

Statement of Corporate Intent 2010-2013



NEW
ZEALAND
POST
GROUP

New Zealand Post Limited

Statement of Corporate Intent

1 July 2010 - 30 June 2013

This statement is prepared in terms of section 14 of the State Owned Enterprises Act 1986.

A. Objectives

Under the Act New Zealand Post is required to operate as a successful business and specifically to achieve the following objectives:

- to operate an efficient, effective and profitable business and provide to the owners a commercial return on the capital employed;
- 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.

Within this context the purpose, vision and key goals of New Zealand Post are defined.

Business Purpose

People connecting people, in communities and in commerce, for messages, goods and payments - helping New Zealand run.

Vision

To be recognised as the vital link connecting New Zealand people, their communities and businesses by:

- providing the services and the experience our customers value;
- being operationally excellent, smart and efficient;
- being a great place to work;
- growing our business and generating new, profitable revenue streams through harnessing our broad range of capabilities;
- lifting our profit and creating more value for our shareholders; and
- being a great New Zealand company and meeting our social obligations.

Strategies

The following business strategies have been set for the period:

- to sustain the profitability of our postal business, both domestic and international, by responding to the emerging needs of our customers and by increasing operational productivity levels;
- to grow Kiwibank as a commercially successful business through product and service extension;
- to grow the profitability of our express courier and logistics businesses through service extension and operational efficiency improvements;
- to optimise our retail network to enable future growth for other parts of the Group and to improve the experience for customers;
- to develop services that enable our customers to choose to interact electronically;
- to develop trans-Tasman and international connections and services that add value for New Zealand Post; and
- to create and deliver new, profitable, value-added services and solutions for our customers.

B. Nature and Scope of the Business

Our major business units are:

Postal Services Group

This group provides domestic and international postal services. We deliver to nearly 1.9 million homes, businesses, rural delivery addresses and private boxes. We deliver around a billion items of mail a year through our network of Posties around the country.

Kiwibank

Kiwibank is a 100 per cent New Zealand owned challenger brand in banking. Its purpose is to provide everyday New Zealanders with a better banking alternative. It has led the way in technology (with text and mobile banking) and in delivering best value banking through market leading interest rates and competitive fees.

Retail Network

PostShops are a central link in our customers' everyday lives and communities throughout New Zealand. With a network of more than 300 PostShops and 650 PostCentres, we are the second largest retailer in New Zealand. We process over 21 million financial transactions covering bill payments, car registration renewal, travel bookings, banking services, Bonus Bonds, reloadable and prepaid Visa cards, travel insurance, money transfers, foreign currency as well as sending solutions. More than 80 different payments can be made through our PostShop network.

Datam

Datam Limited (previously Datamail Limited) comprises Datam in New Zealand and Converg-a in New Zealand and Australia and helps customers manage communications through multiple channels including mail and online. Datam specialises in document printing and mail processing services, intelligent direct marketing delivery, and business process outsourcing. Converg-a is a leader in providing back office services such as application processing, scanning and paperless accounts payable.

Express Couriers Limited

Express Couriers, through its brands CourierPost, Pace, Contract Logistics and Roadstar, is New Zealand's leading express courier, logistics and distribution business. This joint venture between New Zealand Post and DHL enables us to bring our customers a complete solution, tailor-made to meet their supply chain needs. Delivering over 40 million courier parcels throughout New Zealand and a recognisable fleet of red and yellow trucks, aircraft, bikes, and 900 uniformed couriers makes Express Couriers the partner of choice for many New Zealand businesses.

Parcel Direct Group Pty Limited

Our joint venture with DHL, Parcel Direct provides integrated transport solutions throughout most of mainland Australia.

Key Business Activities

The business activities of New Zealand Post over the next three years will be:

- to provide the universal postal service within New Zealand and to and from other countries, with service provision to be consistent with the Deed of Understanding;
- to operate a nationwide retail network;
- to provide banking, financial, bill payment and agency services;
- to operate express courier, logistics and distribution services;
- to provide document and information management services, including electronic transaction and messaging services;
- to provide international postal consulting services;
- to operate a philatelic business;
- to operate electoral enrolment services on behalf of the Crown;
- to develop, where appropriate, postal, distribution and retail network services in regional and global markets; and
- to undertake or participate in business activities which add value for customers and leverage the capabilities of New Zealand Post.

