Introduction to New Zealand Post

Investor Relations Presentation
GROUP OVERVIEW
Long standing history

Over 170 years of postal services

→ The history of New Zealand Post (NZP) dates from 1840 with the establishment of the first Post office

→ By 1984, New Zealand Post Office was a monopoly Government provider of telecommunications and postal services, and also provided a Post Office Savings Bank service, but had suffered from chronic under-investment

→ In 1986, the SOE Act led to the creation of New Zealand Post Limited, Telecom Corporation of New Zealand and PostBank Limited on 1 April 1987

→ The powers of the Board and the Government were separated with no government interference in day to day business operations

→ Telecom and PostBank were later privatised but NZP remains 100% NZ Government owned
Competing in deregulated markets

→ NZP is a commercial company which operates across a range of deregulated, competitive markets
  – The standard letter market was deregulated in 1998 with independent operators given access to the postal network

→ NZP operates a mixed relationship model in its Express business (50/50 JV with DHL in New Zealand and Australia)
  – NZP regards partnering with other corporates as a key part of future success

→ Since 2000, NZP also has sought to diversify away from core postal operations into:
  – Financial services – Kiwibank
  – Information and data management – Datam
  – Digital Services – Datacom, Localist
A trusted investment

Trusted and iconic brands

→ NZP has the best reputation in New Zealand (AMR Interactive Corporate Reputation Index 2010)

→ Wide reach into the community
  - Network of almost 900 Post Shops and PostCentres
  - Sponsor of the New Zealand Book Awards
  - Community support including includes free postage through Community Post and Books in Homes programme.

Returns under short term pressure

→ Although profitability has been under pressure in recent years, NZP is still one of the very few profitable post businesses in the world
Responsive to change

NZP has overcome major strategic threats:

→ In reaction to each of these threats, NZP concentrated on doing what it did better and more efficiently

→ However in the 2010s, NZP will have to be different in order to survive
The journey so far

<table>
<thead>
<tr>
<th>2010</th>
<th>2011</th>
<th>2012 onwards</th>
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<tbody>
<tr>
<td>Analysis</td>
<td></td>
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<tr>
<td>→ First members of the new management team in place</td>
<td>→ Completion of new Group Leadership Team including several external hires</td>
<td>→ Implementation of strategic programmes</td>
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<tr>
<td>→ Cameron Partners undertake strategy review</td>
<td>→ Restructure away from federated model and active portfolio management with long-term benefits but short-term restructuring costs</td>
<td>→ Continued growth through the bank</td>
</tr>
<tr>
<td>→ Decision to move from federated model</td>
<td>→ Plan on a page developed with a focus on long-term benefits</td>
<td>→ Target mid term ROCE of at least 12% and overall stronger financial performance</td>
</tr>
<tr>
<td>→ Development of initial strategic plan to tackle reduction in postal volumes and grow the bank</td>
<td>→ Work across strategic projects on:</td>
<td>→ NZ Post’s transformation is ongoing but benefits beginning to accrue</td>
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<td></td>
<td>→ Physical network</td>
<td></td>
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<td></td>
<td>→ Store network</td>
<td></td>
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<tr>
<td></td>
<td>→ Kiwibank</td>
<td></td>
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<tr>
<td></td>
<td>→ Digital</td>
<td></td>
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</table>
Group Leadership Team

Brian Roche, CEO, NZ Post Group (2010)
Brian has held a wide variety of leadership roles in New Zealand with a particular focus on transport, treaty settlements, education and housing. He was project manager for the successful bid to secure the hosting rights to Rugby World Cup 2011.

Mark Yeoman, CFO, NZ Post Group (2009)
Mark was previously CFO at Airways and before that CEO of Samoa’s telecom and postal company where he managed its transformation from a government department to a State-Owned Enterprise. Mark has held a number of executive roles in a wide-range of technology based industries in Australia and New Zealand after beginning his career with Deloitte.

Ashley Smout, Group GM, Operations (2011)
Ashley was previously CEO at Airways Corporation of New Zealand, Before joining Airways Corporation in 1999, Ashley spent 10 years in general management roles with Schneider Electric, including positions in Australia and Singapore.

