
Appointed as Director on 13/7/2009

Murray Ian David Gribben
BA (Hons), MBA
Appointed as Director on 21/6/2010

Brian Joseph Roche
BCA, FCA
Appointed as Director on 3/2/2010

Catherine Maria Savage
BCA, CA
Independent Director
Appointed as Director on 20/12/2011

David Stephen Willis
BCA (Victoria), ACA (NZ),
ICA (Australia)
Appointed as Director on 21/7/2010

*From left:
Murray Ian David Gribben,
Brian Joseph Roche,
Grant Andrew Paterson
(resigned 18 June 2013),
Robert William Bentley Morrison,
David Stephen Willis,
Hon Sir Michael John Cullen,
Alison Rosemary Gerry,
Catherine Maria Savage*

OUR EXECUTIVE TEAM

GROUP LEADERSHIP TEAM

(as at 30 June 2013)

Brian Roche, BCA, FCA
Chief Executive Officer –
New Zealand Post Group

Before joining New Zealand Post Group in 2010, Brian was a partner in PricewaterhouseCoopers.

Malcolm Shaw, LLB (Hons)
Group General Manager – Assurance

Malcolm is responsible for our Assurance Group, which provides assurance in relation to risk and compliance and plays a leadership role in building and supporting the Group's brand and reputation. Malcolm has had an extensive background in both in-house legal roles and working for law firms in New Zealand and overseas.

Mark Yeoman, BCA, CA
Chief Financial Officer –
New Zealand Post Group

Mark joined New Zealand Post Group in 2009. He was previously CFO at Airways and before that CEO of Samoa's telecom and postal company, where he managed its transformation from a government department to a state-owned enterprise.

Paul Brock, BBS
Chief Executive Officer – Kiwibank

Paul has an extensive background in the New Zealand banking industry and joined Kiwibank in 2000 as part of the team that created the bank.

Ashley Smout, BBS, MBA
Chief Operating Officer –
Mail & Communications

Since joining New Zealand Post Group from Airways in early 2011, Ashley has made his mark in building a strong culture in the Operations business. Ashley leads the newly formed Mail and Communications business in New Zealand Post – looking after the end-to-end process from customer solutions through to operations for our domestic and international business.

Paul Reid, BSc (Hons)
Chief Operating Officer –
Channels & Digital Platforms

Paul is responsible for designing and leading the way our customers interact with our products and services across our range of channels – retail network, contact centres and digital platforms. Prior to joining New Zealand Post in 2011 Paul held senior positions at MetService, Air New Zealand and Carter Holt Harvey.

Jo Avenell, BCom, MSc
Group General Manager –
People & Capability

Jo joined the New Zealand Post Group in December 2012. She brought with her a wealth of experience designing corporate strategies, leading cultural change and transformation programmes and delivering enhanced employee engagement, productivity and performance. Jo has held executive and senior roles at PricewaterhouseCoopers in New Zealand and the United Kingdom.

Paul Trotman, BCom, ASCPA
Chief Operating Officer –
Express Couriers Limited (ECL) (Acting)

Paul started with New Zealand Post in 2003 in the Express and Logistics Finance group. Between 2011 and 2013 Paul was Operations Director in the Telecommunications services industry helping build the Ultra Fast Broadband network in Auckland. Paul returned to the New Zealand Post Group this year as Acting Chief Operating Officer.

Back row (from left): Mark Yeoman, Paul Trotman, Malcolm Shaw, Paul Reid, Paul Brock
Seated (from left): Ashley Smout, Brian Roche, Jo Avenell

DIRECTORY

Chairman
Hon Sir Michael Cullen

Deputy Chair
Murray Gribben

Members
Carol Campbell
Alan Dunn
Philippa Dunphy
Temuera Hall
Richard Leggat
Jackie Lloyd
David Willis

Group Leadership Team
Group Chief Executive Officer: Brian Roche
Chief Executive Officer, Kiwibank Limited: Paul Brock
Chief Operating Officer, Express Couriers Limited: Paul Trotman (Acting)
Group General Manager, People & Capability: Jo Avenell
Chief Operating Officer, Channels & Digital Platforms: Paul Reid
Chief Operating Officer, Mail & Communications: Ashley Smout
Group General Manager, Assurance: Malcolm Shaw
Chief Financial Officer: Mark Yeoman

Bankers
Bank of New Zealand Limited

Auditor
Paul Clark assisted by PricewaterhouseCoopers, Wellington, on behalf of the Auditor-General

Solicitors
Buddle Findlay
Russell McVeagh

Registered Office
12th Floor
New Zealand Post House
7 Waterloo Quay
Wellington
New Zealand

For further information about the contents of this report, please contact:

New Zealand Post Group Corporate Affairs Team

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Lower Hutt 5045
New Zealand
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Facsimile +64-4-496 4479
Email: post.communications@nzpost.co.nz

For more information about New Zealand Post's products and services, please contact:

New Zealand Post Customer Services Centre

Telephone toll free: 0800 501 501
Email: enquiry@nzpost.co.nz
Website: www.nzpost.co.nz

For information about our collectable stamps and coins, please contact:

Collectables and Solutions Centre

Private Bag 3001
Whanganui 4540
New Zealand
Telephone: +64-6-349 1234
Facsimile: +64-6-345 7120
Website: www.stamps.co.nz

our year in STAMPS & COINS

New Zealand Post's range of ***The Hobbit: An Unexpected Journey*** stamps and coins not only portray the characters and themes of Sir Peter Jackson's film, but also reflect New Zealand as the home of Middle-earth.

The Christmas 2013 stamp issue is a reminder of the meaning behind Christmas, and the reason we all celebrate on 25 December. The stamps have a uniquely New Zealand touch, with a pōhutukawa motif framing each of the intricately illustrated images.

A Tiki Tour of New Zealand No.2 takes you on a classic Kiwi road trip around Aotearoa. As you wind your way around the country with caravan in tow, you'll discover the landmarks, activities, culture and history that make Aotearoa such a great place to explore.

The ***Queen Elizabeth II – 60th Anniversary of the Coronation*** stamp and coin issue celebrates the six decades that the Queen has served as New Zealand's graceful monarch. Both the stamps and coin feature the six main depictions of the Queen that have appeared on New Zealand legal tender coins.

The ***ANZAC 2013*** stamp issue honours New Zealanders serving abroad. The stamps in the issue highlight six overseas operations in which our service personnel have shown dedication to achieving peace and security.

The five stamps in the ***Margaret Mahy*** stamp issue celebrate five of her popular books, and are a charming tribute to her life and work. Internationally, Margaret Mahy is considered one of the greatest writers for children and young people of her generation.

Both the ***Matariki 2013*** stamp issue and the ***2013 Māori Art Coin*** celebrate the koru – a pattern symbolising new life and regeneration.

The ***2013 Year of the Snake*** stamp issue reflects different aspects of Chinese tradition and culture. The four illustrated stamps also celebrate New Zealand's growing Chinese community.

The second coin in New Zealand Post's ***Kiwi Treasures*** series combines our national bird with iconic treasures of nature. The 2013 issue features the mighty Tāne Mahuta – New Zealand's largest living kauri tree.

NEW ZEALAND POST GROUP

This document (Annual Review 2013) is Volume 1 of the New Zealand Post Group's Annual Report for 2013. The second (and final) volume of this Annual Report (Supporting Information 2013) can be seen online at www.nzpost.co.nz/about-us/investor-centre/reports-presentations.

For more information on the New Zealand Post Group, visit www.nzpost.co.nz.

NEW ZEALAND POST GROUP

ANNUAL REVIEW – SUPPORTING INFORMATION 2013

→

Volume 2 (of 2) of the New Zealand Post Group Annual Report 2013

NEW ZEALAND POST GROUP

TABLE OF CONTENTS

This document is Volume 2 (of 2) of the New Zealand Post Group Annual Report 2013. For details of Volume 1, see back cover.

The New Zealand Post Group has achieved a net profit after tax of $121.0m to the year ended 30 June 2013, compared to a reported profit in the previous year of $169.7m. As happened last year, a number of one-off non operating items have influenced the reported profit results. At an operating level, the Group has increased its profit performance from $79.8m last year up to $111.3m for the year to 30 June 2013, an increase of 39%.

Financial Commentary 2012/2013

The financial statements show an overall increase in revenues and expenses of around 30%. This can be attributed to the full consolidation of the Express Courier and Couriers Please businesses that were previously in a Joint Venture structure with DHL, and became 100% owned subsidiaries at the end of last financial year. Due to the timing of that transaction, the two businesses were fully consolidated for the first time this year. This explains $13.4m of the year-on-year increase in operating profit performance.

The operating performance improvement was also driven by a solid financial result from the financial services (Kiwibank) businesses, and growth in the courier segments of the business. The postal segment however, continues to face the challenges of an accelerating decline in mail volumes. The Group is working with the Government on changes to its postal deed, and has announced a number of restructuring initiatives as part of its plans to deliver a reasonable return on capital in the postal segment.

A number of the one-off items relate to that restructuring and the weaker earnings outlook for the postal segment.

An impairment charge of $30.6m has been taken against some of the postal assets, particularly those to be decommissioned in the restructuring of our mail processing unit. Restructuring costs of $20m have also been booked which reflects some but not all of the planned labour cost impacts from these changes. Further restructuring costs are expected in the next financial year.

Other non-operating one off items include a provision which has been made following a High Court ruling against New Zealand Post in relation to the way it had historically calculated Relevant Daily Pay amounts for employee entitlements.

The Group recognised a $71.7m gain from the sale of its 35% stake in Datacom Group to the Guardians of the New Zealand Superannuation Fund. It also sold its two main administrative sites; New Zealand Post House in Wellington, and Courier Post House in Auckland. The Group recognised a small gain on the sale of New Zealand Post House, and the CourierPost House sale while unconditional, did not settle until after balance date which means that a small gain will be recognised in the next financial year.

Kiwibank has reported a net profit after tax of $97m, up 23% from its profit of $79m last year. The balance sheet has continued to grow modestly which reflects increasing market share in a relatively static credit environment. The interest rate environment has remained very low, and the high proportion of floating rate lending during the year has improved Kiwibank's net interest income margin. The bank's bad debt provisions were aided by the release of several large specific provisions following the satisfactory resolution of those client accounts.

During the year, Kiwibank progressed the integration of the Gareth Morgan Investments and Kiwisaver businesses that it acquired in early 2012. Following the introduction of the Basel III [regulations] by the Reserve Bank during the year, Kiwibank and its 100% owner New Zealand Post formally engaged the Government on discussions around the future capital needs of the bank under the bank's long term strategy. While Kiwibank's own earnings, planned market issuances and continued support from the New Zealand Post Group will meet the capital needs of the bank in the short to medium term, discussions around the long term capital support for the bank are ongoing.

The Express Couriers business reported an operating profit of $18.2m, a 7.4% increase on last year. The courier market in New Zealand remains highly competitive and new business opportunities are fiercely contested. Work has commenced on closer operational integration between the post and courier businesses.

The postal business experienced a $52.0m decline in gross revenue during the year, driven by an accelerating rate of decline in its core letters products (down 6.8% from $757.4m last year). Cost management and structural changes during the year ensured that the business matched that revenue decline to hold operational earnings level. More fundamental changes to the mail business are required in order to return to an acceptable level of return on capital.

The Group's portfolio of other businesses (called Investments) has continued to improve its revenue ($311.9m compared to $215.5m last year) following ongoing rationalisation of the portfolio, and improved performance by the individual businesses. During the year businesses sold included our 35% stake in Datacom Group, the ECN Group, and Roadstar. Our Converga and Couriers Please businesses continue to perform well, and Localist is expected to be cash positive in calendar year 2013.

The Balance Sheet of the Group is in good shape. Proceeds from the sale of properties and Datacom have been used to retire debt which was raised principally to fund the acquisition of the courier businesses in 2012. The commercial debt facilities in the courier businesses have been repaid, leaving debt at the Group level of $383.1m, down from $544.2m last year.

Three factors drove a downgrade in the Group's credit rating by Standard and Poor's in November 2012 from AA- to A+.

The structural decline of the core Postal business which resulted in weaker earnings forecasts from that business segment, the growing proportion of Group's earnings generated by Kiwibank, and the overall step-down of credit ratings across financial institutions in New Zealand. In May 2013 Standard and Poor's placed New Zealand Post Group's rating on negative outlook given their concerns around the potential for risk around the Auckland housing market.

Reconciliation of Profit for the year after taxation to Operating Performance	**Year ended 30 June 2013 ($m)**	**Year ended 30 June 2012 ($m)**
Profit after taxation for the year	121.0	169.7
less Gains on sale of assets		
Investment in Datacom Ltd	71.7	-
Investment in Express Couriers & Parcel Direct Group	3.8	97.4
Buildings	1.3	-
	76.8	97.4
add back Asset Impairment charges		
Postal assets	30.6	-
Courier assets	-	4.2
Other assets	2.8	-
	33.4	4.2
add back one-off Restructuring & Employee Related Costs		
Restructuring Mail Processing	20.0	-
Relevant Daily Pay provision & other one-off employee related costs	11.7	-0.6
	31.7	-0.6
add back the gain/(loss) in fair value of financial instruments	2.0	3.9
Operating profit after Tax	111.3	79.8

NEW ZEALAND POST GROUP

FINANCIAL STATEMENTS

Financial statements

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	Note	GROUP 2013 $'000	GROUP 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
Revenue from operations	1	**1,687,806**	1,309,373	**741,475**	701,388
Expenditure	2	**1,622,524**	1,223,526	**907,467**	735,074
Operating profit/(loss)		65,282	85,847	(165,992)	(33,686)
Gain on sale of investment in associate	14	**71,711**	–	**120,778**	–
Gain on sale of investment in jointly controlled entity	15	**3,826**	102,608	**3,826**	26,850
Other income / (losses)	1	**(943)**	(355)	**22,640**	2,802
Finance costs (net)	3	**(25,344)**	(14,578)	**(6,987)**	(10,247)
Share of net profit/(loss) of associates and jointly controlled entities	14	**7,713**	16,585	**–**	–
Profit/(loss) before income tax		122,245	190,107	(25,735)	(14,281)
Income tax expense/(credit)	4	**1,247**	20,411	**(40,058)**	(10,477)
Profit/(loss) for the year after taxation		120,998	169,696	14,323	(3,804)
Attributable to:					
Owners of the parent		**120,998**	169,696	**14,323**	(3,804)
Non-controlling interest		**–**	–	**–**	–
Other comprehensive income/(expense)					
Items that will not be reclassified to profit or loss:					
Gains on revaluation of land and buildings		**679**	(8,172)	**679**	(8,172)
		679	(8,172)	679	(8,172)
Items that may be reclassified subsequently to profit or loss:					
Change in available-for-sale financial assets		**(5,081)**	4,652	**–**	–
Cash flow hedges		**32,825**	13,488	**2,897**	(1,817)
Currency translation differences		**(6,809)**	(832)	**–**	–
Share of other comprehensive income of associates and jointly controlled entities		**(93)**	(1,415)	**–**	–
		20,842	15,893	2,897	(1,817)
Total other comprehensive income(expense), net of tax		21,521	7,721	3,576	(9,989)
Total comprehensive income(expense), net of tax		142,519	177,417	17,899	(13,793)
Attributable to:					
Owners of the parent		**142,519**	177,417	**17,899**	(13,793)
Non-controlling interest		**–**	–	**–**	–

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

Group	Note	Fully Paid Ordinary Shares $'000	Property Revaluation Reserve $'000	Available For Sale Reserve $'000	Cashflow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Retained Earnings $'000	Non-controlling Interest $'000	Total $'000
Balance at 30 June 2011		192,200	75,394	2,902	(46,087)	6,971	416,350	146,639	794,369
Profit for the year		–	–	–	–	–	169,696	–	169,696
Other Comprehensive income/(expense)		–	(11,191)	6,461	18,731	(832)	–	–	13,169
Share of other comprehensive income of associates and jointly controlled entities		–	93	–	–	(1,508)	–	–	(1,415)
Income tax relating to components of other comprehensive income		–	3,019	(1,809)	(5,243)	–	–	–	(4,033)
Total other comprehensive income/(expense), net of tax		–	(8,079)	4,652	13,488	(2,340)	–	–	7,721
Transactions with Owners									
Transaction with non-controlling interest in Kiwi Asset Finance Ltd	5	–	–	–	–	–	–	(794)	(794)
Dividends paid to shareholders	5	–	–	–	–	–	(2,770)	–	(2,770)
Dividends paid to non-controlling interest		–	–	–	–	–	(8,763)	–	(8,763)
Balance at 30 June 2012		192,200	67,315	7,554	(32,599)	4,631	574,513	145,845	959,459
Profit for the year		–	–	–	–	–	120,998	–	120,998
Other Comprehensive income/(expense)		–	(271)	(7,057)	45,590	(6,809)	–	–	31,453
Share of other comprehensive income of associates and jointly controlled entities		–	(93)	–	–	–	–	–	(93)
Income tax relating to components of other comprehensive income		–	950	1,976	(12,765)	–	–	–	(9,839)
Total other comprehensive income/(expense), net of tax		–	586	(5,081)	32,825	(6,809)	–	–	21,521
Transfer between revaluation reserve and retained earnings		–	(11,902)	–	–	–	11,902	–	–
Transactions with Owners									
Transaction with non-controlling interest in Kiwi Asset Finance Ltd	5	–	–	–	–	–	–	889	889
Dividends paid to shareholders	5	–	–	–	–	–	(5,000)	–	(5,000)
Dividends paid to non-controlling interest		–	–	–	–	–	(8,801)	–	(8,801)
Balance at 30 June 2013		192,200	55,999	2,473	226	(2,178)	693,612	146,734	1,089,066

Parent	Note	Fully Paid Ordinary Shares $'000	Property Revaluation Reserve $'000	Available For Sale Reserve $'000	Cashflow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Retained Earnings $'000	Non-controlling Interest $'000	Total $'000
Balance at 30 June 2011		192,200	75,394	–	(4,351)	–	722,643	–	985,886
Loss for the year		–	–	–	–	–	(3,804)	–	(3,804)
Other Comprehensive income/(expense)		–	(11,191)	–	(2,524)	–	–	–	(13,715)
Income tax relating to components of other comprehensive income		–	3,019	–	707	–	–	–	3,726
Total other comprehensive income/(expense), net of tax		–	(8,172)	–	(1,817)	–	–	–	(9,989)
Transactions with Owners									
Dividends paid to shareholders	5	–	–	–	–	–	(2,770)	–	(2,770)
Balance at 30 June 2012		192,200	67,222	–	(6,168)	–	716,068	–	969,322
Profit for the year		–	–	–	–	–	14,323	–	14,323
Other Comprehensive income/(expense)		–	(271)	–	4,024	–	–	–	3,753
Income tax relating to components of other comprehensive income		–	950	–	(1,127)	–	–	–	(177)
Total other comprehensive income/(expense), net of tax		–	679	–	2,897	–	–	–	3,576
Transfer between revaluation reserve and retained earnings		–	(11,902)	–	–	–	11,902	–	–
Transactions with Owners									
Dividends paid to shareholders	5	–	–	–	–	–	(5,000)	–	(5,000)
Balance at 30 June 2013		192,200	55,999	–	(3,271)	–	737,293	–	982,221

STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2013

		GROUP		PARENT	
	Note	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
ASSETS					
Current assets					
Cash and cash equivalents	6	**197,539**	154,871	**150,811**	96,663
Trade and other receivables	7	**177,834**	222,448	**106,184**	115,523
Inventories	8	**11,242**	12,582	**7,538**	7,230
Loans to related parties	13	**–**	–	**45,529**	14,500
Assets held for sale	9	**29,479**	685	**29,479**	685
Taxation receivable	4	**–**	–	**9,280**	8,039
Prepayments		**11,057**	10,969	**2,990**	3,017
Derivative financial assets	22	**5,936**	10,776	**4,830**	10,715
Total current assets		**433,087**	412,331	**356,641**	256,372
Non-current assets					
Trade and other receivables	7	**12,619**	6,234	**12,572**	6,234
Investment properties	10	**4,044**	14,445	**4,044**	14,445
Property, plant and equipment	11	**185,777**	315,113	**141,807**	250,138
Intangible assets	12	**443,711**	441,944	**22,285**	26,578
Loans to related parties	13	**–**	–	**99,331**	970,500
Deferred tax asset	4	**31,927**	16,796	**14,472**	–
Investments accounted for using the equity method	13/14	**3,923**	69,108	**2,600**	22,143
Investments in subsidiaries	13/15	**–**	–	**1,060,606**	196,824
Total non-current assets		**682,001**	863,640	**1,357,717**	1,486,862
Specific banking assets					
Cash and cash equivalents	27	**415,152**	315,061	**–**	–
Due from other financial institutions	27	**158,458**	171,380	**–**	–
Financial assets held for trading	27	**153,318**	104,239	**–**	–
Available for sale assets	27	**966,302**	1,400,966	**–**	–
Loans and advances	27	**13,201,872**	12,445,281	**–**	–
Derivative financial instruments	28	**129,370**	138,144	**–**	–
Total specific banking assets		**15,024,472**	14,575,071	**–**	–
Total assets		**16,139,560**	15,851,042	**1,714,358**	1,743,234

		GROUP		PARENT	
	Note	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
LIABILITIES					
Current liabilities					
Trade and other payables	16	**351,903**	351,235	**223,498**	189,955
Provisions	17	**17,515**	4,855	**16,824**	1,611
Taxation Payable	4	**3,438**	7,239	**–**	–
Deferred settlement liability	19	**–**	31,691	**–**	–
Borrowings	18	**31,713**	188,608	**29,898**	129,599
Loans from related parties	13	**–**	–	**45,529**	14,500
Derivative financial liabilities	22	**10,991**	20,330	**11,075**	18,351
Total current liabilities		**415,560**	603,958	**326,824**	354,016
Non-current liabilities					
Trade and other payables	16	**8,934**	1,225	**8,934**	1,225
Provisions	17	**14,042**	4,381	**12,535**	3,126
Loans from related parties	13	**–**	–	**233,984**	250,140
Deferred tax liability	4	**–**	–	**–**	15,586
Deferred settlement liability	19	**2,472**	1,950	**–**	–
Borrowings	18	**561,593**	419,485	**149,860**	149,819
Total non-current liabilities		**587,041**	427,041	**405,313**	419,896
Specific banking liabilities					
Due to other financial institutions	29	**270,057**	333,931	**–**	–
Deposits	29	**12,119,866**	11,564,727	**–**	–
Debt securities issued	29	**1,508,185**	1,805,681	**–**	–
Derivative financial instruments	28	**149,785**	156,245	**–**	–
Total specific banking liabilities		**14,047,893**	13,860,584	**–**	–
Total liabilities		**15,050,494**	14,891,583	**732,137**	773,912
EQUITY					
Parent shareholders' equity					
Ordinary share capital	5	**192,200**	192,200	**192,200**	192,200
Retained earnings	5	**693,612**	574,513	**737,293**	716,068
Other reserves	5	**56,520**	46,901	**52,728**	61,054
Total equity attributable to parent shareholder		**942,332**	813,614	**982,221**	969,322
Non-controlling interest	5	**146,734**	145,845	**–**	–
Total equity		**1,089,066**	959,459	**982,221**	969,322
Total equity and liabilities		**16,139,560**	15,851,042	**1,714,358**	1,743,234

The Board of Directors of New Zealand Post Limited authorised these financial statements for issue on 26 August 2013.

Hon Sir Michael Cullen
Chair

Phillipa Dunphy
Director

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

		GROUP		PARENT	
	Note	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Cash flows from operating activities					
Receipts from customers		1,438,807	1,063,136	724,045	700,520
Kiwibank interest received		794,600	762,214	–	–
Other interest received		3,054	5,465	31,801	13,238
Dividends received		3,538	7,853	23,234	7,853
Payments to suppliers and employees		(1,459,008)	(1,096,298)	(692,503)	(664,863)
Subvention payments		–	–	–	(2,942)
Net payments to agencies		(24,405)	(22,377)	(26,150)	(23,413)
Kiwibank interest paid		(518,183)	(525,594)	–	–
Other interest paid		(26,615)	(21,369)	(25,458)	(21,981)
Income tax (paid) / refunded	4	(28,926)	(19,115)	8,445	4,596
Net cash flows from operating activities before changes in operating assets and liabilities		182,862	153,915	43,414	13,008
Net changes in operating assets and liabilities:					
Kiwibank decrease/ (increase) in balances due from other financial institutions		12,922	269,103	–	–
Kiwibank decrease in financial assets held for trading		(49,321)	223,435	–	–
Kiwibank decrease/ (increase) in available for sale assets		429,350	(270,163)	–	–
Kiwibank increase in loans and advances		(721,628)	(1,042,907)	–	–
Kiwibank increase in deposits and other borrowings		549,849	983,711	–	–
Kiwibank (decrease)/ increase in balances due to other financial institutions		(63,874)	(462,033)	–	–
Net cash flows from operating activities	20	340,160	(144,939)	43,414	13,008
Cash flows from investing activities					
Sale of property, plant and equipment		63,636	92	63,635	63
Repayment of loans from associates and jointly controlled entities	14	–	600	11,586	19,952
Repayment of loans from subsidiaries		–	–	–	–
Advances from subsidiaries		–	–	–	57,325
Purchase of property, plant and equipment		(18,247)	(11,925)	(21,445)	(5,144)
Investments in associates and other companies	14	–	(1,806)	–	(1,806)
Investments in subsidiaries	15	–	–	(31,114)	(81,450)
Sale of Investments		140,379	–	140,379	–
Advances to associates and jointly controlled entities	14	–	–	–	–
Advances to subsidiaries	13	–	–	(37,868)	(157,337)
Purchase of intangible assets		(58,835)	(47,672)	(7,727)	(17,563)
Acquisition of subsidiaries net of cash acquired	15	(2,296)	(122,564)	–	–
Net cash flows from investing activities		124,637	(183,275)	117,446	(185,960)

	Note	GROUP 2013 $'000	GROUP 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
Cash flows from financing activities					
Issue of borrowings		223,290	417,962	223,288	417,962
Repayment of borrowings		(384,035)	(300,000)	(325,000)	(300,000)
Dividends paid to parent shareholders	5	(5,000)	(2,770)	(5,000)	(2,770)
Dividends paid to non-controlling interest		(8,801)	(8,763)	–	–
Kiwibank increase (decrease) in debt securities issued		(297,492)	295,833	–	–
Kiwibank redemption of sub-ordinated debt		150,000	(75,000)	–	–
Net cash flows from financing activities		(322,038)	327,262	(106,712)	115,192
Net increase/(decrease) in cash and cash equivalents held		142,759	(952)	54,148	(57,760)
Cash and cash equivalents at the beginning of the year		469,932	470,884	96,663	154,423
Cash and cash equivalents at the end of the year		612,691	469,932	150,811	96,663
Composition of cash and cash equivalents					
Kiwibank cash and cash equivalents	27	415,152	315,061	–	–
Other cash and cash equivalents	6	197,539	154,871	150,811	96,663
Total cash		612,691	469,932	150,811	96,663

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2013

Reporting Entity

New Zealand Post Limited (the 'Parent') and its subsidiaries provide postal services, banking services, business solutions, courier and logistic services to New Zealand and Australian customers. The Parent is a limited liability company incorporated and domiciled in New Zealand. The Parent's registered office is 7 Waterloo Quay, Wellington. The 'Group' comprises New Zealand Post Limited, its subsidiaries (including Kiwibank Limited, a Registered Bank – referred to as "Kiwibank"), its associates, and its jointly controlled entities.

Basis of Preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993, the Financial Reporting Act 1993, and the State-Owned Enterprises Act 1986.

The financial report is presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

Statement of Compliance

The financial statements for the Parent and Group are for the year ended 30 June 2013. These financial statements comply with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

New Accounting Standards and Interpretations

Standards and interpretations effective in the current period:

The following new standards and amendments to standards are mandatory for financial years commencing on or after 1 July 2012 and have been adopted in these financial statements:

Standard	Requirement	Impact on Financial Statements
Amendments to NZ IAS 1 – Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income	This amendment retains the option to present profit or loss in either a single continuous statement or in two separate but consecutive statements. Items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss. Tax on items of other comprehensive income is required to be allocated on the same basis.	This amendment has not led to any significant impact on the Group financial statements.

No new standards, amendments or interpretations to existing standards that are not yet effective, have been early adopted by the Group in these financial statements.

At the date of authorisation, the following new standards, amendments or interpretations to existing standards were in issue but not yet effective:

Standard	Impact on Financial Statements
NZ IFRS 9 – Financial Instruments	1 January 2015
NZ IFRS 10 – Consolidated Financial Statements	1 January 2013
NZ IFRS 11 – Joint Arrangements	1 January 2013
NZ IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013
NZ IFRS 13 – Fair Value Measurement	1 January 2013
NZ IAS 27 – Separate Financial Statements (2011)	1 January 2013
NZ IAS 28 – Investments in Associates	1 January 2013
Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to NZ IAS 32 Offsetting Financial Assets and Financial Liabilities	1 January 2013

The Directors expect to adopt the above Standards and Interpretations in the period in which they become mandatory.

With the exception of NZ IFRS 9 and NZ IFRS 13, the directors anticipate that the above Standards and Interpretations will have no material impact on the financial statements of the Group in the period of initial application. It is likely that the changes arising from NZ IFRS 9 and NZ IFRS 13 will affect the recognition, measurement, and classification of amounts recognised in the Group financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Specific Accounting Policies

The following accounting policies, which materially affect the measurement of financial performance, financial position and cash flows, have been consistently applied to all reporting periods presented in these financial statements.

The measurement base applied is historic cost, as modified by the revaluation of certain assets and liabilities as identified in these accounting policies. The accrual basis of accounting has been used unless otherwise stated.

Group Financial Statements

Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Parent. Control exists where the Group has the power to govern the financial and operating policies of an entity. The results and financial position of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income and statement of financial position from the date control is gained up to the date control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the amount of any non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

The Parent's investments in subsidiaries are recorded at cost less any accumulated impairment. Unrealised losses relating to any impairment are recognised in the statement of profit or loss and other comprehensive income.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

Associates and Jointly Controlled Entities

Associates are entities in which the Group has significant influence but not a controlling interest. Jointly controlled entities are entities in which the Group has joint control (being unanimous consent by the parties sharing control over the strategic, financial and operating decisions). Investments in associates and jointly controlled entities are accounted for using the equity method of accounting. They are initially recorded at cost and include any goodwill identified on acquisition (net of any impairment losses). The Group's share of post-acquisition results are included in the consolidated statement of profit or loss and other comprehensive income from the date of acquisition up to the date of disposal. Any other movements in the Associates and Joint Ventures other comprehensive income are recognised in other comprehensive income of the Group. When the Group's share of losses in an associate or jointly controlled entity equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or jointly controlled entity.

Unrealised gains on transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Intergroup Acquisitions and Disposals

The sale of investments between the Parent and a subsidiary, or between two subsidiaries, are recorded at fair value. Gains or losses on disposal are recognised in the statement of profit or loss and other comprehensive income. Such gains or losses are eliminated on consolidation.

Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operating segments are aggregated for disclosure purposes where they have similar products and services, production processes, customers, distribution methods, and regulatory environment.

Revenue Recognition

Revenue shown in the statement of profit or loss and other comprehensive income comprises the fair value of amounts received and receivable by the Parent and Group for goods and services supplied to customers, net of rebates and discounts and after eliminating sales within the Group.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued
FOR THE YEAR ENDED 30 JUNE 2013

Supply of Goods

Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer and collectibility of the related receivables is reasonably assured.