Within all these areas the Company undertakes activities that permit profitable utilisation of its existing assets, including intellectual property and the expertise of its people.

These activities will be developed as part of the operation of the Company, through subsidiary and associated companies and through alliances with business partners.

C. Corporate Sustainability Commitment

New Zealand Post's commitment to Corporate Sustainability has been defined across the following five impact areas:

- to be a good employer, treating our people fairly and with respect, and valuing their diversity. We are committed to creating a workplace that makes people want to join, stay and work to their full potential. Our commitment to the safety and wellbeing of our people is a priority;
- to deliver to our customers what we have promised; we will listen to them and involve them in our solutions and innovations;
- to work with our suppliers to develop long-term partnerships based on best practice procurement methods which reflect mutually agreeable codes of conduct and respect basic human rights;
- we will consider the impacts of our business on the communities in which we operate, and we will engage with our community stakeholders. We will find opportunities to use our capabilities to add value to communities where they need it.
- to help to protect the environment by better understanding, managing and measuring our environmental impacts and minimising the carbon footprint of the assets in our care by a 12 per cent reduction in GHG emissions by 2012 while continuing the sustainable growth of our operations. We will regularly review our environmental practices to ensure their continued relevance.

D. Accounting Policies

The policies will be consistent with:

- the legal requirements of the Companies Act (as amended) and any other relevant legislation; and
- Generally Accepted Accounting Principles.

The Company's detailed accounting policies are set out in Appendix 1.

E. Performance Targets and Measures

Current Business Environment

The economic environment has continued to be challenging across the New Zealand Post Group due to the economic slowdown. This has led to pressure on revenue growth plans and profit expectations across most New Zealand Post businesses, but in our postal and banking businesses in particular.

The challenges of the last two years have precipitated a reassessment of plan growth and profit targets, resulting in lower targets for the next three years compared to the same periods in the previous Statement of Corporate Intent. Our capital plan has been implemented with funding options developed to optimise liquidity, diversify funding sources and support growth across the Group, while at the same time ensuring that we retain our AA- credit rating with Standard & Poor's (S&P).

Despite the adverse impacts of the economic downturn, New Zealand Post Group remains committed to delivering business growth and improving the returns to the shareholder. Our performance targets reflect the pursuit of growth opportunities in Kiwibank in particular, and a strong focus on productivity and margin improvements within the traditional postal-related business and across the Group portfolio.

A summary of our major programmes to achieve our strategies is outlined below within each of the five strategic platforms that drive the overall Group strategy. Successful implementation of these programmes is vital in order to achieve our financial targets.

Deliver Sustainable Business Models

Future delivery project	Review and develop future last mile delivery networks across the existing postal and courier delivery networks to meet the future needs of the business, and lower cost structures.
Digital post network	Assess the opportunity to develop a digital post network (integrated physical and digital communications) with the view to establishing a viable future business model.
Retail distribution	Develop a segmented Retail distribution strategy that meets the needs of the Group under an affordable and sustainable cost structure.
Retail transformation	Improve our Retail network through delivering a new sales and service framework and culture change programme, reviewing the number, location, design and layout of retail stores, and implementing a new franchise model.
Future business models assessment	Undertake further diagnostics across the Postal Services Group, Retail, Datam and Express Couriers to assess and recommend opportunities for changing existing, and developing future, business models.

Drive International Growth

Australian performance review	Undertake a review of existing Australian portfolio assets to identify strategies to enhance performance.
International growth strategy	Develop an integrated international strategy, centred on domestic customer interests, New Zealand Post competencies and partnerships, to guide investment and business development decision-making.

Active Portfolio Management

Group portfolio review	Undertake robust analysis of the current portfolio to enable confident invest/hold/sell decision-making.
------------------------	--

Growth Through the Bank

Build forward rating and capital capabilities	Secure Kiwibank's credit rating for a 3-5 year minimum period to enable access to competitively priced funding and ensure continued growth.
Growth through diversification	Successful entry into new markets, including corporate and commercial, transactional banking, rural, Maori and bancassurance ensuring Kiwibank becomes a full service New Zealand owned bank with a strong community presence.

