Most New Zealanders know us well through connections we have with them every day. Think of your ‘postie’. Re-registering the car. Enrolling to vote. Sending parcels at Christmas. These are the things we’ve been known for and New Zealanders have trusted us with for a long time. However, New Zealand Post today is also involved in many areas beyond the ‘traditional post’. Banking, document management, international consultancy and ticketing to name a few.

In this report we’re taking you closer to the breadth of our business and some of our new capabilities. Our future growth depends on customers understanding these capabilities and wanting to use them. We’re aware that our customers and their lives have evolved. We choose to view change as an opportunity to get closer to our customers, and to adapt to meet their needs – now and into the future.
FOR STARTERS, THIS YEAR we sold more than 750,000 tickets to events such as rugby and the ballet. We brought a fairer deal in banking to 147,000 New Zealanders, and with 285 Kiwibank branches, our network is larger than that of any of the major trading banks. We processed and delivered around a billion items of mail to almost 1.3 million homes and businesses, more than 180,000 rural addresses and 180,000 private boxes. Our retail network handled close to 19 million financial transactions on behalf of more than 60 of the country’s major organisations, collecting $2.75 billion in payments. We enrolled 2.67 million New Zealand voters in time for the general election, and as well as managing the postal businesses in Malta, Trinidad and Tobago and Vanuatu, we continued to sell our services and expertise around the globe.

### Financial performance

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>$976.9m</td>
<td>$958.8m</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>$922.8m</td>
<td>$923.2m</td>
</tr>
<tr>
<td>Operating surplus before income tax</td>
<td>$54.1m</td>
<td>$35.6m</td>
</tr>
<tr>
<td>Net surplus</td>
<td>$27.1m</td>
<td>$21.9m</td>
</tr>
<tr>
<td>Interim dividend</td>
<td>$11.7m</td>
<td>$9.6m</td>
</tr>
<tr>
<td>Interim dividend per share</td>
<td>6.1c</td>
<td>5.0c</td>
</tr>
<tr>
<td>Final dividend</td>
<td>$4.5m</td>
<td>$3.5m</td>
</tr>
<tr>
<td>Final dividend per share</td>
<td>2.3c</td>
<td>1.8c</td>
</tr>
<tr>
<td>Issued and paid-up capital</td>
<td>$192.2m</td>
<td>$192.2m</td>
</tr>
<tr>
<td>Total equity</td>
<td>$320.3m</td>
<td>$303.9m</td>
</tr>
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</table>
Letter from the Chairman

It has been a very successful year for New Zealand Post. The company has recorded a solid financial result and is well placed for further investment. Our letters business remains strongly profitable in the face of determined direct and indirect competition. And our new investment in Kiwibank goes from strength to strength.

New Zealand Post subsidiary, Kiwibank, has grown significantly and, at the end of its first full year of operation, is much stronger than the business case and its most optimistic supporters could have hoped. The enormous public support for Kiwibank shows we have correctly identified, and are meeting, substantial market demand for affordable banking. The future for Kiwibank is for a much stronger than the business case and its most optimistic supporters could have anticipated the bank will significant strategic investment. Our letters business remains strongly profitable in the face of determined direct and indirect competition. And our new investment in Kiwibank goes from strength to strength.

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The New Zealand Post Board agreed at its June meeting to invest an additional $40 million equity into Kiwibank to enable its continued strong growth, while meeting Reserve Bank capital adequacy requirements. The investment will be made in two stages: $22 million by 30 September 2003 and $18 million by 30 September 2004. This additional investment in Kiwibank is made possible by the underlying strength of New Zealand Post. The company is one of the few postal organisations in the world that is being sustained by its core business. It shows the letter continues to have enormous value for our customers as a medium for delivering messages and payments.

New Zealand Post is also one of the few major postal organisations operating in an open deregulated market. Increasing competitive pressures require us to maintain our position as the most efficient, wide reaching network. Under the Deed of Understanding between New Zealand Post and the Government, we also have clearly-defined social obligations based around keeping postal services accessible for all New Zealanders.
As a State Owned Enterprise we have a commercial imperative. That means providing a return on our shareholders’ investment year on year. And we do. This year, we returned a solid net profit after tax of $27.1 million (2002: $21.9 million) and a dividend to our shareholders of $16.2 million (2002: $13.1 million).

We have a clear understanding of our purpose. We are an infrastructure business – providing the physical and electronic networks New Zealanders rely on to send and receive messages, goods and payments. We are extending the breadth and depth of our capabilities, but everything we do is aligned to this purpose.

We set a clear path for ourselves some years ago. Our strategy is twofold. First, we are improving our networks and the capabilities within them. Second, we are building new capabilities and leveraging our current ones to create new revenue streams. In this way, we are growing the business and keeping it strong. In short, our strategy is about productivity and growth.

The outcome we are seeking – now and in the future – is to create value for our customers – and, in doing that, our shareholders. We measure this by Economic Value Added (EVA™). This year we achieved an EVA™ result of $2.7 million. Achieving this result during the start-up phase of Kiwibank illustrates the strength – and I believe, potential – of New Zealand Post. Our EVA™ result is discussed further on page 12.

Sustaining the profitability of our letters business

The domestic and international letters business remains the engine room which powers New Zealand Post. For some years, we have been predicting the decline of letter volumes in the face of direct competition and electronic substitution. It is difficult, however, to forecast the rate at which this will occur. Over the past four years, domestic volumes have declined by about 1% on average. In 2002/2003 domestic volumes decreased by 0.1%. However, volumes would have increased by 0.6% if the comparison excluded 2001/2002 election mail activity.

But overall volumes only tell part of the story. This year, we experienced growth in some areas, most notably in business mail. We are capitalising on the international trend of higher direct marketing mail volumes by drawing on our capabilities across the business to support our customers in creating highly-targeted, successful direct marketing campaigns. One of the aims of our Direct Media Services programme is to increase the use of mail and other direct media in the advertising and marketing industries.

We will continue to pursue opportunities to maintain the current strong performance of our letters business. There are, for example, significant growth opportunities in central and local government. At the same time, we will improve productivity through such means as introducing consistent addressing standards and improving the read capability on our machinery.

We recognise the real drivers of our business are customers, service and people. We need to get these things right as they deliver shareholder value. We know service delivery drives perceptions of our business. While our service delivery performance is world class, it is no longer world leading. We will get the basics right, creating a service culture that lifts our current 95.7% result for on-time delivery of mail towards 100%.

We are concentrating on:
• Sustaining the profitability of our letters business.
• Growing Kiwibank.
• Positioning our retail network for growth and success.
• Improving the performance of our courier businesses.
• Focusing our technology investments.
• Developing relationships globally.

John Allen was appointed Chief Executive of New Zealand Post in May 2003. He has been with New Zealand Post since 1994 and has served on the executive management team for the past eight years.
Growing Kiwibank
Growth and support for Kiwibank have exceeded our expectations. We have achieved almost 90% of our three-year customer acquisition target in just sixteen months. By the end of the year, Kiwibank had 147,000 customers and held mortgage advances and customer deposits totalling around $945 million.

There are a number of reasons for this extraordinary success. First, our focus on personal banking and the opportunity to implement new technologies means Kiwibank enjoys lower cost structures than the major banks. This is enabling us to address the gap in the New Zealand market for affordable banking. Variable loan rates were between 0.60% and 1.00% per annum below the major banks throughout the year. We launched Kiwibank MasterCard with a low 12.9% interest rate significantly undercutting our competitors.

Second, Kiwibank is aligned firmly with the core attributes of the New Zealand Post brand. We are privileged to have earned New Zealanders' trust and respect over 160 years and this is reflected in their support for Kiwibank.

Third, our existing branch network impacts not only on our ability to provide affordable banking services, but also on the accessibility of those services.

The long-term performance of Kiwibank is central to the future of the company. In the next five to ten years, the bank will clearly be a much more significant part of our business. It will contribute not only in terms of profitability, but also in terms of a broader set of financial service offerings and a changed perception in the market about some of our capabilities.

Positioning our retail network for growth and success
No other company has New Zealand Post’s reach into the communities of New Zealand. With more than 1,000 outlets, our retail network is a huge source of competitive advantage for New Zealand Post.

Our retail network has had a successful year and I congratulate our frontline people who have worked so hard to secure the success of Kiwibank. Their contribution has been supported by many parts of New Zealand Post including New Zealand Post Properties, our Security team and, of course, the new Kiwibank business teams as we have moved into the retail banking environment. Our retail network also made a major contribution to the success of our ticketing arm, Red Tickets. In May, Red Tickets sold 26,000 tickets for the Blues vs. Crusaders Super 12 Final at Eden Park in just 80 minutes through three channels – over the counter, by phone, and online.

The bank is, of course, a major vehicle for positioning our Retail business for future growth. We will expand the range of services provided through the network in number and diversity. We will continue to identify opportunities, including the potential to expand our registry services, which currently include such services as motor vehicle re-licensing and managing the country’s electoral rolls.

Improving the performance of our courier businesses
New Zealand Post’s express businesses provide a core capability supporting our ability to reach all New Zealanders and link into international networks. We have significant brands and an extensive customer base. However, we continue to experience problems with underlying service and financial performance. We can, by re-energising and refocusing the business, and better understanding the drivers of its profitability, significantly improve its financial contribution to the company. That is an immediate task and opportunity.

Focusing our technology investments
We need to embrace new technologies and the opportunities they represent to offer enhanced service to our customers, lower our costs and improve collaboration across our company. However, supporting entrepreneurs with new technologies and new ideas is challenging. The volatility of the emerging markets in which they operate and the challenges of growth make this irresistible. Despite this, it is essential we continue our drive for innovation. We need to grow new capabilities to achieve appropriate performance levels and meet the changing needs of our business and our customers. The key is to ensure we can provide the same trusted, reliable and value enhancing services across our electronic networks as we have traditionally provided in our physical networks.

Developing relationships globally
The future for New Zealand depends on our ability to sell our products, services and expertise in international marketplaces. This is no less true for New Zealand Post.

We must continue to benchmark ourselves against the best in the world and open ourselves for new opportunities and developments in world markets. We must be mindful, in a competitive market with low barriers to entry, that customers have choice. We must remain relevant to our customers to be competitive. That means supporting New Zealand businesses – our customers – in their international ambitions and aspirations – in particular, providing service across the Tasman.

Going forward with confidence
Our efforts over previous years have laid very strong foundations on which to build the future success of New Zealand Post. I wish to acknowledge the leadership of Elmar Toime over the past ten years in creating these foundations and feel privileged to be taking this great company forward.

Our strategy is sound and delivering clear results. Going forward we will sharpen our focus in key areas. We will leverage our common brands and infrastructure, collaborating across the business to drive productivity and growth. We will capitalise on the strong ‘value’ position we hold in the market as a low cost company. This underpins all of our activities, whether in banking, technology or traditional core services. We will continue to value and support our people, encouraging their participation and debate about the business and expecting great things of them. We will redouble our efforts to get to know our customers well and reflect their needs in the way in which we operate the business. We recognise our customers have choices. To retain and grow our business relationship with them, we need to offer reliable and price competitive services in both physical and electronic environments. We must retain our position at the heart of New Zealand business and New Zealand communities.

Finally, none of this will be possible without the people of New Zealand Post. We are a large company with many people working together for our customers. The network they create throughout New Zealand is awesome. I thank the people of Post for their spirit of co-operation, for their commitment and the service they provide our customers. I am very much looking forward to working with them to deliver our future.
This diagram shows the many parts of our dynamic and diverse organisation from 1 July 2003.

**Letters**
- Processing
- Delivery

**International**
- Express Couriers
  - CourierPost
  - SkyRoad Express
  - Pace!
- Transport
- Rural Post
- Letterbox Channel
- Contract Logistics
- Couriers Please (100%)
- AirPost (50%)

**Retail**
- Stamps
- Kiwibank
- Agency Services
- Transend

**Datamail**
- CommArts (70%)

**ECN Group**
- The Electronic Commerce Network (100%)
  - Tedis (52.6%)
- MessageMedia (100%)
- Infolink (95.6%)
- silent Dog (57%)
- Synapse (32%)
- The Dawson Group (36%)
- Marketboomer (5%)
- eMedia (2%)

**Other Investments**
- Datacom (30%)
- Outsource Solutions (30%)

**Marketing**

**Sales**
- Customer Service Centres

**Government Business**
- Electoral Enrolment Centre

**Programmes**
- Network & Addressing
- Direct Media Services
- Red Tickets

**Chief Executive’s Office**

**Finance**

**Information & Technology Group**

**Human Resources**

**Communications & Risk Group**

**Post Properties**
All New Zealanders have a stake in New Zealand Post’s financial success: not only through the dividends we return to the Government, but also because our success ensures the ongoing health and stability of infrastructure of major economic and social importance. Our financial strength gives us the means to invest in our future. In doing so, we will continue to be competitive and stay relevant to our customers in an ever-changing market.

New Zealand Post’s after tax profit of $27.1 million for the year was 23.7% ahead of our result last year. This improvement was due largely to cost control, but also to revenue growth and containing capital expenditure. As a result, we will return a total dividend to our shareholders of $16.2 million (2002: $13.1 million). This dividend is based on the formula in our Statement of Corporate Intent (SCI) of 60% of after tax profit.

Earnings before interest and tax of $62.0 million were up $14.3 million on last year. Non-deductible write-offs and investments resulted in a slightly higher effective tax rate than last year.

Operating revenue increased by $18.1 million to $976.9 million, reflecting a strong result from our letters business and new revenue from Kiwibank. Operating expenses were down by $0.4 million to $922.8 million, reflecting a strong cost control focus particularly around our core costs.

A solid platform for investment

Each year New Zealand Post adopts a number of performance targets and measures which are presented to shareholders in our SCI. Collectively, the SCI targets give an indication of the financial performance and position of the company.

This year we achieved most of the SCI performance targets and exceeded all of our financial performance targets.

Trading over the result resulted in a stronger balance sheet, driven by the growth of Kiwibank, with total assets growing from approximately $800 million to almost $1.4 billion. Shareholders’ funds have increased from $303.9 million to $320.3 million.

However, the rapid growth of Kiwibank assets has reduced the ratio of total shareholders’ funds to total assets slightly more than was expected. It also meant that our measure of earnings before interest and tax to total tangible assets was in line with target rather than ahead.

Nevertheless, New Zealand Post has had a very good year and is well positioned to invest further in Kiwibank, in postal systems and in our supporting infrastructure. Standard & Poor’s reaffirmed our AA- credit rating in February, which is important to support the investment required in our business. We can therefore look to the future with confidence and with the flexibility to invest to create further shareholder value.

Operational performance

When looking at our operations as a portfolio of businesses, the year has seen very strong performances and some disappointments. New Zealand Post’s business units are grouped in five main divisions: Letters, Retail, Kiwibank Limited, Transend and Logistics. Increasingly, this is an artificial structure as Post people collaborate across the group to deliver customer solutions.

Highlights

Our core Letters Group performed strongly despite overall letter volumes declining by 0.1%. A changing mix of demand has seen a higher proportion of VolumePost – high volume business mail – largely driven by retail, finance and utility companies. This reflects increased direct marketing activity, which remains a strong component of our customers’ communications and marketing mix.

The growth in VolumePost has been offset by a reduction in full-rate mail, which has been declining steadily over the years. Christmas mail volumes were strong, however, with four days of 5 million plus items in December.