Supply of Services

Revenue from the supply of services is recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services provided.

Interest

Interest income is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period. When a receivable is impaired, the carrying amount is reduced to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend Income

Dividend income is recognised when the right to receive payment has been established.

Rental Income

Rental income is recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease.

Trailing Commissions

Kiwibank receives trailing commissions from lenders on loans they have settled that were originated by Kiwibank. The trailing commissions are received over the life of the loans based on loan book balance outstanding. Kiwibank also makes trailing commission payments to Franchisees based on the loan book balance outstanding.

On initial recognition, trailing commission revenue and receivables are recognised at fair value, being the expected future trailing commission receivables discounted to their net present value. In addition, an associated payable and expense to the Franchisee are also recognised, initially measured at fair value being the future trailing commission payable to Franchisees discounted to their net present value.

Subsequent to initial recognition and measurement, both the trailing commission asset and trailing commission payable are measured at amortised cost. The carrying amount of the trail commission asset and trailing commission payable are adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in the statement of profit or loss and other comprehensive income.

Prepaid Product Revenue

Allowance is made for the assessed amount of revenue from prepaid product sales as at balance date in respect of which the service has not yet been provided.

Recognition of Loan Related Fees and Costs for Loans Not at Fair Value Through Profit or Loss

Loan origination fees, if material, are recognised as income over the life of the loan as an adjustment of yield. Commitment fees are deferred, and if the commitment is exercised, recognised in income over the life of the loan as an adjustment of yield or, if unexercised, recognised in income upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised in income when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised in income over the commitment period. If material, loan related administration and service fees are recognised in income over the period of service.

Direct loan origination costs, if material, are netted against loan origination fees and the net amount recognised in income over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

Prepayment penalty fees are estimated over the life of a loan as an adjustment of yield. To the extent actual prepayment penalty fees differ from original estimation, an adjustment is made and recorded in interest income immediately.

Interest Expense

Interest expense is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period. Borrowing costs associated with qualifying assets are capitalised as incurred, otherwise accounted for as interest expense in the statement of profit or loss and other comprehensive income.

Foreign Currency Translation

Functional and Presentation Currency

The functional currency of the Parent is New Zealand dollars. The functional currency of some subsidiary companies differs to that of the Parent. The presentation currency of the Parent and Group is New Zealand dollars.

Transactions and Balances

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of profit or loss and other comprehensive income. At balance date, foreign denominated monetary assets and liabilities are translated at the closing exchange rate, with exchange variations arising from these translations being recognised in the statement of profit or loss and other comprehensive income, except where deferred in equity as a qualifying cash flow hedge or qualifying net investment hedge. Foreign denominated non-monetary assets and liabilities measured at historic cost are translated using the exchange rate at the date of transaction. Foreign denominated non-monetary assets and liabilities measured at fair value are translated using the exchange rate at the fair value date. Any associated translation differences match the treatment of the fair value gains or losses either to the statement of profit or loss and other comprehensive income or directly to equity.

Group Companies

The assets and liabilities of Group entities where their functional currency differs from the Group's presentation currency are translated at the closing rate. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences arising from such translations are recognised in the foreign currency translation reserve, together with unrealised gains and losses on foreign currency monetary liabilities that are identified as hedges against these operations. When a foreign operation is sold, the balance of the foreign currency translation reserve is recognised in the statement of profit or loss and other comprehensive income as part of the gain or loss on sale.

Financial Instruments

Designation of financial assets and financial liabilities by individual entities into instrument categories is determined by the business purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

Financial Assets

The Parent and Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available for sale financial assets. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Derivatives are categorised as held for trading unless they are designated as hedges. Financial assets at fair value through profit or loss are recognised initially at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of profit or loss and other comprehensive income in the period in which they arise. Transaction costs are expensed as they are incurred.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group designates as at 'fair value through profit or loss'. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of profit or loss and other comprehensive income. Loans and receivables include cash and cash equivalents, trade and other receivables, loans and receivables not at fair value through profit or loss, amounts due from other financial institutions, other assets, and borrowings.

The Group assesses at the end of each reporting period whether there is objective evidence that loans and receivables are impaired and the Group will not be able to collect all amounts due as per the original transaction terms. Significant financial difficulties of the issuer or obligor, breach of contract (such as a default or delinquency in interest or principal payments), disappearance of an active market for the asset, or it becomes probable that the borrower will enter bankruptcy or other financial reorganisation are all considered indicators that the asset is impaired.

If there is objective evidence that individual loans and receivables are impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of a previously recognised impairment loss is recognised in the statement of profit or loss and other comprehensive income.

(c) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available for sale financial assets are initially recorded at fair value plus

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued
FOR THE YEAR ENDED 30 JUNE 2013

transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised directly in other comprehensive income except for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses which are all recognised in the statement of profit or loss and other comprehensive income. For non-monetary available for sale financial assets (such as equity instruments) the fair value movements recognised in other comprehensive income include any related foreign exchange component. On derecognition the cumulative fair value gain or loss previously recognised directly in other comprehensive is recognised in the statement of profit or loss and other comprehensive income.

The Group assesses at the end of each reporting period whether there is objective evidence that available for sale financial assets are impaired. For debt securities, the Group assesses if any impairment indicators exist such as significant financial difficulties of the issuer or obligor, breach of contract (such as a default of delinquency in interest or principal payments), disappearance of an active market for the asset, or it becomes probable that the borrower will enter bankruptcy or other financial reorganisation. In the case of equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss and other comprehensive income. Impairment losses recognised in the statement of profit or loss and other comprehensive income on equity instruments are not reversed through the statement of profit or loss and other comprehensive income.

If, in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of profit or loss and other comprehensive income.

Purchases and sales of financial assets at fair value through profit or loss, and available for sale are recognised on trade-date – the date on which the Parent or Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Parent or Group has transferred substantially all risks and rewards of ownership. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), fair value is established by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Asset Quality

Impaired assets consist of assets acquired through the enforcement of security and other impaired assets. Assets acquired through security enforcement are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of a debt. Other impaired assets refer to any credit exposure for which an impairment loss is recognised in accordance with NZ IAS 39 – Financial Instruments: Recognition and Measurement.

A 90 day past due asset is any loan which has not been operated by the borrower within its key terms for at least 90 days and which is not an impaired asset. Although not classified as impaired assets or past due assets, assets in which the counter-party is in receivership, liquidation, bankruptcy, statutory management or any form of administration are reported separately. These are classified as "other assets under administration".

Financial Liabilities

The Parent and Group classifies their financial liabilities as either fair value through profit or loss or at amortised cost. Financial liabilities held for trading and financial liabilities designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of profit or loss and other comprehensive income. Transactions costs are expensed as they are incurred.

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Amortisation and foreign exchange gains and losses, are recognised in the statement of profit or loss and other comprehensive income as is any gain or loss when the liability is derecognised.

Derivative Financial Instruments

Derivative financial instruments are recognised at fair value as either financial assets or financial liabilities. Derivatives that do not qualify for hedge accounting are classified as held for trading financial instruments with fair value gains or losses recognised in the statement of profit or loss and other comprehensive income.

Hedge Accounting

For derivatives designated as hedging instruments the method of recognising the resulting gain or loss depends on the nature of the item being hedged.

The Group designates certain derivatives as either:

→ Hedges of fair value of recognised asset or liabilities or a firm commitment (fair value hedge);

- Hedges of particular risk associated with a recognised asset or liability or a highly probably forecast transaction (cash flow hedge); or
- Hedges of a net investment in a foreign operation (net investment hedge).

Derivatives that are designated as hedging instruments in a hedging relationship that qualifies for hedge accounting are accounted for as follows:

(a) Fair Value Hedges – gains or losses are recognised in the statement of profit or loss and other comprehensive income within other income. The carrying amount of the hedged item is adjusted by the gain or loss on the hedged item in respect of the risk being hedged, with this gain or loss also being recognised in the statement of profit or loss and other comprehensive income. The Group applies fair value hedge accounting for hedging fixed interest risk on borrowings. Any gain or loss relating to any ineffective portion of the hedge is recognised in the statement of profit or loss and other comprehensive income within other income.

(b) Cash Flow Hedges – the portion of the gain or loss determined as being effective is recognised directly in equity, with any ineffective portion of the gain or loss being recognised in the statement of profit or loss and other comprehensive income within other income.

(c) Hedges of a Net Investment – the portion of the gain or loss determined as being effective is recognised directly in equity, with any ineffective portion of the gain or loss being recognised in the statement of profit or loss and other comprehensive income within other income.

Gains or losses recognised directly in equity are transferred to the statement of profit or loss and other comprehensive income in the same periods as when the hedged item affects the statement of profit or loss and other comprehensive income.

Financial assets and financial liabilities are recorded as current assets and current liabilities except if they mature, or are expected to be realised, more than 12 months from balance date.

Fair Value Estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Parent and Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Parent and Group use a variety of methods and make assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date.

The nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Parent and Group for similar financial instruments.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Goods and Services Tax (GST)

The statements of profit and loss and other comprehensive income and the statements of cash flows have been prepared so that all components are stated exclusive of GST, except where GST is not recoverable. All items in the statement of financial position are stated net of GST with the exception of receivables and payables, which include GST invoiced.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits that are readily convertible to known amounts of cash, net of outstanding bank overdrafts and inter-bank balances arising from the daily RBNZ (Reserve Bank of New Zealand) settlement process.

Trade Receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. A provision for impairment is established when there is objective evidence that the Parent or Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Any movement in the provision is recognised in the statement of profit or loss and other comprehensive income.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis. The cost of inventories comprises design costs, raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Property, Plant and Equipment

Property, plant and equipment other than land and buildings are recorded at cost less accumulated depreciation and any accumulated impairment losses.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued FOR THE YEAR ENDED 30 JUNE 2013

Land and buildings are initially recorded at cost, and subsequently are recorded at fair value, as determined by an independent valuer, less any impairment losses and accumulated depreciation (for buildings) since the assets were last revalued. Land and buildings are valued annually at balance date. To the extent that any revaluation gain reverses a loss previously charged to the statement of profit or loss and other comprehensive income for the asset item, the gain is credited to the statement of profit or loss and other comprehensive income. Otherwise, revaluation gains are credited to a revaluation reserve for the asset. To the extent that any revaluation loss reverses a gain previously credited to an asset revaluation reserve for the asset item, the loss is debited to the asset revaluation reserve. Otherwise, revaluation losses are recognised in the statement of profit or loss and other comprehensive income. On revaluation any accumulated depreciation is eliminated against the gross carrying amount of the asset. Each year the difference between depreciation based on the revalued amount of the asset charged to the statement of profit or loss and other comprehensive income and depreciation based on the asset's original cost is transferred from the asset revaluation reserve to retained earnings.

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use. Costs cease to be capitalised as soon as the asset is ready for productive use.

Any realised gains or losses arising from disposal of property, plant and equipment are recognised in the statement of profit or loss and other comprehensive income. Any balance in an asset revaluation reserve attributable to the disposed asset is transferred to retained earnings at the time of disposal.

Depreciation

Depreciation is charged on a straight-line basis at rates that will allocate the cost or valuation of items of property, plant and equipment (except land, which is not depreciated), less any estimated residual values, over their estimated useful life.

The useful lives of the major classes of property, plant and equipment have been estimated as follows:

Buildings	25-50 years
Plant and equipment	8-10 years
Motor vehicles	5-10 years
Computers, office equipment	2-5 years
Furniture and fittings	10 years
Aircraft	1-10 years

Investment Property

Investment properties are measured at fair value, as determined by an independent valuer. The basis of fair value is market value. Fair value gains or losses are recognised in the statement of profit or loss and other comprehensive income.

Assets Held for Sale

Assets held for sale are recognised at the lower of net book value transferred from property, plant and equipment and fair value less costs to sell.

Investments held for disposal are stated at the lower of carrying amount and fair value less costs to sell.

Intangible Assets

Intangible assets are recorded at cost less any accumulated amortisation and accumulated impairment losses. The cost of identifiable intangible assets acquired in a business combination is their fair value at date of acquisition.

Intangible assets with finite useful lives are amortised on a straight-line basis over the useful life of the asset, with any amortisation charge being recognised in the statement of profit or loss and other comprehensive income. Assets with indefinite useful lives are not amortised, but are tested at least annually for impairment.

Realised gains and losses arising from disposal of intangible assets are recognised in the statement of profit or loss and other comprehensive income in the period in which the transaction occurs.

Goodwill

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the amount of any non-controlling interest over the net identifiable assets acquired and liabilities assumed.

Purchased goodwill is recognised as an asset at cost and tested for impairment at least annually and whenever there are indicators of impairment. Goodwill on acquisitions of subsidiaries and businesses is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. For the purposes of impairment testing, goodwill is allocated to cash-generating units. Any impairment is recognised as an expense in the statement of profit or loss and other comprehensive income. Impairment losses on goodwill are not reversed. Internally generated goodwill is not recognised on the statement of financial position.

Computer Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the asset to use. These costs are amortised over the estimated useful lives of the licences (being 3 to 5 years). Developed software assets expected to generate net economic benefits beyond 12 months are recognised as intangible assets. The cost of developed software assets includes the cost of all materials used in construction, direct labour on the project, and an appropriate proportion of variable and fixed overheads. Developed software intangible assets are amortised over their estimated useful lives (being 3 to 5 years).

Acquired Customer Relationships

Acquired customer relationships that are expected to generate net economic benefits beyond 12 months are recognised as intangible assets. Acquired customer relationships have finite lives and are amortised to the statement of profit or loss and other comprehensive income on a straight-line basis over their estimated useful lives which is currently between 10 and 20 years.

Impairment of Non-Financial Assets

Intangible assets with indefinite useful lives (including goodwill) and intangible assets not yet available for use (software under development) are impairment tested at least annually at balance date, and whenever there are indicators of impairment. Where the asset's recoverable amount is less than its carrying amount an impairment loss is recognised in the statement of profit or loss and other comprehensive income for the difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The carrying amounts of other assets, including intangible assets with finite useful lives, are reviewed at least annually to determine if there is any indication of impairment. Where such an indication exists the asset is impairment tested, with any impairment losses being recognised in the statement of profit or loss and other comprehensive income, except where the asset is carried at a revalued amount in which case any impairment loss is recognised in the same way as revaluation losses. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Taxation

Income tax expense includes both the current year's provision for current tax and the income tax effect of temporary differences (deferred tax), calculated using the liability method. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Parent or Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Trade Payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Employee Benefits

Employee Entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of profit or loss and other comprehensive income when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows. Leave entitlements which can be carried forward (ie. sick leave), but are unused at balance date, are accrued based on the additional cost expected to be paid as a result of the accumulated balance.

Pension Liabilities

Obligations for contributions to defined contribution retirement plans are recognised in the statement of profit or loss and other comprehensive income as they fall due.

Termination Benefits

Termination benefits are recognised in the statement of profit or loss and other comprehensive income only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits to be settled within 12 months are reported at the amount expected to be paid, otherwise they are reported at the present value of the estimated future cash outflows.

Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of economic resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase are retained within the relevant financial asset category and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the statement of profit or loss and other comprehensive income over the

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued
FOR THE YEAR ENDED 30 JUNE 2013

term of the repurchase agreement. Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the statement of profit or loss and other comprehensive income over the term of the reverse repurchase agreement.

Deferred Settlement Liabilities

Deferred settlement liabilities are recognised in the statement of financial position at fair value and are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Changes in the fair value, other than the imputed interest, of a deferred settlement liability in a business combination pre 1 July 2009 are charged to goodwill where settlement is contingent. For business combinations post 1 July 2009, changes in fair value are recognised in the statement of profit or loss and other comprehensive income.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, except where such borrowings are part of a documented fair value hedge. Any difference between the proceeds and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest rate method. The carrying value of borrowings which are part of a documented fair value hedge, are adjusted by the change in the fair value of the borrowing attributable to the hedged risk. Any adjustment to carrying value is recognised in the statement of profit or loss and other comprehensive income.

Leases

Finance Leases

Finance leases transfer to the lessee substantially all the risks and rewards incidental to the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the lessee expects to receive benefits from their use.

Operating Leases

Payments made under operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in the statement of profit or loss and other comprehensive income in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

Contingent Assets and Contingent Liabilities

Contingent assets are disclosed in the notes only if it is probable that the benefit will be realised. Contingent liabilities are disclosed in the notes unless likelihood of an outflow of resources is remote.

Equity

Ordinary shares and perpetual preference shares are recognised in the statements of financial position at the amount of consideration received, net of issue costs.

Dividends Paid

Dividends distributed to the shareholders are recognised as a liability in the statements of financial position in the period in which the dividends are approved.

Statement of Cash Flows

The following are the definitions of the terms used in the statement of cash flows:

(a) Cash is considered to be cash on hand, cash in transit, bank accounts and deposits readily convertible to cash.

(b) Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and of investments not falling within the definition of cash.

(c) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Parent and Group. This includes equity, and debt not falling within the definition of cash. Financing activities also include dividends paid in relation to the capital structure.

(d) Operating activities include all transactions and other events that are not investing or financing activities.

Comparative Figures

Certain amounts in the comparative information have been reclassified to ensure consistency with the current year's presentation.

Critical Accounting Judgements, Estimates and Assumptions

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.
The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Goodwill

The determination of the fair value of assets and liabilities requires the exercise of management judgement. Different determinations of fair values would result in changes to the goodwill recognised.

Goodwill is tested for impairment at least annually. In assessing any impairment goodwill is allocated to cash-generating units (CGUs), and the carrying value of the CGU is compared to its recoverable amount. Recoverable amount is the higher of the CGU's fair value, less cost to sell, and its value-in-use. Value-in-use is the present value of expected future cash flows from the CGU. Fair value is the amount obtainable for the sale of the CGU in an arm's length transaction between knowledgeable, willing parties. The Group has made judgements about the future profitability of the CGUs and the appropriate discount rate for assessing value-in-use. Refer to note 12.

Employee Entitlements:

Restructuring Charges:

Restructuring charges comprise estimated costs for redundancies. These charges are calculated based on detailed plans that are expected to improve the Group's cost structure and productivity. The outcomes of similar historical restructuring plans have been utilised to minimise any uncertainties arising. As at 30 June 2013 a $22.9m restructuring of the Core Postal Services area of the Group was announced (30 June 2012: no restructuring plans were announced).

Leave entitlements:

The Group has been involved in litigation around the calculation of certain leave payments under the Holiday's Act 2003. As at 30 June 2013, a provision has been raised, refer to Note 2 for details. While any changes in management assumptions would result in different valuations, management considers the effect of any likely changes would be immaterial to the Group's result or financial position.

Impairment of assets:

The Group tests for impairment of property, plant and equipment when indicators exist that impairment may have occurred. The recoverable amount of these assets has been based on fair value less costs to sell. Refer to Note 11 for details.

Kiwibank Fair Value Estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the end of reporting period date or determined using market accepted valuation models as appropriate (including discounted cash flow models) based on observable market quotes. The quoted market price used for financial assets held is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not quoted in an active market, including Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008, and over-the-counter derivatives, is determined by using valuation techniques. The Banking Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

The fair value of Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008 is determined by discounting estimated cash flows expected to be received. Expected cash flows are after allowance for amortisation and are discounted at current market rates including an adjustment for credit risk. An amortisation rate of 3.45% was applied at 30 June 2012. There was no amortisation rate applied at 30 June 2013 as there were no loans for which the fair value was determined by a valuation technique at this date. Only scheduled repayments or contractual lump sum repayments are taken into account in calculating the amortisation rate. Prepayment risk associated break fees ensures that no mark-to-market impact needs to be considered. The curve against which each loan is discounted is constructed using the end of period NZ Wholesale curve as the benchmark rate to develop a zero curve which is then adjusted by an assessed market credit spread component.

Asset backed securities not traded in active markets are valued using observable external third party inputs.

Kiwibank Impairment Losses on Loans and Advances not Held at Fair Value Through Profit or Loss

Loan portfolios are assessed for impairment on at least a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, judgements are made as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The total provision comprises a specific impairment and collective impairment provision. Specific provisions have been raised where objective evidence of impairment exists. If no objective evidence of impairment exists exposures are included in a group of financial assets (retail lending and business banking lending) and collectively assessed for impairment. Collective impairment calculations have been determined by a systematic provisioning models include geographical concentration risk, personal savings levels, unemployment levels, property price discounts and insurance recoveries.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1. REVENUE AND OTHER INCOME

		GROUP		PARENT	
	Note	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
Revenue from Operations					
Delivery of services		**1,263,412**	910,854	**723,761**	678,715
Sale of goods		**16,728**	21,768	**16,728**	21,768
Rental income – properties held for sale		**268**	–	**268**	–
Rental income – investment properties		**718**	905	**718**	905
Banking interest revenue (net)		**274,355**	256,941	**–**	–
Banking and lending fee revenue		**105,187**	94,329	**–**	–
Banking commission fees		**27,138**	24,576	**–**	–
Total Revenue from Operations		**1,687,806**	1,309,373	**741,475**	701,388
Other Income / (Losses)					
Financial instruments at fair value net gain/(loss)		**809**	(738)	**1,175**	(5,432)
Dividends from associates and jointly controlled entities	13	**–**	–	**3,521**	7,851
Dividends from subsidiaries		**–**	–	**19,698**	–
Revaluation of land and buildings		**(1,108)**	115	**(1,108)**	115
Revaluation of investment property		**(661)**	266	**(661)**	266
Other dividends received		**17**	2	**15**	2
Total Other Income / (Losses)		**(943)**	(355)	**22,640**	2,802
Net Banking Interest Revenue					
Banking interest revenue					
– Loans and advances at fair value through profit or loss		**2,165**	17,685	**–**	–
– Loans and advances at amortised cost		**722,369**	720,569	**–**	–
– Government and local authority securities		**26,284**	29,639	**–**	–
– Other securities		**27,220**	(690)	**–**	–
– Cash and liquid assets		**4,582**	4,240	**–**	–
– Income from impaired assets		**4,684**	961	**–**	–
Total banking interest revenue		**787,304**	772,404	**–**	–
Banking interest expense					
– Deposits by customers		**416,790**	417,321	**–**	–
– Debt securities issued		**96,159**	98,142	**–**	–
Total banking interest expense		**512,949**	515,463	**–**	–
Net banking interest revenue		**274,355**	256,941	**–**	–

		GROUP		PARENT	
	Note	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
Financial instruments at fair value net gain/(loss)					
Financial assets designated at fair value through profit or loss upon initial recognition		**(628)**	(9,795)	**–**	–
Derivative financial instruments		**2,639**	7,670	**1,175**	(5,432)
Financial liabilities designated at fair value through profit or loss upon initial recognition		**167**	(155)	**–**	–
Financial assets held for trading		**(244)**	3,065	**–**	–
Net ineffectiveness on qualifying cash flow hedges		**90**	266	**–**	–
Net ineffectiveness on qualifying fair value hedges		**321**	(288)	**–**	–
Cumulative gain/(loss) transferred from the available for sale reserve		**1,763**	841	**–**	–
Cumulative loss transferred from the cash flow hedge reserve		**(2,439)**	(2,526)	**–**	–
Net foreign exchange gains		**(860)**	184	**–**	–
Total financial instruments at fair value net gain/(loss)		**809**	(738)	**1,175**	(5,432)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2. EXPENDITURE

		GROUP		PARENT	
	Note	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
Cost of goods and services sold		**77,868**	96,946	**35,151**	36,718
Delivery costs		**354,894**	171,071	**172,272**	167,194
Depreciation					
– Buildings		**2,284**	3,299	**2,284**	3,299
– Motor vehicles		**590**	355	**324**	345
– Furniture and fittings		**9,694**	9,757	**7,273**	7,530
– Computer equipment		**10,229**	14,913	**2,897**	4,653
– Plant and equipment		**15,375**	9,902	**6,300**	5,568
– Aircraft		**1,259**	1,798	**–**	–
Total depreciation		**39,431**	40,024	**19,078**	21,395
Amortisation					
– Computer software		**35,143**	33,020	**12,784**	12,668
– Acquired customer contracts		**–**	–	**–**	–
– Acquired customer relationships		**1,619**	2,442	**–**	–
– Other intangible assets		**11**	68	**11**	–
– Deferred expenditure		**1,051**	1,001	**1,051**	1,001
Total amortisation		**37,824**	36,531	**13,846**	13,669
Bad debt expense		**1,227**	4,552	**637**	297
Impairment					
– Inventories		**2,559**	–	**2,196**	–
– Property, plant and equipment	11	**25,281**	7	**25,281**	2,695
– Software	12	**13,079**	4,897	**13,079**	–
– Aircraft	11	**(1,006)**	(402)	**–**	–
– Investments		**–**	–	**32,112**	3,520
– Loans		**–**	1,579	**15,070**	13,270
– Goodwill	12	**39**	1,270	**–**	–
– Banking loans and advances		**7,427**	35,160	**–**	–
Total impairment		**47,379**	42,511	**87,738**	19,485

		GROUP		PARENT	
	Note	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
Property operating lease and rental costs		**55,120**	35,683	**35,902**	28,619
Other operating lease and rental costs		**15,628**	10,519	**4,438**	3,616
Repairs and maintenance – investment properties		**121**	286	**121**	286
Research and development costs		**28**	32	**28**	28
Salaries and wages		**618,066**	492,848	**337,013**	297,454
Restructuring costs	17	**24,917**	1,690	**23,954**	691
Superannuation – defined contribution plans		**25,658**	20,874	**13,816**	13,725
Fees paid to auditors		**2,789**	2,310	**969**	821
Director fees		**1,016**	878	**503**	514
Donations		**116**	99	**53**	35
Sponsorships		**4,663**	3,637	**3,140**	3,014
Foreign exchange net loss/(gain)		**(1,087)**	(1,110)	**3,387**	(292)
Sale of assets net (gain)/ loss		**1,826**	3,937	**1,306**	1,922
Subvention payments		**–**	–	**–**	2,942
Computer Expenses		**59,394**	52,186	**36,011**	32,211
Marketing Expenses		**26,358**	27,140	**9,833**	9,792
Property operational outgoings		**29,612**	22,383	**20,824**	18,761
Uncalled capital line fee		**3,600**	3,600	**–**	–
Other expenditure		**196,076**	154,899	**87,447**	62,177
Total Expenditure		**1,622,524**	1,223,526	**907,467**	735,074

Included in Salaries & Wages is an amount calculated relating to the period from 2002 until 2009, as a result of a Court of Appeal decision, in respect of certain leave payments under the Holidays Act 2003. This matter was previously disclosed as a Contingency in the 30 June 2012 financial statements.

Fees Paid to Auditors

The auditor of the Parent and Group is PricewaterhouseCoopers, on behalf of the Auditor-General

Amounts paid or payable to PricewaterhouseCoopers				
– Audit of the financial statements	**2,269**	1,751	**702**	606
– Assurance related services	**190**	161	**58**	–
– Tax compliance	**76**	72	**76**	32
– Half year agreed upon procedures review	**170**	164	**74**	75
– Other services	**84**	162	**59**	108
Total services	**2,789**	2,310	**969**	821

Assurance related services fees in the current year primarily relate to Kiwibank off-quarter general disclosure statements, covered bond procedures, and assurance services related to determining the potential liability under the Holidays Act (year-ended 30 June 2012: off-quarter general disclosure statements).

Tax compliance fees relate to tax return reviews (year-ended 30 June 2012: tax return reviews).

Other services fees relate to taxation advice, workplace accidents analysis, and capital structure advice related to NZ Post subsidiaries (year-ended 30 June 2012 – taxation advice concerning GST, financial arrangements and debt write-offs and accounting advice related to covered bonds).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
3. FINANCE COSTS (NET)				
Discount / (unwind) on deferred net settlement	**199**	(97)	**25**	(97)
Interest expense	**(28,777)**	(24,003)	**(28,045)**	(24,313)
Interest revenue	**3,234**	9,522	**21,033**	14,163
Total Finance Costs (Net)	**(25,344)**	(14,578)	**(6,987)**	(10,247)
4. INCOME TAX				
Profit/(loss) before income tax	**122,245**	190,107	**(25,735)**	(14,281)
Tax at 28%	**34,229**	53,230	**(7,206)**	(3,999)
Non-assessable revenue				
– share of net (profit) / loss of associates and jointly controlled entities	**(2,160)**	(4,644)	**–**	–
– gain on sale of assets	**(617)**	–	**(617)**	–
– gain on sale of investments	**(21,151)**	(28,730)	**(34,889)**	(7,518)
– dividends received	**–**	–	**(6,501)**	(2,198)
– other revenue	**(2,936)**	(1,848)	**(6)**	(111)
Non-deductible expenditure				
– impairment of investments	**–**	–	**13,211**	4,701
– other expenditure	**1,205**	3,602	**924**	1,147
Other adjustments				
– deferred tax adjustments	**(4,309)**	109	**(4,484)**	29
– Impact of early adoption of NZ IAS 12 Revised	**–**	(409)	**–**	(409)
– prior year adjustment	**(3,281)**	(1,187)	**375**	(2,223)
– impact on transfer of assets	**444**	–	**(654)**	–
– revaluation of properties through profit and loss	**(211)**	–	**(211)**	–
– impact of change in corporate tax rate	**–**	203	**–**	104
– Australian tax rate adjustment	**34**	85	**–**	–
Income Tax Expense/(Credit)	**1,247**	20,411	**(40,058)**	(10,477)
Comprising:				
Current tax	**27,588**	23,908	**(10,225)**	(8,846)
Prior year adjustment	**(3,281)**	(1,187)	**375**	(2,223)
Deferred tax adjustments	**(4,076)**	(97)	**(5,348)**	(275)
Deferred tax	**(18,984)**	(2,213)	**(24,860)**	867
Total income tax expense/(credit)	**1,247**	20,411	**(40,058)**	(10,477)

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Taxation (Payable)/Receivable				
Balance at beginning of the year	**(7,239)**	3,172	**8,039**	4,161
Tax on current year profit	**(27,588)**	(23,908)	**10,225**	8,846
Prior year adjustment	**226**	(1,681)	**(403)**	(580)
Payments / (refunds)	**28,926**	19,115	**(8,581)**	(4,596)
Withholding tax credits	**1,254**	108	**–**	3
Provision for FVTPL	**1,232**	(1,777)	**–**	–
Transfers from deferred tax	**413**	80	**–**	–
Acquisitions/disposals/amalgamations	**(660)**	(2,324)	**–**	206
Other adjustments	**(2)**	(24)	**–**	–
Balance at end of the year	**(3,438)**	(7,239)	**9,280**	8,039
Deferred Tax Asset/(Liability)				
Balance at beginning of the year	**16,796**	17,531	**(15,586)**	(21,522)
Tax on current year profit	**18,984**	2,213	**24,860**	(867)
Revaluation of properties recognised in equity	**950**	3,019	**950**	3,019
Prior year adjustment	**3,950**	1,882	**28**	1,566
Deferred tax on cash flow hedge reserve	**(12,060)**	(5,243)	**(1,127)**	706
Impact of change in corporate tax rate	**-**	(116)	**-**	(104)
GMI Intangibles	**-**	(5,433)	**-**	-
Transfers to current tax	**(413)**	(80)	**-**	-
Disposals of properties	**4,525**	(29)	**4,525**	(29)
Acquisitions/(disposals)	**(389)**	1,368	**-**	-
Impact of early adoption of NZ IAS 12 (Revised)	**-**	409	**-**	409
Other adjustments	**(416)**	1,275	**822**	1,236
Balance at end of the year	**31,927**	16,796	**14,472**	(15,586)
Comprising:				
Deferred tax assets				
Changes through equity:				
– Cash flow hedges	**584**	12,605	**1,272**	2,399
Changes through profit or loss:				
– Loans at fair value through profit or loss	**–**	9	**–**	–
– Provision for loan impairment	**20,896**	25,998	**–**	–
– Commissions receivable	**1,741**	1,565	**–**	–
– Other deferred tax assets	**–**	–	**1,729**	–
– Aircraft revaluations	**–**	504	**–**	–
– Provisions	**28,194**	15,353	**20,893**	10,274
Total deferred tax assets	**51,415**	56,034	**23,894**	12,673

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

4. INCOME TAX continued

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Deferred tax liabilities				
Changes through equity:				
– Revalued land and buildings	**7,397**	8,346	**7,397**	8,346
Changes through profit or loss:				
– Investment properties	**725**	393	**725**	393
– Other deferred tax liabilities	**371**	–	**–**	–
– Intangible assets	**5,297**	5,756	**–**	–
– Depreciation on property, plant and equipment	**2,356**	16,454	**1,300**	17,067
– Amortisation on software assets	**3,342**	8,289	**–**	2,453
Total deferred tax liabilities	**19,488**	39,238	**9,422**	28,259
Net deferred tax asset / (liability)	**31,927**	16,796	**14,472**	(15,586)
Expected to be recovered after 12 months	**(18,348)**	(33,785)	**(7,778)**	(24,355)
Expected to be recovered within 12 months	**50,275**	50,581	**22,250**	8,769
Imputation Credits available for use in the future	**246,194**	222,418	**245,100**	221,423

There are no material unrecognised income tax losses or temporary differences carried forward.
There are no material unrecognised temporary differences associated with the Group's investments in subsidiaries, associates or jointly controlled entities.