Build Capability to Succeed

Build and embed strategy execution framework capability into the organisation	Implement the strategy execution framework across all businesses and align with Group strategy. Fully integrate strategy execution framework through business planning, internal processes and systems, and people development programmes.
---	---

Taking into account the current business environment and the major initiatives listed above, the performance measures adopted for the SCI are listed below under each of the key business objectives (refer also to targets for each measure in the table "SCI Performance Targets"):

1. Shareholder Return
 - (a) Net Profit After Tax (NPAT)
 - (b) Economic Value Added (EVA)
 - (c) Dividends Paid to Shareholder
2. Good Employer
 - (d) People Engagement
 - (e) Lost Time Injury Frequency Rate (LTIFR) per million hours worked
3. Corporate Sustainability and Social Responsibility
 - (f) Standard Letter Service Performance
 - (g) Customer Engagement
 - (h) Emissions Reduction
 - (i) Corporate Responsibility Index

4. New SOE performance measures for 2010/11

Shareholder Returns

- (j) Total Shareholder return = Change in Equity Value + Dividend
- (k) Dividend yield = Dividend Paid / Total Shareholders' Funds
- (l) Dividend payout = Dividends Paid / net cash flow from operating activities
less depreciations
- (m) Return on equity = NPAT / Average Total Shareholders' Funds
- (n) Return on equity adjusted for IFRS fair value movements and asset revaluations =
(NPAT – fair value adjustments) / Total Shareholders' Funds

Profitability/Efficiency

- (o) Return on Capital Employed = NPBT / Opening Capital Employed
- (p) Operating margin = (EBITDA before Fair Value Adjustments) / Revenue

Leverage Solvency

- (q) Gearing ratio (net) = (Total Liabilities – Cash) / [(Total Assets – Cash) + Shareholders' Funds]
- (r) Interest cover = (EBITDA before Fair Value Adjustments) / Interest paid
- (s) Solvency = Current Assets / Current Liabilities

SCI Performance Targets	2008/09 Actual	2010/11 Plan	2011/12 Plan	2012/13 Plan
1. SCI Objective: Shareholder Return				
(a) NPAT	\$71.8m	\$60.8m	\$84.3m	\$117.5m
(b) EVA	\$8.6m	-\$29.8m	-\$10.9m	\$11.8m
(c) Dividends	\$13.5m	\$3.7m	\$5.0m	\$12.6m
2. SCI Objective: Good Employer				
(d) People Engagement Index <i>Per cent raw engagement score per the Annual Employee Engagement Survey</i>	75.9%	76.0%	77.0%	78.0%
(e) Lost Time Injury Frequency Rate (LTIFR) <i>Lost Time Injuries per million hours worked</i>	9.7%	7.4%	6.3%	5.4%
3. SCI Objective: Corporate Sustainability and Social Responsibility				
(f) Standard Letter Service Performance <i>Letters delivered to standard (Testpo Survey)</i>	94.3%	96.5%	96.5%	96.5%
(g) Customer Favourability <i>Per cent who rate New Zealand Post as 'excellent' or 'very good'. New methodology introduced in 2009/10</i>	59.0%	53.0%	56.0%	59.0%
(h) Emissions Reduction <i>Annual reduction in emissions</i>	3.6%	12% reduction in GHG emissions by 2012		
(i) Corporate Responsibility Index <i>St James Ethics Centre Index Score</i>	68.1%	80.0%	85.0%	85.0%
4. New SOE performance measures for 2010/11				
Shareholder Returns				
(j) Total Shareholder Return*	\$118.5m	\$3.7m	\$5.0m	\$12.6m
(k) Dividend yield (excl Kiwibank)	4.4%	0.8%	0.5%	0.7%
(l) Dividend payout	23.5%	4.7%	7.6%	13.1%
(m) Return on equity	10.0%	6.3%	7.6%	9.7%
(n) Return on equity adjusted	11.9%	6.4%	9.4%	11.6%
Profitability/Efficiency				
(o) Return on capital employed	11.2%	8.6%	11.4%	14.9%
(p) Operating margin	13.2%	12.4%	15.1%	18.1%
Leverage Solvency				
(q) Gearing ratio (net)	88.6%	88.0%	88.6%	88.7%
(r) Interest cover	12.5	11.9	16.9	25.2
(s) Solvency (current ratio)	105.3%	106.1%	105.9%	105.9%