Mark Gibson, CEO, Express Couriers (2005)
Mark was appointed as CEO of ECL after holding a number of senior roles within Courier Post. Mark has an executive management background across a number of different industries, including freight, distribution, retail and automotive.

Malcolm Shaw, Group Manager, Assurance (2000)
Malcolm’s role also includes General Counsel and Company Secretary. He has an extensive legal background, as Legal Counsel for Contact Energy, Assistant General Counsel for the New Zealand Dairy Board and as a lawyer for a number of firms both here and overseas.

Paul Brock, CEO, Kiwibank (2002)
Paul has an extensive background in New Zealand’s banking industry, including managerial roles with Westpac and Trust Bank. He was part of the team that created Kiwibank in 2002 and has held a number of key positions within the bank, including GM Marketing and GM Savings and Transactions.

Gary was previously CEO of Datam (formerly Datamail). He has extensive experience in business process outsourcing, change management, and customer experience, including 27 years with Databank/EDS in New Zealand and Asia Pacific.

Jacqui Cleland, Group Manager, HR (2007)
Jacqui was previously GM IR at Inland Revenue and before that HR Manager in Fonterra’s Marketing and Innovation Division.. She previously researched and lectured in human resource management at Massey University and has performed HR consulting both in New Zealand and overseas.

Paul Reid, Group GM, Strategy & Innovation (2011)
Paul was previously CEO at MetService Limited, Before joining MetService in 2007, Paul held a variety of senior commercial and operational positions with Air New Zealand, Carter Holt Harvey and Ernst & Young.
### Shape of NZ Post

NZ Post is focused on three core businesses:

<table>
<thead>
<tr>
<th>Division</th>
<th>Description</th>
<th>Brand Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>Kiwibank and New Zealand Home Loans</td>
<td></td>
</tr>
<tr>
<td>Postal</td>
<td>The delivery of post and packages via time and service based offerings, and the channels to maximise this</td>
<td></td>
</tr>
<tr>
<td>Digital Services</td>
<td>Platforms to link businesses with customers, leveraging trusted brand position</td>
<td></td>
</tr>
</tbody>
</table>
The legacy Postal businesses still contribute the majority of NZP revenue but financial services is increasing its contribution to EBIT.

2012 forecast results
# Current four fold challenge

<table>
<thead>
<tr>
<th>1. Decline in postal volumes</th>
<th>2. Maturity of Kiwibank</th>
<th>3. Digital services</th>
<th>4. Retail transformation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The challenge:</strong></td>
<td><strong>The challenge:</strong></td>
<td><strong>The challenge:</strong></td>
<td><strong>The challenge:</strong></td>
</tr>
<tr>
<td>✓ A structural decline in postal volumes through substitution of digital media</td>
<td>✓ The second stage of growth of Kiwibank – from start up challenger brand to full service bank</td>
<td>✓ Creating a sustainable business in the information services/digital market</td>
<td>✓ An outdated store network experience that is expensive to run and doesn’t fit our modern customer needs for both postal services and for Kiwibank.</td>
</tr>
<tr>
<td><strong>Our plan:</strong></td>
<td><strong>Our plan:</strong></td>
<td><strong>Our plan:</strong></td>
<td><strong>Our plan:</strong></td>
</tr>
<tr>
<td>✓ Build a sustainable physical network that is New Zealand’s provider of choice</td>
<td>✓ Grow our core business and to diversify the bank into new markets – reducing portfolio risk and accessing new growth markets.</td>
<td>✓ Leverage our trusted brand to provide digital solutions to support NZP’s businesses and the modern needs of New Zealanders</td>
<td>✓ Deliver an industry leading customer experience, a reduction in the overall cost of the Store Network, an improved experience for our people and a platform for growth for Kiwibank</td>
</tr>
</tbody>
</table>
Build a sustainable network

→ Work has continued with identifying and implementing initiatives to reconfigure our current network to be sustainable both now and in the future:
  
  ─ Altering the ratio of fixed to variable costs e.g. the Postie Pay model has been rolled out and relates to hours worked rather than fixed cost postie runs.
  