5. EQUITY

Ordinary Share Capital

	GROUP 2013	GROUP 2012	PARENT 2013	PARENT 2012
Balance at the beginning of the year	**192,200**	192,200	**192,200**	192,200
Balance at the end of the year	**192,200**	192,200	**192,200**	192,200

At 30 June 2013 there were 492.2m authorised ordinary shares on issue (30 June 2012: 492.2m). 192.2m are fully paid (30 June 2012: 192.2m). The shares have no par value. All shares have equal voting rights and share equally in dividends and surplus on winding up. In 2011 the Group received from the Government an uncalled capital facility of $300m on commercial terms which can be drawn on in response to a significant unforeseen event.

A final dividend for 2012 of $2.5m was paid to shareholders in September 2012 ($0.01 per fully paid share).

An interim dividend of $2.5m was paid to shareholders in March 2013 at $0.01 per fully paid share (2012: Interim Dividend $0.01 per fully paid share).

Non-controlling Interest

	GROUP 2013	GROUP 2012	PARENT 2013	PARENT 2012
Balance at the beginning of the year	**145,845**	146,639	**–**	–
Transaction with non-controlling interest in Kiwi Asset Finance Limited	**889**	(794)	**–**	–
Balance at the end of the year	**146,734**	145,845	**–**	–

There are $150m perpetual callable non-cumulative preference shares issued for cash at $1 per share by Kiwi Capital Securities Limited. All shares were fully paid as at balance date. The perpetual preference shares are non-redeemable and carry no voting rights. Dividends are paid quarterly in arrears at the discretion of the directors. The costs associated with this share issue have been netted against the perpetual preference share capital in the statement of financial position.

Property Revaluation Reserves

The property revaluation reserves are used to record increments and decrements in the fair value of land and buildings to the extent that they offset for each asset.

Available for Sale Reserve

The available for sale reserve records movements in the fair value of available for sale financial assets.

Cash Flow Hedge Reserve

The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries where their functional currency differs from the Group's presentation currency.

	Note	GROUP		PARENT	
		2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
6. CASH AND CASH EQUIVALENTS					
Cash on hand		**12,112**	9,588	**12,107**	9,582
Cash at bank		**104,643**	144,280	**48,704**	87,081
Deposits		**80,784**	1,003	**90,000**	–
Total Cash and Cash Equivalents		**197,539**	154,871	**150,811**	96,663
Balances not available for use by the Group:					
Cash held on behalf of agencies		**1,550**	16,700	**1,550**	16,700
7. TRADE AND OTHER RECEIVABLES					
Trade receivables		**179,320**	220,445	**108,333**	112,314
Provision for impairment		**(819)**	(411)	**(372)**	(110)
Trailing commissions receivable		**8,950**	5,256	**–**	–
Interest receivable		**2,201**	2,481	**6,648**	2,465
Receivables from related parties	13	**754**	864	**4,147**	7,088
Other Receivables		**47**	47	**–**	–
Total Trade and Other Receivables		**190,453**	228,682	**118,756**	121,757
Comprising:					
Current trade and other receivables		**177,834**	222,448	**106,184**	115,523
Non-current trade and other receivables		**12,619**	6,234	**12,572**	6,234
Total trade and other receivables		**190,453**	228,682	**118,756**	121,757

Impaired receivables mainly relate to receivables older than 90 days outstanding based upon the expectation of non-recovery of such debtors, as well as receivables that have been referred to a third party debt collector, or where a customer has entered into liquidation or bankruptcy proceedings.

	GROUP 2013 $'000	GROUP 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
Trade Receivables Past Due but Not Impaired				
Past due up to 30 days	**25,631**	21,739	**15,403**	17,113
Past due 31-60 days	**2,770**	8,252	**1,036**	921
Past due 61-90 days	**1,410**	1,252	**518**	611
Past due → 90 days	**513**	1,733	**114**	196
Total	**30,324**	32,976	**17,071**	18,841

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

7. TRADE AND OTHER RECEIVABLES continued

There is no collateral held over past due trade receivables.

The amount which is not overdue or impaired has been assessed for collectibility and no additional risk of default has been identified.

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Impaired Assets – Trade Receivables				
The breakdown of the gross amount of individually impaired trade receivables is as follows:				
Gross Impaired				
Balance at the beginning of the year	**(411)**	(3,950)	**(110)**	(3,880)
Utilisation of provision	**411**	3,950	**110**	3,880
Additional provision	**(819)**	(411)	**(372)**	(110)
Balance at the end of the year	**(819)**	(411)	**(372)**	(110)

The above trade receivables have been impaired as their recovery has been assessed as being unlikely. There are no other classes of impaired assets, except as disclosed in Note 27.

8. INVENTORY

Raw materials/supplies	**1,639**	2,989	**1,166**	1,116
Work in progress	**94**	53	**94**	53
Finished goods	**9,509**	9,540	**6,278**	6,061
Total Inventory	**11,242**	12,582	**7,538**	7,230

9. ASSETS HELD FOR SALE

Assets held for sale consist of all land and building assets that the Board has agreed to sell, and that are actively being marketed for sale as at 30 June 2013. All properties are expected to be sold within 12 months of balance date.

During the year six properties with a carrying value of $85.6m were transferred from investment properties and property, plant and equipment into this category. (2012: no properties were transferred). Three of these properties were sold during the year realising a net gain on sale of $2.2m (2012: no properties were sold).

As at 30 June 2013 three properties included within this category are subject to an unconditional sale and purchase agreement.

Properties held for sale are included in the Core Postal Services segment assets balance.

10. INVESTMENT PROPERTIES

Balance at the beginning of the year	**14,445**	9,470	**14,445**	9,470
Additions	**–**	4,709	**–**	4,709
Net revaluation	**(661)**	266	**(661)**	266
Transfers to assets held for sale	**(9,740)**	–	**(9,740)**	–
Balance at the end of the year	**4,044**	14,445	**4,044**	14,445

Land and buildings are classified as investment property when:

- all of the space is occupied by external tenants; or
- there is a mixture of internal and external tenancies but the Group tenants occupy an insignificant portion of the total space, and there is no clear intention for this to change in the future.

The above criteria is applied to each separable portion of a building, hence can result in part of a building being classified as investment property, and part being recognised as property, plant and equipment.

During the prior year no properties were transferred to Property, Plant and Equipment (2012: no properties were transferred).

All investment properties were independently valued at 30 June 2013 by Bayleys Valuations Limited (30 June 2012 by Bayleys Valuations Limited), associates of the New Zealand Institute of Valuers. Investment Properties have been valued in accordance with NZ IAS 40. The valuation process complied with the New Zealand Property Institute Practice Standards. Valuations have been completed at fair value. The valuations are based on current occupancy arrangements and property operating expenses, and the state of the New Zealand property market in general as well as the sub-markets into which the properties fall. Where vacant space exists it has been rentalised at a market level and added to actual lease rentals. Valuation techniques have been used as there are no binding sale and purchase agreements on these properties, and there are no recent comparable sales.

There are no restrictions on realisability, remittance of income or proceeds on disposal.

11. PROPERTY, PLANT AND EQUIPMENT

GROUP	Land and Buildings	Motor Vehicles	Furniture, fittings and equipment	Computer Equipment	Plant and Equipment	Aircraft	Work in Progress	Total $'000
At 1 July 2011								
Cost or valuation	192,884	3,669	97,724	95,764	138,645	18,742	16,351	563,779
Accumulated depreciation	-	(2,556)	(43,481)	(72,850)	(88,117)	(15,675)	-	(222,679)
Net book amount	192,884	1,113	54,243	22,914	50,528	3,067	16,351	341,100
Year ended 30 June 2012								
Opening net book amount	192,884	1,113	54,243	22,914	50,528	3,067	16,351	341,100
Transferred (to)/from investment property (net)	(4,709)	-	-	-	-	-	-	(4,709)
Transferred (to)/from work in progress	-	-	5,160	2,503	1,865	-	(9,528)	-
Acquisitions through business combinations	-	3,983	6,292	11,081	35,511	-	-	56,867
Additions	-	417	6,401	8,203	266	1,381	-	16,668
Revaluation of land and buildings	(14,371)	-	-	-	-	-	-	(14,371)
Disposals	(120)	(503)	(12,537)	(2,941)	(28,953)	(407)	-	(45,461)
Depreciation charge	(3,299)	(355)	(9,757)	(14,913)	(9,902)	(1,798)	-	(40,024)
Accumulated depreciation – (impairment) / reversal of impairment	-	-	-	-	-	402	-	402
Accumulated depreciation – revaluations	3,299	-	-	-	-	-	-	3,299
Accumulated depreciation – disposals	-	339	9,220	1,153	23,353	765	-	34,830
Accumulated depreciation - acquisitions through business combinations	-	(1,734)	(3,469)	(10,673)	(17,612)	-	-	(33,488)
As at 30 June 2012	**173,684**	**3,260**	**55,553**	**17,327**	**55,056**	**3,410**	**6,823**	**315,113**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

11. PROPERTY, PLANT AND EQUIPMENT continued

GROUP	Land and Buildings	Motor Vehicles	Furniture, fittings and equipment	Computer Equipment	Plant and Equipment	Aircraft	Work in Progress	Total $'000
At 1 July 2012								
Cost or valuation	173,684	7,566	103,040	114,610	147,334	19,716	6,823	572,773
Accumulated depreciation	-	(4,306)	(47,487)	(97,283)	(92,278)	(16,306)	-	(257,660)
Net book amount	173,684	3,260	55,553	17,327	55,056	3,410	6,823	315,113
Year ended 30 June 2013								
Opening net book amount	173,684	3,260	55,553	17,327	55,056	3,410	6,823	315,113
Transferred (to)/from investment property (net)	-	-	-	-	-	-	-	-
Transferred (to)/from assets intended for sale	(76,889)	-	-	-	-	-	-	(76,889)
Transferred (to)/from work in progress	-	-	3,929	2,110	1,995	-	(8,034)	-
Additions	722	644	187	2,666	4,159	155	8,822	17,355
Revaluation of land and buildings	(2,449)	-	-	-	-	-	-	(2,449)
Disposals	-	(4,110)	(12,338)	(26,702)	(15,060)	(905)	-	(59,115)
Depreciation charge	(2,284)	(590)	(9,694)	(10,229)	(15,375)	(1,259)	-	(39,431)
(Impairment) / reversal of impairment	-	(4)	(17,698)	(2,001)	(5,578)	1,006	-	(24,275)
Accumulated depreciation - revaluations	2,284	-	-	-	-	-	-	2,284
Accumulated depreciation - disposals	-	2,102	8,439	27,873	13,865	905	-	53,184
As at 30 June 2013	**95,068**	**1,302**	**28,378**	**11,044**	**39,062**	**3,312**	**7,611**	**185,777**
At 30 June 2013								
Cost or valuation	95,068	4,100	94,818	92,684	138,428	18,966	7,611	451,675
Accumulated depreciation	-	(2,798)	(66,440)	(81,640)	(99,366)	(15,654)	-	(265,898)
Net book amount	**95,068**	**1,302**	**28,378**	**11,044**	**39,062**	**3,312**	**7,611**	**185,777**

PARENT	Land and Buildings	Motor Vehicles	Furniture, fittings and equipment	Computer Equipment	Plant and Equipment	Aircraft	Work in Progress	Total $'000
At 1 July 2011								
Cost or valuation	192,884	3,574	81,988	45,119	92,469	-	5,027	421,061
Accumulated depreciation	-	(2,465)	(36,976)	(38,435)	(61,202)	-	-	(139,078)
Net book amount	**192,884**	**1,109**	**45,012**	**6,684**	**31,267**	**-**	**5,027**	**281,983**
Year ended 30 June 2012								
Opening net book amount	192,884	1,109	45,012	6,684	31,267	-	5,027	281,983
Transferred (to)/from investment property (net)	(4,709)	-	-	-	-	-	-	(4,709)
Transferred (to)/from work in progress	-	-	57	-	-	-	(57)	-
(Impairment) / revaluation	(14,371)	-	-	-	-	-	-	(14,371)
Additions	-	383	9,278	2,368	1,574	-	-	13,603
Disposals	(120)	(450)	(8,232)	(1,182)	(23,216)	-	-	(33,200)
Depreciation charge	(3,299)	(345)	(7,530)	(4,653)	(5,568)	-	-	(21,395)
Accumulated depreciation - revaluations	3,299	-	-	-	-	-	-	3,299
Accumulated depreciation - disposals	-	263	3,288	1,078	20,299	-	-	24,928
As at 30 June 2012	**173,684**	**960**	**41,873**	**4,295**	**24,356**	**-**	**4,970**	**250,138**
At 1 July 2012								
Cost or valuation	173,684	3,507	83,091	46,305	70,827	-	4,970	382,384
Accumulated depreciation	-	(2,547)	(41,218)	(42,010)	(46,471)	-	-	(132,246)
Net book amount	**173,684**	**960**	**41,873**	**4,295**	**24,356**	**-**	**4,970**	**250,138**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

11. PROPERTY, PLANT AND EQUIPMENT continued

Year ended 30 June 2013	Land and Buildings	Motor Vehicles	Furniture, fittings and equipment	Computer Equipment	Plant and Equipment	Aircraft	Work in Progress	Total $'000
Opening net book amount	173,684	960	41,873	4,295	24,356	-	4,970	250,138
Transferred (to)/from investment property (net)	-	-	-	-	-	-	-	-
Transferred (to)/from assets intended for sale	(76,889)	-	-	-	-	-	-	(76,889)
Transferred (to)/from work in progress	-	-	3,154	973	1,110	-	(5,237)	-
Acquisitions through business combinations	-	-	6,928	5,906	18,690	-	-	31,524
Revaluation of Land and Building	(2,449)	-	-	-	-	-	-	(2,449)
Additions	722	555	428	410	527	-	5,084	7,726
Disposals	-	(673)	(13,129)	(23,471)	(12,318)	-	-	(49,591)
Depreciation charge	(2,284)	(324)	(7,273)	(2,897)	(6,300)	-	-	(19,078)
(Impairment)	-	(4)	(17,698)	(2,001)	(5,578)	-	-	(25,281)
Accumulated depreciation - revaluations	2,284	-	-	-	-	-	-	2,284
Accumulated depreciation - disposals	-	649	7,128	23,351	12,325	-	-	43,453
Accumulated depreciation - through acquisitions	-	-	(3,407)	(5,261)	(11,362)	-	-	(20,030)
As at 30 June 2013	**95,068**	**1,163**	**18,004**	**1,305**	**21,450**	**-**	**4,817**	**141,807**
At 30 June 2013								
Cost or valuation	95,068	3,389	80,472	30,123	78,836	-	4,817	292,705
Accumulated depreciation	-	(2,226)	(62,468)	(28,818)	(57,386)	-	-	(150,898)
Net book amount	**95,068**	**1,163**	**18,004**	**1,305**	**21,450**	**-**	**4,817**	**141,807**

The agreement by which the Parent purchased the post office business from the Crown recognises potential land claims that may be lodged under the Treaty of Waitangi Act 1975. The effect on the valuation of assets resulting from potential claims cannot be quantified. However, under the Treaty of Waitangi (State Enterprises) Act 1988, the Parent will be compensated by the Crown for any loss that occurs upon the resumption of any interest in land by the Crown.

All land and buildings were independently valued at 30 June 2013 by Bayleys Limited (30 June 2012 by Bayleys Limited), associates of the New Zealand Institute of Valuers Land and buildings have been valued in accordance with NZ IAS 16. The valuation process complied with the New Zealand Property Institute Practice Standards Valuations are at fair value. The valuations are based on current occupancy arrangements and property operating expenses, and the state of the New Zealand property market in general as well as the sub-markets into which the properties fall. Where vacant space exists it has been rentalised at a market level and added to actual lease rentals. Valuation techniques have been used as there are no binding sale and purchase agreements on these properties, and there are no recent comparable sales.

During the year, New Zealand Post's headquarters building valued at $54.6m was transferred to Assets Held for Sale and subsequently sold and leased back. As part of the lease agreement, the purchaser had agreed to incur up to $40m of renovation costs related to the New Zealand Post's headquarters building with New Zealand Post liable for additional costs. Rental rates will be reset once the renovations are complete.

	GROUP		**PARENT**	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
If land and buildings had been measured using the cost method the carrying amounts would be as follows:				
Land	**4,643**	34,305	4,643	34,305
Buildings	**30,870**	63,781	**30,870**	63,781

The Group has continued reviewing the Group's property portfolio, on a priority basis, to assess seismic rating on all properties occupied by the Group. We are anticipating that this will take a further 6 – 12 months to complete and full potential financial impact is not able to be determined at this stage.

Asset impairments:

During the year, the Group recognised impairment losses of $30.6m in relation to property, plant and equipment within the Core Post operating segment, which is also a cash generating unit (CGU) for impairment testing purposes.

The Core Post business includes the following activities:

a) Collection of letters and non-courier parcels from network points and transportation to mail processing centres;
b) Sorting and transport of letters and non-courier parcels between mail processing centres and delivery branches;
c) Six day a week delivery of letters and non-courier parcels to 1.9m delivery points;
d) Print and electronic distribution of mail for senders;
e) Other related activities such as electoral services, management of the national cervical registry, production of stamps and collectables.

	Motor Vehicles	Furniture, fittings and equipment	Computer Equipment	Plant and Equipment	Software	Total $'000
Carrying amount before impairment	1,167	35,359	3,306	27,028	12,727	79,587
Impairment recognised in statement of financial performance	(4)	(17,355)	(2,001)	(5,578)	(5,629)	(30,567)
Carrying amount after impairment	**1,163**	**18,004**	**1,305**	**21,450**	**7,098**	**49,020**

The Core Post business operates under a Deed of Understanding (DOU) with the Crown which has been in place for over 15 years. The DOU sets out the social and service undertakings that are to be met by New Zealand Post (mainly around the frequency of deliveries, the number of delivery points and the number of postal outlets and post centres) in return for being assigned as the sole designated postal administration for New Zealand.

Since the DOU was put in place, the Core Post business has experienced a significant decline in mail volumes as a result of the increased use of digital communication technologies. This decline is forecast to increase over the next few years.

The Core Post business has implemented, and continues to implement, a range of cost-cutting measures to address declining volumes and improve efficiency, including a rationalisation of its mail processing centres, changes in its store network and a reduction in its corporate support activities to greater align the business with its operating environment. However, the undertakings within the DOU result in significant costs within the Core Post business that cannot be avoided despite falling mail volumes and revenues. Without changes to the operating model, the Core Post business is forecasting declining earnings, which has given rise to a negative value in use for the CGU. New Zealand Post has commenced discussions with the Crown regarding its obligations under the DOU. However, the outcome of these discussions has yet to be determined.

As the value in use of the Core Post business is currently negative, the recoverable amount of Core Post assets has been determined based on their fair value less costs to sell.

The Core Post business includes certain specialised assets configured for the nationwide lodgement, transport and delivery of mail that an alternative provider would require to deliver those services. The estimated fair value less costs to sell of this group of assets, which has been determined based on market expectations of the present value of future cash flows that those assets would generate, supports their carrying amount. Other assets that the Directors consider would not be required by an alternative provider and would not be redeployed to more profitable parts of New Zealand Post have been written down to their estimated fair value less costs to sell based on market prices for similar assets.

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12. INTANGIBLE ASSETS

GROUP	Goodwill	Brands	Computer Software – purchased	Computer Software – Internally developed	Acquired Customer Relation-ships	Other Intangible Assets	Computer Software – work in progress	Total $'000
At 1 July 2011								
Cost or valuation	58,589	-	64,877	166,268	12,749	672	10,245	313,400
Accumulated amortisation and impairment	(6,712)	-	(49,080)	(109,551)	(11,023)	(264)	-	(176,630)
Net book amount	**51,877**	**-**	**15,797**	**56,717**	**1,726**	**408**	**10,245**	**136,770**
Year ended 30 June 2012								
Opening net book amount	51,877	-	15,797	56,717	1,726	408	10,245	136,770
Additions	-	-	5,264	15,609	-	225	27,334	48,432
Translation adjustment	(357)	-	-	-	-	-	-	(357)
Transferred (to) / from work in progress	-	-	-	13,667	-	-	(13,667)	-
Disposals	-	-	(663)	(4,441)	-	(193)	-	(5,297)
Acquisitions through business combinations	277,913	-	288	1,924	21,273	-	-	301,398
Amortisation charge	-	-	(4,176)	(28,844)	(2,442)	(68)	-	(35,530)
Impairment charge	(1,270)	-	-	(2,202)	-	-	-	(3,472)
As at 30 June 2012	**328,163**	**-**	**16,510**	**52,430**	**20,557**	**372**	**23,912**	**441,944**
At 1 July 2012								
Cost or valuation	336,145	-	69,766	193,027	34,022	704	23,912	657,576
Accumulated amortisation and impairment	(7,982)	-	(53,256)	(140,597)	(13,465)	(332)	-	(215,632)
Net book amount	**328,163**	**-**	**16,510**	**52,430**	**20,557**	**372**	**23,912**	**441,944**
Year ended 30 June 2013								
Opening net book amount	328,163	-	16,510	52,430	20,557	372	23,912	441,944
Additions	6,205	-	9,505	-	-	49	49,330	65,089
Transferred (to) / from work in progress	-	-	-	25,994	-	-	(25,994)	-
Transferred (to) / from goodwill	(62,999)	62,999	-	-	-	-	-	-
Translation adjustment	(3,856)	-	-	-	-	-	-	(3,856)
Disposals	(377)	-	(5,181)	(29,577)	-	(422)	-	(35,557)
Amortisation charge	-	-	(5,247)	(29,896)	(1,619)	(11)	-	(36,773)
Accumulated Amortisation – disposals	-	-	3,786	21,864	-	332	-	25,982
Impairment charge	(39)	-	(1,962)	(11,117)	-	-	-	(13,118)
As at 30 June 2013	**267,097**	**62,999**	**17,411**	**29,698**	**18,938**	**320**	**47,248**	**443,711**
At 30 June 2013								
Cost or valuation	275,118	62,999	74,090	189,444	34,022	331	47,248	683,252
Accumulated amortisation and impairment	(8,021)	-	(56,679)	(159,746)	(15,084)	(11)	-	(239,541)
Net book amount	**267,097**	**62,999**	**17,411**	**29,698**	**18,938**	**320**	**47,248**	**443,711**

PARENT	Goodwill	Brands	Computer Software – purchased	Computer Software – Internally developed	Acquired Customer Relation-ships	Other Intangible Assets	Computer Software – work in progress	Total $'000
At 1 July 2011								
Cost or valuation	-	-	27,528	83,140	-	265	1,494	112,427
Accumulated amortisation and impairment	-	-	(21,478)	(62,740)	-	(264)	-	(84,482)
Net book amount	**-**	**-**	**6,050**	**20,400**	**-**	**1**	**1,494**	**27,945**
Year ended 30 June 2012								
Opening net book amount	-	-	6,050	20,400	-	1	1,494	27,945
Additions	-	-	556	-	-	-	10,760	11,316
Transferred (to) / from work in progress	-	-	-	5,380	-	-	(5,380)	-
Disposals	-	-	(2)	(13)	-	-	-	(15)
Amortisation charge	-	-	(1,920)	(10,748)	-	-	-	(12,668)
Impairment charge	-	-	-	-	-	-	-	-
As at 30 June 2012	**-**	**-**	**4,684**	**15,019**	**-**	**1**	**6,874**	**26,578**
At 1 July 2012								
Cost or valuation	-	-	28,082	88,507	-	265	6,874	123,728
Accumulated amortisation and impairment	-	-	(23,398)	(73,488)	-	(264)	-	(97,150)
Net book amount	**-**	**-**	**4,684**	**15,019**	**-**	**1**	**6,874**	**26,578**
Year ended 30 June 2013								
Opening net book amount	-	-	4,684	15,019	-	1	6,874	26,578
Additions	-	-	291	-	-	49	19,697	20,037
Transferred (to) / from work in progress	-	-	-	11,704	-	-	(11,704)	-
Disposals	-	-	(3,550)	(20,523)	-	(265)	-	(24,338)
Acquisitions through business combinations	-	-	1,535	8,701	-	282	-	10,518
Amortisation charge	-	-	(2,355)	(10,429)	-	(11)	-	(12,795)
Accumulated amortisation – disposals	-	-	3,443	19,920	-	264	-	23,627
Accumulated amortisation – acquisitions through business combinations	-	-	(1,239)	(7,024)	-	-	-	(8,263)
Impairment charge	-	-	(1,962)	(11,117)	-	-	-	(13,079)
As at 30 June 2013	**-**	**-**	**847**	**6,251**	**-**	**320**	**14,867**	**22,285**
At 30 June 2013								
Cost or valuation	-	-	26,358	88,389	-	331	14,867	129,945
Accumulated amortisation and impairment	-	-	(25,511)	(82,138)	-	(11)	-	(107,660)
Net book amount	**-**	**-**	**847**	**6,251**	**-**	**320**	**14,867**	**22,285**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

12. INTANGIBLE ASSETS continued

Impairment Testing for Goodwill

Goodwill acquired through business combinations has been allocated to individual cash generating units for impairment testing, as follows:

BUSINESS COMBINATION	*CASH GENERATING UNIT*
Acquisition of Outsource Australia (now Converga Pty Limited)	Converga Pty Limited Group operations
Acquisition of Outsource Solutions (now Converga Group Ltd)	Converga Group Limited operations
Acquisition of The New Zealand Home Loans Company Limited	The New Zealand Home Loans Company Limited operations and related Kiwibank operations
Acquisition of Gareth Morgan Investment Limited	Gareth Morgan Limited operations
Acquisition of Express Couriers Limited	Express Couriers Limited operations
Acquisition of Couriers Please Holding Limited	Couriers Please Holding Pty Limited Group operations

The recoverable amounts of all cash generating units have been determined based on a value in use calculation using cash flow projections as at 30 June, based on financial budgets approved by senior management covering a three to five year period.

	Carrying Value		Discount Rate	Average Growth Rate *	Terminal Value Growth Rate
	2013 $'000	2012 $'000	**2013**	**2013**	**2013**
The carrying value of goodwill assigned to each cash generating unit is:					
Converga Pty Limited Group operations	**18,520**	18,749	14.6%	10.0%	-2.0%
Converga Group Limited operations	**2,948**	2,988	14.6%	9.1%	-2.0%
The New Zealand Home Loans Company Limited	**31,342**	31,527	19.4%	8.6%	3.0%
Gareth Morgan Investment Limited operations	**44,044**	44,028	20.8%	21.1%	3.0%
Express Couriers Limited operations	**132,194**	165,787	13.8%	-3.6%	0.7%
Couriers Please Holding Pty Limited operations	**38,241**	65,084	14.1%	6.7%	0.6%
Total goodwill	**267,289**	328,163			

* Average revenue growth rate across the forecast period

13. RELATED PARTY TRANSACTIONS

General

The ultimate shareholder of the Group is the Crown. The Group undertakes many transactions with other State-Owned Enterprises, Crown Entities and Government Departments, which are carried out in the normal course of business. Kiwibank settles transactions with other New Zealand registered banks by way of the payment and settlement system operated by the Reserve Bank of New Zealand in its capacity as the central bank of New Zealand. All members of the Group are considered to be related parties of the Parent. This includes the subsidiaries, associate entities and jointly controlled entities identified in notes 14 and 15.

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Related Party Transactions				
Dividends paid				
– Shareholders	**5,000**	2,770	**5,000**	2,770
– Non-controlling interest	**8,801**	8,763	**–**	–
Subsidiaries				
– sale of goods and services	**–**	–	**80,275**	58,150
– purchase of goods and services	**–**	–	**80,031**	9,963
– interest (paid)/received	**–**	–	**297**	(7,555)
– loans (advanced)/repaid	**–**	–	**842,416**	(80,778)
– impaired investment	**–**	–	**(32,112)**	(3,520)
– impaired loan	**–**	–	**(15,070)**	(13,270)
Associates				
– purchase of goods and services	**20,877**	27,374	**14,342**	21,183
– dividends received	**–**	–	**3,521**	3,101
Jointly Controlled Entities				
– sale of goods and services	**9,300**	27,881	**6,940**	24,369
– purchase of goods and services	**688**	79,567	**537**	73,985
– interest received	**265**	3,658	**265**	253
– dividends received	**–**	–	**–**	4,750
– loans repaid/(advanced)	**–**	30,876	**–**	548
– loans impaired	**–**	1,580	**–**	–

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

13. RELATED PARTY TRANSACTIONS continued

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Related Party Balances				
The amounts outstanding with related parties at balance date were:				
Subsidiaries				
– current accounts	–	–	**(28,622)**	(3,003)
– loans receivable	–	–	**141,513**	981,653
– loans payable	–	–	**(279,513)**	(264,640)
– investments	–	–	**1,060,606**	196,824
Total balances for subsidiaries	–	–	**893,984**	910,834
Associates				
– current accounts	–	(481)	–	(402)
– investments	–	65,564	–	19,543
Total balances for associates	–	65,083	–	19,141
Jointly Controlled Entities				
– current accounts	**754**	864	**537**	769
– loans receivable	–	–	**3,347**	3,347
– investments	**3,923**	3,544	**2,600**	2,600
Total balances for jointly controlled entities	**4,677**	4,408	**6,484**	6,716
Represented by:				
Related party current accounts	**754**	383	**(28,085)**	(2,636)
Loans to related parties	–	–	**144,860**	985,000
Loans from related parties	–	–	**(279,513)**	(264,640)
Investments accounted for using the equity method	**3,923**	69,108	**2,600**	22,143
Investments in subsidiaries	–	–	**1,060,606**	196,824
Investments in other related parties	**47**	47	–	–
Total related party balances	**4,724**	69,538	**900,468**	936,691

The parent acquired $799.1m of additional equity within Kiwi Group Holdings Limited. The funds acquired from this equity injection were utilised to repay intercompany loans held with the parent.