*Assumes no change in the commercial valuation during the plan years

Changes to SCI Targets

The Group's profit targets above, and returns on equity and total tangible assets, have been revised down relative to last year's SCI targets. The reduction in profit forecasts is driven by a lower than targeted current year financial performance due primarily to the effect of the recessionary environment in the banking and postal businesses in the Group. This has resulted in a lower base from which to grow revenue and profit for the next three years of the plan compared to the same period in last year's SCI targets.

F. Ratio of Shareholders' Funds to Total Assets

The Company targets for the ratio of Total Shareholders' Funds (TSF) to Total Assets are as follows:

Ratio of Shareholders' Funds to Total Assets	2010/11	2011/12	2012/13
TSF: Total Assets	6.8%	6.5%	6.4%
TSF: Total Assets (excl Kiwibank)	62.6%	62.0%	62.5%

Shareholders' Funds may include share capital, equity bonds as defined in the Act, and reserves. Total assets include current assets, goodwill, investments and fixed assets for the New Zealand Post Group including Kiwibank.

Over the next three years the Total Assets for New Zealand Post will remain the same relative to Shareholders' Funds. The projected growth of retained profits in Kiwibank is offset by increased capital expenditure across the Group.

G. Capital Expenditure

Total net capital expenditure (including divestments) for the 2010/11 year is projected to be \$76.3 million as summarised in the table below. Capital expenditure has been classified as follows:

- existing assets – the replacement and refurbishment of lifecycle assets;
- new asset/projects/programmes – to improve operational efficiency, or pursue specific business improvement strategies;
- product development – spend to develop new products and services.

The major areas of capital investment include banking system enhancements and IT infrastructure replacement in Kiwibank, a programme of PostShop fit-outs and upgrades in the PostShop network, and an extension to the Christchurch Mail Centre.

Capital Expenditure Plan (\$m)	2010/11 Plan	2011/12 Plan	2012/13 Plan	2013/14 Plan	2014/15 Plan
Existing Assets					
Asset life replacement (BAU)	18.4	32.6	22.6	34.8	39.8
Refurbishment/Upgrade	40.3	29.4	24.5	23.0	23.1
	58.7	62.0	47.1	57.8	62.9
New Asset/Projects/Programmes					
Business Improvement/Change	11.2	6.8	6.5	6.5	8.5
Product Development	12.7	11.0	10.9	10.9	10.9
Gross Capital Expenditure	82.6	79.8	64.5	75.2	82.3
Divestments	(6.4)	(20.0)	(20.0)	(20.0)	(5.0)
Net Capital Expenditure	76.3	59.8	44.5	55.2	77.3

H. Dividend Policy

It is intended that funds surplus to the Company's investment and operating requirements will be distributed to the Company's Shareholders. However, it has been agreed between the Shareholders and the Directors that net surpluses after tax generated by Kiwibank are retained over the next three years to assist in funding its ongoing growth.

For the two-year period ending 30 June 2010, the Group's dividend policy was amended to be calculated as 30 per cent of net profit after tax excluding Kiwibank net profit after tax, and excluding any material unrealised fair value movements. Subject to confirmation of medium-term credit rating at AA-, New Zealand Post Group's dividend policy is expected to revert back to calculate dividends as 60 per cent of net profit after tax excluding Kiwibank net profit after tax, and excluding any material unrealised fair value movements.

The level of surplus funds will be determined by reference to:

- the sustainable financial structure for the business, including the stated desire to retain no less than a Standard & Poor's AA- credit rating for medium to long-term debt;
- the Company's medium-term fixed asset expenditure programme;
- the Company's investment in new business opportunities; and
- the Company's working capital requirement.