  ─ Increasing the efficiency in the current network e.g. Integration of the Last Mile of both NZ Post and CourierPost will lower costs and increase efficiency across the various delivery networks. Current trial underway in Tauranga.
  
  ─ Provide customer focused solutions – the Future Delivery programme is innovating services that will enable customers to have increased choice about when and how they will receive their mail – either through physical or digital means.

→ We are prepared to fundamentally redesign the network business model in the next 5 years to critically alter the fixed cost base versus falling volumes and process a larger proportion of parcels

→ We are open to developing a partnering model – both locally and internationally – where the mutual benefits are appealing
Grow the bank

→ Kiwibank has completed its 10 year strategic planning with an aim to become “A Kiwi bank for New Zealand”.

→ It will grow the bank by increasing its share of wallet of current customers, driving its main bank share and diversifying to reduce sector concentration risk and drive profitability:
  — Deepen existing customer relationships (through service channels and products
  — Meet market opportunities by growth through the existing business and through targeted diversification
    → Business Markets – expansion of current proposition including increased SME lending and business segment foreign exchange trading
    → Bancassurance – leveraging the existing bank customer base by selling them insurance products appropriate to their needs
    → Wealth – recent purchase of Gareth Morgan Investments is a step up for Kiwibank allowing the bank to achieve scale and improve profitability
Provide digital solutions

- We are developing a digital postal option that integrates both the physical and digital offerings and is on target to be launched by the end of 2012.
- Kiwibank continues to develop its iGovt services – providing ID validation and application processing services on behalf of business (mainly financial providers) and Government.
- Localist helps NZ Post to reconnect with small and medium sized enterprises by brings hyper-local information to people using social media and digital means, in combination with a printed directory service.
- We hold a 36% stake in Datacom – our exposure to the growing IT services segment.
- We will also use effective partnering with other experts in the digital field so that we can execute our own advantages at speed and with reduced risk.
Transform our retail experience

→ We are working on transforming the network to give New Zealanders a wide choice of when, where and how they do business with us

→ A branch transformation pilot was launched in the Kapiti Coast in November 2011.

  – A mix of larger growth stores with separate banking and postal counters, and express stores located in places that Kiwis find most convenient in their daily routine
  – Our product offering was dramatically rationalised in order to deliver a simple and efficient range of solutions and services
  – Customers can complete simple self-service transactions without having to queue up allowing front line staff to be freed-up to complete more complex transactions and deliver solutions
  – The results from this trial will be used to improve the format and operation of new branches and transform existing branches over the medium term
DIVISIONAL OVERVIEW
The postal division focuses on the traditional NZP businesses: post, express, branch network and information management.
Streamlining the products

→ The current network is a key asset of NZP but it needs to be altered to remain financially sustainable over the medium to long term

→ The current offering from NZP will be simplified to create a more seamless offering across mail, parcel, courier

→ In addition, the ‘back office’ of delivery has also mixed various product lines – e.g. parcels going through both the letter and the express system

→ A trial of a simple sending range is currently active in Kapiti Coast with the number of sending products reduced from 140 to 7.

→ The creation of a Customer Solutions and Services last year – incorporating the sales and marketing of Postal Services Group, the Store Network and Datam - has reduced the duplication in services and costs and internal competition for the same customers
Volume decline in letters

→ Volume decline has accelerated in recent years – however NZP believe that letters will remain an essential communication over the long term and that it must manage towards a sustainable level

→ NZP still holds c. 90% of the market

→ Although digital alternatives may cannibalise existing volumes, NZP recognises that this is occurring in the market regardless and that innovating and incorporating digital solutions must be part of its new customer offering

→ NZP is about to trial a new digital mail service and enables customers to sort, store and pay their bills from multiple suppliers from one login account thereby adding value beyond the delivery of physical mail
Letters – pricing and costs

NZP’s has announced a new letter price increase effective from 1 July 2012, raising the price from 60 to 70 cents.

NZP increased the price of its bulk mail by CPI to help to improve the recovery of the true/full cost of delivery.