Our International mail business has performed extremely well in a highly competitive trading environment made complex by foreign exchange fluctuations and global settlement systems. While both inbound and outbound mail volumes decreased slightly overall, April saw a record for daily bulk volume out of Australia at 15 tonnes.

Kiwibank has experienced huge growth in little over a year of operation. At year’s end, Kiwibank held mortgage advances totalling around $500 million and customer deposits exceeding $445 million. Higher customer numbers than anticipated led to increased costs to ensure customer service levels were maintained. Kiwibank’s first full year of operation is discussed further on pages 16, 17 and 26.

Transend, New Zealand Post’s international consultancy business, improved its performance after being restructured successfully and significantly reducing its costs last year. Transend’s international contracts are discussed on page 19.

It was a good year in terms of revenue growth and profitability for our Rural Post network and our point-to-point urgent courier business. Pace! Our Australian courier business, Couriers Please, was also ahead of target. These businesses are part of our Express and Logistics Group.
We have continued our commitment to nurturing new electronic businesses as part of our research and development strategy. Our goal is to build new capability in electronic channels to complement our expertise in delivering messages, goods and payments through physical channels.

**Disappointments**

An otherwise successful year for our Express and Logistics Group was marred by ongoing challenges in improving the profitability of our major courier brands, CourierPost and Skyroad Express. Efforts to consolidate these businesses in some areas during the year were unsuccessful and there are significant initiatives underway to address this.

We have continued our commitment to nurturing new electronic businesses as part of our research and development strategy. Our goal is to build new capability in electronic channels to complement our expertise in delivering messages, goods and payments through physical channels.

**Going forward**

Over the next year, we will focus on some key areas of the business.

- The challenge for our core letters business will be to maintain and improve performance in the face of continued direct competition and increasing effects of electronic substitution. Our strategies for improving productivity and stimulating revenue growth in our core business are discussed on pages 26 and 27.
- Kiwibank is the cornerstone of our strategy for diversification and growth. We expect Kiwibank to have a much higher market share than the 5% projected in the original business case, and over the coming year Kiwibank will remain focused on customer acquisition.
- We will continue to focus on positioning our retail network for growth and success both through Kiwibank and by expanding the number and range of services provided through the network.
- We are confident we can unlock the significant potential our Express and Logistics Group has to contribute to the company’s profitability as well as to service performance, customer solutions, productivity and growth.

We will concentrate on improving revenue quality, tightening our operations and improving our use of information for management and customer growth.

Our new venture businesses have been brought together under our electronic services subsidiary, the Electronic Commerce Network (ECN), to form the ECN Group. This change will enable a more direct focus on the performance of the companies, better use of resources, a reduced cost structure and will create a stronger platform going forward. New Zealand Post’s emerging capabilities are discussed further on page 27.

**Five-year trend statement**

Consolidated summary of performance

<table>
<thead>
<tr>
<th></th>
<th>Year ended 30/6/2003</th>
<th>Year ended 30/6/2002</th>
<th>Year ended 30/6/2001</th>
<th>Three months to 30/6/2000</th>
<th>Year ended 31/3/2000</th>
<th>Year ended 31/3/1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenue</strong></td>
<td>976,901</td>
<td>958,813</td>
<td>954,663</td>
<td>219,153</td>
<td>914,937</td>
<td>789,536</td>
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<tr>
<td><strong>Operating expenses</strong></td>
<td>922,759</td>
<td>923,210</td>
<td>915,250</td>
<td>200,366</td>
<td>852,247</td>
<td>736,137</td>
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<tr>
<td><strong>Operating surplus before income tax</strong></td>
<td>54,142</td>
<td>35,603</td>
<td>41,461</td>
<td>(4,477)</td>
<td>49,633</td>
<td>(37,005)</td>
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<tr>
<td><strong>Net surplus</strong></td>
<td>27,075</td>
<td>21,911</td>
<td>21,042</td>
<td>(3,764)</td>
<td>30,188</td>
<td>22,089</td>
</tr>
<tr>
<td><strong>Operating margin before income tax</strong></td>
<td>5.5%</td>
<td>3.7%</td>
<td>4.3%</td>
<td>(2.0%)</td>
<td>5.4%</td>
<td>4.7%</td>
</tr>
<tr>
<td><strong>Earnings per share</strong></td>
<td>14.1c</td>
<td>11.4c</td>
<td>17.5c</td>
<td>(3.10)</td>
<td>25.2c</td>
<td>19.2c</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,391,455</td>
<td>795,580</td>
<td>630,538</td>
<td>525,866</td>
<td>665,538</td>
<td>527,799</td>
</tr>
<tr>
<td><strong>Average shareholders’ equity</strong></td>
<td>312,109</td>
<td>256,238</td>
<td>203,312</td>
<td>199,056</td>
<td>194,753</td>
<td>186,972</td>
</tr>
<tr>
<td><strong>Return on average shareholders’ equity after taxation</strong></td>
<td>8.7%</td>
<td>8.6%</td>
<td>10.3%</td>
<td>(1.9%)</td>
<td>19.5%</td>
<td>12.3%</td>
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<tr>
<td><strong>Net asset backing per share</strong></td>
<td>$1.67</td>
<td>$1.58</td>
<td>$1.71</td>
<td>$1.64</td>
<td>$1.68</td>
<td>$1.57</td>
</tr>
<tr>
<td><strong>Equity percentage</strong></td>
<td>38.2%</td>
<td>38.2%</td>
<td>38.2%</td>
<td>37.5%</td>
<td>36.2%</td>
<td>35.7%</td>
</tr>
<tr>
<td><strong>Average dividend per share</strong></td>
<td>6.1c</td>
<td>5.0c</td>
<td>6.2c</td>
<td>–</td>
<td>5.8c</td>
<td>7.2c</td>
</tr>
<tr>
<td><strong>Final dividend per share</strong></td>
<td>2.3c</td>
<td>1.8c</td>
<td>–</td>
<td>9.3c</td>
<td>4.3c</td>
<td></td>
</tr>
</tbody>
</table>

*This ratio is affected by the growth of Kiwibank.*

**Operating revenue**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
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</tr>
<tr>
<td>2001</td>
<td>340</td>
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<tr>
<td>2002</td>
<td>330</td>
</tr>
<tr>
<td>2003</td>
<td>320</td>
</tr>
<tr>
<td>1999</td>
<td>310</td>
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**Operating expenses**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>300</td>
</tr>
<tr>
<td>2001</td>
<td>290</td>
</tr>
<tr>
<td>2002</td>
<td>280</td>
</tr>
<tr>
<td>2003</td>
<td>270</td>
</tr>
<tr>
<td>1999</td>
<td>260</td>
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</table>

**Net surplus**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>50</td>
</tr>
<tr>
<td>2001</td>
<td>40</td>
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<tr>
<td>2002</td>
<td>30</td>
</tr>
<tr>
<td>2003</td>
<td>20</td>
</tr>
<tr>
<td>1999</td>
<td>10</td>
</tr>
</tbody>
</table>
Last year, we opened 115,000 new accounts for Kiwibank customers. That takes the total number of Kiwibank customers at 30 June 2003 to 147,000. This figure surpasses even our most optimistic estimates. It highlights the support from New Zealanders for what Kiwibank has to offer and the difference it is making to New Zealand communities. And it positions Kiwibank as one of our biggest opportunities for growth.

Our customers tell us they’re attracted to Kiwibank’s New Zealand ownership, much lower fees and very competitive interest rates. After just sixteen months, Kiwibank is now signing as many home loans a month as the major trading banks and is constantly looking for ways to enhance and expand its range of services. And New Zealanders tell us they support it. Independent research conducted over the past 12 months shows that at July 2003, 74% of New Zealanders thought that setting up Kiwibank was a good idea and 47.1% of New Zealanders have a favourable opinion of Kiwibank.

Building a bank is an ambitious and very much strategic decision, which took advantage of the opportunities provided by our large retail network. With its wide reach and low technology costs, Kiwibank is in a perfect position to offer New Zealanders accessible, affordable banking.

The bank is well placed to become a rewarding investment with profits expected to be reported in the 2004/2005 financial year. It’s a winning solution: offering affordable, accessible banking for New Zealanders and a strategic investment for New Zealand Post, which will return profit and value to our shareholders.
HOW WE'RE WINNING CUSTOMERS BY ENSURING THEIR BUSINESS COMES FIRST

How well we serve our customers impacts not only on our ability to win their continued support, but also on our ability to win new business. The challenge for New Zealand Post is to get much closer to our customers, listen to them, understand what they need in their business, work with them to unlock new markets and find new ways for them to operate more effectively.

Feedback from customers, including formal research, tells us service delivery is the biggest driver of people’s perceptions of New Zealand Post. Exceptional performance is vital to the success of our core letters business in the face of increasing direct competition. Our strong brand and community reputation are also fundamental to implementing new product and service offerings successfully. For these reasons, ‘winning customers’ is an important measure of how well we are serving our customers and competing in how we sell.

Serving our customers
Service delivery – the independent measure of mail delivered on time – was 95.7% for the year ending 30 June. While it remains one of the best results for service delivery in the world, it is below last year's figure of 96.1%. The fact is, while our service performance remains world class, it is no longer world leading. We need to raise the bar.

We are putting a huge amount of effort into doing just that. Our focus is on every part of our business. We are listening to our customers and acting on their feedback.

This year we received just over 91,000 calls to our customer service centre. Of these calls, 11.1% were complaints – an increase of 1% over last year. Problems with redirection orders contributed to this increase and we have put business improvement programmes in place to address these.

We are seeking feedback from our customers so we can better understand their needs. Our annual retail customer satisfaction survey confirmed customers continue to think highly of our retail network. This year, the average performance score was 8.7 out of 10, down slightly on last year’s result of 8.9. New Zealand Post has acted as agent for Land Transport Safety Authority (LTSA) transactions since LTSA was formed in 1994. Each year, LTSA undertakes comprehensive audits covering our back office, financial and banking procedures, transaction processing, inventory control, security and overall customer service.

New Zealand Post has performed consistently well, with comments from LTSA this year describing the audit results as “positive and pleasing.”

Competing in our markets
New Zealand Post welcomes competition and provides access to postal operators over and above what is stipulated in the Deed of Understanding. There are now 32 postal operators registered in New Zealand. Strong competition in the letters market and low barriers for competitors to establish themselves mean we will continue to see new players. The courier, banking and electronic business markets we operate in are also very competitive.

We can only operate successfully in a highly competitive environment, and achieve our ambitions for our business and New Zealand, by getting closer to our business customers and developing solutions that support their aspirations. We are doing this in a number of ways. We are reviewing the products and services individual business customers use to make sure they best serve their needs. This year we have targeted specific segments of the small to medium business market encouraging them to use services more effective for them. For example, transferring customers with databases over 1,000 to our bulk mail product.

We are using our traditional strengths to provide new solutions for new and existing customers.

Mercury Energy now sends disconnection notices via telegram delivered by CourierPost. This means Mercury Energy’s need to obtain confirmation of its attempts to notify customers of pending disconnection.

Customers are offered the opportunity to pay outstanding bills over the counter at PostShops. There are also financial companies that use telegrams successfully as a debt collection tool.

In another example, Rural Post has been working with The New Zealand Herald over the last two years to convert delivery from independent owner-drivers to our network. The result is a drop in delivery errors and complaints. In addition, The New Zealand Herald has greater control over its distribution process with better customer information, and one communication point – Rural Post – rather than communicating with each contractor individually. Over the year, Rural Post will concentrate on helping the company increase its rural subscriber base.

Our Stamps business had another successful year, maximising opportunities through its strength and experience in the collectables market by combining some stamp and coin issues. New Zealand Post has been handling the design, procurement, marketing and fulfilment of collectable coins on behalf of the Reserve Bank of New Zealand since early 2002. Coins were minted this year to supplement stamp issues to mark the America’s Cup and we commissioned the British Royal Mint to produce commemorative coins for The Lord of The Rings film trilogy. This year’s stamp programme included issues ranging from Military Uniforms and the Conquest of Everest to Holiday Holdings.

Increasingly, we are drawing on the broad range of capabilities across our business to develop solutions for our business customers. For example, we have been working with major banks to reduce credit card fraud-related costs through the use of a mix of mail delivery channels.

Ezbuy, a major direct mail customer, dispatches orders via CourierPost. We have developed this system further by offering a returns service through our retail network, adding value for their customers.

Our Agency business continues to deliver benefits for business customers, including reducing collection costs, improving cash flow, simplifying processes and reducing call centre enquiries and associated costs. More than 60 different payments can now be made over the counter through the retail network, with five new merchants joining during the year and two existing billers expanding the range of New Zealand Post services that they use.

Datarmail subsidiary, ConArts, won a major contract for the management, supply, storage and delivery of all printed material for TOWER’s Managed Funds, Health & Life and General Insurance businesses against strong competition. This was particularly pleasing as it was the direct result of significant work to extend ConArts’ ability to offer more comprehensive customer solutions.

Transend continues to draw on expertise across the group to win and fulfill postal consultancy contracts worldwide. Transend signed contracts with three Pacific Island nations during the year. One of these sees Transend and Datarmail working together to establish a mailhouse operation for Post Fiji. In addition, Transend continued managing the postal services in Malta, Trinidad and Tobago and Vanuatu as well as undertaking consultancy work for Iran Post and Jordan Post. Transend also signed a contract worth $1.5 million to supply 650 postal delivery sorting systems to Hongkong Post.

Going forward
We will redouble our efforts to deliver on our service promises every time. We will lift our marketing, sales, business development and relationship management capability across the business. We will have a better understanding of the markets in which we operate and improve our competitiveness.

We will improve our responsiveness to our customers by continuing to listen to their needs and develop our services to meet those needs. And we will develop better ways to measure how well we achieve against those things that matter most to our customers.
New Zealand Post, Printlink and the New Zealand Qualifications Authority (NZQA) worked together to provide a comprehensive solution to support the examination process. We were able to draw on our existing document processing capability and network reach as well as our experience in areas like project management, manual document sorting and leading-edge information technology.

CourierPost played a key role, delivering the papers to each school three weeks prior to exams and collecting twice daily during the exam period. Our mail centres sorted the exam papers by individual markers, with each marker receiving around 1,800 papers. Once marked, the papers were picked up from agreed points, sorted at the mail centre and returned to students. We also set up a freephone number for the public, which linked directly to the NZQA Hub Managers at mail centres who handled 95% of the calls.

When 90,000 secondary school students opened their exam results last year, New Zealand Post was right behind them.

With almost 90,000 students, 1.1 million exam booklets, 1,200 markers and 400 examination centres, the 2002 NCEA and Bursary examinations were the kind of logistical challenge our Business Solutions team loves.
New Zealand Post not only sponsored the New Zealand Post Tutus on Tour season, but our ticketing business, Red Tickets, sold tickets for around half the venues. Team members visited and worked with local promoters in the small towns and cities that hosted performances. In addition, we released a special stamp commemorating The Royal New Zealand Ballet’s 50 years.

Encouraging literate communities is a key theme of our sponsorship programme. This year, we sponsored the New Zealand Post Children’s Book Festival and Awards for the seventh year and donated over 1,700 winning books to children from low decile schools as part of the Books in Homes programme.

We also worked with teachers to create a resource kit for primary schools designed to develop children’s letter writing skills and give them an understanding of the New Zealand postal system. Respecting our environment Our commitment to New Zealand includes reducing the impact New Zealand Post has on the environment. Our largest area of environmental impact is CO₂ emissions from our transport network. Our network uses over 1,500 vehicles to transport and deliver more than one billion mail and courier items annually. We continue to measure our carbon footprint and now have good data on our direct use of fuel from our transport network, plus our indirect use of fuel used in personal business air travel within New Zealand.