During 2013, New Zealand Post Limited acquired AU$44.7m of redeemable preference shares within Couriers Please Holdings Pty Limited. The funds acquired from this equity injection were utilised to repay intercompany loans held with New Zealand Post Holdings Limited.

Included within loans receivable from subsidiaries is a loan to Kiwi Group Holdings Limited of $109.5m (30 June 2012: $886.5m). $34.0m is repayable on demand, however there is no intention to demand repayment within the next 12 months. The remaining portion has fixed repayment dates. Interest is payable on the full amount at a weighted average interest rate of 5.75% (30 June 2012: interest was payable on $85.6m at a weighted average interest rate of 6.52%).

Included within loans receivable from subsidiaries is a loan to Localist Limited of $30.9m (30 June 2012: $26.5m). This loan is repayable on demand, however there is no intention to demand repayment within the next 12 months. Interest is payable at 7.66% (30 June 2012: 7.85%).

As at 30 June 2013, the parent has impaired the loan by $28.0m.

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Key Management Personnel Compensation				
Short-term employee benefits and directors fees	**11,419**	9,902	**7,114**	5,369
Termination benefits	**117**	–	**117**	–
Total key management personnel compensation	**11,536**	9,902	**7,231**	5,369
Loans to key management personnel	**938**	1,534	**–**	–
Deposits from key management personnel	**1,154**	5,485	**–**	–

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly including directors. Key management personnel relates to Directors and Executive Team Members of the Parent and Kiwibank.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associate	**–**	65,564	**–**	19,543
Investments in Jointly Controlled Entities	**3,923**	3,544	**2,600**	2,600
Total Investments Accounted for Using the Equity Method	**3,923**	69,108	**2,600**	22,143

Investments in Associates

During the year, the Group sold its interest in Datacom Group Limited, generating a group gain on disposal of $71.7m (parent: gain of $120.8m).

Investments in Jointly Controlled Entities

NAME OF ENTITY	PRINCIPAL ACTIVITY	BALANCE DATE	% HELD	% HELD
Reach Media New Zealand Limited	Unaddressed mail	30 June	**50**	50

Balance at the beginning of the year	**3,544**	(2,379)	**2,600**	52,000
Acquisitions	**–**	600	**–**	600
Loan repayment	**–**	(600)	**–**	–
Share of net profit/(loss) of jointly controlled entities	**379**	6,290	**–**	–
Impairment	**–**	(1,579)	**–**	–
Dividends received	**–**	(4,750)	**–**	–
Interest on Loan	**–**	52	**–**	–
Disposal of jointly controlled entity (refer to note 15)	**–**	5,910	**–**	(50,000)
Balance at the end of the year	**3,923**	3,544	**2,600**	2,600

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14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD continued

Each reporting date the Group assesses the carrying value of its investments in associates and joint ventures and the recoverability of shareholder loans to those entities. During the year ended 30 June 2013, no changes have been made to carrying value as a result of this assessment (2012: $1.6m impairment was recognised).

Summarised Financial Information of Jointly Controlled Entities	**30 June 2013 $'000**	30 June 2012 $'000
Current assets	**5,314**	4,387
Non-current assets	**8,415**	8,926
Current liabilities	**2,850**	3,179
Non-current liabilities	**6,566**	6,579
Revenues	**33,027**	35,013
Expenditure	**32,268**	34,236
Share of jointly controlled entities' capital commitments	**–**	21

15. INVESTMENTS IN SUBSIDIARIES

Investment in Material Subsidiaries

NAME OF ENTITY	PRINCIPAL ACTIVITY	2013 % HELD	2012 % HELD
Air Post Limited	Airline freight services	**100**	100
Converga Pty Limited	Business process outsourcing	**100**	100
Converga Group Limited	Business process outsourcing	**100**	-
Converga Holdings Pty Limited	Business process outsourcing	**100**	-
Couriers Please Holding Pty Limited	Express delivery services	**100**	100
Express Couriers Limited	Express delivery services	**100**	100
Kiwi Group Holdings Limited	Holding company	**100**	100
Kiwibank Limited	Registered bank	**100**	100
Kiwi Capital Securities Limited	Issuer of perpetual preference shares	**100**	100
Kiwi Wealth Management Limited	Kiwisaver services	**100**	100
New Zealand Post Group Finance Limited	Financing services	**100**	100
New Zealand Post Holdings Limited	Holding company	**100**	100
Localist Limited	Print, digital and mobile directional media services	**100**	100
Kiwi Insurance Limited	Provider of insurance services	**100**	100
The New Zealand Home Loan Company Limited	Mortgage services	**100**	76

All material subsidiary companies were incorporated in New Zealand with the exception of Converga Pty Limited, Converga Holdings Pty Limited and Couriers Please Holdings Pty Limited, which were incorporated in Australia.

During the year, the Group did not invest in any new entities, however the Group incorporated two new entities: Converga Group Limited and Converga Holdings Pty Limited.

During the prior year, the Group obtained control over Express Couriers Limited ("ECL") and Couriers Please Holding Pty Limited ("CPHL") (previously Parcel Direct Group Pty Limited) when it acquired 100% of the ordinary shares and 100% of the Redeemable Preference Shares in ECL and 100% of the ordinary shares in CPHL. Previously the Group held a 50% stake in both Companies. ECL provides courier and logistics services to New Zealand customers. CPHL provides courier and logistics services to Australian customers. As a result of the acquisition, the Group will increase its share of the courier and logistics businesses. It also expects to reduce costs through economies of scale.

	ECL 2012 $'000	CPHL 2012 $'000	Total 2012 $'000
Total identifiable net assets assumed at the date of acquisition:	(12,088)	(65,084)	(77,172)
Goodwill	124,407	43,466	167,873
Brand	41,381	21,618	62,999
Total consideration	153,700	-	153,700
Satisfied by:			
Cash	76,850	-	76,850
Value of previously held ownership (50%)	76,850	-	76,850
Total consideration transferred	153,700	-	153,700
Consideration paid in cash	76,850	-	76,850
Repayment of loan to vendor	-	31,172	31,172
Less: Cash and cash equivalents acquired	(20,226)	(9,260)	(29,486)
Net cash (outflow)/inflow arising on acquisition	(56,624)	(21,912)	(78,536)
Gain on disposal recognised in statement of profit of loss and other comprehensive income:			
Parent	26,850	-	26,850
Total group	82,754	19,854	102,608

The majority of the Group's gain arises from the realisation of a previously unrealised gain on disposal. No contingent liabilities have been recognised as a result of this business combination. Acquisition-related costs, included within other expenses in the Group's statement of profit or loss and other comprehensive income for the year, amounted to $1.8m.

Express Couriers Limited

The fair value of equity interest in Express Couriers Limited held before the business combination was $76.9m.

Goodwill of $165.7m arose in the business combination, a detailed fair value analysis has been completed during the current financial year, which has assigned $41.4m of this goodwill to brands. The above disclosure has been updated to reflect this assignment.

None of the goodwill recognised is expected to be deductible for tax purposes.

During 2013 the post sale completion activities resulted in an additional gain of $3.8m being recognised (parent and group).

Couriers Please Holding Pty Limited

The fair value of equity interest in Couriers Please Holding Pty Limited held before the business combination was $1.

Goodwill of $65.1m arose in the business combination, a detailed fair value analysis has been completed during the current financial year, which has assigned $21.6m of this goodwill to brands. The above disclosure has been updated to reflect this assignment.

None of the goodwill recognised is expected to be deductible for tax purposes.

Gareth Morgan Investments Limited

NAME OF ENTITY	PRINCIPAL ACTIVITY	DATE ACQUIRED	As at 30/06/13 % held	As at 30/06/12 % held
Gareth Morgan Investments General Partner Limited	Funds Manager	31 March 2012	100	100
Gareth Morgan Investments Limited Partnership	Funds Manager	31 March 2012	100	100
Portfolio Custodial Nominees Limited	Funds Manager	31 March 2012	100	100

All entities have a reporting period date of 30 June and are incorporated in New Zealand.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

15. INVESTMENTS IN SUBSIDIARIES continued

Gareth Morgan Investments Limited Partnership (GMI LP)	30/06/13 $000's	30/06/12 (3 months) $000's
On 31 March 2012, the Company acquired 100% of the partnership of GMILP. The following table summarises the total consideration for GMILP as at reporting date:		
Total Identifiable Net Assets	–	13,972
Goodwill	–	44,028
Total Consideration	–	58,000
Consideration		
Cash	15	43,500
Contingent consideration	–	14,500
Total consideration	15	58,000
Contingent consideration reconciliation		
Balance at beginning of period	14,500	–
Settlement of contingent consideration	(13,775)	–
Fair value gain	(725)	–
Acquisition of contingent consideration	–	14,500
Balance at reporting date	–	**14,500**

Total consideration of $57.3m comprises two stages, consideration at acquisition date and deferred settlement paid in April 2013. The amount of the contingent consideration was dependent on future performance milestones, including the level of Funds Under Management. Because the level of Funds Under Management was less than the contracted amount, the deferred settlement payment was reduced by $725k.

Disposal of Subsidiaries

There were no disposals of subsidiaries from the Group during the year (2012: nil).

Amalgamation of Subsidiaries

There were no amalgamations of subsidiaries during the year (2012: the Parent, New Zealand Post Limited, amalgamated its investment in ECN NZ Holdings Limited).

		GROUP		PARENT	
	Note	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
16. TRADE AND OTHER PAYABLES					
Trade payables		**125,297**	135,154	**47,111**	40,664
Payables to related parties	13	**–**	–	**35,844**	9,323
Trail commissions payable		**3,630**	2,140	**–**	–
Payment services holding accounts		**41,744**	40,570	**30,927**	31,858
Unearned revenue		**53,093**	74,075	**30,092**	49,352
Accrued employee benefit liabilities		**120,782**	87,367	**79,902**	52,616
Interest payable		**5,631**	5,273	**4,128**	3,338
Other accruals and payables		**10,660**	7,881	**4,428**	4,029
Total Trade and Other Payables		**360,837**	352,460	**232,432**	191,180
Comprising:					
Current trade and other payables		**351,903**	351,235	**223,498**	189,955
Non-current trade and other payables		**8,934**	1,225	**8,934**	1,225
Total trade and other payables		**360,837**	352,460	**232,432**	191,180

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
17. PROVISIONS				
Employee medical claims	**2,548**	2,284	**2,243**	1,979
Restructuring costs	**23,362**	3,715	**22,948**	724
Onerous lease contracts	**–**	993	**–**	578
Property restorations	**5,647**	2,244	**4,168**	1,456
Total Provisions	**31,557**	9,236	**29,359**	4,737
Employee Medical Claims				
Balance at the beginning of the year	**2,284**	2,062	**1,979**	2,062
Utilisation of provision	**(29)**	(21)	**(29)**	(21)
Additional provision	**370**	386	**370**	75
Revision of discount rate	**(77)**	(143)	**(77)**	(137)
Balance at the end of the year	**2,548**	2,284	**2,243**	1,979
Comprising:				
Current portion	**510**	457	**449**	396
Non-current portion	**2,038**	1,827	**1,794**	1,583
Total employee medical claims	**2,548**	2,284	**2,243**	1,979

The Group is liable for employee medical claims relating to workplace injuries. The provision has been made in respect of future estimated costs relating to injuries that have occurred prior to balance date. Costs are expected to be paid over the next 5 years.

Restructuring Costs				
Balance at the beginning of the year	**3,715**	7,448	**724**	6,848
Utilisation of provision	**(1,908)**	(6,198)	**(724)**	(5,598)
Additional provision	**22,948**	778	**22,948**	778
Additional provision acquired through business combination	**–**	2,991	**–**	–
Reversal of provision	**(1,393)**	(1,304)	**–**	(1,304)
Balance at the end of the year	**23,362**	3,715	**22,948**	724
Comprising:				
Current portion	**15,945**	3,715	**15,531**	724
Non-current portion	**7,417**	–	**7,417**	–
Total restructuring costs	**23,362**	3,715	**22,948**	724

The Group is liable to pay redundancy benefits to employees where their jobs are disestablished. This provision has been made in respect of the redundancy costs expected to be paid to employees relating to restructures agreed and communicated prior to balance date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

17. PROVISIONS continued

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Onerous Contracts				
Balance at the beginning of the year	**993**	1,755	**578**	1,148
Additional provision	**–**	191	**–**	191
Utilisation of provision	**(563)**	(953)	**(387)**	(761)
Reversal of provision	**(430)**	–	**(191)**	–
Balance at the end of the year	**–**	993	**–**	578
Comprising:				
Current portion	**–**	594	**–**	402
Non-current portion	**–**	399	**–**	176
Total onerous contracts	**–**	993	**–**	578

The Parent and Group have operating lease contracts. This provision has been made in respect of future estimated irrecoverable expenses for sub-let external leases. Lease expiry of this contract is within three years.

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Property Restorations				
Balance at the beginning of the year	**2,244**	2,836	**1,456**	2,836
Additional provision	**4,082**	796	**2,589**	–
Utilisation of provision	**(802)**	(8)	**–**	–
Reversal of provision	**–**	(1,419)	**–**	(1,419)
Discounting	**123**	39	**123**	39
Balance at the end of the year	**5,647**	2,244	**4,168**	1,456
Comprising:				
Current portion	**1,060**	89	**844**	89
Non-current portion	**4,587**	2,155	**3,324**	1,367
Total property restorations	**5,647**	2,244	**4,168**	1,456

The Group has operating lease contracts. This provision has been made in respect of future obligations to restore leased property to its initial condition, but allowing for fair wear and tear over the period of occupancy. The provision is based on the Company's accommodation projections and its history of property restoration settlements.

The timing of lease expiries is generally fixed but individual restoration settlements are difficult to predict.

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
18. BORROWINGS				
New Zealand Post bond programme	**149,860**	149,819	**149,860**	149,819
New Zealand Post Group Finance subordinated notes	**203,270**	205,743	**–**	–
Kiwibank subordinated debt	**210,170**	63,923	**–**	–
Commercial paper	**29,898**	129,599	**29,898**	129,599
Bank loans	**108**	59,009	**–**	–
Total Borrowings	**593,306**	608,093	**179,758**	279,418
Comprising:				
Current portion	**31,713**	188,608	**29,898**	129,599
Non-current portion	**561,593**	419,485	**149,860**	149,819
Total borrowings	**593,306**	608,093	**179,758**	279,418
New Zealand Post Bond Programme				
Unamortised market value of bond	**(140)**	(181)	**(140)**	(181)
Bonds at amortised cost (unhedged)				
Face value of bonds at amortised cost (unhedged)	**150,000**	150,000	**150,000**	150,000
Unamortised discount	**–**	–	**–**	–
Total New Zealand Post bond programme	**149,860**	149,819	**149,860**	149,819

Bonds outstanding have a coupon rate of 5.225% and a maturity date of 15 November 2016 (30 June 2012: 5.225% and 15 November 2012).

All bonds are unsecured and rank equally with other unsecured creditors. The bonds carry an A+ credit rating from Standard & Poor's Pty Limited at balance date.

New Zealand Post Group Finance Subordinated Notes				
Face value of debt	**200,000**	200,000	**–**	–
Unamortised transaction costs	**(715)**	(1,572)	**–**	–
Fair value hedge adjustment	**3,985**	7,315	**–**	–
Total New Zealand Post Group Finance subordinated notes	**203,270**	205,743	**–**	–

Subordinated notes outstanding have a coupon rate of 7.50% and a maturity date of 15 November 2039. All subordinated notes are unsecured and subordinate and rank equally with all unsecured, subordinated creditors (other than creditors whose claims rank, or are intended or expressed to rank, subordinate to the obligations of the Issuer or Guarantor). The notes carry an A- credit rating from Standard & Poor's Pty Limited at balance date. The subordinated notes are subject to a coupon rate change or remarketing process (which may include a redemption and/or coupon rate change) on 15 November 2014. The notes are guaranteed on an unsecured subordinated basis by the Parent.

$140m of the subordinated notes are hedged by interest rate swaps changing fixed rate interest to floating rate interest. Hedge documentation has been put in place to designate this hedge arrangement and hedge accounting has been applied in these financial statements. Effectiveness testing has been carried out at 30 June 2013. Any fair value adjustment on the bonds has been recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

18. BORROWINGS continued

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Kiwibank Subordinated Debts				
Face value	**209,999**	60,000	**–**	–
Interest accrued	**1,707**	1,327	**–**	–
Premium / (Discount)	**(2,058)**	(78)	**–**	–
Fair value hedge adjustment	**522**	2,674	**–**	–
Total Kiwibank subordinated debts	**210,170**	63,923	**–**	–

During the year $150m of term subordinated debt was called by the Banking Group and $nil of term subordinated debt was called by the Banking Group (30 June 2012: $nil was issued and $75m was called).

The terms and conditions of the term subordinated debt issued are as follows:

Issue Date	Amount $'000	Coupon Rate	Call Date	Maturity Date
30 September 2008	**60,000**	8.75%	**30 September 2013**	30 September 2018
15 December 2012	**150,000**	5.80%	**15 December 2017**	15 December 2022

The term subordinated debt issues are subordinate to all other general liabilities of the Banking Group and are denominated in New Zealand dollars. The 30 September 2008 issue carried an A credit rating and the 15 December 2012 issue carried a BB+ credit rating from Standard & Poor's Pty Limited as at balance date.

	GROUP 2013 $'000	GROUP 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
Commercial Paper				
Face value of commercial paper on issue	**30,000**	130,000	**30,000**	130,000
Unearned interest on commercial paper	**(102)**	(401)	**(102)**	(401)
Total commercial paper	**29,898**	129,599	**29,898**	129,599

$30m commercial paper was outstanding at 30 June 2013 with an average yield of 2.82% and maturity dates ranging from 2 August 2013 to 4 September 2013 (30 June 2012: $130m with an average yield of 2.76% and maturity dates ranging from 3 July 2012 to 17 September 2012).

Borrowing Facility

The Parent has a borrowing facility of $100m provided by the Bank of New Zealand (30 June 2012 – $100m provided by the Bank of New Zealand). At 30 June 2013 the facility was undrawn (30 June 2012 – the facility was undrawn).

19. DEFERRED SETTLEMENT LIABILITY

	GROUP 2013 $'000	GROUP 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
Balance at beginning of the year	**33,641**	14,012	–	–
(Disposals)/Acquisitions	**(30,395)**	16,450	–	–
Revaluation of deferred settlement liability	**(947)**	1,610	–	–
Interest unwind	**173**	1,569	–	–
Total Deferred Settlement Liability	**2,472**	33,641	–	–
Comprising:				
Current deferred settlement liability	**–**	31,691	–	–
Non-current deferred settlement liability	**2,472**	1,950	–	–
Total deferred settlement liability	**2,472**	33,641	–	–

In 2006 the Group acquired a 51% shareholding in The New Zealand Home Loan Company Limited. An additional 25% shareholding was acquired on 1 July 2009, and the remaining shares were acquired on 2 July 2012. The Group had recognised a deferred settlement liability for this option of $17.2m which was settled on 2 July 2012 ($12.8m) and 16 November 2012 ($4.4m).

In October 2011, the Group disposed of a 20% shareholding in Kiwi Asset Finance Limited ("KAFL"). In October 2012 the Group disposed of a further 10% shareholding in KAFL. However it is required to purchase the non-controlling shares in KAFL back between July 2016 and 2018. The Group has recognised a deferred settlement liability for this obligation. The fair value of the liability is $2.5m and is calculated by applying discounted cash flows analysis at a discount rate of 11.59% per annum.

In March 2012, the Group acquired a 100% shareholding in Gareth Morgan Investments Limited. As part of the sale and purchase agreement, a portion of the consideration was deferred. This consideration of $13.8m has been settled on 2 April 2013.

20. RECONCILIATION OF PROFIT/(LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Profit/(loss) for the year	**120,998**	169,696	**14,323**	(3,804)
Non-cash items:				
Financial instruments at fair value net loss	**(809)**	(2,202)	**(1,175)**	5,432
Depreciation	**39,431**	40,024	**19,078**	21,395
Amortisation	**37,824**	36,531	**13,846**	13,669
Impairment	**49,148**	42,130	**89,507**	19,104
Other write-offs	**3,529**	–	**637**	–
Unrealised foreign exchange net (gain)/loss	**(1,165)**	(1,202)	**(417)**	(253)
(Discount)/unwind on deferred net settlement	**(199)**	97	**(25)**	97
Increase/decrease in deferred expenditure	**10,122**	(8,944)	**1,051**	1,773
Gain on sale of investments	**(75,537)**	(102,608)	**(124,604)**	(26,850)
Share of net (profit) / loss of associates and jointly controlled entities	**(7,713)**	(16,585)	**–**	–
	54,631	(12,759)	**(2,102)**	34,367
Items classified as investing activities:				
Sale of assets net (gain)/loss	**1,826**	3,937	**1,306**	1,922
	1,826	3,937	**1,306**	1,922
Changes in assets and liabilities (excluding the effects of acquisition and exchange differences on consolidation):				
(Increase)/decrease in trade and other receivables	**38,229**	(30,889)	**3,001**	(22,203)
(Increase)/decrease in inventories	**(1,219)**	5,109	**(2,504)**	2,813
(Increase)/decrease in other assets	**(88)**	2,732	**27**	5,101
Decrease/(increase) in due from other financial institutions	**12,922**	269,103	**–**	–
(Increase)/decrease in financial assets held for trading	**(49,321)**	223,435	**–**	–
(Increase)/decrease in available for sale assets	**429,350**	(270,163)	**–**	–
(Increase) in loans and advances	**(721,628)**	(1,042,907)	**–**	–
(Decrease)/increase in due to other financial institutions	**(63,874)**	(462,033)	**–**	–
Increase/(decrease) in trade and other payables	**10,491**	17,766	**39,084**	9,064
Increase/(decrease) in provisions	**22,321**	(4,865)	**24,622**	(8,157)
(Decrease)/increase in tax liabilities	**(24,433)**	12,482	**(34,343)**	(6,094)
Increase/(decrease) in other liabilities	**(31,169)**	–	**–**	–
Increase in deposits	**549,849**	983,711	**–**	–
(Decrease)/increase in Kiwibank interest payable (net)	**(8,725)**	(9,294)	**–**	–
	162,705	(305,813)	**29,887**	(19,477)
Net cash flows from operating activities	**340,160**	(144,939)	**43,414**	13,008

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

20. RECONCILIATION OF PROFIT/(LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES continued

The following cash flows have been recognised on a net basis

– Net payments to agencies – these cash flows represent transactions and operations of the agencies rather than the Parent.

– Changes in loans and advances to customers, deposits held by customers, balances with other banks, debt securities issued, available for sale assets, and financial assets held for trading – many of these cash flows reflect the activities of the customers rather than Kiwibank.

21. SEGMENT INFORMATION

30 June 2013	Core Postal Services $'000	Financial Services Banking $'000	Financial Services Non-Banking $'000	Courier Services $'000	Investments $'000	Other Operating Segments $'000	Inter-segment Reconciliations $'000	Group $'000
External revenue	705,443	446,459	47,738	255,930	311,935	3,551	-	1,771,056
Intersegment revenue	90,113	–	264	77,986	2,300	270	(170,933)	-
Total segment revenue from operations	795,556	446,459	48,002	333,916	314,235	3,821	(170,933)	1,771,056
Segment profit/(loss) before income tax	(90,403)	134,845	1,252	24,151	86,576	(34,176)	-	122,245
Segment profit/(loss)	(51,523)	97,078	418	17,431	91,166	(33,572)	-	120,998
Segment total assets	409,667	15,209,247	303,845	47,721	110,346	58,734	-	16,139,560
Specific segment revenue from operations:								
Banking interest revenue (net)	–	274,355	–	–	–	-	-	274,355
Banking and lending fee revenue	–	105,187	–	–	–	-	-	105,187
Rental income – properties held for sale	268	–	–	–	–	-	-	268
Rental income – investment properties	718	–	–	–	–	-	-	718
Financial instruments at fair value net gain/(loss)	1,175	(366)	–	–	–	-	-	809
Specific segment other income (included in External Revenue)								
Gain on sale of investments	–	–	–	–	75,537	-	-	75,537
Share of net profit of associates and jointly controlled entities	–	–	–	–	7,713	-	-	7,713
Specific segment expenditure:								
Depreciation	21,433	7,000	239	4,013	6,236	492	18	39,431
Amortisation	12,958	17,000	2,036	1,493	2,408	887	(9)	36,773
Bad debt expense	581	–	(78)	200	524	-	-	1,227
Impairment	32,483	7,427	–	–	–	7,430	39	47,379
Impairment reversal	–	–	–	–	(1,006)	-	-	(1,006)
Property operating lease and rental costs	38,797	9,000	94	11,137	7,729	28	(11,665)	55,120
Other operating lease and rental costs	5,295	4,000	205	3,516	3,232	213	(833)	15,628
Salaries and wages (including superannuation expenses)	357,475	111,000	7,019	65,827	76,616	25,922	(135)	643,724
Restructuring costs	21,816	–	–	380	120	2,601	-	24,917

30 June 2012	Core Postal Services $'000	Financial Services Banking $'000	Financial Services Non-Banking $'000	Courier Services $'000	Invest-ments $'000	Other Operating Segments $'000	Inter-segment Reconcili-ations $'000	Group $'000
External revenue	757,398	418,817	30,602	3,986	215,528	2,235	-	1,428,566
Intersegment revenue	105,740	-	2,487	-	1,648	(59,875)	(50,000)	-
Total segment revenue from operations	863,138	418,817	33,089	3,986	217,176	(57,640)	(50,000)	1,428,566
Segment profit/(loss) before income tax	16,410	111,115	790	3,986	81,809	(30,907)	6,904	190,107
Segment profit/(loss)	25,762	79,095	576	3,986	83,862	(30,490)	6,905	169,696
Segment total assets	475,193	14,745,000	269,889	120,903	164,867	75,190	-	15,851,042
Specific segment revenue from operations:								
Banking interest revenue (net)	-	256,941	-	-	-	-	-	256,941
Banking and lending fee revenue	-	94,329	-	-	-	-	-	94,329
Rental income – investment properties	905	-	-	-	-	-	-	905
Specific segment other income								
Sale of investments gain	-	-	-	-	102,608	-	-	102,608
Financial instruments at fair value net gain/(loss)	(5,432)	4,694	-	-	-	-	-	(738)
Share of net profit of associates and jointly controlled entities	-	-	-	-	16,585	-	-	16,585
Specific segment expenditure:								
Depreciation	25,575	9,280	73	-	6,560	305	(1,769)	40,024
Amortisation	13,556	16,221	1,121	-	4,755	331	547	36,531
Bad debt expense	318	4,050	8	-	176	-	-	4,552
Impairment	2,695	35,160	-	-	-	5,902	-	43,757
Impairment reversal	-	-	-	-	-	(1,246)	-	(1,246)
Property operating lease and rental costs	32,043	9,255	-	-	2,551	500	(8,666)	35,683
Other operating lease and rental costs	5,141	3,760	-	-	1,578	52	(12)	10,519
Salaries and wages (including superannuation expenses)	352,300	93,230	-	-	64,496	3,695	1	513,722
Restructuring costs	1,167	(44)	-	-	430	137	-	1,690

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

21. SEGMENT INFORMATION continued

Basis of Segmentation

The Group's operating segments have primarily been determined with reference to differences in products and services. Operating segments have been aggregated for reporting purposes where the following criteria has been met:

1. aggregation is consistent with the core principle of NZ IFRS 8 Operating Segments
2. segments have similar economic characteristics
3. segments are similar in each of the following respects:
   a. nature of the product and services
   b. nature of production process
   c. type or class of customer for their products and services
   d. methods used to distribute their products or provide their services
   e. nature of the regulatory environment.

As a result of significant changes to our business over the past year, the Group has reviewed and updated its reporting segments. This has resulted in an additional three segments being included above: Kiwibank non-banking services, Courier Services and Investments. Comparative numbers have been restated accordingly.

The Group's reportable segments derive their revenue from the following products and services:

Core Post	–	Packaging and delivery of mail products, retail services and business process management operations.
Financial Services – banking	–	Financial management services provided by the Kiwibank Banking Group and disclosed in the Kiwibank Disclosure Statement.
Financial Services – non-banking	–	Kiwibank provided non–banking services, primarily wealth and insurance services
Courier Services	–	New Zealand based courier and logistics services
Investments	–	Investment activities in relation to the NZ Post Group investments in Datacom, Converga, Couriers Please, Recycle Centre, AirPost, Localist & ReachMedia

Basis of Measurement

The Group's reportable segment revenue, result and assets disclosed above are the same as those used by the chief operating decision makers in making decisions about allocating resources and in assessing segment performance. Transactions between reportable segments are accounted for in accordance with contractual arrangements and the accounting policies outlined in the summary of significant accounting policies.

	New Zealand		Foreign Countries	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Geographical Information				
External revenue from operations	**1,571,771**	1,229,294	**199,285**	80,079
Non-current assets (excluding financial instruments and tax assets)	**592,801**	808,069	**44,654**	32,541

Revenues are attributed to individual countries based on the country of residence of the entity earning the revenue.

22. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK BANKING GROUP

For the purposes of this note, 'the Group' refers to the Group excluding Kiwibank Banking Group. The Kiwibank Banking Group financial instrument disclosures are disclosed in note 30.

	GROUP				PARENT			
30 June 2013	**Designated at FVTPL $'000**	**Loans and receivables $'000**	**Derivatives used for hedging $'000**	**Total $'000**	**Designated at FVTPL $'000**	**Loans and receivables $'000**	**Derivatives used for hedging $'000**	**Total $'000**
Cash and cash equivalents	–	197,539	–	197,539	–	150,811	–	150,811
Trade and other receivables	–	190,453	–	190,453	–	118,756	–	118,756
Derivative financial assets	5,891	–	45	5,936	4,830	–	–	4,830
Loans to related parties	–	–	–	–	–	144,860	–	144,860
Total financial assets	5,891	387,992	45	393,928	4,830	414,427	–	419,257

	Derivatives used for hedging $'000	**Designated at FVTPL $'000**	**Other financial liabilities at amortised cost $'000**	**Total $'000**	**Derivatives used for hedging $'000**	**Designated at FVTPL $'000**	**Other financial liabilities at amortised cost $'000**	**Total $'000**
Trade and other payables	–	–	307,744	307,744	–	–	202,340	202,340
Derivative financial liabilities	852	10,139	–	10,991	708	10,367	–	11,075
Loans from related parties	–	–	–	-	–	–	279,513	279,513
Borrowings	–	–	383,136	383,136	–	–	179,758	179,758
Total financial liabilities	852	10,139	690,880	701,871	708	10,367	661,611	672,686

30 June 2012	Designated at FVTPL $'000	Loans and receivables $'000	Derivatives used for hedging $'000	Total $'000	Designated at FVTPL $'000	Loans and receivables $'000	Derivatives used for hedging $'000	Total $'000
Cash and cash equivalents	–	154,871	–	154,871	–	96,663	–	96,663
Trade and other receivables	–	228,682	–	228,682	–	121,757	–	121,757
Derivative financial assets	7,308	–	3,468	10,776	7,308	–	3,407	10,715
Loans to related parties	–	–	–	–	–	985,000	–	985,000
Total financial assets	7,308	383,553	3,468	394,329	7,308	1,203,420	3,407	1,214,135

	Derivatives used for hedging $'000	Designated at FVTPL $'000	Other financial liabilities at amortised cost $'000	Total $'000	Derivatives used for hedging $'000	Designated at FVTPL $'000	Other financial liabilities at amortised cost $'000	Total $'000
Trade and other payables	–	–	278,385	278,385	–	–	141,828	141,828
Derivative financial liabilities	4,768	15,562	–	20,330	1,950	16,401	–	18,351
Loans from related parties	–	–	–	–	–	–	264,640	264,640
Borrowings	–	–	544,170	544,170	–	–	279,418	279,418
Total financial liabilities	4,768	15,562	822,555	842,885	1,950	16,401	685,886	704,237

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

22. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK BANKING GROUP continued

Risk Management Policies

The Group's exposure to risk arises directly from its operating, investing and financing activities. These activities involve the acceptance of credit, market (currency and interest rate), financing and operational risks. The management of risk is an essential element of the Group's strategy with emphasis placed on pro-active management to enhance shareholder value and minimise earnings volatility in individual financial years and multi-year periods.