It will exclude:

- net surpluses generated by Kiwibank; and
- capital profits earned on disposals of assets where such profits are to be used to meet investing and operating requirements.

In recommending dividends payable to the Shareholders, the Company will follow procedures generally adopted by directors of publicly listed companies, and in accordance with Sections 13 and 15 of the State Owned Enterprises Act 1986. The dates for payment of dividends will be the business day nearest to 15 March for the interim dividend and the business day nearest to 30 September for the final dividend.

I. Reporting

The Company will provide to shareholding Ministers an annual report in accordance with Section 15 of the Act and will report on the achievement of the objectives and targets set out in this Statement of Corporate Intent.

The half-yearly report submitted in accordance with Section 16 of the Act will include an unaudited Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and such details as are necessary to permit an informed assessment of the Company's performance during that reporting period. Quarterly reports will be submitted to shareholding Ministers providing provisional financial results. The Company will submit a Business Plan and Statement of Corporate Intent for discussion prior to the start of each financial year.

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

The Company intends to hold a public meeting to discuss its business during the 2010/11 financial year.

J. Procedures for Share Acquisitions

Subscriptions for shares in any company or interests in any other organisation will, where substantial, or which involve a significant overseas equity investment, be subject to consultation with shareholding Ministers. The procedures for the establishment of subsidiary companies, and the sale of substantial assets in the Company or of any of its subsidiaries, are set out in Appendix 2.

K. Compensation from the Crown

New Zealand Post reserves the right under Section 7 of the State Owned Enterprises Act 1986 to seek compensation for the necessity to provide any service where the Company is constrained from acting in a normal, business-like manner.

New Zealand Post may seek compensation should deregulation of the basic letter service, or other factors, cause such loss of business as to threaten the Company's viability while it maintains its social obligations.

L. The Crown's Investment in New Zealand Post

The Crown's investment in New Zealand Post as at 30 June as measured by Shareholders' Funds, is forecast to be:

The Crown's Investment in New Zealand Post	2010/11	2011/12	2012/13
Total Shareholders' Funds (\$m)	\$831.4m	\$901.2m	\$1,009.1m

excludes \$150 million Long Term Capital Kiwibank Tier 1

Commercial Value of the Crown's Investment

The Board's estimate of the current commercial value of the Crown's investment in New Zealand Post is as follows:

Enterprise Value	\$1,374 million
Equity Value	\$1,177 million
Per Share	\$6.12

The commercial value is higher than the Crown's investment in the Group, measured by Total Shareholder's Funds (presented in the table above) because the market value of New Zealand Post Group is generally not fully reflected in the value of equity under International Financial Reporting Standards (IFRS). This is particularly the case for the parent investments in subsidiaries, which are recorded at cost less any accumulated impairment (refer New Zealand Post Group accounting policies – Appendix 1).

This comprehensive annual valuation has been prepared by New Zealand Post as at June 2010, with external review and advice regarding the methodology used by PricewaterhouseCoopers prior to approval by the Board. The key characteristics of the valuation approach are as follows:

- The valuation exercise is based on the current New Zealand Post structure and expected economic environment and assumptions as applied to the Group's three year business plan. Unexpected material or sudden changes (e.g. economic downturn) may impact the value of New Zealand Post significantly. The annual nature of the valuation allows economic assumptions to be updated, and any changes in business structure (investment or divestment) to be included in future valuation calculations. A separate valuation model has been created for each business and corporate group within New Zealand Post.
- The valuation of the Group represents a Sum-of-the-Parts valuation because of the diverse nature of the Group and the different valuation methodologies that are applied to various business units as appropriate, in view of the nature and size of the business.