In future, we will benchmark ourselves against similar companies. To do this, we will need to convert the data from absolute emissions to rate based emissions, for example, CO₂ per item mailed.

New Zealand Post has focused on the efficient management of energy consumption for some time, making additional opportunities for reductions in usage during this winter’s power crisis particularly challenging. Nevertheless, New Zealand Post people achieved savings of approximately 10% across our major sites.

Energy efficiency initiatives included a lighting upgrade at Te Puni Mail Centre in Wellington that saves enough power to pay for itself within three years. The project was a finalist in the 2003 EnergyWise Awards.

Cost effective and energy efficient equipment was installed during the year at all new and building upgrade projects. The company will continue to focus on the efficient use of energy, with further initiatives currently being planned.

Waste management is another area of focus. Our Christchurch Mail Service Centre is participating in a pilot programme to implement cleaner production, based on the Christchurch City Council’s Target Zero programme. Cleaner production is about increasing the efficiency of energy use and preventing pollution. It looks to the source of waste and inefficiencies, not simply at disposal.

Meeting our responsibilities to our people New Zealand Post is very much a people business. We are one of the country’s largest employers with 9,587 employees both in New Zealand Post and its subsidiaries (2002: 9,468). We recognise our long-term success depends on the capability and commitment of our people.

New Zealand Post’s success is about working together towards common goals, which requires consultation and structures that encourage ideas and initiative from all areas of the business.

Our Annual People on Post (POP) survey set as its target this year responses in the top two categories of employee satisfaction – to a ‘great’ or ‘very great’ extent. Our result was 47% against a target of 50% which maintains the level of last year. Overall, 86% of responses indicated people were satisfied to at least ‘some’ extent. The POP process provides one means for our people to talk through issues that affect them and make suggestions for improvements.

Consultation National Consultative Committees established this year have improved dialogue and the flow of ideas between senior managers and workplace representatives. The committees are important part of the Working Better Together package negotiated between New Zealand Post and the Engineering, Printing and Manufacturing Union (EMPU) as part of last year’s collective employment agreement. One of the committees’ first projects has been to develop proposals for business unit incentive plans for our waged employees.

The plans link incentive payments to improvements in business performance. They will replace the existing company-wide employee incentive plan, with the advantage of including performance measures and targets employees can influence in their day-to-day work.

Training and development Our commitment to training and development continues with a number of new initiatives launched during the year, including a leadership development programme for posties, a national training programme for delivery and processing staff and a change management programme aimed at supporting people across the business with changes happening in their area. Two new courses were added to a training and development suite available to New Zealand Post people, which 651 people undertook this year.

Health and safety Providing a healthy and safe working environment is fundamental. We make significant effort we put into health and safety is paramount to achieving our ultimate goal of zero harm.

This year, we put considerable focus into developing a solid foundation on which to build our safety culture. This effort is reflected in our retaining the ACC Tertiary rating at the highest level. The total number of injuries has decreased by 5.3%. At the same time, lost time injury days are up 14.4%, indicating an increase in the severity of injuries. Lost time injury days have decreased by 47.8% over the past six years and this year’s experience is concerning.

With its large workforce of permanent employees and contractors, one of New Zealand Post’s greatest challenges in introducing health and safety initiatives is one of scale and logistics. Implementing change in hundreds of separate work-sites around the country where people are doing a range of jobs is a complex task.

Some of the initiatives introduced this year included re-developing our health and safety systems beyond compliance, extensive refresher training in the Health and Safety in Employment Act, hazard management, accident investigation and ‘healthy people, healthy business’ workshops.

In addition, we have been looking at the overall health risk of our people with 1,000 volunteers participating in the Southern Cross Discovery and Guidance health screening pilot programme to find links between work injuries, physical health and resulting absenteeism.

Going forward New Zealand Post will remain committed to our communities and our people. We will continue to meet our social obligations and value our people by being a good employer.

Over the coming year we will introduce new competency tools for our managers and specialists as well as providing more development support for our frontline leaders and more training opportunities for frontline employees. In addition, we will be overhauling our recruitment process to ensure better service for our managers and job candidates.

We will continue to build our health and safety culture, focusing on people, behaviour and perceptions through one of our more significant programmes in that area, “Hearts and Minds”. This will help us make healthy and safe practices part of the consciousness of our people, supported by the solid systems we have in place across the business.
New Zealand Post’s commitment to improve services to communities saw us open two new PostShops and Kiwibank branches in February. As at 30 June 2003 there are now 315 PostShops and Books & More stores throughout New Zealand and 285 Kiwibank branches.

This year, two more communities have a PostShop to call their own – and a bank.

Residents of Far North town Mangonui and fast-growing Manukau community Flat Bush now have access to a full range of postal and personal banking services, over the counter bill payments, renewal of vehicle licences, ticket purchases, and other services. In Flat Bush, residents are also able to make their Manukau City Council land and water rate payments and license their dogs.

The problem for the residents of Mangonui was geographical isolation. With only limited postal services available at the local Mangonui grocery store, residents previously had to travel 40 kilometres to Kaitaia to access banking and bill payment services.

The new PostShop in Flat Bush recognises a gap in the existing retail network, and also the rapid expansion of that community. The population of Manukau City is expected to grow by 40,000 over the next few years in the vicinity of Flat Bush.

Establishing Kiwibank has enabled New Zealand Post to contemplate restoring banking services to communities which had lost – or never had – them. The new Mangonui and Flat Bush PostShops are the first in a series of new outlets that New Zealand Post intends to open in underserviced local communities. Sound business cases underlie these initiatives. Currently, there are 34 suburbs and towns around the country in which Kiwibank provides the only bank branch. New Zealand Post’s reach and commitment is taking banking back to the community. In addition, 220 Kiwibank branches are open on Saturdays and 29 on Sundays.
Delivering our future success and growth encompasses two distinct but related strategies. First, improving our efficiency and effectiveness to keep our core business strong. Second, and effectiveness to keep our distinct but related strategies.

Direct Media Services
Our Direct Media Services programme is a major initiative designed to increase the use of direct media, including mail, in the advertising and marketing industries. It supports the international trend towards increased use of mail and other direct media channels as our customers seek to communicate with their customers in a more effective way and optimise their advertising spend. The programme concentrates on developing ways for customers to use mail, and other direct media, in large volumes for communications purposes. It draws on our wider capabilities, including courier services, unaddressed mail and electronic messaging as customer communication solutions.

New Ventures
In recent years, New Zealand Post has chosen to explore new technologies as a means of lowering costs, improving customer ease of access and introducing new products and services. To this end, we have invested in a range of new venture e-businesses as part of our research and development strategy. These businesses are important to the future of New Zealand Post. They give us significant technology capability to build our electronic network and to complement our physical networks. This will enable us to keep extending the range of services we offer to the public and allow us access to innovative people and new technologies and services that we can and are offering to our customers.

In November last year, we increased our shareholding in The Electronic Commerce Network Limited (ECN) from 60% to 100%. ECN is New Zealand’s leading electronic business-to-business service provider. In May, we increased our shareholding in Online Workflow Management specialist, Infotrik Group, from 60% to 96%. We also added to our range of direct marketing services by taking a 30% shareholding in the Synapse Group. Synapse is a Wellington-based systems and software development company specialising in mobile Internet and wireless technology.

Customer surveys by Kiwibank and conducted independently have shown that Kiwibank is the bank of choice by customers considering switching their accounts. Kiwibank is also achieving high levels of customer service and growing support across the country for the establishment of the bank.

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Delivering our future success and growth encompasses two distinct but related strategies. First, improving our efficiency and effectiveness to keep our core business strong. Second, growing the business by generating more revenue through new and existing capabilities.

New Zealand Post's strength lies in our ability to provide integrated messaging, distribution and payment solutions to customers. Our strategies for the future capitalise on this strength. We are using new ideas and technologies now to protect and grow shareholder value in years to come.
A Datamail solution helps BNZ Credit Cards get closer to their customers.

With 45 million documents in its archives, it was challenging for the Bank of New Zealand (BNZ) Credit Cards’ Customer Service Team to pull out a single record when responding to a customer inquiry. New Zealand Post subsidiary Datamail provided a solution by bringing customer statements online. The result: access to any one of 45 million customer statements in under two seconds.

Datamail’s solution uses a system engineered to create both paper and electronic images of bank statements. Instant access to statements has meant fewer delays and reduced the need to call customers back. And BNZ Credit Cards has made considerable savings on storage with Datamail managing the facility on their behalf.

With the new system, BNZ Credit Cards has the flexibility to personalise and add messages to credit card statements, and to deliver them by fax and email as well as mail. BNZ Credit Cards can now format statements for all its credit card products and easily accommodate changes to statement layouts – and its intelligent billing system interfaces seamlessly with its archives.

And, reinforcing the strong link between BNZ and New Zealand Post, customers can pay their BNZ Credit Card accounts using our Internet bill payment service eBill.
Reporting to shareholders

New Zealand Post is a State Owned Enterprise with the shares held by two ministers on behalf of the Crown – the Minister for State Owned Enterprises and the Minister of Finance. The company is required to provide its shareholders with an annual business plan and a quarterly report on performance against the objectives set out in the plan. A Statement of Corporate Intent (SCI), unaudited half-year accounts and audited year-end accounts are tabled in Parliament annually. This year, the Commerce Select Committee reviewed the performance of the company and tabled its report in Parliament.

The Board of Directors

The Board comprised eight non-executive directors as at 30 June 2003. In addition to regular meetings, the Board holds a strategic advance involving senior management. Ad hoc meetings are also held as necessary to deal with specific issues. The Board’s responsibilities include:

• providing proper direction for and control of the company’s activities;
• approving the annual business plan and long-term strategic direction of the company;
• reviewing operational and performance reports, and examining variances from budgets and forecasts; and
• approving proposals for capital and operating expenditure that is outside formally delegated authorities.

Board committees

The Finance and Risk Committee comprises five directors. Its responsibilities include:

• assisting the Board to meet its accounting and reporting responsibilities under the Companies Act 1993 and related legislation;
• overseeing and reviewing the quality of internal and external audits; and
• approving and monitoring policies and programmes to identify areas of significant business risk and procedures to effectively manage those risks.

The Compensation Committee comprises four directors. Responsibilities of the Committee include:

• approving management compensation based on a review of the company’s performance, funds and desired position in the market; and
• overseeing the development of the performance management framework.

The Investment Committee comprises three directors. Responsibilities of the Committee include advising the Board in relation to the governance, performance and strategy of the company’s investment activity.

The Communications Committee comprises four directors. It is responsible for providing guidance in relation to communications and stakeholder issues affecting the company.

The Board establishes ad hoc committees, as required, to deal with specific issues. In the year in review an Appointments Committee was established to oversee the process for the appointment of a new chief executive.

Best practice

The Board is committed to ensuring New Zealand Post’s corporate governance policies, practices and processes accord with recognised best practice.
DISCLOSURES
No specific disclosures were given pursuant to section 140 (1) of the Companies Act 1993. As at 30 June 2003, the following general disclosures have been made by the directors of New Zealand Post and Kiwibank pursuant to section 140 (2) of the Companies Act 1993.

NEW ZEALAND POST BOARD

Rt Hon James Brendan Bolger
(Chairman) (Te Kuiti) ONZ, D.Lit
• Chairman, Gas Industry Steering Group
• Director, New Zealand Trade Liberalisation Network Incorporated
Sydney Joseph Bradley
(Deputy Chairman) (Christchurch) MBE, FNZIM, F INST of D
• Chairman, District Health Boards (NZ)
• Chairman, Waipara Hill Wine Estate Limited
• Director, Lincoln Holdings Limited
• Director, McLean’s Institute Trust
• Trustee, Canterbury Medical Research Trust
• Chairman, Canterbury Regional Opera Trust
• Trustee, Scots College Foundation

Diana Crossan
(Wellington) BA, Dip App Soc St
• Retirement Commissioner, Retirement Commission
• Member, Victoria University of Wellington Council
Michael Thomas Daly
(Auckland), JP
• Chairman, Positively Wellington Business
• Executive Committee Member, New Zealand Trade Liberalisation Network Incorporated
• Director, Air New Zealand Trade and Enterprise
• Chairman, Air New Zealand Limited
• Trustee, Asia 2000
• Councillor, Porirua City Council
Gregory Benjamin Fortuin
(Wellington)
• Trustee, Crown Forest Rental Trust
• Director, Accident Compensation Corporation
• Member, Board of Industry New Zealand
• Chairman, Youth Suicide Awareness Trust
• Honorary Consul of the Republic of South Africa, South African High Commission
• Director, National Mutual Corporate Superannuation Services Limited
Ngatata Love
(from 1 December 2002)
(Wellington) BCom, BCA (Hons), PhD, QSO and JP
• Director, Capital Hill Limited
• Director, 217 Taranki Limited
• Director, Village at the Park Retirement Village Limited
• Director, MidCanterbury Palace North Retirement Village Limited
• Chairman, Palmerston North Maori Reserve
• Chairman, Wellington Tenants’ Trust
James Harold Ogden
(Wellington) BCA (Hons), CA, CMA
• Council Member, Victoria University of Wellington
• Director, Powerson Limited
• Director, Australasian Hotel Holdings Limited
• Director, Ogden Consulting Limited
• Director, AgQuility Limited
• Member, Wellington City Council Monitoring Sub-Committee
• Director, Upstart Capital Limited
• Trustee, Victoria University of Wellington Foundation
• Trustee, Scots College Foundation
Linda May Robertson
(to 30 November 2002)
(Wellington) BCom, Dip Bank, CTP, FAIBF
• Treasurer, Contact Energy Limited
• Trustee, New Zealand Post Pension Plan Investments Pty Limited

NEW ZEALAND POST BOARD OF DIRECTORS

From left to right: Ngatata Love, James Ogden, Gregory Fortuin, Mike Daly, Diana Crossan, Ken Douglas, Jim Bolger, Syd Bradley.