The Board is responsible for policy setting (with advice from the Finance, Risk and Investment Committee), the corporate finance team are responsible for execution of the policies.

Financing Risk

Financing risk is the risk of not being able to refinance debt obligations or other cash outflows when required, on terms that are no more unfavourable than those currently in place.

The main objectives of the management of financing risk is to ensure sufficient funding is available to meet the Group's requirements and to avoid liquidity crises, achieve competitive pricing on sources of funding and lines of credit, and diversify sources of funding and liquidity.

The Group manages financing risk through maintaining a portfolio of liquid assets, developing and maintaining appropriate funding diversification strategies, arranging and maintaining committed bank facilities, and reducing the amount of debt maturing in any given period.

Interest Rate Risk

Interest rate risk is defined as the risk of the Group's cost of funds changing as a result of changes in the interest rates paid on outstanding debt.

The main objective of the management of interest rate risk is to minimise the volatility in the cost of debt.

The Group manages interest rate risk through derivatives to modify the exposure to changes in interest rates. Interest rate repricing on financial assets acts as an offset to repricing on financial liabilities.

Borrowings

The Group has floating rate borrowings with a face value of $30.0m at 30 June 2013 (30 June 2012 – $189.0m), and fixed rate borrowings with a face value of $350.0m (30 June 2012 – $350.0m). All borrowings are used to fund ongoing activities. As at 30 June 2013, the weighted average interest rate on borrowings (as amended by interest rate swaps) is 6.51% (30 June 2012 – 5.67%).

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Derivative Financial Instruments				
The notional principal or contract amounts of interest rate swap/option contracts at balance date are:				
Interest rate swaps	**460,000**	470,000	**460,000**	430,000
Forward rate agreements	**95,000**	105,000	**95,000**	105,000

Currency Risk

Currency risk is the risk of cash flow uncertainty that may arise from a movement in foreign exchange rates to which the Group may be exposed. In the case of the Group this is foreign exchange transaction risk and foreign exchange translation risk arising from normal trading activities. Some of the trading exposures arise as a result of obligations with overseas postal administrators which are invoiced in Special Drawing Rights (SDR) and are settled in United States Dollars (USD). The SDR is a basket currency composed of fixed quantities of four major traded currencies (USD, Yen, Euro and Pound Sterling). The composition of the basket is set by the International Monetary Fund. The currency in which the Group primarily deals with is the United States Dollar.

The main objective of the management of currency risk is to manage the exposure to foreign exchange risk.

The Group manages currency risk through derivatives. The Group's policy is to hedge net foreign currency cash flows forecast to occur within the next two years, and foreign currency capital expenditure over $250k.

Derivative Financial Instruments

The notional or principal contract amounts of foreign exchange instruments outstanding at balance date are:

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Forward foreign exchange contracts	**10,992**	21,595	**3,058**	12,133
Foreign exchange swaps	**–**	2,151	**–**	2,151
Foreign exchange options	**12,358**	–	**12,358**	–

The following tables summarise the Group's and Parent's exposure to foreign currency risk (all figures NZD equivalents).

GROUP 30 June 2013	**GBP $'000**	**EUR $'000**	**AUD $'000**	**USD $'000**	**Total $'000**
Cash and cash equivalents	**424**	**18**	**4,906**	**3,318**	**8,666**
Trade and other receivables	**–**	**–**	**22,306**	**32,813**	**55,119**
Derivative financial assets / (liabilities)	**–**	**–**	**(9)**	**(280)**	**(289)**
Trade and other payables	**–**	**(134)**	**(10,990)**	**(10,894)**	**(22,018)**
Borrowings	**–**	**–**	**-**	**–**	**–**
Net on balance sheet financial position	**424**	**(116)**	**16,213**	**24,957**	**41,478**
30 June 2012					
Cash and cash equivalents	328	3	4,354	159	4,844
Trade and other receivables	–	–	15,286	32,871	48,157
Derivative financial assets	–	5,627	(867)	18,986	23,746
Trade and other payables	–	–	(7,491)	(11,520)	(19,011)
Borrowings	–	–	-	(5,035)	(5,035)
Net on balance sheet financial position	328	5,630	11,282	35,461	52,701
PARENT					
30 June 2013					
Cash and cash equivalents	**424**	**18**	**684**	**3,318**	**4,444**
Trade and other receivables	**–**	**–**	**-**	**32,813**	**32,813**
Derivative financial assets / (liabilities)	**–**	**–**	**(9)**	**(174)**	**(183)**
Trade and other payables	**–**	**(134)**	**(136)**	**(10,891)**	**(11,161)**
Net on balance sheet financial position	**424**	**(116)**	**539**	**25,066**	**25,913**
30 June 2012					
Cash and cash equivalents	328	3	128	77	536
Trade and other receivables	–	–	-	32,871	32,871
Derivative financial assets	–	5,627	(867)	9,524	14,284
Trade and other payables	–	(227)	-	(11,520)	(11,747)
Net on balance sheet financial position	328	5,403	(739)	30,952	35,944

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

22. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK BANKING GROUP continued

Credit Risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time. Counterparty credit exposures arise as a consequence of the Group entering into contractual arrangements that involve the future exchange of assets and/or services.

The Group manages credit risk through the formulation of specific policy benchmarks and parameters set by the Board, which must be complied with in all situations.

Credit risk is monitored on an ongoing basis. The Group does not have any significant concentrations of credit risk.

No collateral is held as at 30 June 2013 (30 June 2012 – nil).

Maximum Exposure to Credit Risk Before Collateral Held or Other Credit Enhancements

The following table represents a worst case scenario of credit risk exposure to the Group and Parent at 30 June 2013 and 30 June 2012. The exposures set out are based on net carrying amounts as reported in the balance sheet.

	GROUP		**PARENT**	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Credit Risk Relating to On Balance Sheet Assets				
Cash and cash equivalents	**197,539**	154,871	**150,811**	96,663
Trade and other receivables	**191,272**	229,093	**119,128**	121,867
Derivative financial assets	**5,936**	10,776	**4,830**	10,715
Loans to related parties	**–**	–	**144,860**	985,000
Total gross financial assets	**394,747**	394,740	**419,629**	1,214,245
Allowance for impairment losses	**(819)**	(411)	**(372)**	(110)
Total net financial assets	**393,928**	394,329	**419,257**	1,214,135

As at 30 June 2013, 48% of the total maximum exposure is derived from trade and other receivables (30 June 2012 – 58%). Management is confident in its ability to control and sustain minimal exposure of credit risk resulting from its financial assets.

Credit Exposure Concentration

There are no individual counterparties or connected persons where their credit exposure equalled or exceeded 10% of the Group's total credit exposure during the year (2012 – nil).

Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Management of liquidity risk is designed to ensure that the Group has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis.

The Group monitors this risk daily, primarily by forecasting future cash requirements.

The tables below summarise the cash flows payable by the Group and Parent under both non-derivative and derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the inherent liquidity risk is managed based on expected undiscounted cash flows.

GROUP **30 June 2013**	**Up To 3 Months** **$'000**	**Between 3 and 12 Months** **$'000**	**Between 1 and 5 Years** **$'000**	**More Than 5 Years** **$'000**	**Total** **$'000**
Non-derivative cash flows					
Cash and cash equivalents	167,539	30,000	-	-	197,539
Trade and other receivables	155,808	22,026	12,619	-	190,453
Trade and other payables	(351,903)	-	(8,934)	-	(360,837)
Deferred settlement obligations	-	-	(2,472)	-	(2,472)
Borrowings	(30,006)	-	(350,000)	-	(380,006)
Net non derivative cash flows	(58,562)	52,026	(348,787)	-	(355,323)
Derivative cash flows					
Foreign exchange derivatives – inflows	15,473	-	-	-	15,473
Foreign exchange derivatives – outflows	(16,954)	(3,438)	(3,387)	-	(23,779)
Interest rate derivatives – inflows	-	23,558	42,751	8,093	74,402
Interest rate derivatives – outflows	(5,059)	(18,282)	(49,198)	(8,274)	(80,813)
Commitments					
Interest receipts	373	827	-	-	1,200
Interest payments	(96)	(22,837)	(27,094)	-	(50,027)
Capital commitments	5,328	-	-	-	5,328
Lease commitments	(13,478)	(40,435)	(130,481)	(54,388)	(238,782)
Lease receipts	533	1,599	2,931	182	5,245
Total off balance sheet cash flows	(13,880)	(59,008)	(164,478)	(54,387)	(291,753)
Net position	(72,442)	(6,982)	(513,265)	(54,387)	(647,076)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

22. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK BANKING GROUP continued

GROUP 30 June 2012	Up To 3 Months $'000	Between 3 and 12 Months $'000	Between 1 and 5 Years $'000	More Than 5 Years $'000	Total $'000
Non-derivative cash flows					
Cash and cash equivalents	154,871	-	-	-	154,871
Trade and other receivables	203,865	18,583	6,234	-	228,682
Trade and other payables	(347,261)	(3,974)	(1,225)	-	(352,460)
Deferred settlement obligations	(17,200)	(14,500)	(1,900)	-	(33,600)
Borrowings	(184,000)	(5,035)	(350,000)	-	(539,035)
Net non derivative cash flows	(189,725)	(4,926)	(346,891)	-	(541,542)
Derivative cash flows					
Foreign exchange derivatives – inflows	17,950	128	-	-	18,078
Foreign exchange derivatives – outflows	(17,879)	(127)	-	-	(18,006)
Interest rate derivatives – inflows	-	20,589	52,597	8,663	81,849
Interest rate derivatives – outflows	(1,851)	(7,095)	(11,629)	(14,189)	(34,764)
Commitments					
Interest payments	(825)	(22,838)	(49,931)	-	(73,594)
Capital commitments	2,215	-	-	-	2,215
Lease commitments	(14,851)	(44,553)	(132,125)	(49,825)	(241,354)
Lease receipts	2,555	7,664	13,545	318	24,082
Total off balance sheet cash flows	(12,686)	(46,232)	(127,543)	(55,033)	(241,494)
Net position	(202,411)	(51,158)	(474,434)	(55,033)	(783,036)

PARENT **30 June 2013**	**Up To 3 Months** **$'000**	**Between 3 and 12 Months** **$'000**	**Between 1 and 5 Years** **$'000**	**More Than 5 Years** **$'000**	**Total** **$'000**
Non-derivative cash flows					
Cash and cash equivalents	110,811	40,000	-	-	150,811
Trade and other receivables	106,184	-	12,572	-	118,756
Loans to related parties	2,000	45,529	33,347	63,984	144,860
Trade and other payables	(223,498)	-	(8,934)	-	(232,432)
Loans from related parties	-	(45,529)	(233,984)	-	(279,513)
Borrowings	(30,000)	-	(150,000)	-	(180,000)
Net non derivative cash flows	(34,503)	40,000	(346,999)	63,984	(277,518)
Derivative cash flows					
Foreign exchange derivatives – inflows	15,473	-	-	-	15,473
Foreign exchange derivatives – outflows	(15,916)	-	-	-	(15,916)
Interest rate derivatives – inflows	-	24,386	46,063	8,507	78,956
Interest rate derivatives – outflows	(5,059)	(19,110)	(52,510)	(8,688)	(85,367)
Commitments					
Interest receipts	2,711	7,944	22,348	-	33,003
Interest payments	(1,181)	(26,093)	(31,838)	-	(59,112)
Capital commitments	4,919	-	-	-	4,919
Lease commitments	(8,894)	(26,682)	(95,261)	(45,258)	(176,095)
Lease receipts	1,617	4,850	20,267	8,517	35,251
Guarantees	-	-	-	-	-
Total off balance sheet cash flows	(6,330)	(34,706)	(90,931)	(36,922)	(168,889)
Net position	(40,833)	5,295	(437,930)	27,062	(446,407)

The Parent has also guaranteed the payment obligations of Kiwibank under a deed poll guarantee (refer to note 29).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

22. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK BANKING GROUP continued

PARENT 30 June 2012	Up To 3 Months $'000	Between 3 and 12 Months $'000	Between 1 and 5 Years $'000	More Than 5 Years $'000	Total $'000
Non-derivative cash flows					
Cash and cash equivalents	96,663	–	-	–	96,663
Trade and other receivables	96,940	18,583	6,234	–	121,757
Loans to related parties	253	15,139	97,566	872,042	985,000
Trade and other payables	(185,981)	(3,974)	(1,225)	–	(191,180)
Loans from related parties	–	(14,500)	(237,315)	(12,825)	(264,640)
Borrowings	(130,000)	–	(150,000)	–	(280,000)
Net non derivative cash flows	(122,125)	15,248	(284,740)	859,217	467,600
Derivative cash flows					
Foreign exchange derivatives – inflows	17,686	128	-	–	17,814
Foreign exchange derivatives – outflows	(17,562)	(127)	-	–	(17,689)
Interest rate derivatives – inflows	–	20,589	52,597	8,663	81,849
Interest rate derivatives – outflows	(1,850)	(7,095)	(11,629)	(14,189)	(34,763)
Commitments					
Interest payments	(386)	(22,837)	(49,931)	–	(73,154)
Capital commitments	925	–	-	–	925
Lease commitments	(7,652)	(22,956)	(66,385)	(32,209)	(129,202)
Lease receipts	1,877	5,632	10,384	318	18,211
Guarantees	–	–	-	–	-
Total off balance sheet cash flows	(6,962)	(26,666)	(64,964)	(37,417)	(136,009)
Net position	(129,087)	(11,418)	(349,704)	821,800	331,591

Equity Risk

Equity risk results from the re-pricing of equity investments. The Group does not undertake equity trading and there are no significant exposures to equity instruments.

Capital Risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the development of its business.

The Group assesses its ability to absorb risk to ensure that it has sufficient financial resources to continue as a going concern even if it suffers a material unforeseen or unexpected event. To ensure adequate capital is maintained material risks are assessed and quantified through estimation/ judgement to provide information that enables management to monitor current and expected capital levels.

Components of Capital

Capital for the Group includes share capital, retained earnings, and reserves.

Sensitivity Analysis

The table below summarises the pre-tax sensitivity of financial assets and financial liabilities to changes in interest rate and currency risks with all other variables held constant. The market value of the assets and liabilities were used as the basis for the analysis and financial modelling was used to determine the impact on those values of changes in each risk scenario.

GROUP		**Interest Rate Risk**		**Currency Risk**		**Currency Risk**	
30 June 2013		**-1%**	**+1%**	**-10%**	**+10%**	**-10%**	**+10%**
Financial assets/(liabilities)	**Carrying Value $'000**	**Statement of Profit or Loss and Other Comprehensive Income $'000**	**Statement of Profit or Loss and Other Comprehensive Income $'000**	**Statement of Profit or Loss and Other Comprehensive Income $'000**	**Statement of Profit or Loss and Other Comprehensive Income $'000**	**Equity $'000**	**Equity $'000**
Cash and cash equivalents	197,539	(900)	900	494	(404)	2,070	(1,694)
Trade and other receivables	190,453	-	-	3,646	(2,983)	2,478	(2,028)
Derivative financial assets	5,936	(46)	46	(1,265)	954	–	–
Trade and other payables	(307,744)	-	-	(1,225)	1,003	(1,204)	985
Derivative financial liabilities	(10,991)	102	(102)	–	-	–	–
Borrowings	(383,136)	3,800	(3,800)	–	-	–	–
30 June 2012							
Financial assets/(liabilities)							
Cash and cash equivalents	154,871	–	–	60	(49)	470	(384)
Trade and other receivables	228,682	–	–	3,652	(2,988)	1,698	(1,390)
Derivative financial assets	10,776	(101)	101	2,625	(2,170)	–	–
Trade and other payables	(191,018)	–	–	(1,305)	1,068	(832)	681
Derivative financial liabilities	(20,330)	147	(147)	–	-	–	–
Borrowings	(544,170)	4,800	(4,800)	(559)	458	–	–

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

22. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK BANKING GROUP continued

PARENT		Interest Rate Risk		Currency Risk		Currency Risk	
30 June 2013		-1%	+1%	-10%	+10%	-10%	+10%
Financial assets/(liabilities)	Carrying Value $'000	Statement of Profit or Loss and Other Comprehensive Income $'000	Statement of Profit or Loss and Other Comprehensive Income $'000	Statement of Profit or Loss and Other Comprehensive Income $'000	Statement of Profit or Loss and Other Comprehensive Income $'000	Equity $'000	Equity $'000
Cash and cash equivalents	**150,811**	**(900)**	**900**	**494**	**(404)**	**-**	**-**
Trade and other receivables	**118,756**	**-**	**-**	**3,646**	**(2,983)**	**-**	**-**
Derivative financial assets	**4,830**	**(46)**	**46**	**(1,216)**	**995**	**-**	**-**
Loans to related parties	**144,860**	**(1,541)**	**1,541**	**-**	**-**	**-**	**-**
Trade and other payables	**(202,340)**	**-**	**-**	**(1,240)**	**1,015**	**-**	**-**
Derivative financial liabilities	**(11,075)**	**102**	**(102)**	**-**	**-**	**-**	**-**
Loans from related parties	**(279,513)**	**2,755**	**(2,755)**	**-**	**-**	**-**	**-**
Borrowings	**(179,758)**	**1,800**	**(1,800)**	**-**	**-**	**-**	**-**
30 June 2012							
Financial assets/(liabilities)							
Cash and cash equivalents	96,663	-	-	59	(49)	-	-
Trade and other receivables	121,757	-	-	3,652	(2,988)	-	-
Derivative financial assets	10,715	(101)	101	1,587	(1,299)	-	-
Loans to related parties	985,000	(1,471)	1,471	-	-	-	-
Trade and other payables	(89,212)	-	-	(1,280)	1,047	-	-
Derivative financial liabilities	(18,351)	147	(147)	-	-	-	-
Loans from related parties	(264,640)	2,573	(2,573)	-	-	-	-
Borrowings	(279,418)	2,800	(2,800)	-	-	-	-

The sensitivity % applied above reflect a reasonable movement in variables that could likely impact the financial assets and financial liabilities of the Group and Parent.

The sensitivity to interest rate risks has an equal impact on the statement of profit or loss and other comprehensive income and equity.

Fair Values of Financial Instruments

The estimated fair values of the Group's financial assets and financial liabilities which differ from their carrying values are noted below.

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Borrowings – carrying values	**383,136**	544,170	**179,758**	279,418
Borrowings – fair values	**392,453**	552,671	**188,821**	283,212

Fair Value Estimation

Quoted market prices, when available, are used as the measure of fair values for financial instruments. However, for some of the Group's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using present value or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgements made regarding risk characteristic of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair value.

The fair value estimates were determined by application of the methods and assumptions described below.

Cash and cash equivalents
For cash assets, the carrying amount is equivalent to the fair value. For short term liquid assets, estimated fair values are based on quoted market prices.

Trade and other receivables (including tax receivable)
For receivables, the carrying amount is equivalent to the fair value.

Loans to related parties
For loans to related parties, the carrying amount is equivalent to the fair value.

Trade payables
For trade payables, the carrying amount is equivalent to the fair value.

Borrowings
For fixed rate borrowings recognised at amortised cost, fair values have been estimated using a discounted cash flow model with reference to market interest rates.

Derivative financial instruments
For derivative financial instruments, the carrying amount is equivalent to the fair value.

Fair Value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques using inputs which have a significant effect on the recorded fair value and which are not based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

22. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK BANKING GROUP continued

GROUP **30 June 2013**	**Level 1** **$'000**	**Level 2** **$'000**	**Level 3** **$'000**	**Total** **$'000**
Financial Assets				
Derivative financial assets	–	5,936	–	5,936
Total financial assets	–	5,936	–	5,936
Financial Liabilities				
Derivative financial liabilities	–	10,991	–	10,991
Total financial liabilities	–	10,991	–	10,991
30 June 2012				
Financial Assets				
Derivative financial assets	–	10,776	–	10,776
Total financial assets	–	10,776	–	10,776
Financial Liabilities				
Derivative financial liabilities	–	20,330	–	20,330
Total financial liabilities	–	20,330	–	20,330
PARENT **30 June 2013**				
Financial Assets				
Derivative financial assets	–	4,830	–	4,830
Total financial assets	–	4,830	–	4,830
Financial Liabilities				
Derivative financial liabilities	–	11,075	–	11,075
Total financial liabilities	–	11,075	–	11,075
PARENT 30 June 2012				
Financial Assets				
Derivative financial assets	–	10,715	–	10,715
Total financial assets	–	10,715	–	10,715
Financial Liabilities				
Derivative financial liabilities	–	18,351	–	18,351
Total financial liabilities	–	18,351	–	18,351

There were no transfers in or out of level 3, or between levels 1 and 2, during the period.

23. LEASES

	GROUP		PARENT	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Non-Cancellable Operating Lease Commitments				
Payable no later than one year	**53,913**	59,404	**35,576**	30,608
Payable later than one year and no later than five years	**130,481**	132,125	**95,261**	66,385
Payable later than five years	**54,388**	49,825	**45,258**	32,209
Total operating lease commitments	**238,782**	241,354	**176,095**	129,202

The Company leases a majority of its sites. All leases are standard operating leases. No leases have purchase options, onerous restrictions on use or contingent rental payments. Lease terms vary from monthly to long term. Many leases have rights of renewal.

	GROUP		PARENT	
Non-Cancellable Future Operating Lease Receipts				
Receivable no later than one year	**2,132**	10,219	**6,466**	7,509
Receivable later than one year and no later than five years	**2,931**	13,545	**20,267**	10,384
Receivable later than five years	**182**	318	**8,517**	318
Total future operating lease receipts	**5,245**	24,082	**35,250**	18,211

The Company leases space in some of its properties (mainly owned) to external tenants. All leases are standard operating leases. No leases have purchase options, onerous restrictions on use or contingent rental payments. Lease terms vary from monthly to long term. Many leases have rights of renewal.

24. CAPITAL COMMITMENT

	GROUP		PARENT	
Contractual commitments for acquisition of:				
Property, plant and equipment	**678**	2,031	**398**	925
Intangible assets – software	**4,650**	184	**4,521**	–
Total contractual commitments	**5,328**	2,215	**4,919**	925

25. CONTINGENCIES

The following contingencies have not been accrued in the financial statements. The amounts disclosed are the maximum potential losses, excluding the effects of tax.

The Parent has guaranteed the payment obligations of Kiwibank under a deed poll guarantee. There are no limits on the amount of the undisputed obligations guaranteed. The guarantee is unsecured and can be terminated on not less than three months notice by the Parent to the creditors. No call has been made on this guarantee as at 30 June 2013 (30 June 2012: nil).

The Parent has guaranteed the payment obligations of New Zealand Post Group Finance Limited in relation to its subordinated notes (refer note 18). The face value of the notes on issue at balance date is $200m. No call has been made on this guarantee as at 30 June 2013 (30 June 2012: nil).

On 28 June 2012, the Parent provided a financial guarantee of AU$1.6m to Couriers Please Holdings Limited for the operating lease to replace their mobile scanning equipment. No call has been made on this guarantee as at 30 June 2013.

The Group is subject to additional claims, contingencies and investigations incurred in the normal course of business. The Directors do not believe these will result in any significant exposure to the Group.

26. EVENTS OCCURRING AFTER BALANCE DATE

On 29 August 2013, the Board of New Zealand Post declared a final dividend of $2.5m in respect of the 2013 financial year.

On 1 July 2013, the proceeds relating to the sale of Courier Post House were received.

No other material events have occurred subsequent to balance date that require recognition of, or additional disclosure in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

27. KIWIBANK – SPECIFIC BANKING ASSETS

	GROUP	
	2013 $'000	2012 $'000
Cash and Cash Equivalents		
Cash in hand	**35,887**	44,536
Cash with central banks	**312,031**	208,848
Call and overnight advances to financial institutions	**67,234**	61,677
Total cash and bank balances	**415,152**	315,061
Due from Other Financial Institutions		
Unsettled receivables	**1,681**	15
Bank Bills (short term advances due from other financial institutions)	**118,537**	145,119
Collateralised loans	**38,240**	26,240
Total due from other financial institutions	**158,458**	171,374

All amounts due from other financial institutions are expected to be realised within the next 12 months.

As at 30 June 2013, included within the balance above, is $38.2m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties (30 June 2012: $26.3m).

	2013 $'000	2012 $'000
Financial Assets Held for Trading		
Bank bills	80,536	2,997
Other securities	72,782	101,242
Total financial assets held for trading	153,318	104,239
Comprising:		
Current financial assets held for trading	153,318	104,239
Total financial assets held for trading	153,318	104,239
Available for Sale Assets		
Government stock and multilateral development banks	587,047	463,905
Treasury bills	32,716	561,755
Local authority securities	65,480	64,166
Other debt securities	281,059	311,140
Total available for sale assets	966,302	1,400,966
Comprising:		
Current available for sale assets	966,302	1,400,966
Total available for sale assets	966,302	1,400,966
Loans and Advances		
Designated upon initial recognition at fair value through profit or loss	–	44,007
At amortised cost	13,274,319	12,492,414
Allowance for impairment losses	(72,447)	(91,140)
Total loans and advances	13,201,872	12,445,281
Comprising:		
Current loans and advances	1,070,981	1,036,265
Non-current loans and advances	12,130,891	11,409,016
Total loans and advances	13,201,872	12,445,281
Cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value (through profit or loss)	–	31

The above changes in the fair value of the loans and advances that is attributable to changes in the credit risk of the financial asset is determined as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk.

Asset Quality

Interest revenue foregone on impaired assets is calculated using actual interest written off and interest suspended during the year. There are no real estate or other assets acquired through the enforcement of security/collateral held at 30 June 2013 (30 June 2012: nil). There are no assets under administration as at 30 June 2013 (30 June 2012: nil). There are no unrecognised impaired assets as at 30 June 2013 (30 June 2012: nil).

The aggregate amount of undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired is $0.4m at 30 June 2013 (30 June 2012: $1.1m). There are no restructured loans.

	Loans and Advances to Retail Customers	**Loans and Advances to Corporate Customers and Institutional Customers**	**Total Loans and Advances**	Loans and Advances to Retail Customers	Loans and Advances to Corporate Customers and Institutional Customers	Total Loans and Advances
	2013 $'000	**2013 $'000**	**2013 $'000**	2012 $'000	2012 $'000	2012 $'000
Neither past due nor impaired	11,668,961	1,367,980	13,036,941	10,779,701	1,470,534	12,250,235
Past due but not impaired	175,512	7,846	183,358	186,884	15,178	202,062
Impaired	22,668	31,352	54,020	16,049	68,074	84,123
Gross amount	11,867,141	1,407,178	13,274,319	10,982,634	1,553,786	12,536,420
Collective allowance for impairment	(24,119)	(19,740)	(43,859)	(24,988)	(24,672)	(49,660)
Individual allowance for impairment	(11,451)	(17,137)	(28,588)	(7,799)	(33,681)	(41,480)
Net amount	11,831,571	1,370,301	13,201,872	10,949,847	1,495,433	12,445,280

Loans and Advances Past Due but Not Impaired

	Retail Unsecured Lending	**Residential Mortgage Loans**	**Corporate Exposures**	**Total Loans and Advances**	Retail Unsecured Lending	Retail Mortgage Loans	Corporate Exposures	Total Loans and Advances
	2013 $'000	**2013 $'000**	**2013 $'000**	**2013 $'000**	2012 $'000	2012 $'000	2012 $'000	2012 $'000
Past due up to 30 days	29,187	105,129	2,887	137,203	23,772	96,227	9,585	129,584
Past due 31-60 days	6,347	10,921	1,913	19,181	6,456	15,108	1,120	22,684
Past due 61-90 days	2,557	6,693	448	9,698	3,137	8,504	2,121	13,762
Past due > 90 days	3,670	11,008	2,598	17,276	3,404	30,276	2,353	36,033
Total	41,761	133,751	7,846	183,358	36,769	150,115	15,179	202,063

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

27. KIWIBANK – SPECIFIC BANKING ASSETS continued

Impaired Assets

The breakdown of the gross amount of individually impaired loans and advances by class and restructured loans is as follows:

	Unsecured Retail Lending		Residential Mortgage Loans		Corporate Exposures	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
Gross Impaired						
Balance at the beginning of the year	**1,220**	366	**14,829**	40,722	**68,074**	64,919
Transfers from performing	**2,884**	1,220	**20,554**	12,121	**13,543**	24,467
Transfers to performing	**-**	-	**(3,883)**	(10,565)	**(6,875)**	(147)
Recoveries of amounts previously written off (asset realisations and loans repaid)	**-**	-	**(7,185)**	(14,868)	**(23,022)**	(5,855)
Amounts written off	**(3,275)**	(366)	**(2,476)**	(12,581)	**(20,368)**	(15,310)
Balance at the end of the year	**829**	1,220	**21,839**	14,829	**31,352**	68,074

	GROUP	
Allowance for Impairment Losses in Statement of Financial Position	**2013 $'000**	2012 $'000
Collective allowance for impairment losses	**43,858**	49,660
Individually impaired assets	**28,762**	41,480
Allowance for impairment losses	**72,620**	91,140
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value (through profit or loss)	**-**	31
Total allowance for impairment losses	**72,620**	91,171
Impairment Losses Per Statement of Profit or Loss and Other Comprehensive Income		
Impairment losses on loans not at fair value through profit or loss	**(2,525)**	16,048
Charge to statement of profit or loss and other comprehensive income for individually impaired assets	**9,952**	19,112
Total impairment losses per statement of profit or loss and other comprehensive income	**7,427**	35,160
Impairment Allowance		
Individually impaired assets		
Balance at the beginning of the year	**41,480**	50,197
Charge to statement of profit or loss and other comprehensive income	**9,952**	19,112
Bad debts written off	**(22,670)**	(27,829)
Balance at the end of the year	**28,762**	41,480

The reconciliation of the collective allowance account for losses on loans and advances by class is as follows:

	Retail Unsecured Lending	**Residential Mortgage Loans**	**Corporate Exposures**	**Total Loans and Advances**	Retail Unsecured Lending	Residential Mortgage Loans	Corporate Exposures	Total
	2013 $'000	**2013 $'000**	**2013 $'000**	**2013 $'000**	2012 $'000	2012 $'000	2012 $'000	2012 $'000
Balance at beginning of the year	4,434	20,555	24,672	49,661	3,661	17,812	15,471	36,944
Impairment losses on loans not at fair value through profit or loss	7,247	(5,782)	(4,933)	(3,468)	3,729	2,743	9,201	15,673
Advances written off	(2,335)	–	–	(2,335)	(2,956)	–	–	(2,956)
Total collective allowance for impairment losses	9,346	14,773	19,739	43,858	4,434	20,555	24,672	49,661

Kiwibank uses the following derivative instruments for both hedging and non-hedging purposes.

a) Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

b) Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

c) Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

d) Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (ie cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. Kiwibank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value. To control the level of credit risk taken, Kiwibank assesses counterparties using the same techniques as for its lending activities.

e) Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between Kiwibank and a customer over-the-counter. Kiwibank is exposed to credit risk on purchased options only and only to the extent of their carrying amount, which is their fair value.

f) The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate Kiwibank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and financial liabilities, can fluctuate significantly from time to time. The fair value of derivative instruments is set out below.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

28. KIWIBANK – SPECIFIC BANKING DERIVATIVE FINANCIAL INSTRUMENTS

	Notional Value 2013 $'000	**Fair Value 2013 $'000**	Notional Value 2012 $'000	Fair Value 2012 $'000
Derivatives Held for Trading				
Foreign exchange derivatives				
– Forward contracts	748,645	11,817	1,012,958	8,222
– Swap agreements	342,155	(23,593)	457,159	13,418
– Options purchased	12,529	348	5,520	83
– Options sold	12,592	(348)	5,674	(83)
Total foreign exchange derivatives	1,115,921	(11,776)	1,481,311	21,640
Interest rate derivatives				
– Forward rate agreements	1,000,000	1	200,000	9
– Swap agreements	19,543,396	201	10,821,457	(7,522)
– Futures contracts	638,000	5	975,000	97
Total interest rate derivatives	21,181,396	207	11,996,457	(7,416)
Total derivatives held for trading	22,297,317	(11,569)	13,477,768	14,224
Derivatives Held for Hedging				
Designated as Cash Flow Hedges				
– Interest rate swap agreements	5,697,150	(13,370)	3,571,000	(55,738)
– Exchange rate swaps	291,012	(10,185)	-	–
Total derivatives designated as cash flow hedges	5,988,162	(23,555)	3,571,000	(55,738)
Designated as Fair Value Hedges				
Interest rate derivatives				
– Interest rate swap agreements	385,249	14,709	446,884	23,413
Total derivatives designated as fair value hedges	385,249	14,709	446,884	23,413
Total derivatives held for hedging	6,373,411	(8,846)	4,017,884	(32,325)
Total Derivative Financial Instruments	28,670,728	(20,415)	17,495,652	(18,101)
Comprising:				
Current derivative financial instruments	28,670,728	(20,415)	17,495,652	(18,101)
Total loans and advances (total derivative financial instruments)	28,670,728	(20,415)	17,495,652	(18,101)

Fair Value Hedges

Kiwibank has entered into asset interest rate swaps to hedge interest rate risk resulting from any potential change or movement in the fair value of fixed rate coupon bonds.