- Most business segments of the Group are valued using a discounted cash flow (DCF) methodology. These business segments include Retail, Kiwibank, other Group enterprises and corporate services. The DCF valuations are based on 2009/10 forecasts and three year business plan cash flows with forward projections made for year five. Terminal growth rates have been applied of between 0 per cent and 2 per cent. Discount rates assumed are in the range of 6.9 per cent to 14.4 per cent which is the same range of discount rates used last year. The average cost of capital rate across the Group is 9.7 per cent.
- Where more practical, other valuation methodologies are applied including capitalisation of earnings for Express Couriers, ECN Group, Reachmedia, and Postal Services (with a DCF cross-check); latest externally based share price valuation for Datacom (36 per cent shareholding), carrying equity value for Parcel Direct Group (50 per cent shareholding); and book value for the property portfolio (annual revaluation under IFRS).
- The valuation has been performed on an "in use" basis where assumptions are generally conservative, as opposed to a "for sale" basis where more market potential based assumptions would be made. Generally, the most conservative result has been selected to represent the value for each business.
- Where the impact of certain initiatives is highly uncertain, the impact of those initiatives is removed from the valuation altogether. The annual calculation of value allows these initiatives to be included in future years as performance expectations become clearer.
- The conservative nature of the valuation implies that the value of New Zealand Post could increase as future year growth targets are met. However, the risks and challenges facing the Postal Services business, and the early life cycle stage of Kiwibank do give reasonable grounds for the more conservative approach.

The enterprise value of Kiwibank is \$826 million as at June 2010. This value is based on Kiwibank's carrying amount on New Zealand Post's 2009/10 Statement of Financial Position. The original value recognised in the 2008/09 financial statements was based on an independent assessment of Kiwibank's fair value. External valuations of Kiwibank Holdings are undertaken every two years.

Kiwibank's enterprise value from last year has increased from \$739 million due to retained earnings growth and an increased shareholding in subsidiary company New Zealand Home Loans.

Kiwibank's fair value of \$724 million, as at June 2009, was determined by applying both a DCF methodology and a capitalisation of earnings methodology. An after-tax discount rate of 11.2 per cent has been applied when discounting cash flows.

The current New Zealand Post Group commercial valuation (i.e. enterprise value) of \$1,374 million compares to a commercial valuation of \$1,353 million as at June 2009. This increased value is mainly due to the increase in the value of Kiwibank, which has been offset by the reduced value of the Postal Services Group. The lower value in some of the traditional mail based businesses reflects the expected future decline in core product volumes. A range of initiatives are planned to address this decline, however, these have been excluded from the valuation until their cash flows are more certain.

The enterprise value of the Crown's investment in New Zealand Post, based on a DCF methodology for the Group as a whole, as at June 2010, is \$1,824 million. However, the Board does not consider DCF as an appropriate valuation methodology due to the use of share of earnings for subsidiary and associate companies rather than cash flows. Applying the different valuation methodologies for each business in the Group results in an overall Group enterprise valuation range of between \$816 million (conservative) and \$1,745 million (optimistic).

Appendices

Appendix 1 – New Zealand Post Limited and Subsidiaries Statement of Accounting Policies

Reporting Entity

New Zealand Post Limited (the “Parent”) and its subsidiaries provide postal services, banking services, business solutions and courier 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 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.

Statement of Compliance

These financial statements comply with International Financial Reporting Standards (IFRS), New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

Basis of Preparation

The financial statements have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 1993, and the State Owned Enterprises Act 1986. For the purposes of complying with New Zealand generally accepted accounting practice the Parent is designated as a profit-oriented entity.

The financial statements for the Parent and Group are prepared in accordance with those NZ IFRS standards and IFRIC interpretations issued and effective, or issued and early adopted, as at this time.

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

The Group financial statements consolidate the financial statements of the Parent and its subsidiaries, using the purchase method, and include the results of its associates and jointly controlled entities using the equity method. Under the purchase method, corresponding assets, liabilities, revenues and expenses are added together line by line. All material transactions between the Parent and its subsidiaries are eliminated on consolidation.

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 income statement and balance sheet from the date control is gained up to the date control ceases. At the time of acquisition of a subsidiary, identifiable assets and liabilities acquired are initially measured at fair value on acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognised directly in the income statement.

The parent investments in subsidiaries are recorded at cost less any accumulated impairment. Unrealised losses relating to any impairment are recognised in the income statement.

Associates

Associates are entities in which the Group has significant influence but not a controlling interest. Associates are initially recorded at cost, and include any goodwill identified on acquisition (net of any impairment losses). The Group's share of associates' post-acquisition results are included in the consolidated income statement from the date of acquisition or up to the date of disposal. Any other movements in the reserve accounts of associates are recognised in reserves of the Group. When the Group's share of losses in an associate 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.