KIWIBANK BOARD

Rt Hon James Brendan Bolger
(Chairman)
Ian Robert Fitzgerald
(Deputy Chairman) (Wellington) BA, MA (Hons)
• Director, Burleigh Evatt Limited
• Director, Burleigh Evatt Holdings Limited
• Director, Data Torque Limited
• Director, Wellington Archdiocesan Development Fund
• Trustee, Partnership-Wellington Trust
John Richard Allen
(Worn 1 June 2003)
(Wellington) LLB
• Chairman, Westlake Consulting Limited
• Director, Homesick-Kiwi Limited
• Director, Technology Strategy Advisory Group
• Chairperson, Quotable Value New Zealand
• Chairman, Canterbury Regional Opera Trust
• Trustee, Canterbury Medical Research Trust
• Trustee, McLean’s Institute Trust

Adrienne Pearl Cleland
(Palmerston North) MA
• Registrar, Massey University
James Harold Ogden
Linda May Robertson
(to 30 November 2002)
Sydney Joseph Bradley
Richard Gordon Alexander Westlake
(Christchurch) MA
• Director, Westlake Consulting Limited
• Director, Honesick-Kiwi Limited
• Director, Technology Strategy Advisory Group
• Chairman, Quotable Value New Zealand
• Chairman, Holtman Group
• New Zealand Limited
• Chairman, Canterbury Regional Opera Trust
• Trustee, Canterbury Medical Research Trust
• Trustee, McLean’s Institute Trust

Elmar Toime
(to 28 February 2003)
(Wellingh BSc (Hons), BZ, FNZIM
• Director, NRMA Insurance (NZ) Limited
• Director, Datacom Limited
• Director, Sky City Entertainment Group Limited
• Director, Datacom Australia Limited
• Member, New Zealand State Sector Standards Board

From left to right: Jim Bolger, Syd Bradley, John Allen, James Ogden, Adrienne Cleland, Richard Westlake, Ian Fitzgerald.
### Statements of Financial Performance

**New Zealand Post Limited and Subsidiaries**

For the year ended 30 June 2003

<table>
<thead>
<tr>
<th>Note</th>
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<th>GROUP 2002</th>
<th>PARENT 2003</th>
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<td>73,359</td>
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<td>(26,974)</td>
<td>(14,732)</td>
<td>(23,841)</td>
<td>(23,999)</td>
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<tr>
<td>5</td>
<td>27,168</td>
<td>20,871</td>
<td>49,518</td>
<td>55,858</td>
</tr>
</tbody>
</table>

The Statement of Accounting Policies on pages 39 to 43 and the notes on pages 44 to 63 form an integral part of, and are to be read in conjunction with, these financial statements.
### Statements of Movements in Equity

**New Zealand Post Limited and Subsidiaries**  
**For the Year Ended 30 June 2003**

<table>
<thead>
<tr>
<th>Note</th>
<th>Group</th>
<th>Parent</th>
</tr>
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<tbody>
<tr>
<td></td>
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<td>2002</td>
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<tr>
<td></td>
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</tbody>
</table>

**Equity at the beginning of the year**  
303,947  
208,529  
330,570  
201,139  

**Net surplus (loss) attributable to parent shareholders**  
27,075  
21,911  
49,518  
55,858  

**Net surplus (deficit) attributable to minority interest**  
93  
(1,040)  
–  
–  

**Asset revaluation reserves movement**  
4,655  
11,091  
4,655  
11,091  

**Foreign currency translation reserve movement**  
(584)  
(5)  
99  
(99)  

**Amalgamation (loss)/gain**  
–  
–  
496  
(12)  

**Total recognised revenues and expenses**  
31,239  
31,957  
54,768  
66,838  

**Contributions from owners**  
–  
72,200  
–  
72,200  

**Movements in equity for the year**  
16,323  
95,418  
39,458  
129,431  

**Equity at the end of the year**  
320,270  
303,947  
370,028  
330,570  

The Statement of Accounting Policies on pages 39 to 43 and the notes on pages 44 to 63 form an integral part of, and are to be read in conjunction with these financial statements.

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### Statements of Financial Position

**New Zealand Post Limited and Subsidiaries**  
**As at 30 June 2003**

<table>
<thead>
<tr>
<th>Note</th>
<th>Group</th>
<th>Parent</th>
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<tbody>
<tr>
<td></td>
<td>2003</td>
<td>2002</td>
</tr>
<tr>
<td></td>
<td>$’000</td>
<td>$’000</td>
</tr>
</tbody>
</table>

**Equity**  
4  
3,202,700  
3,032,947  
370,028  
330,570  

**Current liabilities**  
5  
250,848  
225,254  
216,495  
193,197  

**Kiwibank banking liabilities**  
6  
699,755  
106,422  
–  
–  

**Non-current liabilities**  

**Personnel liabilities**  
5,929  
5,770  
5,779  
5,660  

**Term liabilities**  
7  
114,653  
154,187  
114,653  
154,187  

**Total equity and liabilities**  
1,391,455  
795,580  
706,955  
683,614  

**Current assets**  
8  
246,985  
218,700  
186,931  
176,360  

**Kiwibank banking assets**  
9  
744,649  
162,937  
–  
–  

**Non-current assets**  

**Deferred tax asset**  
3  
18,590  
22,036  
17,039  
19,542  

**Investment properties**  
10  
8,327  
8,206  
8,327  
8,206  

**Property, plant and equipment**  
11  
304,821  
302,806  
278,349  
276,367  

**Subsidiary and associate companies**  
13  
22,878  
25,358  
214,263  
203,139  

**Intangible assets**  
14  
45,205  
55,537  
1,466  

**Total assets**  
1,391,455  
795,580  
706,955  
683,614  

The Board of Directors of New Zealand Post Limited authorised these financial statements for issue on 27 August 2003.
The Statement of Accounting Policies on pages 39 to 43 and the notes on pages 44 to 63 form an integral part of, and are to be read in conjunction with these financial statements.

**STATEMENTS OF CASH FLOWS**

**NEW ZEALAND POST LIMITED AND SUBSIDIARIES**

FOR THE YEAR ENDED 30 JUNE 2003

<table>
<thead>
<tr>
<th>GROUP</th>
<th>PARENT</th>
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<tbody>
<tr>
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<td>2003</td>
</tr>
<tr>
<td>Note</td>
<td>$'000</td>
</tr>
</tbody>
</table>

**OPERATING ACTIVITIES**

Cash was provided from:

- Receipts from customers: 964,193
- Interest received: 32,092
- Dividends received: 5,237

Cash was applied to:

- Payments to suppliers and employees: (842,095)
- Subvention payment: –
- Net payments to agencies: (20,209)
- Interest paid: (28,086)
- Income tax paid: (15,315)
- Net GST received/(paid): 1,198

Cash at the beginning of the period: 79,395
Cash at the end of the period: 80,808

Change in cash and cash equivalents: 1,001,522

**INVESTING ACTIVITIES**

Cash was provided from:

- Proceeds from the sale of property, plant and equipment: 9,964
- Proceeds from the sale of investments: –

Cash was applied to:

- Purchases of property, plant and equipment: (42,040)
- Investments in subsidiaries: 12
- Investments in associates and other companies: (2,192)
- Investments in subsidiaries: (3,440)
- Net cash outflows from investing activities: (617,943)

Net cash inflows from operating activities: 138,732
Net cash outflows from investing activities: 97,015
Net cash inflows from operating activities: 97,672
Net cash outflows from investing activities: 96,930
Net cash inflows from operating activities: 79,139

**FINANCING ACTIVITIES**

Cash was provided from:

- Increase in equity: 9,964
- Increase in current and deposit accounts: 591,076
- Dividends paid to shareholders: (15,310)
- Net cash inflows from financing activities: 555,766

Cash was applied to:

- Decrease in term borrowings: (20,000)
- Dividends paid to shareholders: (15,310)
- Net cash outflows from financing activities: 555,766

Net cash inflows in cash held: 34,838
Net cash from amalgamation: 12
Cash at the beginning of the period: 79,395
Cash at the end of the period: 114,233

**COMPOSITION OF CASH**

Cash and bank balances: 35,979
Short-term deposits: 78,254

**STATEMENT OF ACCOUNTING POLICIES**

**NEW ZEALAND POST LIMITED AND SUBSIDIARIES**

FOR THE YEAR ENDED 30 JUNE 2003

**Reporting entity**

New Zealand Post Limited is a company registered under the Companies Act 1993.

The financial statements for the ‘Parent’ are for New Zealand Post Limited as a separate legal entity.

The consolidated financial statements for the ‘Group’ comprises New Zealand Post Limited, its subsidiaries including Kiwibank Limited, a Registered Bank (referred to as “Kiwibank”), and associates.

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.

**Measurement base**

The general accounting policies recognised as appropriate for the measurement and reporting of results, cash flows and the financial position under the historical cost method, as modified by the revaluation of certain assets as identified in the specific accounting policies below, have been followed in the preparation of these financial statements.

**Group specific accounting policies**

The following accounting policies, which materially affect the measurement of financial performance, financial position and cash flows have been consistently applied, unless otherwise disclosed:

- Subsidiaries are entities that are controlled, either directly or indirectly, by the Parent.
- Associates are entities in which the Parent, either directly or indirectly, has a significant but not controlling interest.
- All material transactions between subsidiaries or between the Parent and its subsidiaries are eliminated on consolidation.
- The results of subsidiaries or associates acquired or disposed of during the year are included in the consolidated statement of financial performance from the date of acquisition or up to the date of disposal.
- Revenue recognition: Revenue shown in the statement of financial performance comprises the amounts received and receivable by the Group for services supplied to customers.
- 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.
- Consulting contracts: Furnitures on long-term consulting contracts are recognised when they can be estimated reliably based on contract activity and in accordance with the contracts. Recognition of a surplus in any given period is made in accordance with contract activity after allowing for any estimated contractual liabilities attributable to the contract. The full amount of an anticipated loss, including that relating to future work on the contract, is recognised as it is foreseeable.
- Research and development: Research expenditure is recognised in the statement of financial performance in the period that it is incurred. Development costs are deferred where future benefits are expected to exceed those costs, otherwise such costs are recognised in the statement of financial performance in the period that they are incurred.
- Deferred development costs are amortised over future periods (not exceeding three years) in relation to expected future product 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 currencies: Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. Short-term transactions covered by forward currency forward exchange contracts are measured and reported at the forward rates specified in those contracts.
- At balance date foreign monetary assets and liabilities are translated at the closing rate, and exchange variations arising from these translations are recognised in the statement of financial performance.
- The assets and liabilities of independent foreign operations are translated at the closing rate. Revenue and expense items are translated at the spot rate at the transaction date or at a rate approximating that rate. Exchange differences arising from the translation of independent foreign operations 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.
- **Financial instruments**: Members of the Group are party to financial instruments with off-balance sheet risk to meet financing needs and to reduce exposure to fluctuations in foreign currency exchange rates. These financial instruments include swaps, options, forward rate agreements and foreign currency forward exchange contracts.
- **Derivative financial instruments held or issued for trading purposes**: Trading derivatives includes swaps, forwards, futures, options and other contingent or exchange traded contracts in the interest rate and foreign exchange markets.
- Foreign exchange and interest rate forwards, futures, options and other forward purchases and sales of securities entered into for trading purposes are valued at prevailing market rates. Interest rate and currency swap agreements entered into for trading purposes are valued at their net present value after allowing for future costs and risk exposure. Both realised and unrealised gains and losses on such contracts are included in the statement of financial performance.
- **Derivative financial instruments held or issued for purposes other than trading**: The principal objective of using derivative financial instruments for purposes other than trading is to reduce exposure to fluctuations in foreign currency exchange rates and maximise the level of net interest income, while maintaining acceptable levels of interest rate and liquidity risk, and to facilitate the funding needs of the Group. To achieve this objective, a combination of derivatives including swaps, futures, forwards, options and other contingent or exchange traded contracts in the interest rate and foreign exchange markets may be used.
- Hedging derivatives must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Accordingly, changes in the fair value of the hedging derivative must be closely correlated with changes in the fair value of the underlying exposure at inception of the hedge and over the term of the hedged exposure. Hedging derivatives are accounted for in a manner consistent with the accounting treatment of hedged items, either mark to market or accrual as appropriate.
The net income or expense on derivatives used to manage interest rate exposures is recorded in net interest revenue income on an accruals basis as an
adjustment to the yield of the related interest rate exposures over the periods covered by the interest rate contracts. If a derivative that is used to manage an interest rate exposure
is terminated early, any resulting gain or loss is deferred within other assets or other liabilities and amortised to net income or revenue over the
remaining period originally covered by the terminated contract. If the underlying interest rate exposure position ceases to exist, any deferred gain or loss is
recognised immediately in other operating income.

Gains or losses on derivatives used to hedge exposures arising from anticipated future transactions are deferred within other assets or other liabilities until such
time as the accounting impact of the anticipated transaction is recognised in these financial statements. Such gains or losses only qualify for deferred
where there is a high probability of the future transaction materialising. If it becomes apparent that the future transaction will not materialise, any deferred gain or loss is
recognised immediately in other operating income.

Interest receivables and payables for interest rate swaps with the same counterparty are reported on a net basis as are other assets or other liabilities where a
legal right of set-off exists.

Margin deposits for exchange traded derivatives are reported as other assets.

**Goods and Services Tax (GST):**
The statement of financial performance and the statement 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.

**Taxation:**
The income tax expense charged to the statement of financial performance includes both the current year’s provision and the income tax effect of timing
differences, calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences
or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

**Property, plant and equipment:**

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

*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.*

*The cost of software assets includes the cost of all materials used in construction, direct labour on the project, and financing costs that are directly attributable
to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use.)*

*Land and buildings are stated at a value as determined annually by an independent valuer, based on the property’s highest and best use. Any revaluation
surplus arising on the revaluation of land and buildings is transferred directly to the asset revaluation reserves. A revaluation deficit in excess of the asset’s
written down to the recoverable amount. The impairment loss is recognised in the statement of financial performance.*

*Where a permanent impairment in the value of property, plant and equipment causes the recoverable amount to fall below the net carrying value, the asset is
written down to the recoverable amount.*

**Depreciation of property, plant and equipment:**

*Depreciation is provided on a straight line basis at rates that will write down the cost or valuation of the assets to their estimated residual values over their
estimated useful lives.*

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

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>25-50 years</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>8-10 years</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>5-10 years</td>
</tr>
<tr>
<td>Computers, office equipment</td>
<td>2-5 years</td>
</tr>
<tr>
<td>Furniture and fittings</td>
<td>10 years</td>
</tr>
<tr>
<td>Software</td>
<td>3.5 years</td>
</tr>
</tbody>
</table>

Properties intended for sale:

*Properties intended for sale are recognised at the lower of net book value transferred from property, plant and equipment and net realisable value.*

Trade debtors:

*Trade debtors are stated at estimated realisable value after providing against debts where collection is doubtful.*

**Investments:**

*Investments in subsidiaries are stated at the lower of cost or directors’ estimate of recoverable value in the statement of financial position of the Parent.*

*Investments in associate companies are recognised at the lower cost of directors’ and estimates of recoverable value.*

*Dividend income is accounted for when received or when a dividend has been declared by a subsidiary company. Interest and rental income is accounted for
as earned.*

Investment properties are stated at valuation as determined by an independent valuer annually. The basis of revaluation is market value less the estimated
costs of disposal, based on each property’s highest and best use. Any surplus or decrease in revaluation is transferred directly to the statement of financial
performance. Valuations reported for the year are as at 30 June 2003.

Investments held for disposal are stated at net realisable value.