Kiwibank hedges this risk through the use of pay fixed interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate financial instruments and interest rate swaps. The fair value gains and losses are recorded through the statement of profit or loss and other comprehensive income as incurred. When a fair value hedging relationship is de-designated, the fair value adjustments to the carrying statement of financial position carrying value are amortised to the statement of profit or loss and other comprehensive income over the remaining period to the maturity date of the fixed rate financial instrument.

Kiwibank also partially hedges the interest rate risk arising from any potential change in the fair value of fixed rate subordinated debt issuances and medium term notes. Kiwibank hedges this risk through the use of received fixed interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate liability and interest rate swap. The fair value gains and losses are recorded through the statement of profit or loss and other comprehensive income as incurred. When a fair value hedging relationship is de-designated, the fair value adjustments to the statement of financial position carrying value are amortised to the statement of profit or loss and other comprehensive income over the remaining period to the maturity date of the fixed rate liability.

Cash Flow Hedges

Kiwibank hedges the short term future reissuance of fixed rate loan customers and future retail term deposits through the use of interest rate swaps. Previously Kiwibank also hedged the cash flows from variable rate loan assets and liabilities. Gains and losses deferred in the cash flow hedge reserve will be transferred to the statement of profit or loss and other comprehensive income over the next one to five years, as the cash flows under the hedged transactions occur.

29. KIWIBANK – SPECIFIC BANKING LIABILITIES

	GROUP	
	2013 $'000	2012 $'000
Due to Other Financial Institutions		
Repurchase agreements	**185,018**	296,709
Collateral Borrowing (cash collateral pledged)	**–**	18,015
Short term borrowings	**50,090**	–
Unsettled payables	**4,021**	765
ATM cash at other banks (transaction balances with other financial institutions)	**30,928**	18,442
Total due to other financial institutions	**270,057**	333,931

All amounts due to other financial institutions are expected to be settled within the next 12 months.

Deposits		
Demand deposits not bearing interest	**894,206**	745,062
Demand deposits bearing interest	**2,335,940**	2,077,148
Term deposits	**8,889,720**	8,742,517
Total deposits	**12,119,866**	11,564,727
Comprising:		
Current deposits	**11,778,211**	11,188,604
Non-current deposits	**341,655**	376,123
Total deposits	**12,119,866**	11,564,727

In the event of the liquidation of Kiwibank, deposit holders will rank equally with all other creditors but ahead of subordinated debt holders and shareholders. In addition, all payment obligations of Kiwibank, excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the guarantee, are guaranteed under the NZP Guarantee.

Debt Securities Issued		
Short term debt		
Commercial paper (at fair value through profit or loss)	**387,317**	825,409
Certificates of deposit – amortised cost	**161,675**	53,375
Certificates of deposit – held for trading	**89,642**	189,131
Long term debt		
Medium term notes	**663,167**	719,105
Covered bonds	**201,491**	–
Fair value hedge adjustment on medium term notes	**4,893**	18,661
Total debt securities issued	**1,508,185**	1,805,681
Comprising:		
Current debt securities	**786,988**	1,098,065
Non-current debt securities	**721,197**	707,616
Total debt securities issued	**1,508,185**	1,805,681

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

29. KIWIBANK – SPECIFIC BANKING LIABILITIES continued

In the event of the liquidation of Kiwibank, holders of these securities will rank equally with all other creditors but ahead of subordinated debt holders and shareholders. In addition, all payment obligations of Kiwibank, excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the guarantee, are guaranteed under a deed poll guarantee (the "Guarantee") provided by Kiwibank's ultimate parent company, NZP. Kiwibank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the year.

30. KIWIBANK – BANKING FINANCIAL INSTRUMENTS

	Loans and receivables	Available-for-sale	Assets at fair value through profit and loss		Derivatives used for hedging	Total
			Held for trading	Designated at FVTPL		
30 June 2013	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	415,152	–	–	-	–	415,152
Due from other financial institutions	158,459	–	–	-	–	158,459
Financial assets held for trading	–	–	153,318	-	–	153,318
Available-for-sale assets	–	966,302	–	-	–	966,302
Loans and advances	13,201,872	–	–	-	–	13,201,872
Derivative financial instruments	–	–	96,370	-	33,000	129,370
Balances with related parties	76,971	–	–	-	–	76,971
Other financial assets	10,184	–	–	-	–	10,184
Total financial assets	13,862,638	966,302	249,688	-	33,000	15,111,628

	Liabilities at fair value through profit or loss		Designated used for hedging	Other financial liabilities at amortised cost	Total
	Held for trading	Designated at FVTPL			
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Due to other financial institutions	-	-	-	270,057	270,057
Deposits and other borrowings	-	-	-	12,119,866	12,119,866
Derivative financial instruments	107,785	-	42,000	-	149,785
Debt securities issued	89,642	387,317	-	1,031,227	1,508,186
Term subordinated debt	-	-	-	210,170	210,170
Balances with related parties	-	-	-	13,693	13,693
Other financial liabilities	-	-	-	38,650	38,650
Total financial liabilities	197,427	387,317	42,000	13,683,663	14,310,407

30 June 2012	Loans and receivables $'000	Available-for-sale $'000	Assets at fair value through profit and loss: Held for trading $'000	Assets at fair value through profit and loss: Designated at FVTPL $'000	Derivatives used for hedging $'000	Total $'000
Cash and cash equivalents	315,061	-	-	-	-	315,061
Due from other financial institutions	171,381	-	-	-	-	171,381
Financial assets held for trading	-	-	104,239	-	-	104,239
Available-for-sale assets	-	1,400,966	-	-	-	1,400,966
Loans and advances	12,401,274	-	-	44,007	-	12,445,281
Derivative financial instruments	-	-	107,819	-	30,325	138,144
Balances with related parties	57,909	-	-	-	-	57,909
Other financial assets	10,586	-	-	-	-	10,586
Total financial assets	12,956,211	1,400,966	212,058	44,007	30,325	14,643,567

	Liabilities at fair value through profit or loss: Held for trading $'000	Liabilities at fair value through profit or loss: Designated at FVTPL $'000	Designated used for hedging $'000	Other financial liabilities at amortised cost $'000	Total $'000
Due to other financial institutions	-	-	-	333,931	333,931
Deposits and other borrowings	-	-	-	11,564,727	11,564,727
Derivative financial instruments	93,595	-	62,650	-	156,245
Debt securities issued	189,131	825,409	-	791,141	1,805,681
Term subordinated debt	-	-	-	63,922	63,922
Balances with related parties	-	-	-	3,780	3,780
Other financial liabilities	-	-	-	41,674	41,674
Total financial liabilities	282,726	825,409	62,650	12,799,175	13,969,960

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

30. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Risk Management Policies

Kiwibank's exposure to risk arises primarily from its business activities as a financial intermediary and financial markets participant. Kiwibank recognises the importance of effective risk management to its business success and to its customers. Risk management enables Kiwibank to both increase its financial and organisational growth opportunities and mitigate potential loss or damage.

Organisational perspective

Kiwibank approaches the management of risk using an organisational framework that is characterised by:

- The Board providing oversight on risk appetites, strategies, and monitoring progress.
- Business unit level accountability for the management of risks in accordance with agreed strategies and the Bank's risk management framework. The Risk Management function is responsible for implementing a risk management framework and providing assurance around the management of various elements of risk; and
- Independent oversight of business unit risk management to i) provide regular risk evaluation and reporting; and ii) assess the adequacy and effectiveness of management's control of risk.

The directors of Kiwibank are responsible for the stewardship of Kiwibank. To help discharge this obligation, the Board has established the Finance, Audit and Disclosures Committee (which includes members who have appropriate financial experience and understanding of the banking industry in which Kiwibank operates), and the Risk Credit and Compliance Committee which collectively are responsible for:

- Review and approval of Kiwibank's frameworks and policies for managing business, credit, market and operational risk and maintaining an effective risk management framework.
- Monitoring the bank's key risks, performance, exposures against limits, capital levels and management of Kiwibank's risks.
- Monitoring anticipated changes in the economic and business environment and other factors relevant to Kiwibank's risk profile.
- Review and approval of limits and conditions that apply to risk taking including the authorities delegated to the CEO and executive team.
- Review of internal audit activities and significant audit issues..

The following specialised principal management committees have been formed to translate Board risk appetite into appropriate strategies, policies, controls, processes and procedures for identifying, measuring and managing risk: i) the Asset-Liability Committee (ALCO, which is concerned with statement of financial position structure, capital, funding and market risk; ii) the Executive Risk Committee, which is focused on business, credit and operational risk; iii) the Disclosure Committee, which is focused on continuous disclosure requirements; and iv) the Enterprise Portfolio Management Office, investment portfolio.

Independent Credit and Market risk-control units operate alongside the Bank's Lending business units and Treasury unit. These risk-control functions are accountable for identifying and quantifying credit and market risks, respectively, and for working with the Lending and Treasury business units to implement appropriate policies, procedures and controls to manage those risks.

Kiwibank's Risk Management Unit has been assigned the role of internal monitor. The Risk Management Unit is tasked with ensuring that risk based reporting of financial and non-financial threats to Kiwibank is undertaken on a regular basis. The unit provides an independent appraisal of business units' risk positions and the overall control environment, reporting on the bank's key risks through ALCO and the Executive Risk Committee, and onto the Board Risk, Credit and Compliance Committee and the Finance, Audit and Disclosures Committee as appropriate.

Internal audit

Kiwibank has an independent internal audit function, which appraises the adequacy and effectiveness of the internal control environment, and reports results to both Management and the Board Finance Audit and Disclosure Committee. The internal audit function reports directly to the Chair of the Board Finance, Audit and Disclosures Committee with matrix reporting to the Chief Risk Officer.

In planning audit activities, internal audit adopts a risk-based approach that directs and concentrates resources to those areas of greatest significance, strategic concern and risk to the business. This encompasses reviews of major credit, market, technology and operating risks within Kiwibank. Significant findings are reported quarterly to the Finance Audit and Disclosure Committee. The audit plan is approved by the Finance Audit and Disclosure Committee. All issues and recommendations reported to management are tracked and monitored internally to ensure completion and agreed actions are undertaken where appropriate.

Risk management framework

Kiwibank's risk management framework revolves around four key functions. Namely:

Strategic risk management – A framework and set of processes that the bank uses to plan, organise, lead and control risk management activities in an effort to minimise the effects and impacts of risk events on the Bank's capital and earnings. This reflects the Basel III accord requirements for a properly framed structure from which risk management strategies and policy can be devolved. This framework provides:

i) A high level "risk structure" for the classification/categorisation of all risks deemed material to the Bank, which forms the basis of reporting the Bank's risk profile.

ii) Risk appetite – a formal statement of the Bank's willingness to take on financial risks and a basic operational pre-requisite for the establishment of consistent risk limits.

iii) Risk policy statements – these explicitly articulate the Bank's fundamental attitude towards risk and risk management. The risk policy statements are intended to ensure employees understanding of the Bank's risk management goals throughout the organisation.

iv) Risk principles – these are central rules for risk management decision-making and form the basis for maximum uniformity in risk management decision-making.

Capital management and capital adequacy – Kiwibank's capital management strategy seeks to ensure the Bank is adequately capitalised while recognising capital is often an expensive form of funding or insurance. The Bank seeks to maintain and acquire capital in an economically effective manner so as to i) support future development and growth aspirations; ii) comply at all times with regulatory capital requirements; iii) maintain a strong internal capital base to cover all material inherent risks; and iv) maintain an investment grade credit rating.

The Bank undertakes a programme of activities designed to ensure that it has sufficient financial resources to continue as a going concern even if it suffers a material unforeseen or unexpected risk event(s). This programme, called the Internal Capital Adequacy Assessment Programme (ICAAP), deals primarily with assessing the Bank's capacity to absorb risk based on i) identification and quantification of its immediate risks, and ii) comparison of those risks with its financial capital (that may have to be sacrificed if these risks materialise).

The Kiwibank Board of Directors has ultimate responsibility for capital adequacy and approves capital policy and minimum internal capital levels and limits.

In ensuring that Kiwibank has adequate overall capital in relation to its risk profile, a mixture of risk capital estimates and judgement based estimates have been made relating to all material risks, even where they are hard to quantify. Included in these estimates is also a trade-off between the importance of allocating capital to such risks and the robustness of the Bank's approach to mitigating and managing these risks.

The Bank monitors its key risks and internal and regulatory capital adequacy, and reports this on a regular basis to the Board Risk, Credit and Compliance Committee.

In the event of large, unexpected losses,the Bank is committed to restoring its capital position. Management have developed plans accordingly.

Risk assessment and risk prioritisation – This function administered by the Risk Management Unit is designed to identify and assess the real risks facing the Bank. The prioritisation process is intended to ensure that management focus and appropriate resources are directed at isolating, reducing or controlling expected (probable) risk events. The risk prioritisation process involves assessing the probability and severity of losses using (where possible) quantitative risk and control data.

Enterprise risk management – Irrespective of their relative significance, the majority of risk situations facing the bank occur in the day-to-day operations of the business. These risks (referred to as enterprise risks – as they arise from operating the business) are not confined to formal risk domains (i.e. credit, market, or operational risk) or business lines. As it is considered desirable to manage risk in a consistent and comprehensive manner across the whole of Kiwibank, a decision support model exists for any manager needing to make a risk management decision about a specific risk matter arising in their current or proposed operations (i.e. day-to-day business activities).

Kiwibank's high level "risk structure" recognises four main types of risk (or risk domains). Specifically:

Credit risk – the risk of financial loss arising from the failure of a customer or counterparty to honour any financial or contractual obligation.

Market risk – the potential for losses arising from adverse movements in the level and volatility of market factors, such as interest rates and foreign exchange rates. This risk domain also includes the risk that Kiwibank will not have sufficient funds available to meet financial and transactional cash-flow obligations.

Operational risk – the risk of direct or indirect losses resulting from inadequate or failed internal processes, people, and systems, or from external events. This risk domain includes legal risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from regulatory actions, as well as private settlements.

Business and strategic risk – events that impede or prevent the bank achieving its stated business goals or strategies, including missed opportunities and potential losses/damage arising from a poor strategic business decisions.

Credit Risk

Kiwibank's credit risks arise from lending to customers and from inter-bank, treasury, international and capital market activities. Kiwibank has clearly defined credit policies and frameworks for the approval and management of credit risk.

Key elements of the Credit risk management framework are:

Strategy and organisational structure – The Board requires sound lending growth for appropriate returns. Kiwibank pursues this objective in a structured manner, managing credit risk through the formulation of high-level credit policies, application of credit underwriting standards, delegated authorities, a robust control environment, monitoring of the portfolios, review of all major credit risks and risk concentrations. The Board employs a structure of delegated authorities to implement and monitor the multiple facets of credit risk management.

Kiwibank's Executive Risk Committee (comprising of executive management) is tasked with producing robust credit policies, credit management processes and asset writing strategies; examining portfolio standards, concentrations of lending, asset impairment; and monitoring compliance with policy.

An independent credit management function staffed by credit risk specialists exists to i) provide independent credit decisions; ii) support front-line lending staff in the application of sound credit practices; iii) provide centralised remedial management of arrears; and iv) undertake portfolio monitoring and loan asset quality analysis and reporting.

The integrity and effectiveness of the bank's credit risk management practices and asset quality is supported by independent assessments by the Risk Asset Review unit, and Internal audit functions.

Credit risk mitigation – Kiwibank's Board approved wholesale credit management policy sets out the parameters for which it can enter into credit exposures arising from on and off-balance sheet transactions. Kiwibank also has legal arrangements with its major institutional counterparties to allow netting of off-balance sheet exposures along with collateral management arrangements. Kiwibank applies the simple method to measure the mitigating effects of collateral.

Portfolio structure and monitoring – Kiwibank's credit portfolio is divided into two segments, Personal (Consumer), and Business Markets.

The Personal segment is comprised of housing loan, credit card and personal loan facilities. This segment is managed on a delinquency band approach.

The Business Markets segment consists of lending to small and medium sized businesses. Each exposure is assigned an internal risk rating that is based on an assessment of the risk of default. These exposures are generally required to be reviewed on an annual basis, unless they are small facilities that are managed on a behavioural basis after their initial rating at origination.

The overall composition and quality of the credit portfolios is monitored taking into account the potential changes in economic conditions.

Credit approval standards – Kiwibank has clearly defined credit underwriting policies and standards for all lending, which incorporate income and repayment capacity, acceptable terms, security, and loan documentation criteria. In the first instance, Kiwibank relies on the assessed

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

30. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

integrity of the debtor or counterparty and their ability to meet their financial obligations for repayment.

Longer term consumer lending is generally secured against real estate, while short term revolving consumer credit (personal lending) is generally unsecured. Kiwibank requires adequate and sustainable loan servicing capability, and may also require security cover within loan to security valuation as set down in Kiwibank's credit policy.

Collateral security in the form of real property and/or general security interest over business assets is generally taken for Business credit except for government, bank and corporate counterparties of strong financial standing. The Bank uses ISDA agreements to document derivative activities and limit exposures to credit losses. Under ISDA protocols, in the event of default, all contracts with the counterparty are terminated and settled on a net basis.

Credit facilities are approved through a hierarchy of delegated approval authorities that reflect the skill and experience of lending management.

Problem credit facility management – Credit exposures are monitored regularly through the examination of irregular and delinquent accounts. This enables doubtful debts to be immediately identified so that specific provisions for potential losses can be established as early as possible. Problem credit facilities are monitored to ensure workout and collection recovery strategies are established and enacted promptly to minimise risk of potential losses.

Credit risk portfolios are regularly assessed for objective evidence of impairment. Kiwibank creates portfolio impairment provisions where there is objective evidence that the portfolio contains probable losses that will be identified in future periods. Kiwibank also creates an individually assessed provision against specific credit exposures when there is objective evidence that it will not be able to collect all amounts due.

Operations control environment – Operationally, credit risk is controlled through a combination of approvals, limits, monitoring and review procedures. Functions are segregated so that no one person is in a position to control all significant stages of processing a credit transaction, thereby reducing the chance of error or defalcation escaping detection. Preparation of formal lending documentation only occurs after an independent officer in the operations area has ensured that the credit has been approved and the facility documentation matches the terms of the credit approval.

Concentration of Credit Risk

Concentrations of credit risk arise where Kiwibank is exposed to risk in activities or industries of a similar nature. An analysis of financial assets by industry sector at balance date is as follows:

	GROUP	
	2013 $'000	2012 $'000
New Zealand		
– government, local bodies and services	**955,765**	1,269,455
– finance, investment and insurance	**904,102**	785,143
– households	**11,863,878**	10,982,590
– transport and storage	**70,752**	37,875
– communications	**5,014**	1,850
– electricity, gas and water	**8,198**	4,667
– construction	**94,824**	61,798
– property services	**833,006**	1,026,605
– agriculture	**26,865**	34,911
– health and community services	**65,740**	53,654
– personal and other services	**62,697**	166,200
– retail and wholesale trade	**73,608**	60,313
– food and other manufacturing	**139,354**	110,218
Overseas		
– finance, investment and insurance	**70,089**	128,845
Total financial assets (interest earning)	**15,173,892**	14,724,124
Less collective allowance for impairment losses	**(72,447)**	(91,140)
Other financial assets	**10,184**	10,582
Total financial assets	**15,111,629**	14,643,566

Maximum Exposure to Credit Risk Before Collateral Held or Other Credit Enhancements

Credit Risk Relating to Statement of Financial Position Assets		
Fixed rate mortgages at fair value through profit or loss	**–**	44,007
Fixed rate mortgages at amortised cost	**7,082,510**	4,686,508
Variable rate mortgages	**5,900,204**	7,520,714
Unsecured lending	**291,605**	285,192
Balances with related parties	**76,971**	57,909
Due from other financial institutions	**158,458**	171,380
Derivative financial instruments	**129,369**	138,144
Financial assets held for trading	**153,318**	104,239
Available for sale assets	**966,302**	1,400,966
Cash and cash equivalents	**415,152**	315,061
Other assets	**10,184**	10,586
Total gross financial assets	**15,184,073**	14,734,706
Allowance for impairment losses	**(72,447)**	(91,140)
Total financial assets	**15,111,626**	14,643,566

The above table represents a worst case scenario of credit risk exposure to Kiwibank at 30 June 2013 and 30 June 2012, without taking account of any collateral held or other credit enhancements attached. The exposures set out above are based on net carrying amounts as reported in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

30. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Credit Exposure Concentrations

Credit Exposure to Individual Counterparties

Credit exposure concentrations are disclosed on the basis of actual exposures and gross of set-offs. Peak end-of-day aggregate credit exposures have been calculated using Kiwibanks tier one capital at the end of the period.

There were no individual counterparties, excluding connected persons, bank counterparties and the central government of any country with a long-term credit rating of A- or A3 above, or its equivalent, where the period end and peak end-of-day aggregate actual credit exposures, net of individual credit impairment allowances (which were nil), equalled or exceeded 10% of the Banking Group's shareholder's equity as at reporting date.

In the 3 months ended 30 June 2013, there have been no credit exposure concentrations with non bank counterparties where actual credit exposures equalled or exceeded 10% of the Banking Group's shareholder's equity as at reporting date (3 months ended 30 June 2012: nil).

Market Risk

Market risk arises from the mismatch between assets and liabilities in the banking business and from controlled trading undertaken in the pursuit of profit. In order to manage its own exposure to market risk, Kiwibank trades diverse financial instruments including interest rates, foreign currencies and transacts in derivative instruments such as swaps, options, futures and forward rate agreements. These activities are managed using structural limits (including volume and basis point value limits) in conjunction with scenario analysis. Market risk limits are allocated based on business strategies, modelling and experience, in addition to market liquidity and risk concentration analysis.

Key elements of Kiwibank's Market risk management framework are:

Interest rate risk management – The Board expects reasonable stability in Kiwibank's net interest income over time. Kiwibank's Treasury function has been tasked with managing the sensitivity of net income to changes in wholesale market interest rates. This sensitivity (known as structural interest rate risk) arises from the bank's lending and deposit taking activities and investment of capital and other liabilities. The provision of loans and accepting deposits at both fixed and variable rates gives rise to the risk that Kiwibank could have unmatched positions leading to material exposures in a shifting interest rate environment. Other activities, such as current account facilities and employing financial instruments such as swaps, options and forward rate agreements also incur interest rate risks.

The main objective of the management of interest rate risk is to achieve a balance between reducing risk to earnings from the adverse effect of interest rate movements and enhancing net interest income through the correct anticipation of the direction and extent of interest rate changes.

Kiwibank's ALCO (comprising executive management) is responsible for implementing and monitoring interest rate risk management policies within Board defined policy guidelines and limits. Interest rate risk is managed by Kiwibank's Treasury unit within pre-approved limits.

Interest rate risk is measured in terms of Kiwibank's notional exposure to potential shifts in future interest rates relative to the timescale within which assets and liabilities can be re-priced. A separate independent Market Risk Management unit is responsible for the daily measurement and monitoring of market risk exposures.

Kiwibank reduces interest rate risk by seeking to match the re-pricing of assets and liabilities. A substantial portion of customer deposits and lending is at variable rates, which are periodically adjusted to reflect market movements. Where natural hedging still leaves a resultant interest rate mismatch, the residual risks are hedged within predefined limits through the use of physical financial instruments, interest rate swaps and other derivative financial instruments.

The table below summarises Kiwibank's exposure to interest rate risk. It includes the financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The fair value adjustment on the revaluation of financial assets and financial liabilities is categorised in the applicable repricing category below.

30 June 2013	Total $'000	Non Interest Bearing $'000	Up to 3 months $'000	3 to 6 months $'000	6 Months to 1 Year $'000	Between 1 and 2 Years $'000	Over 2 Years $'000
Financial Assets							
Cash and cash equivalents	415,152	35,755	379,397	–	–	–	–
Due from other financial institutions	158,459	–	138,211	20,248	–	–	–
Financial assets held for trading	153,318	–	91,360	31	551	29,706	31,670
Available for sale assets	966,302	–	279,780	22,847	9,869	493,654	160,152
Loans and advances	13,201,873	(53,234)	7,236,826	671,674	1,681,386	3,030,869	634,352
Derivative financial instruments	129,370	129,370	–	–	–	–	–
Balances with related parties	76,971	1,443	45,538	–	–	–	29,990
Other financial assets	10,184	10,184	–	–	–	–	–
Total financial assets	15,111,629	123,518	8,171,112	714,800	1,691,806	3,554,229	856,164
Financial Liabilities							
Due to other financial institutions	(270,057)	(30,928)	(239,129)	–	–	–	–
Deposits and other borrowings	(12,119,838)	(894,206)	(7,164,514)	(2,219,072)	(1,508,576)	(166,812)	(166,658)
Derivative financial instruments	(149,785)	(149,785)	–	–	–	–	–
Debt securities issued	(1,508,188)	–	(836,692)	–	(5,043)	(300,086)	(366,367)
Term subordinated debt	(210,170)	–	–	(61,796)	–	–	(148,374)
Balances with related parties	(13,694)	(3,694)	–	–	(10,000)	–	–
Other financial liabilities	(38,650)	(38,650)	–	–	–	–	–
Total financial liabilities	(14,310,382)	(1,117,263)	(8,240,335)	(2,280,868)	(1,523,619)	(466,898)	(681,399)
On balance sheet gap	801,247	(993,745)	(69,223)	(1,566,068)	168,187	3,087,331	174,765
Net derivative notional principals	–	–	3,538,091	(210,280)	146,023	(2,702,815)	(771,019)
Net effective interest rate gap	801,247	(993,745)	3,468,868	(1,776,348)	314,210	384,516	(596,254)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

30. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

30 June 2012	Total $'000	Non-Interest bearing $'000	Up to 3 months $'000	3 to 6 months $'000	6 Months to 1 Year $'000	Between 1 and 2 Years $'000	Over 2 Years $'000
Financial Assets							
Cash and cash equivalents	315,061	44,536	270,525	-	-	-	-
Due from other financial institutions	171,380	-	87,057	84,323	-	-	-
Financial assets held for trading	104,239	-	14,301	3,155	38,212	19,213	29,358
Available for sale assets	1,400,966	-	421,606	183,582	478,384	-	317,394
Loans and advances	12,445,281	(72,296)	8,427,630	580,479	1,288,578	1,710,190	510,700
Derivative financial instruments	138,144	138,144	-	-	-	-	-
Balances with related parties	57,909	-	27,486	-	-	-	30,423
Other financial assets	10,586	10,586	-	-	-	-	-
Total financial assets	**14,643,566**	**120,970**	**9,248,605**	**851,539**	**1,805,174**	**1,729,403**	**887,875**
Financial Liabilities							
Due to other financial institutions	333,931	18,442	315,489	-	-	-	-
Deposits and other borrowings	11,564,728	743,676	6,730,410	2,412,189	1,302,455	193,327	182,671
Derivative financial instruments	156,245	156,245	-	-	-	-	-
Debt securities issued	1,805,679	-	1,360,533	28,282	20,362	5,043	391,459
Term subordinated debt	63,922	-	-	-	-	63,922	-
Balances with related parties	3,780	3,780	-	-	-	-	-
Other financial liabilities	41,674	41,674	-	-	-	-	-
Total financial liabilities	13,969,959	963,817	8,406,432	2,440,471	1,322,817	262,292	574,130
On balance sheet gap	673,607	(842,847)	842,173	(1,588,932)	482,357	1,467,111	313,745
Net derivative notional principals	-	-	1,948,649	343,000	(1,006,148)	(1,297,924)	12,423
Net effective interest rate gap	673,607	(842,847)	2,790,822	(1,245,932)	(523,791)	169,187	326,168

Comparative balances for interest and non interest bearing assets have been presented on a consistent basis with the current year presentation. The change in classification primarily relates to derivative balances which were previously classified as interest earning

Foreign Exchange Risk

The Banking Group and Kiwibank take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Board sets limits on the level of exposure by currency and in aggregate for overnight positions, which are monitored daily.
The table below summarises the Banking Group's exposure to foreign currency exchange rate risk as at period end. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

30 June 2013	**NZD $'000**	**AUD $'000**	**USD $'000**	**GBP $'000**	**EUR $'000**	**Other $'000**	**Total $'000**
Financial Assets							
Cash and cash equivalents	351,669	7,118	34,835	11,441	8,527	1,563	415,153
Due from other financial institutions	158,459	–	–	–	-	–	158,459
Financial assets held for trading	146,712	–	6,606	–	-	–	153,318
Available for sale assets	966,302	–	–	–	-	–	966,302
Loans and advances	13,201,872	–	–	–	-	–	13,201,872
Derivative financial instruments	(171,570)	(166,115)	163,336	65,149	(3,509)	242,078	129,369
Balances with related parties	76,971	–	–	–	-	–	76,971
Other financial assets	10,184	–	–	–	-	–	10,184
Total financial assets	14,740,599	(158,997)	204,777	76,590	5,018	243,641	15,111,628
Financial Liabilities							
Due to other financial institutions	(270,057)	–	–	–	-	–	(270,057)
Deposits	(12,033,204)	(29,958)	(34,924)	(11,771)	(8,184)	(1,796)	(12,119,837)
Derivative financial instruments	(794,940)	552,461	(9,570)	1,763	3,183	97,317	(149,786)
Debt securities issued	(597,751)	(358,567)	(160,157)	(66,519)	-	(325,194)	(1,508,188)
Term subordinated debt	(210,170)	–	–	–	-	–	(210,170)
Balances with related parties	(13,693)	–	–	–	-	–	(13,693)
Other financial liabilities	(38,650)	–	–	–	-	–	(38,650)
Total financial liabilities	(13,958,465)	163,936	(204,651)	(76,527)	(5,001)	(229,673)	(14,310,381)
Net on balance sheet financial position	782,134	4,939	126	63	17	13,968	801,247
30 June 2012							
Financial Assets							
Cash and cash equivalents	256,357	9,028	26,341	13,359	9,951	25	315,061
Due from other financial institutions	162,758	–	–	8,622	-	–	171,380
Financial assets held for trading	67,642	–	6,797	–	29,801	–	104,240
Available for sale assets	1,376,088	24,878	–	–	-	–	1,400,966
Loans and advances	12,445,238	22	21	–	-	–	12,445,281
Derivative financial instruments	(829,774)	477,496	319,687	146,881	(28,623)	52,478	138,145
Balances with related parties	57,909	–	–	–	-	–	57,909
Other financial assets	10,586	–	–	–	-	–	10,586
Total financial assets	13,546,804	511,424	352,846	168,862	11,129	52,503	14,643,568
Financial Liabilities							
Due to other financial institutions	333,931	–	–	–	-	–	333,931
Deposits	11,498,192	7,616	25,694	21,960	9,960	1,305	11,564,727
Derivative financial instruments	295,200	19,612	(85,353)	(326)	(38,309)	(34,578)	156,246
Debt securities issued	640,926	482,904	412,759	147,261	39,523	82,308	1,805,681
Term subordinated debt	63,922	–	–	–	-	–	63,922
Balances with related parties	3,780	–	–	–	-	–	3,780
Other financial liabilities	41,674	–	–	–	-	–	41,674
Total financial liabilities	12,877,625	510,132	353,100	168,895	11,174	49,035	13,969,961
Net on balance sheet financial position	669,179	1,292	(254)	(33)	(45)	3,468	673,607

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

30. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Liquidity and funding risk management – Liquidity risk is the risk that Kiwibank will not have sufficient funds available to meet its financial and transactional cash flow obligations.