Access pricing for other market operators is being reviewed by the Postal Network Access Committee; A draft decision is being reviewed by the industry with the proposal pertaining rationalising the wide range of market discounts for resellers.

NZP will redesign the cost structure of the business in order to build a sustainable physical network under a wide variety of volume scenarios. Initiatives include:

- More flexible resourcing models
- Structuring of automatic mail house sorting to remove/reduce the hand sort by the posties
- Local stays local – 60-70% of mail stays in area it is lodged to be processed.
Parcels present an opportunity

→ Parcels present a greater market opportunity than letters with a forecast positive CAGR although the corporate sector is particularly competitive

→ Parcels are delivered both through the postal and express divisions – these processes are increasingly being streamlined

→ NZP recently set up a JV with China Post and tom.com that enables New Zealand businesses to easily enter the Chinese market for minimal investment thereby boosting parcel volumes from New Zealand to China

→ A new global logistics division also seeks to help customers deliver good overseas
Express

→ The Express market is serviced in NZP by Express Couriers Ltd (ECL) – a 50% joint venture with DHL

→ ECL currently services c. 40% of the courier market and faces direct competition from Freightways

→ The Express market is improving in line with the economy with performance at ECL improving throughout the year driven by the core CourierPost business

→ The Postal division is now piloting new methods to deliver ‘the last mile’ in the most efficient manner through a combination of courier and traditional postal delivery mechanisms
Store network

→ The branch network is at the forefront of NZP’s physical presence and retail platform
  - At the heart of the community in central locations for convenient access
  - Kiwibank has used this platform to reach its target market and will now look to how it can leverage the branch network to generate further growth

→ NZP’s branch network is underscored by the Deed of Understanding with the Crown which promises a minimum of 880 points of presence, including at least 240 PostShops throughout NZ

→ However, the stand-alone network makes an annual loss of c. $40m last year - this trend is improving through incremental changes but may still undergo a fundamental transformation
Information management

→ Datam provides high tech print and mail services – both physical mail and email/web access (e.g. bank statements, utility bills etc) handling large amounts of raw data for clients

→ Datam’s colour printers offer a superior customer communications and solutions, allowing customers to combine billing contact with promotional activity
  – This has led to an upgrade in the quality of paper communications leading to increased consumer participation particularly vs. email

→ Advertising mail is worth c. $220m p.a. – but remains a small part of the total advertising market (c. 5%)

→ Reach Media, a JV with Australian based Salmat, handles unaddressed mail with a sophisticated database of addresses and consumer preferences

→ Opportunities exist to partner in further customer contact, targeted media and business process outsourcing solutions
Financial Services

Kiwibank success story

→ Financial Services consists of Kiwibank, New Zealand Home Loan Company, Kiwi Insurance and Kiwi Wealth Management

→ Kiwibank was launched in 2002 and has steadily grown revenue and profits since inception

→ Focused on high levels of service through leveraging off wider branch network through PostShops and high level of innovation for internet and mobile banking

→ 9% main bank market share with more than 750,000 customers and Cannex Sunday Star Times best bank four years in a row

→ Financial services now contributes 30% of revenue and 80% of EBIT (ex corporate overhead) to the NZP Group

→ With rapid growth over the past 10 years, the bank is now moving into a new phase of growth, with plans to diversify its asset base into new markets
The next stage

Expansion outside of retail core

→ Traditional target market of middle income retail customers:
  – Funded by retail deposits
  – Home loans lending
→ Kiwibank is planning to deepen its relationship with existing customers and its share of wallet and proportion of main bank customers
→ Kiwibank is aiming to diversify activities and grow in the following areas:
  – Business banking
  – Wealth management
  – Insurance

![Total loans and advances growth graph](image)

![Net loans and advances split at 30 June 2011](image)
Acquisition of GMI

Increased share of growing KiwiSaver market

→ Kiwibank announced the acquisition of GMI (Gareth Morgan Investments) in January 2012; the acquisition was completed in March 2012

→ The acquisition gives Kiwibank access to a new platform for growth in the KiwiSaver market and the combined GMI/Kiwibank is the 6th largest KiwiSaver fund in New Zealand