**Inventories:**

*Inventories are shown at the lower of cost and net realizable value. Cost is determined on a weighted average basis.*

**Leased assets:**

*Finance leases:
- Assets under finance leases are recognised as non-current assets in the statement of financial position. Leased assets are recognised initially at the lower of the
present value of the minimum lease payments or their fair value. A corresponding liability is established and each lease payment allocated between the
liability and interest expense. Leased assets are depreciated on the same basis as equivalent property, plant and equipment.*

*Operating leases:
- Operating lease payments represent the pattern of benefits derived from the leased assets and accordingly are charged to the statement of financial
performance in the periods in which they are incurred.*

**Goodwill:**

*Fair values are assigned to the assets and liabilities of subsidiaries and associates at the date they are acquired. The difference between the fair values and
the consideration paid for the acquisition is recorded as goodwill. Goodwill is stated at cost and amortised to the statement of financial performance on a linear
basis over the period during which benefits are expected to be derived. The period of amortisation ranges from 3 to 10 years.*

**Impairment:**

*Annually, the directors assess the carrying value of each asset. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is
written down. The impairment loss is recognised in the statement of financial performance.*

**Borrowings:**

*Borrowings include all obligations of the New Zealand Post Group.*

*Debt is stated at face value less any unamortised discounts, premiums and prepayment interest which are amortised to interest expense or income on
a yield to maturity basis over the period of the borrowing. Borrowing costs such as origination, commitment and transaction fees are deferred and amortised to
the statement of financial performance over the borrowing period.*

**Employee entitlements:**

*Pension has been made for annual, long service and retirement leave entitlements estimated to be payable to employees on the basis of the net present value of statutory and contractual requirements.*

**Statement of cash flows:**

*The following are the definitions of the terms used in the statement of cash flows:
- Cash is considered to be cash on hand, current accounts in banks, overnight bank deposits, net of bank overdrafts and inter-bank balances arising from
the daily Reserve Bank settlement process.
- Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Kiwibank lending to
customers is also an investing activity. Investments can include securities not falling within the definition of cash.*

**Provision:**

*Provision has been made for annual, long service and retirement leave entitlements estimated to be payable to employees on the basis of the net present value of statutory and contractual requirements.*

**Recognition of interest revenue and expenses:**

*Interest revenue and expenses are recognised on an accruals basis. Interest is accrued on loans and deposits according to the yield associated with the
outstanding principal.*

**Recognition of loan related fees and costs:**

*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 as unamortised,
recognized 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 as income over the commitment period. 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.*

**Customer lending incentives provided in the form of subsidised third party legal services are deferred and amortised to the statement of financial performance over
the early redemption period of the associated loan.*

**Income recognition on non-accrual loans:**

*When a loan is classified as non-accrual, interest income is recognised in the statement of financial performance on an accruals basis as reasonable doubt
exists as to the collectability of interest and principal. Interest charged on non-accrual loans in the current reporting period is reversed against income.*

**Cash receipts on non-accrual loans which are not contractually past due are recognised in the statement of financial performance as interest income to the
extent that the cash receipt represents unaccrued interest.*

**Cash receipts on non-accrual loans which are contractually past due are applied against the carrying value of the loan if the receipt relates to proceeds from
the sale of security or scheduled principal repayments. All other cash receipts in relation to non-accrual loans are recognised as interest income to the extent
that the cash receipts represent accrued interest.*
Kiwibank loans and advances:
Loans and advances comprise all finance provided to banking customers such as bank overdrafts and term loans. Income on these advances is accounted for on an accrual basis.

Kiwibank loans and off-balance sheet credit extension bad and doubtful debt provisions:
The general provision for bad and doubtful debts provides for losses inherent in loans, and off-balance sheet credit extensions such as letters of credit, guarantees and undrawn commitments to extend credit.

A specific provision is established to cover all identified doubtful debts and is recognised when there is reasonable doubt over the collectability of principal and interest in accordance with the loan agreement. Amounts provided for are determined by specific identification and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. All bad debts are written off against the provision in the period in which loans are classified as irrecoverable.

Asset quality for banking assets:
Kiwibank defines impaired assets according to the classifications discussed below:

Non-accrual assets which consist of:
(i) All loans against which a specific provision has been raised;
(ii) Loans which are contractually past due 90 days with security insufficient to cover principal and arrears of interest;
(iii) Loans which are contractually past due 90 days with security insufficient to cover principal and arrears of interest;
(iv) Impaired off-balance sheet credit extensions where current circumstances indicate that losses may be incurred.

Restructured assets are those assets on which the original contractual terms have been concessionally modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than Kiwibank’s average cost of funds at the date of restructuring.

Other assets acquired through security enforcement are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of a debt.

Income on impaired assets is recognised only when the underlying principal has been fully repaid.

Investment securities:
Investment securities are public and other debt securities which are purchased with the positive intent and ability to hold until maturity. Such securities are recorded at original cost adjusted for the amortisation of premiums and accretion of discounts to maturity. Unrealised losses relating to other than temporary diminutions in the value of investment securities are recognised in the statement of financial performance and the recorded values of those securities adjusted accordingly. In those instances where an investment security is sold prior to maturity, profits or losses on sales are taken to the statement of financial performance when realised.

Investment securities are recorded on a trade date basis.

Trading securities:
Trading securities are public and other debt securities which are purchased for current resale in day to day trading operations. Trading securities are recorded at market value and unrealised gains or losses in respect of market value adjustments are recognised immediately in the statement of financial performance.

The market value of trading securities represents the quoted market value of those securities adjusted for any risk, control or liquidity premium.

Trading securities are recorded on a trade date basis.

Available for sale securities:
Available for sale securities are public and other debt securities which are purchased with the intention to hold for an indefinite period of time but not necessarily to maturity. Such securities may be sold in response to various factors including significant changes in interest rates, liquidity requirements and regulatory capital considerations.

Available for sale securities are recorded at the lower of aggregate cost or market value. Cost is adjusted for the amortisation of premiums and accretion of discounts to maturity. Unrealised losses in respect of market value adjustments and realised gains and losses on sale of available for sale securities are recognised in the statement of financial performance. The cost of securities sold is calculated on a specific identification basis.

Available for sale securities are recorded on a trade date basis.

Repurchase and reverse repurchase agreements:
Securities sold under agreements to repurchase are retained within the investment, available for sale or trading portfolios 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 financial performance 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 statement of financial performance over the term of the reverse repurchase agreement.

Kiwibank deposits:
Deposits cover all forms of funding from New Zealand customers including transactional and savings accounts and term deposits. Deposits are stated at their principal balance.
NOTES TO THE FINANCIAL STATEMENTS
NEW ZEALAND POST LIMITED AND SUBSIDIARIES
FOR THE YEAR ENDED 30 JUNE 2003

1 OPERATING REVENUE

GROUP PARENT

<table>
<thead>
<tr>
<th>2003</th>
<th>2002</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating revenue</th>
<th>957,090</th>
<th>947,894</th>
<th>754,634</th>
<th>781,128</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>957,090</td>
<td>947,894</td>
<td>754,634</td>
<td>781,128</td>
</tr>
<tr>
<td>Gain on sale of investment</td>
<td>-</td>
<td>2,901</td>
<td>-</td>
<td>2,901</td>
</tr>
<tr>
<td>Dividends from subsidiaries</td>
<td>1,128</td>
<td>1,128</td>
<td>1,128</td>
<td>1,128</td>
</tr>
<tr>
<td>Dividends from associates</td>
<td>-</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Other dividends received</td>
<td>11</td>
<td>11</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Other interest revenue</td>
<td>3,713</td>
<td>3,713</td>
<td>11,078</td>
<td>11,078</td>
</tr>
<tr>
<td>Revaluation of investment properties</td>
<td>121</td>
<td>121</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gain on asset sales</td>
<td>1,138</td>
<td>1,138</td>
<td>1,092</td>
<td>1,170</td>
</tr>
<tr>
<td>Net banking interest revenue</td>
<td>10,269</td>
<td>10,269</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Banking and lending fee revenue</td>
<td>4,557</td>
<td>4,557</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total operating revenue</td>
<td>976,901</td>
<td>958,813</td>
<td>785,356</td>
<td>798,594</td>
</tr>
<tr>
<td>Net banking interest revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Banking interest revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loans and advances</td>
<td>17,740</td>
<td>17,740</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>– Government and local authority securities</td>
<td>4,082</td>
<td>4,082</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>– Cash and liquid assets</td>
<td>575</td>
<td>575</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>– Other securities</td>
<td>6,282</td>
<td>6,282</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total banking interest revenue</td>
<td>20,707</td>
<td>20,707</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Banking interest expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deposits by banks</td>
<td>1,425</td>
<td>1,425</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>– Deposits by customers</td>
<td>12,010</td>
<td>12,010</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>– Debt securities issued</td>
<td>4,975</td>
<td>4,975</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total banking interest expense</td>
<td>18,410</td>
<td>18,410</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net banking interest revenue</td>
<td>10,269</td>
<td>10,269</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

2 OPERATING EXPENSES

Included in operating expenses from continuing activities are the following items:

Depreciation
- Buildings | 3,147 | 3,147 | 3,147 | 3,147 |
- Motor vehicles | 1,011 | 1,011 | 1,011 | 1,011 |
- Other plant and equipment | 19,983 | 26,762 | 15,250 | 13,978 |
- Software | 11,518 | 11,518 | 7,375 | 7,375 |
- Net depreciation | 35,659 | 31,188 | 27,135 | 24,210 |
- Revaluation of properties intended for sale | 873 | 873 | - | - |
- Loss on asset sales | 895 | 1,006 | 546 | 744 |
- Net (gain)/loss on foreign currency transactions | (1,023) | (1,463) | 683 | 469 |
- Interest expense | - | 15,346 | 12,123 | 15,735 |
- Interest expense – finance leases | 113 | 113 | - | - |
- Amortisation and write off of goodwill | 15,276 | 10,291 | 220 | 220 |
- R&D costs written off | 483 | 483 | 286 | 286 |
- (Decrease)/increase in estimated doubtful debts | (1,446) | (1,746) | 132 | 440 |
- Increase in Kiwibank specific doubtful debt provision | 252 | 252 | - | - |
- Property operating lease and rental costs | 18,554 | 18,403 | 15,949 | 15,914 |
- Property operating lease and rental costs | 19,154 | 19,154 | 14,629 | 8,080 |
- Directors’ fees | 487 | 545 | 280 | 381 |
- Share of deficits/(surpluses) of associates | 1,787 | 1,787 | - | - |
- Auditor’s fees | 1,127 | 6,857 | 906 | 5,234 |
- Research and development costs | 269 | 247 | 268 | 247 |
- Restructuring costs | 2,761 | 2,597 | 2,096 | 591 |
- Donations | 64 | 64 | 41 | 41 |
- Sponsorships | 896 | 1,128 | 744 | 994 |
- Subvention payments | - | - | - | - |
- Impairment in subsidiary investments | - | - | - | 6,950 |
- Auditor’s fees | 719 | 680 | 334 | 261 |
- Fees paid for other services provided by principal auditors | - | - | - | - |
- Taxation advice | 516 | 495 | 440 | 356 |
- Other assurance services | 138 | 203 | 138 | 272 |

NOTES TO THE FINANCIAL STATEMENTS
NEW ZEALAND POST LIMITED AND SUBSIDIARIES
FOR THE YEAR ENDED 30 JUNE 2003

<table>
<thead>
<tr>
<th>GROUP PARENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
</tr>
<tr>
<td>$'000</td>
</tr>
</tbody>
</table>

3 INCOME TAX

Income tax expense
Operating surplus before income tax | 54,142 | 35,603 | 73,359 | 79,857 |
Permanent differences:
- goodwill | 15,276 | 10,301 | 603 | - |
- dividends received | - | - | (18,422) | (1,214) |
- capital gain on sale of investment | - | - | (2,901) | (2,901) |
- other permanent differences | 2,218 | 5,682 | 8,926 | 243 |
- share of associates tax paid earnings | 1,787 | 1,839 | - | - |
Surplus subject to tax | 73,423 | 47,746 | 64,466 | 75,985 |
Tax at 33% | 24,230 | 15,756 | 21,274 | 25,075 |
Adjust for tax effect of:
- deferred tax write off | 1,838 | - | 1,383 | - |
- under/(over) provision in prior periods | 879 | (988) | 729 | (1,076) |
- effect of foreign tax rate difference | 27 | 16 | - | - |
Income tax recognised in the statement of financial performance | 26,974 | 14,732 | 23,841 | 23,999 |

Comprising:
Estimated current period tax assessment | 24,287 | 17,058 | 29,691 | 28,865 |
Subvention (payment)/income | - | - | (7,594) | (7,594) |
Deferred taxation | 2,687 | (2,326) | 1,744 | (4,866) |
Deferred taxation | 26,974 | 14,732 | 23,841 | 23,999 |

There are no material unrecognised income tax losses or timing differences carried forward.

Deferred taxation
Deferred taxation at the start of the year | 22,036 | 19,710 | 19,542 | 13,613 |
Movement in the provision during the year | (2,687) | 2,326 | (1,744) | 4,866 |
Amalgamation of subsidiary | - | - | - | 1,063 |
On revaluation of properties | - | (759) | - | (759) |
Balance at the end of the year | 18,590 | 22,096 | 17,049 | 19,542 |

Impugn balances
Impugn credits at the start of the year | 78,435 | 73,914 | 62,624 | 42,630 |
Income tax paid, net of refunds | 15,315 | 8,652 | 15,278 | 15,315 |
Impugn credits transferred to amalgamation | 2,527 | 601 | 1,248 | 8,133 |
Impugn credits attached to dividends paid | (7,594) | (4,732) | (7,541) | (4,732) |
Adjustment | (13,381) | - | (1,491) | - |
Impugn credits at the end of the year | 75,407 | 78,435 | 75,059 | 62,624 |

NOTES TO THE FINANCIAL STATEMENTS
NEW ZEALAND POST LIMITED AND SUBSIDIARIES
FOR THE YEAR ENDED 30 JUNE 2003

2 OPERATING EXPENSES CONTINUED
 Deferred Insurance Acquisition Costs
Kiw Insurance Limited commenced writing term life policies from 7 November 2002. Included in the statement of financial position at 30 June 2003 are policy liabilities relating to Life Insurance Business of $0.03 million (asset), determined in accordance with Financial Reporting Standard 34.
### 4. EQUITY

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td><strong>Balance at the end of the year</strong></td>
<td>192,200</td>
<td>192,200</td>
<td>192,200</td>
<td>192,200</td>
</tr>
<tr>
<td><strong>Adjustment</strong></td>
<td>(212)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Share of surplus/(deficit) in subsidiaries</strong></td>
<td>93</td>
<td></td>
<td>93</td>
<td></td>
</tr>
<tr>
<td><strong>Acquisition of subsidiaries</strong></td>
<td>606</td>
<td>606</td>
<td>606</td>
<td>606</td>
</tr>
<tr>
<td><strong>Balance at the beginning of the year</strong></td>
<td>814</td>
<td>814</td>
<td>814</td>
<td>814</td>
</tr>
<tr>
<td><strong>Retained earnings</strong></td>
<td>30,270</td>
<td>30,270</td>
<td>30,270</td>
<td>30,270</td>
</tr>
<tr>
<td><strong>Minority interests</strong></td>
<td>1,301</td>
<td>1,301</td>
<td>1,301</td>
<td>1,301</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td>320,270</td>
<td>320,270</td>
<td>320,270</td>
<td>320,270</td>
</tr>
</tbody>
</table>

### 5. CURRENT LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td><strong>Trade creditors</strong></td>
<td>28,188</td>
<td>32,586</td>
<td>22,029</td>
<td>22,805</td>
</tr>
<tr>
<td><strong>Trade creditors</strong></td>
<td>34,562</td>
<td>39,160</td>
<td>23,868</td>
<td>29,960</td>
</tr>
<tr>
<td><strong>Unearned revenue</strong></td>
<td>42,588</td>
<td>41,097</td>
<td>32,531</td>
<td>31,175</td>
</tr>
<tr>
<td><strong>Accrued personnel costs</strong></td>
<td>60,691</td>
<td>54,034</td>
<td>54,940</td>
<td>49,795</td>
</tr>
<tr>
<td><strong>GST payable</strong></td>
<td>3,520</td>
<td>2,302</td>
<td>3,047</td>
<td>3,224</td>
</tr>
<tr>
<td><strong>Agency holding accounts</strong></td>
<td>31,562</td>
<td>31,909</td>
<td>31,562</td>
<td>31,909</td>
</tr>
<tr>
<td><strong>Provisions</strong></td>
<td>1,610</td>
<td>3,216</td>
<td>1,070</td>
<td>1,533</td>
</tr>
<tr>
<td><strong>Income tax provision/(receivable)</strong></td>
<td>2,233</td>
<td>(5,017)</td>
<td>1,554</td>
<td>(3,151)</td>
</tr>
<tr>
<td><strong>Borrowings</strong></td>
<td>40,000</td>
<td>19,991</td>
<td>40,000</td>
<td>19,991</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>250,848</td>
<td>225,254</td>
<td>216,495</td>
<td>193,197</td>
</tr>
</tbody>
</table>

**Ordinary shares**

At 30 June 2003 there were 192.2 million ordinary shares issued and fully paid (30 June 2002 – 192.2 million). All shares have equal voting rights and share equally in dividends and surplus on winding up.