Management of liquidity risk is designed to ensure that Kiwibank has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis. Responsibility for liquidity management is delegated to the Bank's Treasury function, under oversight of the ALCO.

Kiwibank monitors this risk daily, primarily by forecasting future cash requirements, both under normal conditions and during crisis situations. Kiwibank manages this by:

i) holding readily tradable, investment assets and deposits on call with high credit quality counterparties to provide for any unexpected patterns in cash movements; and

ii) by seeking a stable funding base.

Kiwibank maintains a stock of prime liquid assets. Some assets classified as investment securities in the statements of financial position fit the definition of liquid assets for this purpose.

Kiwibank maintains liquidity crisis contingency plans defining an approach for responding to liquidity threatening events. Funding risk is allied to liquidity risk, but is concerned with the Bank's capacity to fund increases in assets while meeting its payment obligations, including repaying depositors and maturing wholesale debt.

Kiwibank employs asset and liability cash flow modelling to determine appropriate statement of financial position liquidity and funding strategies. This modelling helps ensure that an appropriate portion of Kiwibank's assets are funded by customer liabilities, bank borrowing, and equity. This approach also recognises the favourable liquidity characteristics of long term customer liabilities and wholesale debt funding, in reducing the impact or volatility of short term funding.

Under normal business conditions, Kiwibank seeks to satisfy the majority of its funding needs from retail liabilities. Kiwibank's borrowing capacity is an estimate of the amount of funding that can be raised in the wholesale markets. Kiwibank's funding strategy is designed to deliver a sustainable portfolio of wholesale funds.

Treasury (under oversight of the ALCO) is responsible for monitoring the Kiwibank's funding base and ensuring that this base is prudently maintained and adequately diversified.

Liquidity Risk

Kiwibank Liquidity Policy is approved by the Board and defines the core principles for measuring, managing and monitoring liquidity risk across Kiwibank.

Liquidity risk management process

Kiwibank's liquidity management responsibilities include:

→ Day-to-day liquidity requirements. RBNZ liquidity ratios are calculated and monitored daily to ensure that Kiwibank:

→ is compliant with part 11 of the Conditions of registration and the RBNZ "Liquidity policy" (BS13)

→ maintains a prudent level of cash and highly liquid assets ("primary liquid assets") and marketable assets of limited credit risk ("secondary liquid assets") to meet anticipated wholesale and retail outflows over a one week, one month and one year period as well as provide adequate cover against funding stress or unexpected run-off risk.

→ Securing an appropriately matched profile of future cash flows from maturing assets and liabilities.

→ Implementing the banks funding plan which includes the development of sustainable wholesale funding capacity.

→ Stress testing the banks funding and liquidity position with a range of adverse events covering a Kiwibank name crisis, an international credit crisis, a macro-economic event and a significant earning loss.

Non-Derivative Cash Flows

The table below summarises the cash flows payable by Kiwibank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Derivative Cash Flows

Derivatives settled on a net basis

The table below analyses Kiwibank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

Derivatives settled on a gross basis

The table below analyses Kiwibank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

30 June 2013	On Demand $'000	Up to 3 Months $'000	Between 3 and 12 Months $'000	Between 1 and 5 Years $'000	More Than 5 Years $'000	Total $'000
Non-derivative cash flows						
Financial Liabilities						
Due to other financial institutions	(270,057)	–	–	-	–	(270,057)
Deposits and other borrowings	(6,648,605)	(1,494,735)	(3,824,506)	(406,276)	–	(12,374,122)
Debt securities issued	(196,294)	(472,529)	(149,078)	(506,441)	(265,020)	(1,589,362)
Term subordinated debt	–	(2,625)	(10,535)	(51,360)	(265,533)	(330,053)
Balances with related parties	(3,693)	–	(10,000)	-	–	(13,693)
Other financial liabilities	(38,650)	–	–	-	–	(38,650)
Total financial liabilities	(7,157,299)	(1,969,889)	(3,994,119)	(964,077)	(530,553)	(14,615,937)
Financial Assets						
Cash and cash equivalents	415,152	–	–	-	–	415,152
Due from other financial institutions	158,459	–	–	-	–	158,459
Financial assets held for trading	5,499	82,707	3,246	61,553	6,195	159,200
Available for sale assets	27,357	49,415	155,422	796,363	–	1,028,557
Loans and advances	152,265	281,549	800,051	2,920,431	23,157,016	27,311,312
Balances with related parties	–	1,329	47,542	34,835	–	83,706
Other financial assets	10,184	–	–	-	–	10,184
Total financial assets	768,916	415,000	1,006,261	3,813,182	23,163,211	29,166,570
Net non derivative cash flows	(6,388,383)	(1,554,889)	(2,987,858)	2,849,105	22,632,658	14,550,633
Derivative cash flows – net						
Interest rate derivatives	(447)	(3,204)	(1,807)	8,064	(920)	1,686
Total derivative cash flows – net	(447)	(3,204)	(1,807)	8,064	(920)	1,686
Derivative cash flows – gross						
Foreign exchange derivatives						
Inflow	487,480	229,625	51,517	411,110	254,229	1,433,961
Outflow	(482,517)	(224,451)	(61,003)	(499,182)	(271,718)	(1,538,871)
Total derivative cash flows – gross	4,963	5,174	(9,486)	(88,072)	(17,489)	(104,910)
Net position	(6,383,867)	(1,552,919)	(2,999,151)	2,769,097	22,614,249	14,447,409
Cumulative net position	(6,383,867)	(7,936,786)	(10,935,937)	(8,166,840)	14,447,409	14,447,409

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

30. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

30 June 2012	On Demand $'000	Up to 3 Months $'000	Between 3 and 12 Months $'000	Between 1 and 5 Years $'000	More Than 5 Years $'000	Total $'000
Non-derivative cash flows						
Financial Liabilities						
Due to other financial institutions	333,931	–	–	-	–	333,931
Deposits and other borrowings	5,879,735	1,717,985	3,835,995	441,019	131	11,874,865
Debt securities issued	462,707	592,525	78,840	733,232	–	1,867,304
Term subordinated debt	–	2,625	2,625	62,625	–	67,875
Other financial liabilities	41,674	–	–	-	–	41,674
Total financial liabilities	6,718,047	2,313,135	3,917,460	1,236,876	131	14,185,649
Financial Assets						
Cash and cash equivalents	315,061	–	–	-	–	315,061
Due from other financial institutions	171,380	–	–	-	–	171,380
Financial assets held for trading	13,202	617	43,988	46,181	6,518	110,506
Available for sale assets	48,054	184,261	704,969	507,600	14,821	1,459,705
Loans and advances	169,843	268,914	805,688	2,944,378	22,637,023	26,825,846
Other financial assets	11,352	–	–	-	–	11,352
Total financial assets	728,892	453,792	1,554,645	3,498,159	22,658,362	28,893,850
Net non derivative cash flows	(5,989,155)	(1,859,343)	(2,362,815)	2,261,283	22,658,231	14,708,201
Derivative cash flows – net						
Interest rate derivatives	(7,119)	(12,078)	(14,700)	(6,475)	(118)	(40,490)
Total derivative cash flows – net	(7,119)	(12,078)	(14,700)	(6,475)	(118)	(40,490)
Derivative cash flows – gross						
Foreign exchange derivatives						
Inflow	605,397	422,843	83,153	393,343	–	1,504,736
Outflow	(597,828)	(423,181)	(78,652)	(389,794)	–	(1,489,455)
Total derivative cash flows – gross	7,569	(338)	4,501	3,549	–	15,281
Net position	(5,988,705)	(1,871,759)	(2,373,014)	2,258,357	22,658,113	14,682,992
Cumulative net position	(5,988,705)	(7,860,464)	(10,233,478)	(7,975,121)	14,682,992	14,682,992

Equity risk – Equity risk results from the re-pricing of equity investments. Kiwibank does not undertake equity trading and there are no significant exposures to equity instruments.

Operational Risk

Operational risk is the potential exposure to financial and other damage arising from the way in which Kiwibank pursues its business objectives. While operational risk can never be eliminated, Kiwibank endeavours to minimise the impact of operational incidents by ensuring that the appropriate risk management methodologies, controls, systems, staff and processes are in place.

The key sources of operational risk included in the Bank's operational risk measurement framework are i) internal fraud; ii) external fraud; iii) acts inconsistent with workplace employment, health and safety laws; iv) unintentional or negligent failure to meet professional obligations to specific customers (including fiduciary and suitability requirements) or from the design of a product; v) failed transaction processing or process management; vi) disruption to business or system failures; and vii) loss or damage to physical assets from natural disaster or other events.

Operational risk management within Kiwibank is based on the following core elements:

- Senior management are accountable to the Board for maintaining an adequate and effective control environment that is commensurate with Kiwibank's risk appetite and business objectives.
- Business units are responsible for the management of their operational risks. Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk in their areas of responsibility.
- A central Risk Management Unit supports business units with operational risk identification, measurement and prioritisation.

The Risk Management Unit undertakes elementary quantitative operational risk measurements (using internal loss and potential loss data) across the Bank and reports quarterly to the Board Risk Credit and Compliance Committee on Kiwibank's overall operational risk profile. An independent Internal Audit function, which appraises the adequacy and effectiveness of the internal control environment, and reports results to both management and the Board Finance Audit and Risk Committee.

Key management and control techniques employed by Kiwibank, include clear delegation of authority, segregation of duties, sound project management, change control disciplines and business continuity planning. These techniques are enhanced by a focus on staff competency and supervision. Where appropriate these management practices are augmented by risk transfer mechanisms such as insurance, and by regular risk and control assessments.

Business and Strategic Risk

There are numerous external and internal uncertainties that may derail the business strategies or goals of Kiwibank. Success in managing business risk is intrinsically more difficult than managing financial risks (ie. credit, market and operational risks). It is only through sound business strategies and skilful execution of these business strategies that Kiwibank's business goals/objectives will be achieved. Risk management strategies are not a substitute for good business strategies but aid in the selection of appropriate strategies and in their successful execution.

Kiwibank has three core business risk management strategies aimed at supporting the business strategies of the Bank. Specifically:

- Establishment and maintenance of an internal organisational environment in which Business risk can meaningfully be managed.
- Establishment and maintenance of formal conceptual structures, measurement basis and risk management processes for the evaluation and management of business and strategic risks.
- Building intelligent and sustainable capability within Kiwibank to enable both the pursuit of opportunities and mitigation of vulnerabilities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

30. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Concentration of Funding

Concentrations of funding arise where Kiwibank is funded by industries of a similar nature or in particular geographies. An analysis of financial liabilities by industry sector and geography at balance date is as follows:

	GROUP	
	2013 $'000	2012 $'000
New Zealand		
– transport and storage		
– financing, investment and insurance	**120,439**	74,143
– electricity, gas and water	**3,123,184**	3,357,582
– food and other manufacturing	**5,803**	4,235
– construction	**31,528**	28,634
– communications	**42,001**	22,420
– government, local bodies and services	**9,485**	5,280
– agriculture	**348,737**	431,606
– health and community services	**25,608**	36,197
– personal and other services	**119,053**	105,710
– property and business services	**221,356**	230,374
– education	**283,377**	241,348
– retail and wholesale trade	**110,870**	79,654
– households	**55,473**	53,080
	8,499,024	7,796,821
Overseas		
– financing, investment and insurance – Australia	**357,124**	351,789
– financing, investment and insurance – rest of world	**676,611**	873,139
– households – Australia	**85,480**	41,168
– households – rest of the world	**152,909**	191,325
Total financial liabilities (interest bearing)	**14,268,062**	13,924,505
Other financial liabilities	**42,083**	41,674
Total financial liabilities	**14,310,145**	13,966,179

Sensitivity Analysis

The table below summarises the pre-tax sensitivity of financial assets and financial liabilities to changes in the two key risk variables, interest rate and currency risks using a reasonable change in these rates. The market value of the assets and liabilities were used as the basis for the analysis and financial modelling was used to determine the impact on those values of changes in each risk scenario.

		Interest Rate Risk			
	Carrying Value	-1% Statement of Profit or Loss and Other Comprehensive Income	+1% Statement of Profit or Loss and Other Comprehensive Income	-1% Equity	+1% Equity
30 June 2013	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets					
Cash and cash equivalents	415,152	–	-	–	–
Due from other financial institutions	158,459	–	-	–	–
Financial assets held for trading	153,318	1,742	(1,681)	1,742	(1,681)
Available for sale assets	966,302	–	-	14,938	(14,483)
Loans and advances	13,201,872	11,989	(11,838)	11,989	(11,838)
Derivative financial instruments	129,370	(47,514)	45,164	(79,984)	76,781
Balances with related parties	76,971	–	-	–	–
Other financial assets	10,184	–	-	–	–
Total financial assets	15,111,628	(33,783)	31,645	(51,315)	48,779
Financial Liabilities					
Due to other financial institutions	(270,057)	92	(89)	92	(89)
Deposits and other borrowings	(12,119,839)	(3,604)	3,564	(3,604)	3,564
Derivative financial instruments	(149,785)	72,601	(68,552)	42,973	(39,594)
Debt securities issued	(1,508,188)	(27,978)	26,216	(27,978)	26,216
Term subordinated debt	(210,170)	(6,097)	5,826	(6,097)	5,826
Balances with related parties	(13,693)	–	-	–	–
Other financial liabilities	(38,650)	–	-	–	–
Total financial liabilities	(14,310,382)	35,014	(33,035)	5,386	(4,077)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

30. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

		Currency Risk			
	Carrying Value	-10% Statement of Profit or Loss and Other Comprehensive Income	+10% Statement of Profit or Loss and Other Comprehensive Income	-10% Equity	+10% Equity
30 June 2013	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets					
Cash and cash equivalents	415,152	7,054	(5,771)	7,054	(5,771)
Due from other financial institutions	158,459	–	-	–	–
Financial assets held for trading	153,318	734	(601)	734	(601)
Available for sale assets	966,302	–	-	–	–
Loans and advances	13,201,872	–	-	–	–
Derivative financial instruments	129,370	33,676	(27,036)	33,676	(27,036)
Balances with related parties	76,971	–	-	–	–
Other financial assets	10,184	–	-	–	–
Total financial assets	15,111,628	41,464	(33,408)	41,464	(33,408)
Financial Liabilities					
Due to other financial institutions	(270,057)	–	-	–	–
Deposits and other borrowings	(12,119,839)	(12,457)	10,192	(12,457)	10,192
Derivative financial instruments	(149,785)	71,445	(58,973)	71,445	(58,973)
Debt securities issued	(1,508,188)	(101,406)	82,969	(101,406)	82,969
Term subordinated debt	(210,170)	–	-	–	–
Balances with related parties	(13,693)	–	-	–	–
Other financial liabilities	(38,650)	–	-	–	–
Total financial liabilities	(14,310,382)	(42,418)	34,188	(42,418)	34,188

	Interest Rate Risk				
	Carrying Value	-1% Statement of Profit or Loss and Other Comprehensive Income	+1% Statement of Profit or Loss and Other Comprehensive Income	-1% Equity	+1% Equity
30 June 2012	$'000	$'000	$'000	$'000	$'000
Financial Assets					
Cash and cash equivalents	315,061	-	-	-	-
Due from other financial institutions	171,380	-	-	-	-
Financial assets held for trading	104,239	1,730	(1,618)	1,730	(1,618)
Available for sale assets	1,400,966	-	-	13,390	(13,061)
Loans and advances	12,445,281	19,822	(19,511)	19,822	(19,511)
Derivative financial instruments	138,144	48,883	(47,413)	47,059	(45,647)
Balances with related parties	57,909	-	-	-	-
Other financial assets	10,586	-	-	-	-
Total financial assets	14,643,566	70,435	(68,542)	82,001	(79,837)
Financial Liabilities					
Due to other financial institutions	(333,931)	(9)	10	(9)	10
Deposits and other borrowings	(11,564,727)	(3,165)	3,130	(3,165)	3,130
Derivative financial instruments	(156,245)	(42,293)	39,356	(72,699)	69,062
Debt securities issued	(1,805,680)	(10,520)	12,057	(10,520)	12,057
Term subordinated debt	(63,922)	(752)	741	(752)	741
Balances with related parties	(3,780)	-	-	-	-
Other financial liabilities	(41,674)	-	-	-	-
Total financial liabilities	(13,969,959)	(56,739)	55,294	(87,145)	85,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

30. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

		Currency Risk			
30 June 2012	Carrying Value $'000	-10% Statement of Profit or Loss and Other Comprehensive Income $'000	+10% Statement of Profit or Loss and Other Comprehensive Income $'000	-10% Equity $'000	+10% Equity $'000
Financial Assets					
Cash and cash equivalents	315,061	6,523	(5,337)	6,523	(5,337)
Due from other financial institutions	171,380	959	(784)	959	(784)
Financial assets held for trading	104,239	4,066	(3,327)	4,066	(3,327)
Available for sale assets	1,400,966	-	-	2,764	(2,262)
Loans and advances	12,445,281	-	-	-	-
Derivative financial instruments	138,144	107,730	(87,887)	107,730	(87,887)
Balances with related parties	57,909	-	-	-	-
Other financial assets	10,586	-	-	-	-
Total financial assets	14,643,566	119,278	(97,335)	122,042	(99,597)
Financial Liabilities					
Due to other financial institutions	(333,931)	-	-	-	-
Deposits and other borrowings	(11,564,727)	(8,970)	7,339	(8,970)	7,339
Derivative financial instruments	(156,245)	15,221	(12,710)	15,221	(12,710)
Debt securities issued	(1,805,680)	(129,377)	105,854	(129,377)	105,854
Term subordinated debt	(63,922)	-	-	-	-
Balances with related parties	(3,780)	-	-	-	-
Other financial liabilities	(41,674)	-	-	-	-
Total financial liabilities	(13,969,959)	(123,126)	100,483	(123,126)	100,483

Fair Value of Financial Instruments

	Carrying Amount 2013 $'000	Estimated Fair Value 2013 $'000	Carrying Amount 2012 $'000	Estimated Fair Value 2012 $'000
Financial Assets				
Cash and cash equivalents	415,152	415,152	315,061	315,061
Due from other financial institutions	158,459	158,459	171,380	171,380
Financial assets held for trading	153,318	153,318	104,239	104,239
Available for sale assets	966,302	966,302	1,400,966	1,400,966
Loans and advances	13,201,872	13,209,861	12,445,281	12,497,348
Derivative financial instruments	129,370	129,370	138,144	138,144
Balances with related parties	76,971	76,971	57,909	57,909
Other financial assets	10,184	10,184	10,586	10,586
Total financial assets	15,111,628	15,119,617	14,643,566	14,695,633
Financial Liabilities				
Due to other banks	(270,057)	(270,057)	333,931	333,931
Deposits	(12,119,839)	(12,131,556)	11,564,727	11,579,914
Derivative financial instruments	(149,785)	(149,785)	156,245	156,245
Debt securities issued	(1,508,188)	(1,512,454)	1,805,680	1,806,024
Term subordinated debt	(210,170)	(211,039)	63,922	64,140
Balances with related parties	(13,693)	(13,693)	3,780	3,780
Other financial liabilities	(38,650)	(38,650)	41,674	41,674
Total financial liabilities	(14,310,382)	(14,327,234)	13,969,959	13,985,708

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

30. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Fair Value Estimation

Quoted market prices, when available, are used as the measure of fair values for financial instruments. However, for some of Kiwibank's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using present value or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

The fair value estimates were determined by application of the methods and assumptions described below.

Cash and cash equivalents

For cash assets, the carrying amount is equivalent to the fair value. For short term liquid assets, estimated fair values are based on quoted market prices.

Held for trading securities

For held for trading securities, estimated fair values are based on quoted market prices or determined using market accepted valuation models as appropriate (including discounted cash flow models) based on observable market quotes. These techniques address factors such as interest rates, credit risk and liquidity.

Available for sale securities

For available for sale securities, estimated fair values are based on quoted market prices or determined using market accepted valuation models as appropriate (including discounted cash flow models) based on observable market quotes. These techniques address factors such as interest rates, credit risk and liquidity.

Loans and advances

For variable rate loans and advances, the carrying amount is a reasonable estimate of fair value. For fixed rate loans and advances, fair values have been estimated using a discounted cash flow model with reference to market interest rates, prepayment rates and rates of estimated credit losses.

Other financial assets

For other financial assets, the carrying amount is approximately equal to the fair value.

Deposits by customers

For fixed term deposits by customers, fair values have been estimated using a discounted cash flow model with reference to market interest rates. For other deposits by customers, the carrying amount is a reasonable estimate of fair value.

Other financial liabilities

For other financial liabilities, the carrying amount is equivalent to the fair value.

Impaired and past due assets

For non-accrual and restructured impaired assets as well as past due loans, the fair values are estimated by discounting the estimated future cash flows using current market interest rates incorporating an appropriate risk factor or, where such loans are collateralised and have been written down to the current market value of the collateral, the estimated fair value is based on the written down carrying value.

Interest rate contracts

For interest rate contracts, fair values were obtained from quoted market prices, discounted cash flow models or option-pricing models as appropriate. Where such techniques are not appropriate, a cash basis has been adopted.

Foreign exchange contracts

For foreign exchange contracts, fair values were obtained from quoted market prices, discounted cash flow models or option-pricing models as appropriate. Where such techniques are not appropriate a cash basis has been adopted.

Fair Value heirarchy

Kiwibank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques using inputs which have a significant effect on the recorded fair value and which are not based on observable market data.

30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Derivative financial assets				
Interest rate swaps	–	103,976	–	103,976
Currency swaps	–	7,267	–	7,267
Forward foreign exchange contracts	–	19,614	–	19,614
Options purchased	–	348	–	348
Futures contracts	32	-	–	32
Forward rate agreements	–	13	–	13
Total	32	131,218	–	131,250
Other financial assets held for trading				
Bank bills	–	80,537	–	80,537
Other securities	13,430	59,352	–	72,782
Total	13,430	139,889	–	153,319
Available-for-sale assets				
Government stock and multilateral development banks	548,159	71,604	–	619,763
Local authority securities	–	65,480	–	65,480
Other debt securities	–	281,060	–	281,060
Total	548,159	418,144	–	966,302
Financial assets designated at FVTPL				
Loans and advances	–	-	–	-
Total	–	-	–	-
Total financial assets	561,620	689,251	–	1,250,871
Financial Liabilities				
Derivative financial liabilities				
Interest rate swaps	–	(102,436)	–	(102,436)
Currency swaps	–	(41,044)	–	(41,044)
Forward foreign exchange contracts	–	(7,797)	–	(7,797)
Options sold	–	(348)	–	(348)
Futures contracts	(28)	-	–	(28)
Forward rate agreements	–	-	–	-
Total	(28)	(151,625)	–	(151,653)
Debt securities issued	–	(476,959)	–	(476,959)
Total financial liabilities	(28)	(628,584)	–	(628,612)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

30. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

30 June 2012	Level 1 $'000	Level 1 $'000	Level 3 $'000	Total $'000
Financial Assets				
Derivative financial assets				
Interest rate swaps	–	107,275	–	107,275
Currency swaps	–	16,397	–	16,397
Forward foreign exchange contracts	–	14,175	–	14,175
Options purchased	–	83	–	83
Futures contracts	206	-	–	206
Forward rate agreements	–	9	–	9
Total	206	137,938	–	138,144
Other financial assets held for trading				
Bank bills	–	2,997	–	2,997
Other securities	–	101,242	–	101,242
Total	–	104,239	–	104,239
Available-for-sale assets				
Government stock and multilateral development banks	977,669	47,991	–	1,025,660
Local authority securities	–	64,166	–	64,166
Other debt securities	–	311,140	–	311,140
Total	977,669	423,298	–	1,400,966
Financial assets designated at FVTPL				
Loans and advances	–	-	44,007	44,007
Total	–	-	44,007	44,007
Total financial assets	977,874	665,475	44,007	1,687,356
Financial Liabilities				
Derivative financial liabilities				
Interest rate swaps	–	(147,121)	–	(147,121)
Currency swaps	–	(2,979)	–	(2,979)
Forward foreign exchange contracts	–	(5,953)	–	(5,953)
Options sold	–	(83)	–	(83)
Futures contracts	(109)		–	(109)
Total	(109)	(156,136)	–	(156,245)
Debt securities issued	–	(1,014,539)	–	(1,014,539)
Total financial liabilities	(109)	(1,170,675)	–	(1,170,784)

Loans and advances designated at fair value through profit or loss

For loans and receivables designated at fair value through profit or loss, a discounted cash-flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. At balance date, a one basis point movement in credit spread or underlying interest rate would impact the statement of profit or loss and other comprehensive income by $nil (30 June 2012: $2k).

The following table presents the changes in level 3 instruments for the year-ended 30 June 2013:

Financial assets at fair value through profit or loss

	30 June 2013 $'000	30 June 2012 $'000
Balance at beginning of the year	**44,007**	447,853
Total fair value losses recorded in statement of profit or loss and other comprehensive income	**(629)**	(9,795)
Loan repayments	**(43,378)**	(394,051)
Balance at end of the year	**–**	44,007

There were no transfers in or out of level 3, or between levels 1 and 2, during the period.

Auditors' report

pwc

Independent Auditor's Report

to the readers of New Zealand Post Limited and Group's Financial Statements for the year ended 30 June 2013

The Auditor-General is the auditor of New Zealand Post Limited (the Company) and Group. The Auditor-General has appointed me, Paul Clark, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Company and Group, on her behalf.

We have audited the financial statements of the Company and Group on pages 5 to 95, that comprise the statements of financial position as at 30 June 2013, the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

Financial statements

In our opinion the financial statements of the Company and Group on pages 5 to 95:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the Company and Group's:
  - financial position as at 30 June 2013; and
  - financial performance and cash flows for the year ended on that date.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the Company and Group as far as appears from an examination of those records.

Our audit was completed on 26 August 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Company and Group's financial statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control.

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Independent Auditor's Report
New Zealand Post Limited

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors
The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Company and Group's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

Responsibilities of the Auditor
We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

Independence
When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in the areas of tax advice, advisory and other assurance services, which are compatible with those independence requirements. Other than the audit, these assignments, and the relationship described above, we have no relationship with, or interests in, the Company or any of its subsidiaries.

Paul Clark
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers

26 August 2013

NEW ZEALAND POST GROUP

NON-FINANCIAL INFORMATION

Our performance in the community

Frequency of Delivery Services – Summary as at 30 June 2013

SERVICE	Delivery Points	6/7 Day	5 Day	1–4 Day
Residential	1,395,327	1,393,291	2,036	0
Business	75,558	75,154	404	0
Private Box Farmers	3,307	3,029	278	0
Private Box/Bag, Individual and Business	178,133	167,087	11,046	0
Counter, Community Mailbox	30,828	19,627	10,943	258
Rural	231,744	204,165	25,977	1,602
TOTAL	**1,914,897**	**1,862,353**	**50,684**	**1,860**
PERCENT	100.00%	97.25%	2.65%	0.10%

Frequency of delivery

	Our performance	Our commitment
Six day delivery to	97.25%	(required minimum = 95.00%)
Five or six day delivery to	99.90%	(required minimum = 99.88%)
Counter, Community Mailbox percentage	1.45%	(allowed maximum = 1.5%)

1. 3,003 points in the Counter, Community Mailbox category are excluded from the calculation of the percentage of delivery points as these are where people have elected to take this service over another that is available, as per clause 5 of the Deed. The number of people using temporary counter services (for up to 3 months) is excluded from the category.
2. The number of Counter and Community Mailbox users has been established by a survey and may differ slightly from practice.
3. As in 2011 & 2012 we have changed the basis of reporting community mail boxes/counter services by including instances where people are provided with a free PO Box or Private Bag by NZ Post rather than a Community Mailbox.

	Our performance	Our commitment*
PostShop stores (corporate and franchise)	277	240
PostCentre outlets	609	-
Total retail outlets	886	880

* Commitment as specified in 1998 Deed of Understanding

LETTER DELIVERY PERFORMANCE

TNS

Level 3 435 Khyber Pass Road
Newmarket
PO Box 99069
Newmarket, Auckland
New Zealand

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To The Directors; New Zealand Post Limited

TNS conducted a measure of New Zealand Post's letter delivery performance measuring performance against the following criteria:

For FastPost:

- Delivery the next working day between major towns and cities across New Zealand

For Standard Post:

- Delivery the next working day for letters whose destination is within the same urban centre
- Delivery within three working days for letters to other destinations within New Zealand

To measure the extent to which New Zealand Post is meeting these publicly stated objectives, we prepared for posting Standard Post and FastPost letters, which were sent to a representative sample of New Zealand Post's total customer base. Based on information supplied by New Zealand Post, we assess our sample to be representative of over 80% of all letter traffic within New Zealand.

We measured transit time by counting the number of business days from the day of posting of the letter to the day the letter was received by the addressee (Sundays and public holidays were not counted because mail is not delivered on these days).