Jointly Controlled Entities

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). Jointly controlled entities are initially recorded at cost. The Group's share of the jointly controlled entity's post-acquisition results are included in the consolidated income statement from the date joint control began or up to the date the joint control ceased, using the equity method. Any other movements in the reserve accounts of jointly controlled entities are recognised in reserves of the Group.

Intergroup Acquisitions and Disposals

The sale of investments between the Parent and a subsidiary, or between two subsidiaries, are recorded at fair value. Gains on disposal are recognised in the income statement. 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 income statements 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.

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 collectability 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 determined 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. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

Dividend Income

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

Rental Income

Rental income is recognised in the income statement 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 profit and loss account.

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.

Expenditure

Expenditure shown in the income statements comprises the amounts paid and payable by the Parent and Group for goods and services provided from suppliers. Expenditure for the supply of goods and services is measured at the fair value of consideration paid. Expenditure for the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Expenditure for the supply of services is recognised at balance date in the accounting 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 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 income statement.

Research and Development

Research expenditure is recognised in the income statement in the period that it is incurred. Development costs are capitalised as intangible assets where future benefits are expected to exceed those costs and it is probable that the project will provide future economic benefits, considering its commercial and technological feasibility, otherwise such costs are recognised in the income statement in the period that they are incurred.

Capitalised development costs are amortised over future periods (not exceeding three years) in relation to expected future revenue in each period. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amount so identified is written off.

Foreign Currency Translation*Functional and Presentation Currency*

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

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 income statement. 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 income statement, 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 income statement or directly to equity.

Group Companies

The assets and liabilities of Group entities where their functional currency differs from the 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 income statement 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 in 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 also 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 income statement 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. Loans and receivables issued with duration less than 12 months are recognised at cost less impairment. 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 income statement. Loans and receivables include cash and cash equivalents, trade and other receivables, taxation receivables, other assets, and borrowings.

(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 transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised directly in equity 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 income statement. For non-monetary available for sale financial assets (e.g. equity instruments) the fair value movements recognised in equity include any related foreign exchange component. On derecognition the cumulative fair value gain or loss previously recognised directly in equity is recognised in the income statement.

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.

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 and loss are recorded at fair value with any realised and unrealised gains or losses recognised in the income statement. Transaction 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. Financial liabilities entered into with duration less than 12 months are recognised at their notional value. Amortisation and foreign exchange gains and losses, are recognised in the income statement 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 income statement.

Hedge Accounting

Derivatives are hedge accounted for where appropriate hedge documentation is in place at the transaction date. Hedge derivatives are accounted for as follows:

Fair Value Hedges – gains or losses are recognised in the income statement 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 income statement. 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 income statement within other income.

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 income statement within other income.

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 income statement within other income.

Gains or losses recognised directly in equity are transferred to the income statement in the same periods as when the hedged item affects the income statement.

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 balance sheet 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 sheet 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 balance sheet date.

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

Goods and Services Tax (GST)

The income statements 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 balance sheets 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 with a maturity of no more than three months from the date of acquisition.

Banking cash and cash equivalents include inter-bank balances arising from the daily RBNZ 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 income statement.

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.

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 income statement for the asset item, the gain is credited to the income statement. Otherwise, revaluation gains are credited to an asset revaluation reserve for that class of 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 income statement. 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 income statement 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 income statement. 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 income statement.

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. For sales that are expected to occur beyond one year the Parent or Group measures the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time is presented in the income statement as a financing cost.

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 income statement. 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 income statement in the period in which the transaction occurs.

Goodwill

Purchased goodwill is recognised as an asset at cost and tested for impairment at least annually. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or business at the date of acquisition. 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 income statement. Impairment losses on goodwill are not reversed. Internally generated goodwill is not recognised on the balance sheet.

Computer Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring 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 Contracts

Acquired customer contracts that are expected to generate net economic benefits beyond 12 months are recognised as intangible assets. Acquired customer contracts have finite lives and are amortised to the income statement on a straight-line basis over their estimated useful lives (being 7 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 income statement on a straight-line basis over their estimated useful lives (being from 21 months to 10 years).