**Share issue**

Last year, 72.2 million ordinary shares were issued to the Crown, 15 million on 4 July 2001, 15 million on 3 September 2001, and 42.2 million on 4 December 2001. All shares were issued for cash at $1.00 per share.

**Consultancy contracts**

At 30 June 2003 there were 192.2 million ordinary shares issued and fully paid (30 June 2002 – 192.2 million). All shares have equal voting rights and share equally in dividends and surplus on winding up.

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NOTES TO THE FINANCIAL STATEMENTS
NEW ZEALAND POST LIMITED AND SUBSIDIARIES
FOR THE YEAR ENDED 30 JUNE 2003

6  KIWIBANK BANKING LIABILITIES

Kiwibank deposits
465,276
86,173
- 
-

Debt securities issued
232,222
19,966
- 
-

Kiwibank accrued interest
2,157
283
- 
-

Total Kiwibank banking liabilities
699,755
106,422
- 
-

7  TERM LIABILITIES

New Zealand Post Limited bond programme

Face value of bonds on issue
115,000
155,000
115,000
155,000

Less: Unamortised discount
347
813
347
813

Total New Zealand Post Limited bond programme
114,653
154,387
114,653
154,387

New Zealand Post Limited offers bonds to institutional investors pursuant to its domestic bond programme. Bonds outstanding have a coupon rate of 8.15% (30 June 2002 – 8%) and maturity dates of 15 July 2003 and 15 April 2004 (30 June 2002 – 15 July 2003 and 15 April 2004). $40 million have been repaid on 15 July 2003 and have been reclassified as current liabilities.

All bonds are unsecured and rank equally with other unsecured creditors.

The Parent has a borrowing facility of $50 million provided by the Bank of New Zealand (30 June 2002 – $75 million provided by the Bank of New Zealand).

The Parent has established a standby line, currently $30 million (30 June 2002 – $30 million) in support of its guarantee of Kiwibank. The facility is provided by Westpac Banking Corporation.

The borrowings are not secured by a guarantee from the Crown.

8  CURRENT ASSETS

GROUP PARENT

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Estimated doubtful debts</td>
<td>(2,364)</td>
<td>(3,810)</td>
<td>(986)</td>
<td>(684)</td>
</tr>
<tr>
<td>Cash and short-term deposits</td>
<td>114,452</td>
<td>116,920</td>
<td>92,095</td>
<td>95,076</td>
</tr>
<tr>
<td>Properties intimated for sale</td>
<td>2,619</td>
<td>8,696</td>
<td>2,619</td>
<td>8,696</td>
</tr>
<tr>
<td>Prepayments</td>
<td>3,046</td>
<td>4,104</td>
<td>1,674</td>
<td>1,532</td>
</tr>
<tr>
<td>Inventories – finished goods</td>
<td>7,177</td>
<td>5,972</td>
<td>6,267</td>
<td>5,353</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>3,458</td>
<td>3,613</td>
<td>3,458</td>
<td>3,166</td>
</tr>
<tr>
<td>TOTAL CURRENT ASSETS</td>
<td>240,985</td>
<td>218,700</td>
<td>186,931</td>
<td>176,360</td>
</tr>
</tbody>
</table>

Cash and short-term deposits
Kiwibank has $0.109 million in cash and demand balances with the Reserve Bank of New Zealand at 30 June 2003 (30 June 2002 – $0.289 million) and $13.275 million with financial institutions (30 June 2002 – $0.521 million).

Properties intended for sale
In accordance with the Group accounting policy, properties intended for sale have been valued as at 30 June 2003 by DTZ New Zealand Limited, associates of the New Zealand Institute of Valuers.

Inventory
Certain inventories are subject to restriction of title including Romalpa clauses.

NOTES TO THE FINANCIAL STATEMENTS
NEW ZEALAND POST LIMITED AND SUBSIDIARIES
FOR THE YEAR ENDED 30 JUNE 2003

9  KIWIBANK BANKING ASSETS

GROUP PARENT

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment securities</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Government securities</td>
<td>73,514</td>
<td>53,437</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other investment securities</td>
<td>167,252</td>
<td>66,425</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total investment securities</td>
<td>240,766</td>
<td>119,862</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kiwibank loans and advances</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Kiwibank loans and advances (all New Zealand)</td>
<td>501,985</td>
<td>43,042</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>General provision for doubtful debts</td>
<td>(768)</td>
<td>(64)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Specific provision for doubtful debts</td>
<td>(252)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total loans and advances</td>
<td>500,965</td>
<td>42,978</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Kiwibank assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kiwibank deferred arrangement fees</td>
<td>919</td>
<td>97</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kiwibank accrued interest</td>
<td>1,999</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total other Kiwibank assets</td>
<td>2,918</td>
<td>97</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Kiwibank banking assets</td>
<td>744,649</td>
<td>162,937</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

10  INVESTMENT PROPERTIES

GROUP PARENT

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment properties at valuation less costs of realisation</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>-</td>
<td>8,327</td>
<td>8,206</td>
<td>8,327</td>
<td>8,206</td>
</tr>
</tbody>
</table>

In accordance with the Group accounting policy, investment properties were valued as at 30 June 2003 by DTZ New Zealand Limited, associates of the New Zealand Institute of Valuers.
The agreement by which the company purchased the business from the Crown recognised potential land claims that may be lodged under the Treaty of Waitangi 1975. The effect on the valuation of assets resulting from potential claim cannot be quantified. However, under the Treaty of Waitangi (State Enterprises) Act 1988, the company will be compensated by the Crown for any loss that occurs upon the resumption of any interest in land by the Crown.

In the statement of financial performance, all employees are treated as employees of the Parent except for the directors of the companies amalgamated. All directors of the Parent are directors of the amalgamated companies and will continue to be directors of the Parent.

12 SUBSIDIARY AND ASSOCIATE COMPANIES

Acquisition of subsidiaries

The Group increased its investment in The Electronic Commerce Network Limited on 1 October 2002 from 61.5% to 66.8% for $0.650 million, and on 1 November 2002 from 66.8% to 100% for $1.463 million.

The Group also increased its investment in Silent One Limited on 12 March 2003 from 50.0% to 57.14% for $0.200 million, and its investment in Intellink Group Limited on 3 April 2003 from 40.92% to 66.19% for $0.397 million, and on 7 May 2003 from 66.19% to 95.64% for $0.730 million.


2003

$’000

Net assets acquired:

Bank balances 1,014

Net current assets 156

Property, plant, and equipment 1,440

Reduction in investment (3,465)

Minority interest (606)

Goodwill on acquisition 4,901

Net cash impact of acquisition 3,440

Amalgamation

The following companies amalgamated with the Parent on 1 July 2002:

Pace Couriers Limited

SpeedPost Limited

Until the date of amalgamation, the above companies were wholly owned subsidiaries of the Parent. On amalgamation of these companies, the Parent took control of all the assets and assumed responsibility for their liabilities. The above amalgamated companies have been removed from the New Zealand Register of Companies.

Summary of the effect of amalgamation of the above companies.

2003

$’000

Assets and liabilities amalgamated:

Bank balances 112

Net current liabilities (1,288)

Goodwill 1,541

Property, plant, and equipment 132

Reduction in investment (1)

Balance recognised in the statement of movements in equity 496

12 SUBSIDIARY AND ASSOCIATE COMPANIES CONTINUED

Investment in material subsidiaries

<table>
<thead>
<tr>
<th>Name of entity</th>
<th>Principal activity</th>
<th>% held</th>
<th>% held</th>
</tr>
</thead>
<tbody>
<tr>
<td>AddressWorks Limited</td>
<td>Database management</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Communication Arts Limited</td>
<td>Print management</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Couriers Please Pty Limited</td>
<td>Distribution</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>DataMail Limited</td>
<td>Data and procurement management</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Infotin Limited</td>
<td>Software development and management</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kiwibank Limited</td>
<td>Registered Bank</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>NZ Post &amp; B&amp;F Franchises Limited</td>
<td>Holding company</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>NZP Australia Pty Limited</td>
<td>Holding company</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>New Zealand Post Australia Holdings Pty Limited</td>
<td>International mail business</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>New Zealand Post Holdings Limited</td>
<td>Holding company</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>New Zealand Post Supply Chain Holdings Limited</td>
<td>Holding company</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>New Zealand Post Supply Chain Limited</td>
<td>Holding company</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>MessageMedia NZ Limited</td>
<td>E-marketing</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Pace Couriers Limited</td>
<td>Distribution</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Silent One Limited</td>
<td>Software development and management</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>SkyRoad Limited</td>
<td>Distribution</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>The Electronic Commerce Network Limited</td>
<td>Electronic services</td>
<td>100</td>
<td>62</td>
</tr>
<tr>
<td>Transend Worldwide Limited</td>
<td>International consultancy</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

* Pace Couriers Limited amalgamated with the Parent on 1 July 2002.
NOTES TO THE FINANCIAL STATEMENTS
NEW ZEALAND POST LIMITED AND SUBSIDIARIES
FOR THE YEAR ENDED 30 JUNE 2003

12 SUBSIDIARY AND ASSOCIATE COMPANIES CONTINUED

Results of associates

Share of profits/losses of associates before income tax

Income tax

Share of profits/losses of associates after income tax

Amortisation of goodwill

Share of profits/losses of associates after income tax

Amortisation of goodwill

Share of profits/losses after revaluation reserve

Total recognised revenues and expenses

Balance at the beginning of the year

Increase in asset revaluation reserve

Included within the above carrying value is:

2,374

Unamortised balance of goodwill

(900)

Goodwill impairment

(950)

Accumulated amortisation

Goodwill (gross)

Included within the above carrying value is:

21,634

Translation of uncalled capital

(429)

Dividends

(5,224)

Sale of interests in associates

–

Non-cash acquisitions

2,192

Cash acquisitions and payment of uncalled capital

2,192

Non-cash acquisitions

1,470

Sale of interests in associates

–

Sale of recognised revenues and expenses

(1,787)

Reduction of investment – acquisition of subsidiaries

(3,455)

Translation of uncalled capital

683

Investment write-offs

(429)

Balance at the end of the year

21,634

Included within the above carrying value is:

Goodwill (gross)

4,224

Accumulated amortisation

950

Goodwill impairment

900

Unamortised balance of goodwill

2,374

Included within interests in associates is a liability in respect of unpaid capital in Mailpost plc of $1.0 million (30 June 2002 – $2.9 million).

GROUP PARENT

2003 2002 2003 2002

$’000 $’000 $’000 $’000

Carpentry

28,194 25,689 8,688 14,452

Cash acquisitions and payment of uncalled capital

2,192 9,644 730 990

Non-cash acquisitions

1,470 – – –

Sale of interests in associates

– (4,480) – (4,480)

Share of total recognised revenues and expenses

(1,787) 1,839 – –

Dividends

(5,224) (1,214) – –

Reduction of investment – acquisition of subsidiaries

(3,455) (3,034) (3,465) (1,790)

Translation of uncalled capital

683 – – –

Investment write-offs

(429) (250) (310) (464)

Balance at the end of the year

21,634 28,194 5,643 8,688

13 RELATED PARTY INFORMATION

General

The ultimate shareholder of the Group is the Crown. The Group undertakes many transactions with other State-Owned Enterprises and government departments which are carried out on an arm’s length basis and 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.

All members of the Group are considered to be related parties of the Parent. This includes the subsidiaries and associated entities identified in note 12.

GROUP PARENT

2003 2002 2003 2002

$’000 $’000 $’000 $’000

Related party transactions and balances

Subsidaries

– Loans – – 76,054 100,070

– Investment – – 132,476 97,831

– Associates and partnerships – – 208,530 191,951

– Loans 379 (3,450) 90 (3,450)

– Investment in partnership 865 614 – –

– Investment in associates 21,634 26,194 5,643 8,688

– Subsidiaries 22,878 25,358 5,733 5,238

– Subsidiaries 22,878 25,358 214,263 203,139

Loans to subsidiary companies are separated into two accounts – loan and current accounts. All intercompany balances with subsidiary companies attract interest and have been advanced at normal commercial terms. Loans are repayable on consent by both parties. Interest charged on the loan account is based on a long-term borrowing rate of 7.65% (30 June 2002 – 8.05%). The current account is charged at the 90 day cash rate which at 30 June 2003 was 5.56% (30 June 2002 – 6.01%).

Net interest received during the year was $8.006 million (30 June 2002 – $8.447 million) on outstanding intercompany balances.

The Parent received $13.186 million dividends from its subsidiaries (30 June 2002 – nil) and dividends from associated entities of $5.224 million (30 June 2002 – $1.214 million).

The Parent received rental income of $1.773 million (30 June 2002 – $4.234 million) from subsidiary companies for the rental of premises owned by the Parent. Rent is charged at normal commercial rates.

The Parent received $7.572 million of courier and distribution revenue from subsidiaries using the Parent’s services (30 June 2002 – $23.062 million) and $1.373 million for maintenance and support of the internal network and payroll services (30 June 2002 – $26.564 million) was paid to New Zealand Post Services Limited by the Parent.


Loans by Kiwibank to directors of the Group total $0.037 million (30 June 2002 – $0.325 million); $0.390 million to AddressWorks Limited (30 June 2002 – $0.152 million).

The Parent has invested excess funds with Kiwibank during the year. The balance invested with Kiwibank at year end was nil (30 June 2002 – $1.214 million).

Kiwibank received deposits from the New Zealand Post Limited Pension Plan during the year. As at 30 June 2003, the New Zealand Post Pension Plan was holding $18.402 million on deposit with Kiwibank (30 June 2002 – $8.014 million). All deposits in the year were accepted on market rates and on an arm’s length basis.

Agency services fee revenue and expenditure are accounted for under a management agreement whereby Kiwibank manages the agency activity of the Parent. Agency activity consists of collection agency business, eBill electronic bill presentation and payment business. Agency services expenditure includes personnel, property, IT support, marketing and other administrative expenses.

Kiwibank utilises the Parent’s retail network in its provision of retail banking services to customers. Remuneration is paid for this service based upon activity and a mutually agreed service level agreement. A total of 4.5% of the Parent’s operating revenue was received from Kiwibank (30 June 2002 – 2.2%).

All payment obligations of Kiwibank are guaranteed under a deed poll guarantee provided by the Parent. No consideration is paid to the Parent for the guarantee.

During the year, dividends of $15.310 million were paid to the Crown (30 June 2002 – $9.607 million) (note 4).

All transactions were on normal commercial terms, other than as disclosed.

The Parent provided accounting and administrative services to non-trading subsidiaries, free of charge.