From October 2009 continuous measurement has been conducted and reported on a monthly basis. The annual result was calculated using the data collected continuously from July 2012 to June 2013, this is the third annual result reported using a full year of continuous measurement. In our opinion this report fairly represents the service performance achieved by New Zealand Post Limited during the time of measurement.

The results of this test are summarised in the table below.

	Weighted Results*
Total within specification	92.3%
Total within three days of specification	99.9%
More than three days later than specified	0.1%

**Weighted to replicate the proportion of FastPost and Standard Post mail flows in New Zealand based on unaudited ratios supplied by New Zealand Post*

Yours sincerely

TNS New Zealand Ltd

Bindi Norwell
Director

TNS New Zealand Ltd

Environment

Greenhouse Gas (GHG) Emissions

Greenhouse Gas emissions for the group are compiled in accordance with ISO 14064-1 and the Greenhouse Gas Protocol. Our baseline has been restated since 2011/12 due to the acquisition of Express Couriers, which was previously accounted for at fifty percent. Scope 3 emissions have expanded since the 2011/12 report to account for material emissions sources identified in the baseline review. The boundary encompasses emissions from the Group's domestic postal, courier and banking businesses. Fifty percent of emissions from our Joint Venture, Reachmedia, are accounted for. Emissions from leased facilities are reflected in scopes 1 and 2. Subsidiary Roadstar was sold during the 2012/13 year, no adjustment has been made. The inventory does not include any owned businesses domiciled in Australia or overseas.

New Zealand Post Carbon Emissions Inventory as at 30 June 2013

Tonnes of Carbon Dioxide Equivalents (CO_2e)

	YOY change	2012/13	2011/12 Baseline	2011/12	2010/11	2009/10	2008/09	2007/08
SCOPE 1								
Aviation	8%	13,541	14,676	14,676	16,928	16,762	12,633	18,911
Operational Vehicles	-2%	2,124	2,088	827	1,196	1,521	1,733	1,680
Heating	18%	785	953	952	945	1,254	1,252	1,556
SCOPE 2								
Electricity	3%	4,708	4,836	5,007	6,471	6,509	7,511	8,054
SCOPE 3								
Company Cars (Leased)	38%	518	840	1,145	530	690	787	743
Aviation (Leased Aircraft)		-	-	-	-	-	3,570	-
Transport (Contractors)	1%	51,085	51,624	30,558	30,586	30,763	34,576	31,222
Business Travel								
– Domestic	-27%	2,157	1,692	1,346	1,405	1,184	1,504	1,660
– International	-1%	617	611	568	428	368	461	641
– Taxis	-15%	84	73	78	64	99	118	135
– Private Vehicle Travel	23%	66	86	Not part of boundary				
International Freight	-3%	15,430	15,032	15,032	16,837	15,667	18,068	17,928
Distribution Line Losses								
– Electricity	-4%	564	543	543	898	1,081	756	846
– Fuel	0%	11,060	11,105	Not part of boundary				
Waste to Landfill	20%	1,209	1,506	1,172	1,287	1,597	2,347	2,345
Recycling	-6%	1,643	1,550					
Purchased Goods & Services								
– Professional Services	-9%	2,404	2,208	Not part of boundary				
– IT Services	-8%	6,440	5,955	Not part of boundary				
– Paper Sending Solutions	-33%	198	149	Not part of boundary				
– Service Paper	12%	936	1,060	Not part of boundary				
– Plastic Sending Solutions	37%	112	178	Not part of boundary				
– Office Stationary	-12%	2,103	1,873	Not part of boundary				
– Client Paper	12%	199	227	Not part of boundary				
HVAC Losses	24%	269	356	Not part of boundary				
Employee Commuting	0%	6,714	6,685	Not part of boundary				
ALL SCOPES	**0.7%**	**124,966**	**125,906**	**70,730**	**76,288**	**75,898**	**82,969**	**83,376**

New Zealand Post Limited and Subsidiaries
For the year ended 30 June 2013

Statutory Information

Consolidated Earnings Statement – Information Disclosure for the year ended 30 June 2013

	Letter Deliveries $'000s	Other Services $'000s	Total $'000s
Operating revenue	349,181	1,338,625	**1,687,806**
Operating expenses	349,062	1,273,462	**1,622,524**
Operating surplus before income tax	119	65,163	**65,282**

Accounting Policies

Accounting policies adopted for the preparation of the Consolidated Earnings Statement – Information Disclosure are the same as those applied by the Group. The policies are set out on pages 12 to 21.

Statement of Assumptions

Operating revenue has been calculated using the Group's product costing model which has calculated the operating revenue for letter deliveries using actual financial data for the 2012/13 year. The costing model identifies the relevant letter products and the revenue earned by them. In keeping with the original intention of the legislation, all fast post standard letter product for the full financial year has been included in the calculation of Letter Deliveries, even though the price of FastPost letters has increased to $1.40 effective 1 July 2012 which is above the amount set out in the legislation of 80 cents for this calculation.

Operating expenses

Operating expenses excluding corporate overhead expenses have been calculated using the Group's product costing model which has calculated the operating expenditure for letter deliveries using actual financial data for the 2012/13 year. The costing model identifies the cost of activities within the Group based on resource drivers. The cost of each activity is assigned to letter deliveries or other services based on the activity drivers.

Corporate overhead has been allocated based on the proportion that Letter Deliveries revenue and expenditure make up of the total for the New Zealand Post Group.

Any exchange gains or losses have not been included in this calculation.

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Independent Accountants' Report

To the Directors of New Zealand Post Limited

Report on the Consolidated Earnings Statement

We have reviewed the allocation of revenue and expenses in the Consolidated Earnings Statement – Information Disclosure ('Consolidated Earnings Statement') for New Zealand Post Limited and subsidiaries (the Group) for the year ended 30 June 2013 as set out on page 102.

Directors' Responsibility for the Consolidated Earnings Statement

The Group's Directors are responsible for the preparation of the allocation model and methodology and preparation of the Consolidated Earnings Statement in accordance with the Postal Services Act 1998.

Accountants' Responsibility

We are responsible for reviewing the allocation of revenue and expenses between letter deliveries and other services in the Consolidated Earnings Statement presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the Consolidated Earnings Statement has not been prepared in accordance with the Statement of Assumptions and is consistent, where relevant, with the financial information disclosed in the audited financial statements of the Group for the year ended 30 June 2013.

Our review was conducted in accordance ISAE 3000 *Assurance engagements other than audits or reviews of historical financial information* to provide limited assurance as to whether the Consolidated Earnings Statement has been prepared in accordance with the Statement of Assumptions. Our procedures consist primarily of enquiry, analytical procedures and discussion and thus provide less assurance than an audit; in particular, we have performed limited procedures over the accuracy of the allocation of revenue and expenses between letter deliveries and other services. We have relied on management to provide the information from the financial records of the Group.

We have no relationship with, or interests in, the Group other than in our capacities as accountants conducting this engagement and audit services, tax advice, advisory and other assurance services. These services have not impaired our independence.

Conclusion

Based on our engagement, nothing has come to our attention that causes us to believe that the allocation of revenue and expenses between letter deliveries and other services for the year ended 30 June 2013:

- has not been prepared in accordance with the Statement of Assumptions set out in the Consolidated Earnings Statement; and
- is not consistent with the financial information disclosed in the audited financial statements of the Group for the year ended 30 June 2013 has not been allocated in line with the assumptions in the statement and further, that the cost allocation methodology is not unreasonable.

Restriction on Distribution or Use

This report is made solely to the Directors of the Group as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in an accountants' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, and the Directors of the Company, as a body, for our procedures, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants — Wellington

26 August 2013

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Report of the Human Resources Committee on Executive Remuneration

The Human Resources Committee comprises five Directors from the New Zealand Post Group Board. The primary purpose of the Human Resources Committee is to assist the Board in fulfilling its oversight of 'good employer' and human resources governance responsibilities relating to the New Zealand Post Group. The Committee also has some specific responsibilities in respect of the remuneration for New Zealand Post Group's Chief Executive and executive leadership team, and for remuneration policy applicable to New Zealand Post Limited managers.

The New Zealand Post Group's management remuneration structures are designed to attract, reward and motivate the best executive talent available. In setting remuneration for New Zealand Post executives, market information from similarly-sized management positions within a broad range of New Zealand businesses is assessed.

Executive remuneration includes salary, at-risk/incentive payments based on individual and Company performance, and benefits such as company contributions to a workplace savings scheme, and medical insurance. The structure of remuneration packages offered to managers and specialists varies across the Group, but generally includes a component dependent on financial and other measures of business performance, as well as individual performance measures. Directors are not covered by this type of remuneration arrangement.

Employee numbers as at 30 June 2013 totalled 10,635 people, including those in joint venture businesses. Across the Group, including jointly-controlled entities, the total cost of remuneration for our employees during the year was $619m. Pay rates vary across the Group depending on market conditions in relation to each business sector. Minimum pay rates range between 100 and 150 percent of the statutory minimum wage.

Remuneration Bands

Remuneration Band	Total
100000 – 109999	209
110000 – 119999	149
120000 – 129999	151
130000 – 139999	73
140000 – 149999	82
150000 – 159999	41
160000 – 169999	47
170000 – 179999	31
180000 – 189999	41
190000 – 199999	17
200000 – 209999	16
210000 – 219999	11
220000 – 229999	8
230000 – 239999	12
240000 – 249999	10
250000 – 259999	12
260000 – 269999	6
270000 – 279999	9
280000 – 289999	3
290000 – 299999	3
300000 – 309999	8
310000 – 319999	1
320000 – 329999	5
330000 – 339999	2
340000 – 349999	2
350000 – 359999	3
360000 – 369999	3
370000 – 379999	1
380000 – 389999	1
400000 – 409999	3
410000 – 419999	2
420000 – 429999	1
430000 – 439999	1
440000 – 449999	2
480000 – 489999	1
500000 – 509999	1
510000 – 519999	1
650000 – 659999	1
670000 – 679999	1
690000 – 699999	1
700000 – 709999	1
730000 – 739999	1
790000 – 799999	1
930000 – 939999	1
1300000 – 1309999	1

Includes all Post companies except Reachmedia

Donations

During the year, the New Zealand Post Group made donations of $116,000. No donations were made to political parties.

Auditors

The auditor for the Group is Paul Clark assisted by PricewaterhouseCoopers, Wellington on behalf of the Auditor-General. The amount payable by the Group to PricewaterhouseCoopers as audit fees in respect of the year is $2,269,000.
The amount incurred in respect of the year for other services provided by PricewaterhouseCoopers is $520,000.

Directors' and employees' indemnity and insurance

New Zealand Post has insured the Directors and employees of the Group against any costs or liabilities of the type referred to in s162(5) of the Companies Act 1993.
New Zealand Post has also agreed to indemnify Directors of the Group and New Zealand Post-appointed Directors of associate companies against any costs or liabilities of the type referred to in s162(4) of the Companies Act 1993 that are incurred in any proceedings of the type referred to in s162(3) of the Companies Act 1993.

Directors' Fees and Benefits*

The total fees paid to members of the New Zealand Post Limited Board during the 2012/2013 financial year were $503,000*. The total Board fees are within the amount authorised by shareholding Ministers.

Name	Total fees and benefits *
Hon Sir Michael Cullen	$96,000
Carol Campbell	$48,000
Alan Dunn	$48,000
Philippa Dunphy	$55,000
Murray Gribben	$60,000
Temuera Hall	$48,000
Richard Leggat	$48,000
Jackie Lloyd	$52,000
David Willis	$48,000

* These fees exclude GST (if any) and relate to the New Zealand Post Limited Board only (including fees for Board committees).

Directors' Disclosures

No specific disclosures were given by Directors pursuant to s140(1) of the Companies Act 1993.

General disclosures of interest made by the Directors of New Zealand Post Limited and New Zealand Post Limited subsidiaries pursuant to s140(2) of the Companies Act 1993 as at 30 June 2013 are:

New Zealand Post Limited

Hon Sir Michael Cullen (Chair)	Chair and Trustee, New Zealand Post Superannuation Plan Co- Leader Treaty Claims Negotiator, Tuwharetoa Chair, Tuhoe Investment Committee Trustee, Toi-EDA
Carol Campbell	Director, The Business Advisory Group Ltd Director, Hick Bros Holdings Limited Director, Turners & Growers Limited Director, CMS Alphatech Limited Director, Woodford Properties Limited Director, Bravestar Media Limited Trustee, Ronald McDonald House Charities Director, Kingfish Limited Director, Marlin Global Limited Director, Barramundi Limited Director, Key Assets NZ Limited Director, Fostering First New Zealand Limited
Alan Dunn	Director, Burger Fuel Worldwide Limited Director, DPA Technologies Limited Director, Aotea Energy Limited Director, Aotea Energy Holdings Limited Director, Aotea Energy Holdings No 2 Limited Director, Z Energy Limited Director, Greenstone Energy Finance Limited Director, Greenstone Energy Holdings Limited Director, Snapstar New Zealand Limited
Philippa (Pip) Dunphy	Chair, Mint Asset Management Limited Chair, New Zealand Clearing and Depository Corporation Limited Deputy Chair, Auckland Transport Board Member, Guardians of New Zealand Superannuation Director, Abano Healthcare limited Director, Solid Energy Limited Director, FSF Management Company Limited Trustee, New Zealand Post Superannuation Plan (Until 5 March 2013) Trustee, Motu Economic and Public Policy Research (Until February 2013)
Murray Gribben (Deputy Chair)	Trustee, New Zealand Post Superannuation Plan Director, Ruapehu Alpine Lifts Limited Director, WBGP (Developments) Limited Trustee, Karaka Trust Trustee, Waipuna Trust

STATUTORY INFORMATION

Temuera Hall	Director, Te Wānanga o Tuwharetoa Limited Executive Director, Taupo Moana Iwisaver Limited Managing Director, Taupo Moana Capital Limited Director, Taupo Moana Investments Limited Managing Director, Taupo Moana Group Limited Executive Director, Taupo Moana Funds Limited Director, Tuwharetoa Nominees Limited Director, Putake Dairy Limited Director, Putake Networks Limited Chair, Unimar Limited Director, Ranginui Station Limited Partnership Director, Tem Corp Limited Trustee, T3000 Charitable Trust Director, T3000 Financial Services Limited Director, Tuwharetoa Limited Trustee, WT and RR Hall Whanau Trust Director, FX Networks Limited Chair, Opepe Farm Trust (From February 2013) Interim Chair, Waimihia Forest Hapu Clusten Trust (From February 2013)
Richard Leggat	Director, Tourism NZ Chair, BikeNZ Chair, Eating Disorder Assn. NZ Director, Trophy Metropolitan Limited Director, Treasurechest.co.nz Limited Director, Mortleg Limited Employee & Shareholder, EstarOnline Limited (until March 2013) Director, Education New Zealand Director, Snow Sports NZ Chairman, Establishment Advisory Board of the NZ Cycle Trails
Jackie Lloyd	Member, Wellington Regional Strategy Committee Trustee, Wellington Museums Trust
David Willis	Director, CBH Grain Pty Limited Director, Interflour Holdings Limited Director, Volpaia Services Pty Limited Director, Bank of Queensland Limited Director, B.Q.L. Management Pty Limited Director, B.Q.L. Nominees Pty Limited Director, B.Q.L. Properties Limited Director, BOQ Credit Pty Limited Director, BOQ Equipment Finance Limited Director, BOQ Finance (Aust) Limited Director, BOQ Finance (NZ) Limited Director, BOQ Funding Pty Limited Director, BOQ Share Plans Nominee Pty Limited Director, Equipment Rental Billing Services Pty Limited Director, Hartwood House Pty Limited Director, Home Building Society Limited Director, Home Credit Management Limited Director, Home Financial Planning Pty Limited Director, Hunter Leasing Limited Director, Newcourt Financial (Australia) Pty Limited Director, Pioneer Permanent Building Society Limited Director, Queensland Electronic Switching Pty Limited Director, St Andrew's Insurance (Australia) Pty Limited Director, St Andrew's Services Pty Limited Director, St Andrew's Life Insurance Pty Limited Director, Statewest Financial Planning Pty Limited Director, Statewest Financial Services Limited Director, The King's School Foundation Limited Advisor, Bain and Company Chair, The Horizons Programme Director, Virgin Money (Australia) (From 31 May 2013)

Subsidiary Disclosures	
Nicholas Astwick	Director and Shareholder, Memorial Investments Limited Director and Shareholder, Enterprise Investments (NZ) Limited Director, (Alternate), Payments NZ Limited
Simon Bratt	Trustee, McGregor-Brown Whanau Trust
Stuart Bremner	Director and Shareholder, Bremner Davenport Properties Limited
Paul Brock	Director and Shareholder, Hotspur Limited Director and Shareholder, Stratx Limited Trustee and beneficiary, Brock Family Trust Chair &Trustee, Eastern Hutt School Board of Trustees
Hon Sir Michael Cullen (Chair)	Chair, Express Couriers Limited (until 30 June 2013) Director (Alternate), Couriers Please Holdings Pty Limited
Nick Fox	Jumping Fox Interactive
Andrew Gawith	Director, Infometrics Management Services Limited Trustee, Gawith-Deans Family Trust Director and Shareholder, GM Sunrise Trustee Limited Director of Trustee 109 Limited Trustee of the Gareth Morgan Investment Trading Trust (until April 2013) Director, MV One General Partner Limited Director, GM Midnight Trustee Limited
Alison Gerry	Director, Lindis Crossing Vineyard Limited Director, Glendora Holdings Limited Director, Glendora Avocados Limited Director, Random Walk (2010) Limited Director, Queenstown Airport Corporation Limited Director, Television New Zealand Limited Director, Pioneer Generation Limited Director, NZX Limited Shareholder, Maungatapere Water Company Limited (From 25 July 2012)
Sophie Haslem	Director, Omphalos Limited Director, Reach Media Limited Director, Rangatira Limited (from 29 April 2013)
Gareth Morgan	Director and Employee of Gareth Morgan Kiwi Saver Limited Director, Infometrics Management Services Limited Director, Portfolio Custodial Nominees Limited Director GMI General Partner Limited Trustee, Gawith-Deans Family Trust Director and Shareholder, GM Sunrise Trustee Limited Director Portfolio Custodial Nominees Limited Trustee, Huw Marie Trust Trustee, Tiger Trust Director, Trustee 109 Limited Trustee, Gareth Morgan Investments Trading Trust
Robert (Rob) Morrison	Director, Tamata Horticulture Limited Director, Tamata Holdings Limited Director, Acer Export Partnership Limited Director, Agriculture General Partner Limited Director, RWB Nominees Limited Director, Blind Pig Properties Limited Director, Kotu Farms Limited Director, Kotu Management Limited Director, Falkirk Management Limited Director, Welnix GP Limited Director, Investnix Holdings Limited Member, Asian Corporate Governance Association: Hong Kong based NGO Chair, H.R.L Morrison & Co Group Limited (From 25 July 2012) Chairman, Pure Advantage Trustee, Rob Morrison Family Trust Shareholder, Fisher Funds Management Limited Shareholder, Palliser Estate Wines of Martinborough Limited (From 25 July 2012)

STATUTORY INFORMATION

Grant Paterson	Treasurer and Board Member, 116 Central Park South Condominium Board Member, The Seville Condominium Trustee, B J Paterson (1995) Trust Trustee, A M Paterson (1995) Trust
Paul Reid	Director, Software Education Limited Director, Maven International Limited Director, Maven Managed Services Limited Director, Projects International Limited Director (Alternate), Datacom Group Limited (Until 8 February 2013)
Brian Roche	Director, Datacom Group Limited (Until 8 February 2013) Director, Rugby New Zealand 2011 Limited (Until 29 April 2013) Director, Valley Road Forest Limited Trustee, Victoria University Foundation Trustee, St Patrick's Foundation Trustee, BJ and ML Roche Family Trust Director, CV International Post Corporation UA (From 12 December 2012) Member, Trustee Council for the New Zealand Business and Parliamentary Trust (from February 2013) Chair, Hurricanes GP Limited (From 19 December 2012) Chair, First World War Centenary Panel (from 25 July 2012) Chairman Major Events Investment Panel (from June 2013)
Catherine Savage	Managing Director and Shareholder, CMS Capital Limited Director, Comrad Holdings Limited Director, Comrad Trustee Limited Managing Director and Shareholder, Savage Group Limited Director, Radsoft Holdings Limited Director, Comrad Medical Systems Limited Director, Safco Limited Director, Annuitas Management Limited Director, Todd Family Office Limited Director, Pathfinder Asset Management Limited Director, The Griffin Savage Coy. Limited Director, Waiwhetu Distributors Limited Chair, Board of Trustees, National Provident Fund Board Member, Guardians of the NZ Superannuation Fund Chair, Management Board, Samuel Marsden Collegiate School
Ashley Smout	Director, Muritai Investments Limited Trustee, Astrolabe Trust Advisory Trustee, Smout Family Trust
Mark Stephen	Director, Kiwi Asset Finance Limited Director and Shareholder, Pip Stephen Interior Design Limited Trustee and beneficiary, Homestead Trust
Mark Yeoman	Director, Reach Media New Zealand Limited Director, Datacom Group Limited (Until 8 February 2013) Director, Zomar Investments Limited Trustee, Pencarrow Family Trust Member, Postal Network Access Committee Director, Network for Learning Limited (from July 2012)

Directors of New Zealand Post Subsidiaries

Director	Subsidiary	Fees and benefits
Nick Astwick	AMP Home Loans Limited (Alternate Director)	
	KB Custodial Services Limited (Alternate Director)	
	Kiwi Asset Finance Limited (Alternate Director)	
	Kiwibank Investment Management Limited (Alternate Director)	
	Kiwibank Nominees Limited (Alternate Director)	
	Kiwi Capital Management Limited (Alternate Director)	
	Kiwi Capital Securities Limited (Alternate Director)	
	Kiwi Insurance Limited (Director)	
	The New Zealand Home Loan Company Limited (Director)	
	New Zealand Home Lending Limited (Alternate Director)	
	Payments New Zealand Limited (Alternate Director)	
	Leadership New Zealand (Trustee)	
	Memorial Investments Limited (Director and Shareholder)	
Simon Bratt	Localist Limited (Alternate Director until 5 April 2013)	
Stuart Bremner	Kiwi Wealth Management Limited	
	GMI General Partner Limited	
	Gareth Morgan KiwiSaver Limited	
	Portfolio Custodial Nominees Limited	
Paul Brock	AMP Home Loans Limited	
	GMI General Partner Limited	
	Gareth Morgan KiwiSaver Limited	
	Portfolio Custodial Nominees Limited	
	KB Custodial Services Limited	
	Kiwibank Asset Finance Limited (Alternate Director)	
	Kiwibank Investment Management Limited	
	Kiwibank Nominees Limited	
	Kiwi Capital Management Limited	
	Kiwi Capital Securities Limited	
	Kiwi Wealth Management Limited	
	New Zealand Home Lending Limited	
	The New Zealand Home Loan Company Limited (Until 2 July 2012)	
Stephen Cole	Kiwi Asset Finance Limited	$200,000
Hon Sir Michael Cullen	Express Couriers Limited (until 30 June 2013)	$26,000
	Kiwibank Limited	$46,500
	Couriers Please Holdings Pty Limited (Alternate Director)	
Gordon Davidson	AMP Home Loans Limited (Until 5 April 2013)	
	Kiwibank Nominees Limited (Until 5 April 2013)	
	Kiwibank Investment Management Limited (Until 5 April 2013)	
	New Zealand Home Lending Limited (Until 5 April 2013)	
	The New Zealand Home Loan Company Limited (Until 5 April 2013)	
	KB Custodial Services Limited (Until 5 April 2013)	
	Kiwi Capital Management Limited (Until 5 April 2013)	

STATUTORY INFORMATION

Director	Subsidiary	Fees and benefits
	Kiwi Capital Securities Limited (Until 5 April 2013)	
	Kiwi Asset Finance Limited (Until 5 April 2013)	
Leo Davis	Kiwi Asset Finance Limited	
Gary Edstein	Express Couriers Limited	
	Couriers Please Holdings Pty Limited	
John Erkkila	The New Zealand Home Loan Company Limited (Until 2 July 2012)	
Nicholas Fox	Localist Limited	
Andrew Gawith	GMI General Partner Limited	$75,000
	Gareth Morgan Kiwisaver Limited Portfolio	
	Custodial Nominees Limited	
Alison Gerry	Kiwibank Limited	$58,750
Murray Gribben	Kiwibank Limited	$46,500
Sophie Haslem	Air Post Limited	
	Localist Limited	
	Reach Media New Zealand Limited	
	Transend Worldwide Limited (South Africa)	
Wayne Hawkyard	Kiwi Insurance Limited	$20,833
Talal Ibrahim	Express Couriers Limited (Alternate Director)	
Harlis Malkic	Parcel Overnight Direct Pty Limited	
	Hills Parcel Direct Pty Limited	
	Express Couriers Australia (Sub 1) Pty Limited	
Rhiannon McKinnon	Kiwi Group Holdings Limited (Alternate Director)	
	New Zealand Post Trust Management Services Limited (from 17 January 2013)	
	New Zealand Post Group Finance Limited (Alternate Director from 25 January 2013)	
Gareth Morgan	GMI General Partner Limited	$125,735
	Gareth Morgan Kiwisaver Limited	
	Portfolio Custodial Nominees Limited	
Rob Morrison	Kiwibank Limited	$103,000
Skye Nicholls	Converga Asia (Philippines)	
Kiran Patel	New Zealand Post Recycle Centre Limited	
	Datam Limited (Alternate Director) (From 5 October 2012)	
Grant Paterson	Kiwibank Limited (until 18 June 2013)	$46,500
	Kiwi Insurance Limited (until 18 June 2013)	$10,000
Paul Reid	Localist Limited	
	New Zealand Post Trust Management Services Limited	
Neil Richardson	The New Zealand Home Loan Company Limited	$27,500
Brian Roberts	New Zealand Post Australia Holdings Pty Limited	
	Converga (ACT) Pty Limited	
	Converga Inc (USA)	
	Converga Information Management Pty Limited	
	Converga Group Limited	
Brian Roche	Converga Inc (USA)	
	Datam Limited	
	Express Couriers Limited	
	Kiwibank Limited	

Director	Subsidiary	Fees and benefits
	Kiwi Group Holdings Limited	
	Localist Limited	
	New Zealand Post Australia Holdings Pty Limited	
	New Zealand Post Group Finance Limited	
	Couriers Please Pty Limited	
	Couriers Please Holdings Pty Limited	
	Converga Pty Limited	
	Converga Group Limited	
	Converga Holdings Limited	
	New Zealand Post CX Limited	
Roy Santos	Converga Asia (Philippines)	
Catherine Savage	Kiwibank Limited	$46,500
Lee Shaddock	Converga Asia (Philippines)	
Trent Shirkey	Kiwi Asset Finance Limited	
Ashley Smout	New Zealand Post Recycle Centre Limited	
Mark Stephen	AMP Home Loans Limited (Alternate Director)	
	KB Custodial Services Limited (Alternate Director)	
	Kiwi Asset Finance Limited	
	Kiwi Capital Management Limited (Alternate Director)	
	Kiwi Capital Securities Limited (Alternate Director)	
	Kiwi Insurance Limited	
	Kiwibank Investment Management Limited (Alternate Director)	
	Kiwibank Nominees Limited (Alternate Director)	
	New Zealand Home Lending Limited (Alternate Director)	
	The New Zealand Home Loan Company Limited (Alternate Director)	
Mahendra Thamarajah	Parcel Overnight Direct Pty Limited	
	Hills Parcel Direct Pty Limited	
	Express Couriers Australia (Sub 1) Pty Limited	
Virginia Viray	Converga Asia (Philippines)	
David Willis	Converga Pty Limited	
	Kiwibank Limited	
	Couriers Please Holdings Pty Limited	
	Couriers Please Australia Pty Limited	
	Converga Holdings Pty Limited	
John Willis	New Zealand Post Trust Management Services Limited	
	New Zealand Post Holdings Limited (Alternate Director) (From 5 October 2012)	
Gary Woodham	Converga Information Management Pty Limited (Until 21 May 2013)	
	Converga (ACT) Pty Limited (Until 21 May 2013)	
Mark Yeoman	Air Post Limited	
	Converga Holdings Limited	
	Converga Group Limited	
	Converga Inc (USA)	
	Converga Pty Limited	
	Converga (ACT) Pty Limited (From 21 May 2013)	
	Converga Information Management Pty Limited (From 21 May 2013)	
	Converga Asia (Philippines) Datam Limited	

STATUTORY INFORMATION

Director	Subsidiary	Fees and benefits
	Express Couriers Limited	
	Kiwi Group Holdings Limited	
	New Zealand Post CX Limited (From 5 December 2012)	
	New Zealand Post Group Finance Limited	
	New Zealand Post Holdings Limited	
	Transend Worldwide Limited (South Africa)	
	New Zealand Post Australia Holdings Limited	
	Kiwibank Limited (Alternate Director)	
	Couriers Please Australia Pty Limited	
	Couriers Please Holdings Pty Limited	
	Couriers Please Pty Limited	
	Kiwi Wealth Management Limited	

Directors' Statement

This Annual Report is for the period 1 July 2012 to 30 June 2013 and is signed on behalf of the New Zealand Post Board by:

Hon Sir M.J. Cullen
Chairman

Philippa Dunphy
Director

This Annual Report is dated 29 August 2013.

Directory

Chairman	Hon Sir Michael Cullen
Deputy Chair	Murray Gribben
Members	Carol Campbell
	Alan Dunn
	Philippa Dunphy
	Temuera Hall
	Richard Leggat
	Jackie Lloyd
	David Willis

Group Leadership Team

Group Chief Executive Officer	Brian Roche
Chief Executive Officer, Kiwibank Ltd.	Paul Brock
Chief Operating Officer, Express Couriers Limited	Paul Trotman (Acting)
Group General Manager, People Capability	Jo Avenell
Chief Operating Officer, Channels & Digital Platforms	Paul Reid
Chief Operating Officer, Mail & Communications	Ashley Smout
Group General Manager, Assurance	Malcolm Shaw
Chief Financial Officer	Mark Yeoman

Bankers	Bank of New Zealand Limited
Auditor	Paul Clark assisted by PricewaterhouseCoopers, Wellington, on behalf of the Auditor-General
Solicitors	Buddle Findlay
	Russell McVeagh
Registered Office	12th Floor New Zealand Post House 7 Waterloo Quay Wellington New Zealand

For further information about the contents of this report, please contact:

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Wellington Mail Centre
Lower Hutt 5045
New Zealand

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Facsimile: +64-4-496 4479
Email: post.communications@nzpost.co.nz

For more information about New Zealand Post's products and services, please contact:

New Zealand Post Customer Services Centre

Telephone tollfree: 0800 501 501
Email: enquiry@nzpost.co.nz
Website: www.nzpost.co.nz

For information about our collectable stamps and coins, please contact:

Collectables and Solutions Centre
Private Bag 3001
Whanganui 4540
New Zealand

Telephone: +64-6-349 1234
Facsimile: +64-6-345 7120
Website: www.stamps.co.nz

This document (Supporting Information 2013) is Volume 2 of the New Zealand Post Group's Annual Report for 2013. The first volume of this Annual Report (Annual Review 2013) can be seen online at www.nzpost.co.nz/about-us/investor-centre/reports-presentations

For more information on the New Zealand Post Group, visit www.nzpost.co.nz

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