Impairment

Intangible assets with indefinite useful lives (including goodwill) 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 income statement 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 most 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 income statement, 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).

In the case of financial assets classified as available-for-sale, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement. 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 income statement.

Financial assets at fair value through profit or loss are not assessed for impairment as their fair value reflects the credit quality of the instrument and changes in fair value are recognised in the income statement.

Asset Quality

Impaired assets consist of restructured assets, assets acquired through the enforcement of security and other impaired assets.

"Restructured asset" means any credit exposure for which:

- the original terms have been changed to grant the counterparty a concession that would not have otherwise been available, due to the counterparty's difficulties in complying with the original terms;
- the revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and
- the yield on the asset following restructuring is equal to, or greater than, the institution's average cost of funds, or that a loss is not otherwise expected to be incurred.

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 refers to any credit exposure for which an impairment loss is recognised in accordance with NZ IAS 39. A 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 counterparty is in receivership, liquidation, bankruptcy, statutory management or any form of administration are reported separately. These are classified as "other assets under administration".

Taxation

The income tax expense charged to the income statement includes both the current year's provision and the income tax effect of temporary differences, calculated using the liability method.

Deferred Income Tax

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 balance sheet 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 income statement 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 (i.e. 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 income statement as they fall due.

Termination Benefits

Termination benefits are recognised in the income statement 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 the Parent or Group has 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 has been 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 balance sheet 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 income statement over the 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 income statement over the term of the reverse repurchase agreement.

Deferred Settlement Liabilities

Deferred settlement liabilities are recognised in the balance sheet 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 risk specific to the liability. Changes in the fair value, other than the imputed interest, of a deferred settlement liability in a business combination are charged to goodwill where settlement is contingent.

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 income statement over the period of the borrowings using the effective interest rate method. Borrowings which are part of a documented fair value hedge are stated at fair value, and any difference in fair value is recognised in the income statement.

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.

Payments made under operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in the income statement 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.

Other Liabilities

Other liabilities are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities to be settled beyond 12 months are recorded at their present value.

Contingent Assets and Contingent Liabilities

Contingent assets and contingent liabilities are recognised in the notes at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Dividends Paid

Dividends distributed to the shareholders are recognised as a liability in the Parent's or Group's balance sheets 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 with a maturity of no more than 3 months from date of acquisition.
- (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. 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.

Changes in Accounting Policies

Accounting policies are changed only if the change is required by a standard or interpretation or otherwise provides more reliable and more relevant information. All policies have been applied on a basis consistent across all periods.

Appendix 2 – Subsidiaries and Associated Companies

The terms “share” and “subsidiary” have the same meanings as in Section 2 of the State Owned Enterprises Act 1986.

The Company shall ensure at all times that:

- control of the affairs of every subsidiary of the Company is exercised by a majority of the Directors of that subsidiary;
- a majority of the Directors of every subsidiary of the Company are persons who are also Directors of the Company, Executives of the Company, Executives of a subsidiary of the Company, or who have been approved by the shareholding Ministers for appointment as Directors of the subsidiary.

Without consulting shareholding Ministers, neither the Company nor its subsidiaries shall sell or otherwise dispose of, whether by single transaction or any series of transactions, and whether by a sale of assets or shares, the whole or any part of the business, if:

- that which is to be sold, or disposed of, is valued at more than 5 per cent of the shareholders’ equity in the Company; or
- the sale or disposal will materially reduce the nature and scope of the key business activities as recorded in Section B of the Statement of Corporate Intent.

Appendix 3 – Consultation

New Zealand Post will consult with its shareholding Ministers on matters not contemplated in the business plan that would have a material effect on the scale, scope, financial return or risk of the activities of the Company or its subsidiaries, including:

- any substantial capital (or equity) investment;
- the sale or disposal of the whole or any substantial part of the Company or its subsidiaries;
- any substantial expansion of activities outside the scope of its business as defined in section B; and
- any other significant transactions.

www.nzpost.co.nz
0800 501 501