53
### 14 Intangible Assets

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>$55,537</td>
<td>$64,527</td>
<td>$1,321</td>
<td>–</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>125</td>
<td>125</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$56,537</td>
<td>$65,627</td>
<td>$1,446</td>
<td>–</td>
</tr>
</tbody>
</table>

**Balance at the beginning of the year**

**Goodwill arising on acquisition of subsidiaries**

**Goodwill transferred on amalgamation**

**Goodwill translation adjustment**

**Goodwill amortised**

**Impairment losses**

**Unamortised balance at the end of the year**

### 15 Commitments

**Capital expenditure commitments**

**Total capital expenditure contracted for at balance date but not provided for in the financial statements**

**Analysis of non-cancelable lease commitments**

**Payable no later than one year**

**Payable later than one, not later than two years**

**Payable later than two, not later than five years**

**Payable later than five years**

### 16 Reconciliation of Net Surplus to Net Cash Inflows from Operating Activities

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net surplus</td>
<td>27,075</td>
<td>21,911</td>
<td>49,518</td>
<td>55,858</td>
</tr>
<tr>
<td>Minority interest share of surpluses/(deficits)</td>
<td>93</td>
<td>(1,040)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Items not involving cash flows:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation expense</strong></td>
<td>35,659</td>
<td>37,188</td>
<td>27,359</td>
<td>24,210</td>
</tr>
<tr>
<td><strong>(Decrease)/increase in estimated doubtful debts</strong></td>
<td>(490)</td>
<td>(1,682)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(Increase)/decrease in Kiwibank deferred expenditure</strong></td>
<td>(852)</td>
<td>(97)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Amortisation of discount on bonds</strong></td>
<td>475</td>
<td>278</td>
<td>475</td>
<td>294</td>
</tr>
<tr>
<td><strong>Amortisation of goodwill</strong></td>
<td>15,276</td>
<td>10,301</td>
<td>220</td>
<td>–</td>
</tr>
<tr>
<td><strong>Bad debts written off</strong></td>
<td>483</td>
<td>405</td>
<td>286</td>
<td>25</td>
</tr>
<tr>
<td><strong>Property revaluations</strong></td>
<td>(121)</td>
<td>873</td>
<td>(121)</td>
<td>873</td>
</tr>
<tr>
<td><strong>Asset write offs</strong></td>
<td>1,127</td>
<td>6,857</td>
<td>906</td>
<td>5,234</td>
</tr>
<tr>
<td><strong>Impairment in subsidiary investments</strong></td>
<td>–</td>
<td>–</td>
<td>6,950</td>
<td>–</td>
</tr>
<tr>
<td><strong>Unrealised foreign exchange</strong></td>
<td>184</td>
<td>(671)</td>
<td>587</td>
<td>(1,460)</td>
</tr>
<tr>
<td><strong>Share of deficits/(surpluses) retained by associates</strong></td>
<td>1,787</td>
<td>(1,839)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Impact of changes in working capital items:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Decrease/(increase) in trade debtors and prepayments</strong></td>
<td>5,222</td>
<td>15,824</td>
<td>8,339</td>
<td>(28,340)</td>
</tr>
<tr>
<td><strong>Increase/(decrease) in creditors and other liabilities</strong></td>
<td>21,849</td>
<td>469</td>
<td>16,530</td>
<td>27,679</td>
</tr>
<tr>
<td><strong>Reclassification of term borrowings to current liabilities</strong></td>
<td>(20,000)</td>
<td></td>
<td>(20,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Increase/(decrease) in inventory</strong></td>
<td>(1,205)</td>
<td>(906)</td>
<td>(914)</td>
<td>(803)</td>
</tr>
<tr>
<td><strong>Increase/(decrease) in tax</strong></td>
<td>10,696</td>
<td>13,274</td>
<td>7,209</td>
<td>(3,544)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>16,562</td>
<td>28,661</td>
<td>11,164</td>
<td>(3,008)</td>
</tr>
</tbody>
</table>

**Items classified as investing activities**

**(Gain) on sale of investment**

**(Gain)/loss on disposals of assets**

**Net cash flows from operating activities**

**Notes:** Included in the above is $1.237 million relating to future finance lease obligations ($1.456 million).
17 SEGMENT INFORMATION

Industry Segments

<table>
<thead>
<tr>
<th></th>
<th>POSTAL SERVICES</th>
<th>FINANCIAL SERVICES</th>
<th>ELIMINATIONS</th>
<th>CONSOLIDATED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Operating revenue</td>
<td>$1,003</td>
<td>$1,002</td>
<td>$1,003</td>
<td>$1,002</td>
</tr>
<tr>
<td>External customers</td>
<td>927,154</td>
<td>921,704</td>
<td>49,756</td>
<td>36,839</td>
</tr>
<tr>
<td>Internal customers</td>
<td>6,082</td>
<td>3,753</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total operating revenue</td>
<td>933,232</td>
<td>925,457</td>
<td>49,756</td>
<td>36,839</td>
</tr>
</tbody>
</table>

Result

|                      | 35,110          | 29,914              | (8,035)      | (8,035)      | 27,075       | 21,911       |
|                      | $'000           | $'000               | $'000        | $'000        | $'000        | $'000        |

18 CONTINGENT LIABILITIES

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 a joint obligation if a default arises under a take out agreement with Westpac Banking Corporation for the repayment of term loans taken out by AirPost Limited amounting to USD$10.730 million (30 June 2002 – USD$12.026 million).

The Group has letters of credit with its bankers totalling $0.392 million (30 June 2002 – $0.917 million). The Parent has also given bank guarantees in respect of overseas ventures totalling $3.176 million (30 June 2002 – $2.956 million).

The Parent has guaranteed the payment obligations of Kiwibank under a deed poll guarantee. There are no limits on the amount of the undisputed claims, contingencies and investigations incurred in the normal course of business. The directors do not believe these contingencies will result in any significant exposure to the Group.

19 FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK

The Group, excluding Kiwibank, is subject to a number of financial risks which arise as a result of its debt portfolio and investment activities. The policies approved, and financial instruments being utilised at balance date, are outlined below.

Currency Risk

Policy

The Group, excluding Kiwibank, has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, 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 currencies in which the Group primarily deals with are the Australian Dollar, and the United States Dollar.

It is the Group’s policy to hedge defined percentages of net foreign currency flows known or anticipated to occur within the next three years. The percentage hedged is set within clearly defined ranges on a declining basis in relation to operational and structural exposure.

Unrecognised balances

The Group, excluding Kiwibank, uses forward foreign exchange contracts to manage these exposures. The notional or principal contract amounts of foreign exchange instruments outstanding at balance date are:

<table>
<thead>
<tr>
<th></th>
<th>GROUP AND PARENT</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
<td>2002</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td></td>
</tr>
<tr>
<td>Forward foreign exchange contracts</td>
<td>15,684</td>
<td>24,513</td>
<td></td>
</tr>
<tr>
<td>Cross currency interest rate swap</td>
<td>39,172</td>
<td>44,455</td>
<td></td>
</tr>
</tbody>
</table>

The cash settlement requirements of the foreign exchange contracts and foreign exchange options approximate the notional amount shown above.
20 KIWIBANK RISK MANAGEMENT POLICIES

Risk management
Kiwibank’s exposure to risk arises directly from its activities as a financial intermediary and financial markets participant. These activities involve the acceptance of credit, market (currency and interest rate), liquidity and operational risks. The management of risk is an essential element of Kiwibank’s strategy with emphasis placed on proactive rather than reactive management.

The directors of Kiwibank are explicitly responsible for the stewardship of Kiwibank. To help discharge this obligation the Board has established the Kiwibank Board Finance, Audit and Risk Committee who are responsible for taking an overview of strategic, credit, market and operational risk.

The senior management of Kiwibank ensure bank-wide input into operational risk management and are responsible for monitoring the identification and quantification of operational and credit risks and implementation of appropriate strategies, policies and procedures.

Kiwibank’s Risk Management Unit has been assigned the role of internal risk 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 the business unit’s risk management frameworks and the overall control environment, submitting reports to the Kiwibank Board Finance, Audit and Risk Committee.

Internal audit
Internal audit is operated as an independent function, which has no direct authority over the activities of management. The scope of responsibility of the internal audit function covers systems of internal control over all business activities and support functions at all levels of management within Kiwibank.

Audits are conducted using a risk based approach to assess key business risks and internal control systems. Both core banking and specialist functions are audited. The scope and frequency of individual audits are determined by the level of business risk, with high-risk areas covered annually.

Credit risk
Credit risk is the potential of financial loss arising from the failure of a customer or counterparty to honour any financial or contractual obligation.

Kiwibank manages credit risk through the formulation of high-level credit policies, establishment of standards and a robust control environment, monitoring of the overall portfolio and independent review of all major credit risks.

Lending standards and criteria are clearly defined for all Kiwibank’s products. Kiwibank relies primarily on the integrity of the debtor or counterparty and their ability to meet their obligations. With the exception of short-term exposures in the customer sector and major corporate or bank counterparties, Kiwibank requires security cover within loan to security valuation margins as set down in Kiwibank’s credit policy.

Kiwibank’s control environment ensures that common prudential standards and practices are applied across Kiwibank in order to maintain the quality of the lending portfolio. Core control principles that underpin the credit risk management process are:

Segregation of functions:
Functions are segregated so that no one person is in a position to control sufficient stages of processing a credit transaction such that error or defalcation could occur without a reasonable chance of detection.

Approval of credit facilities:
Larger credit facilities are approved through a hierarchy of delegated approved authorities that reflects the skill and experience of lending management.

Documentation and settlement of facilities:
Preparation of formal lending documentation will only occur after an independent officer in the operations area has ensured that the credit has been approved by an authorised officer and the facility documentation matches the terms of the credit approval.

Monitoring and control:
Credit is monitored strictly 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 facility management:
Problem credit facilities are monitored to ensure workout and collection/recovery strategies are established, approved and actioned.

Portfolio monitoring:
The overall composition and quality of the credit portfolio is monitored taking into account the potential changes in economic conditions.

Interest rate risk
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 Asset and Liability Committee (“ALCO”) comprising of executive management is responsible for implementing and monitoring interest rate risk management policies within specifically defined policy guidelines and 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 repriced.

Interest rate risk is managed by Kiwibank’s Treasury unit within pre-approved limits and independently monitored by the Risk Management Unit. Kiwibank does not conduct trading or investment activities in its own right, except so far as to manage its own balance sheet position.

Kiwibank reduces interest rate risk by seeking to match the repricing 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.

NOTES TO THE FINANCIAL STATEMENTS
NEW ZEALAND POST LIMITED AND SUBSIDIARIES
FOR THE YEAR ENDED 30 JUNE 2003

20 KIWIBANK RISK MANAGEMENT POLICIES CONTINUED

Currency risk
Currency risk results from the mismatch of foreign currency assets and liabilities. These mismatches can arise from the day-to-day purchase and sale of foreign currency and from deposit and lending activity in foreign currencies.

Kiwibank has a policy of hedging all foreign currency borrowing in New Zealand dollars. Foreign currency denominated reserves and expense flows are forecast and hedged on a proportional basis determined by the ALCO. Residual currency risks are monitored in terms of open positions in each currency.

Liquidity risk
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.

Kiwibank monitors this risk primarily by forecasting future cash requirements. Kiwibank manages this by holding readily tradable investment assets and deposits on call or maturing within seven days with high credit quality counterparties to provide for any unexpected patterns in cash movements and by seeking a stable funding base. Kiwibank maintains a portfolio of liquid assets at a minimum of 10% of retail deposits. Some assets classified as investment securities in the statement of financial position fit the definition of liquid assets for this purpose.

Additionally, Kiwibank sets targets for the funding mix from its customers and the wholesale market.

Equity risk
Equity risk results from the repricing 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, reputation and other damage arising from the way in which Kiwibank pursues its business objectives. Key sources of operational risk include process errors, fraud, systems failure, information integrity, customer service, product development, staff skills and performance, security and physical protection, and legal and legislative compliance.

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.

At a strategic level, senior management review the key operational risks facing Kiwibank on a regular basis and ensure appropriate risk measurement and controls are in place.

Kiwibank’s business units maintain an understanding of their operational risk profiles and fully understand the likelihood and potential impact of any operational incidents.

While operational risk can never be eliminated, Kiwibank endeavours to minimise the impact of operational incidents by ensuring that the appropriate infrastructure of controls, systems, staff and processes are in place.

An operational risk management policy has been established to guide Kiwibank’s management of operational risks.


KiwiBank determines credit exposure according to Reserve Bank of New Zealand capital adequacy guidelines.

### 21 KIWI BANK FINANCIAL INSTRUMENTS

The effective interest rates and interest rate repricing at balance date were:

<table>
<thead>
<tr>
<th>Weighted average interest rate %</th>
<th>Interest insensitive</th>
<th>0-3 months</th>
<th>3-12 months</th>
<th>Over 1 year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Repricing analysis – 30 June 2003</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and liquid assets</td>
<td>4.31</td>
<td>–</td>
<td>13,284</td>
<td>–</td>
<td>13,284</td>
</tr>
<tr>
<td>Investment securities</td>
<td>5.55</td>
<td>–</td>
<td>147,583</td>
<td>41,674</td>
<td>219,257</td>
</tr>
<tr>
<td>Loans and advances</td>
<td>7.74</td>
<td>–</td>
<td>242,404</td>
<td>134,498</td>
<td>376,902</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>n/a</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total financial assets</td>
<td>2,851</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2,851</td>
</tr>
<tr>
<td>Total financial liabilities</td>
<td>403,271</td>
<td>176,172</td>
<td>175,572</td>
<td>757,866</td>
<td></td>
</tr>
<tr>
<td>Financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to other banks</td>
<td>n/a</td>
<td>223</td>
<td>–</td>
<td>–</td>
<td>223</td>
</tr>
<tr>
<td>Deposits by customers</td>
<td>4.25</td>
<td>44,319</td>
<td>377,646</td>
<td>32,112</td>
<td>452,088</td>
</tr>
<tr>
<td>Debt securities issued</td>
<td>5.50</td>
<td>–</td>
<td>174,689</td>
<td>57,533</td>
<td>232,222</td>
</tr>
<tr>
<td>Balances with related parties</td>
<td>n/a</td>
<td>5,619</td>
<td>–</td>
<td>–</td>
<td>5,619</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>n/a</td>
<td>7,915</td>
<td>–</td>
<td>–</td>
<td>7,915</td>
</tr>
<tr>
<td>Total financial liabilities</td>
<td>58,075</td>
<td>552,335</td>
<td>89,645</td>
<td>11,199</td>
<td>711,255</td>
</tr>
<tr>
<td>On-balance sheet gap</td>
<td>(55,225)</td>
<td>(149,064)</td>
<td>86,527</td>
<td>164,373</td>
<td>46,611</td>
</tr>
<tr>
<td>Off-balance sheet financial instruments</td>
<td>–</td>
<td>90,000</td>
<td>(80,000)</td>
<td>(10,000)</td>
<td>–</td>
</tr>
<tr>
<td>Net effective interest rate gap – 30 June 2003</td>
<td>(55,225)</td>
<td>(59,064)</td>
<td>6,527</td>
<td>154,373</td>
<td>46,611</td>
</tr>
</tbody>
</table>

Repricing analysis – 30 June 2002

| Financial assets                 |                      |            |             |             |       |
| Cash and liquid assets           | 1.96                 | 810        | –           | –           | 810   |
| Investment securities           | 5.90                 | 66,425     | 38,207      | 15,230      | 119,862|
| Loans and advances              | 6.84                 | 17,154     | 11,537      | 14,287      | 43,978 |
| Balances with related parties   | n/a                  | 1,496      | –           | –           | 1,496 |
| Other financial assets          | n/a                  | 380        | –           | –           | 380   |
| Total financial assets          | 1,876                | 84,389     | 49,744      | 29,517      | 165,526|
| Total financial liabilities     | 2,851                | 403,271    | 176,172     | 175,572     | 757,866|

### 22 KIWI BANK FAIR VALUE OF FINANCIAL INSTRUMENTS

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 and judgments 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 values.

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

**Cash and liquid assets:**

For cash and short-term liquid assets, the carrying amount is equivalent to the fair value.

**Investment securities:**

For investment securities, estimated fair values are based on quoted market prices.

**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.

**Other financial assets:**

For other financial assets, the carrying amount is equivalent 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.

**Debt securities issued:**

For debt securities issued, estimated fair values are based on quoted market prices.

**Other financial liabilities:**

For other financial liabilities, the carrying amount is equivalent to the fair value.

**Impaired 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.

<table>
<thead>
<tr>
<th>CARRYING AMOUNT</th>
<th>ESTIMATED FAIR VALUE</th>
<th>CARRYING AMOUNT</th>
<th>ESTIMATED FAIR VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and liquid assets</td>
<td>13,284</td>
<td>13,284</td>
<td>810</td>
</tr>
<tr>
<td>Investment securities</td>
<td>240,766</td>
<td>241,258</td>
<td>119,862</td>
</tr>
<tr>
<td>Loans and advances</td>
<td>500,965</td>
<td>504,305</td>
<td>47,918</td>
</tr>
<tr>
<td>Balances with related parties</td>
<td>–</td>
<td>–</td>
<td>1,496</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>2,851</td>
<td>2,851</td>
<td>380</td>
</tr>
<tr>
<td>Total financial assets</td>
<td>757,866</td>
<td>761,698</td>
<td>165,526</td>
</tr>
</tbody>
</table>

### 22 KIWI BANK FINANCIAL INSTRUMENTS

<table>
<thead>
<tr>
<th>CONTRACT AMOUNT</th>
<th>CREDIT EXPOSURE</th>
<th>CONTRACT AMOUNT</th>
<th>CREDIT EXPOSURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
</tbody>
</table>

**Commitments and contingencies**

**Commitments with certain drawdown**

**Total commitments and contingencies**

**Interest rate and swap contracts**

**Forward rate agreements**

**Futures**

**Swaps**

**Total interest rate and swap contracts**

Interest rate contracts are off-balance sheet financial instruments used by Kiwibank to hedge on-balance sheet activity. The fair value of these contracts at 30 June 2003 was $0.652 million (30 June 2002 – $0.008 million).
### 23 Kiwibank Concentration of Credit Risk
Concentration of credit risk arises 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:

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government, local bodies and services</td>
<td>$78,512</td>
<td>$53,726</td>
</tr>
<tr>
<td>Finance, investment and insurance</td>
<td>147,709</td>
<td>86,946</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>7,915</td>
<td>–</td>
</tr>
<tr>
<td>Agriculture, hunting and forestry</td>
<td>14,956</td>
<td>–</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4,962</td>
<td>–</td>
</tr>
<tr>
<td>Households (first mortgage lending)</td>
<td>500,965</td>
<td>42,918</td>
</tr>
<tr>
<td>Total financial assets (interest earning)</td>
<td>755,015</td>
<td>165,650</td>
</tr>
<tr>
<td>Balances with related parties</td>
<td>– 1,496</td>
<td>– 380</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>2,851</td>
<td>380</td>
</tr>
<tr>
<td>Total financial assets</td>
<td>757,866</td>
<td>165,526</td>
</tr>
</tbody>
</table>

### 24 Kiwibank Concentration of Funding
Concentrations of funding arise where Kiwibank is funded by industries of a similar nature. An analysis of financial liabilities by industry sector at balance date is as follows:

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing, investment and insurance</td>
<td>252,348</td>
<td>27,979</td>
</tr>
<tr>
<td>Households</td>
<td>445,737</td>
<td>78,159</td>
</tr>
<tr>
<td>Total financial liabilities (interest earning)</td>
<td>697,721</td>
<td>106,138</td>
</tr>
<tr>
<td>Balances with related parties</td>
<td>5,619</td>
<td>–</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>7,915</td>
<td>3,065</td>
</tr>
<tr>
<td>Total financial liabilities</td>
<td>711,255</td>
<td>109,203</td>
</tr>
</tbody>
</table>

### 25 Kiwibank Credit Exposure Concentrations
Credit exposure to individual counterparties
The number of individual counterparties, excluding connected persons and OECD governments, where the period end and peak end-of-day aggregate actual credit exposures, net of specific provisions (which were nil), equaled or exceeded 10% of Kiwibank's shareholder's equity as at balance date (30 June 2002 – 10%) are:

<table>
<thead>
<tr>
<th>Credit Exposure (%)</th>
<th>3 months ended June 2003</th>
<th>3 months ended June 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%-19%</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>20%-29%</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>30%-39%</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>40%-49%</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>50%-59%</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>60%-69%</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>70%-79%</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>80%-89%</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>Peak exposure</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>10%-19%</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>20%-29%</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>30%-39%</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>40%-49%</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>50%-59%</td>
<td>–</td>
<td>3</td>
</tr>
<tr>
<td>60%-69%</td>
<td>–</td>
<td>1</td>
</tr>
</tbody>
</table>

Credit exposures to connected persons
Credit exposures concentrations are disclosed on the basis of actual exposures, gross of set-offs. Kiwibank does not have credit exposures to connected persons other than non-bank connected persons. Peak end-of-day credit exposures to non-bank connected persons have been calculated using Kiwibank's tier one capital at the end of the period. There are no specific provisions against credit exposures to non-bank connected persons as at 30 June 2003 (30 June 2002 – nil).

### 26 Kiwibank Fiduciary Activities
- Funds management
- Custodial services
- Securitised assets

### 27 Events Occurring after Balance Date
The Board of New Zealand Post has authorised the subscription of a further 40 million $1 ordinary shares in Kiwibank. It is expected that the shares will be issued and fully paid in two tranches, $22 million by 30 September 2003 and $18 million by 30 September 2004.

The Board of New Zealand Post has declared a final dividend of $4.475 million which will be paid on 15 September 2003.

No other material events have occurred subsequent to balance date that require recognition of, or additional disclosure in these financial statements.
TO THE READERS OF THE FINANCIAL STATEMENTS OF NEW ZEALAND POST LIMITED AND GROUP FOR THE YEAR ENDED 30 JUNE 2003

We have audited the financial statements on pages 35 to 63. The financial statements provide information about the past financial performance and cash flows of New Zealand Post Limited and group for the year ended 30 June 2003 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 39 to 43.

Responsibilities of The Board Of Directors
The State-Owned Enterprises Act 1986 and Financial Reporting Act 1993 require the Board of Directors (the Board) to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the financial position of New Zealand Post Limited and group as at 30 June 2003 and the results of operations and cash flows for the year ended on that date.

Auditor’s Responsibilities
Section 15 of the Public Audit Act 2001 and Section 19(1) of the State-Owned Enterprises Act 1986 require the Auditor-General to audit the financial statements presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report its opinion to you.

The Auditor-General has appointed J R Selby, of PricewaterhouseCoopers to undertake the audit.

Basis Of Opinion
An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

• the significant estimates and judgements made by the Board in the preparation of the financial statements, and
• whether the accounting policies are appropriate to New Zealand Post Limited and group’s circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in New Zealand Post Limited or any of its subsidiaries other than in our capacity as auditor acting on behalf of the Auditor-General Wellington, New Zealand

J R Selby PricewaterhouseCoopers

Our audit was completed on 27 August 2003 and our unqualified opinion is expressed as at that date.

Consolidated Earnings Statement

<table>
<thead>
<tr>
<th>LETTERS</th>
<th>DELIVERIES</th>
<th>OTHER</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Operating revenue</td>
<td>361,559</td>
<td>621,352</td>
<td>982,911</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>327,977</td>
<td>594,782</td>
<td>922,759</td>
</tr>
<tr>
<td>Operating surplus before income tax</td>
<td>33,582</td>
<td>26,570</td>
<td>54,412</td>
</tr>
</tbody>
</table>

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 39 to 43.

Statement of Assumptions
Operating revenue Operating revenue is based on the volume recorded by the mail volume monitoring system and the unit measured sales value for each item.

Operating expenses Expenses which can be specifically identified as relating only to one service category are allocated directly to that service category.

Allocation for expenses relating to more than one service category have been estimated by business unit managers.

The property division credit or charge revenue and expenses to the cost centres and these are included above. Revenues and expenses related to other common assets of the company are allocated on the basis of the share of operating expenses.

Revenue and expenses from delivering mail originating overseas have been estimated based on a conversion of payment by weight into unit rates at an average exchange rate for the year and the allocation of expenditure as described above.

Report of the Auditor-General

We have examined the allocations of revenue and expenditure to the above service categories for the year ended 30 June 2003.

In our opinion, based on the underlying assumptions adopted in the methodology, the statement of assumptions and the accounting policies as described, and the Consolidated Earnings Statement – Information Disclosure represents a fair and reasonable allocation of revenues and expenses to each of the service categories referred to above.

J R Selby
On behalf of the Auditor-General

PricewaterhouseCoopers Wellington, New Zealand 27 August 2003
Disclosures

No specific disclosures were given pursuant to section 140(1) of the Companies Act 1993. As at 30 June 2003, the general disclosures of interest made by directors of New Zealand Post and Kiebelbank pursuant to section 140(2) of the Companies Act 1993 are shown on pages 32 and 33 of this report.

Directors’ indemnity and insurance

New Zealand Post has insured the directors and employees of the group against any costs of liabilities of the type referred to in section 162(4) of the Companies Act 1993. New Zealand Post has agreed to indemnify New Zealand Post’s directors, directors of subsidiaries and New Zealand Post appointed directors of associate companies against any costs or liabilities of the type referred to in section 162(4) of the Companies Act 1993 that are incurred in any proceedings of the type referred to in section 140(2) of that Act.

Directors’ fees and benefits

The total fees and benefits (excluding Kiebelbank fees) paid to the New Zealand Post Board members during the 2002/2003 financial year were $282,383.80. The total fees paid were within the amount authorised by the shareholding Ministers.

<table>
<thead>
<tr>
<th>NAME</th>
<th>SUBSIDIARY</th>
<th>FEES &amp; BENEFITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr W M Hill</td>
<td>J Binger</td>
<td>$46,000</td>
</tr>
<tr>
<td>Mr S Bradley</td>
<td>Kiwibank Limited</td>
<td>$24,000</td>
</tr>
<tr>
<td>Mr G Fortuin</td>
<td>Kiwibank Limited</td>
<td>$28,141.60</td>
</tr>
<tr>
<td>Mr K Douglas</td>
<td>Kiwibank Limited</td>
<td>$28,141.60</td>
</tr>
<tr>
<td>Mr D Ogden</td>
<td>Kiwibank Limited</td>
<td>$27,000</td>
</tr>
<tr>
<td>Ms E Robertson</td>
<td>Kiwibank Limited (to 30 November 2002)</td>
<td>$10,000</td>
</tr>
<tr>
<td>Mr T Newall</td>
<td>Kiwibank Limited (from 1 December 2002)</td>
<td>$22,383.80</td>
</tr>
</tbody>
</table>

New Zealand Post Board fees and benefits include fees for those directors that are also Pension Plan trustees, Compensation Committee members and Finance & Risk Committee members.

Directors of New Zealand Post subsidiaries

Mr J Ogden (from 6 November 2002) –
Mark Thompson (from 6 November 2002) –
Mark McCready (to 28 February 2003) –
Kiwimail Group Limited (from 6 November 2002) –
Kiwibank Limited (from 1 June 2003) –
Couriers Please Pty Limited (to 14 April 2003) –
Pacstream Pty Limited –
Infolink Group Limited –
ECN NZ Holdings Limited –
New Zealand Post Supply Chain Limited (from 1 March 2003) –
New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
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New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
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New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
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New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
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New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
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New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
New Zealand Post Supply Chain Holdings Limited (from 1 March 2003) –
New Zealand Post Supply Chain Holdings Limited (from 1 March 23
Donations
During the year New Zealand Post made donations of $64,000.

Auditors
The auditor for the group is PricewaterhouseCoopers (PwC). The amount payable by the group to PwC as audit fees in respect of the year is $719,000. The amount incurred in respect of the year for other services provided by PwC is $864,000.

Remuneration
Report of the Compensation Committee on executive remuneration
The Compensation Committee, made up of four independent directors, is responsible for establishing and overseeing remuneration for New Zealand Post’s management team. New Zealand Post’s management reward structures are designed to attract, reward and motivate the best executive talent available. In setting compensation for executives, market information from similar management positions within the full range of New Zealand businesses is assessed.

Executive performance is measured through specific targets in four key performance areas – profitability, customer service, employee satisfaction and long term performance. An effective remuneration policy is tied to the achievement of specific and quantifiable performance objectives. Executive remuneration includes at-risk payments, superannuation, medical benefits, car and other allowances.

REMU NERATION BAND ($’000) NUMBER OF EMPLOYEES REMU NERATION BAND ($’000) NUMBER OF EMPLOYEES
90/990 1 230/240 2
90/990 1 220/230 3
90/990 1 210/220 5
90/990 1 200/210 10
90/990 1 190/200 5
90/990 1 180/190 2
90/990 1 170/180 12
90/990 1 160/170 13
90/850 2 150/160 14
90/850 1 140/150 11
90/850 1 130/140 22
70/750 2 120/130 30
65/700 1 110/120 37
65/650 3 100/110 66
60/600 6 Total 265

*Total includes 26 employees who left New Zealand Post in the year under review.

Measurement Method
To measure the extent to which you are meeting these publicly stated objectives, we prepared for posting Post and FastPost letters. The results of this test are summarised in the table opposite.

The letters were sent to a representative sample of New Zealand Post’s total customer base. Based on information you supplied, 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 on which each letter was mailed 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.

During the period July 2002 to June 2003, four surveys were conducted. Mail was posted over a two-week period, hence the results represent a random sample, not a continuous monitor. In our opinion this report fairly represents the service performance achieved by New Zealand Post Limited during the time of measurement.

Yours faithfully
Research International NZ Ltd

Stephen Carter
Research Director
Executive Team

John Allen LLB
Chief Executive

Terence Delaney BCom, LLB
Group Manager, Retail

Peter Fenton LLB
Acting Group Manager, Letters

Sam Knowles BSc, MSc (Hons)
Chief Executive, Kiwibank

Jim Quinn
Group Manager, Express and Logistics

Malcolm Shaw LLB (Hons)
Chief Financial Officer

Suze Wilson BA
General Counsel

General Manager, Human Resources

Bankers

ANZ Banking Group (New Zealand) Limited

Bank of New Zealand Limited

The National Bank of New Zealand Limited

Westpac Banking Corporation

Auditors

Controller and Auditor-General assisted by PricewaterhouseCoopers, Wellington

Solicitors

Minter Ellison Rudd Watts

Registered Office

Level 12, New Zealand Post House, 7 Waterloo Quay, Wellington

Information on New Zealand Post products and services is available from:

New Zealand Post website: www.nzpost.co.nz

Customer Service Centre: Tollfree telephone 0800 501 501
E-mail enqquiry@nzpost.co.nz

Communications Group: Private Bag 39990, Wellington Phone 64 4 496 4999 Facsimile 64 4 496 4553

Stamps Centre: Private Bag 3001, Wanganui Phone 64 6 349 1234 Facsimile 64 6 345 7120
E-mail enquiry@wgmsc.nzpost.co.nz
website www.stamps.co.nz