→ KiwiSaver is an attractive market because:
  - Industry projections are for Funds Under Management (“FUM”) in KiwiSaver to grow from $10bn now to $60bn in 2021
  - The GMI acquisition will help Kiwibank to strengthen its bank product and access its existing customers who do are not currently KiwiSaver customers - c. 600,000 current bank customers
  - The purchase of the full value chain will enable Kiwibank to increase its margin in KiwiSaver from 20bps to 50bps
  - Overall FUM growth will is a stepping stone to drive the overall Kiwibank growth in Private Wealth
Kiwibank capital and funding

Working towards capital self sufficiency

→ Kiwibank’s plans require an increasing regulatory capital base to underpin the growth. NZP is committed to providing capital to facilitate this growth
  → NZP has injected $360m of equity funding since establishment, with $50m injected in FY2012
→ Kiwibank is increasingly looking to become self sufficient in terms of ongoing capital requirements
→ Retail deposits remain very healthy despite the increased competition in this market – overall customer funding accounts for 87% of Kiwibank’s funding

Capital injections from NZP

Source: NZP
Kiwibank debt programmes

<table>
<thead>
<tr>
<th>Programme</th>
<th>Market</th>
<th>Term</th>
<th>Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered Certificate of Deposit (RCDs)</td>
<td>NZ</td>
<td>Short</td>
<td>unlimited</td>
</tr>
<tr>
<td>Medium Term Note (NZ MTN)</td>
<td>NZ</td>
<td>Long</td>
<td>unlimited</td>
</tr>
<tr>
<td>Residential Mortgage Backed Securities (RMBS)</td>
<td>NZ</td>
<td>Short</td>
<td>NZ $600m</td>
</tr>
<tr>
<td>Euro Commercial Paper (ECP)</td>
<td>Offshore</td>
<td>Short</td>
<td>US $2,000m</td>
</tr>
<tr>
<td>Australian MTN (Kangaroo)</td>
<td>Australia</td>
<td>Long</td>
<td>A $1,500m</td>
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Recent capital raisings include:
- $150m of perpetual preference shares
- A$250m Australian fixed rate bond (5 years)
- $30m of private placement
- European Commercial Paper programme with capacity up to US$2bn

Kiwibank also has $150m of tier one capital, Kiwi Capital Securities, on issue and listed on the NZDX
Credit rating

→ Standard & Poor’s rating of AA-/A-1+ (Negative outlook) reflects the same rating as NZP, which provides an unconditional guarantee of Kiwibank’s senior unsecured debt

→ S&P comments:

→ “Our assessment of Kiwibank’s capital and earnings factors as "strong" factors in our expectation that the bank’s risk-adjusted capital (RAC) ratio will be managed at about 10.1%–10.5% over the next 12-24 months. This expectation accommodates Kiwibank growing its business above system growth levels”.

→ “Kiwibank has adequate capacity to meet its liquidity needs, supported by its balance-sheet holdings of liquid assets, good and stable cash flows from amortising loans, and its large and reasonably stable retail deposit base”. 
Capital adequacy

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<tbody>
<tr>
<td>Tier 1 Capital</td>
<td>10.4%</td>
<td>10.8%</td>
<td>10.4%</td>
<td>10.5%</td>
<td>9.8%</td>
<td>12.0%</td>
<td>11.5%</td>
<td>11.0%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Tier 2 Capital</td>
<td>8.0%</td>
<td>8.3%</td>
<td>7.3%</td>
<td>7.7%</td>
<td>7.4%</td>
<td>9.8%</td>
<td>9.5%</td>
<td>9.0%</td>
<td>10.1%</td>
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</table>

Total Capital (Pillar I)
Digital services

Leveraging off NZP’s trusted brand into digital services

<table>
<thead>
<tr>
<th>Localist</th>
<th>An Auckland-based online directory service capitalising on social media and localisation trends</th>
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<tbody>
<tr>
<td>Datacom</td>
<td>36% stake in respected ICT provider with full service offering</td>
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<tr>
<td>Converga</td>
<td>Digital information management and business process outsourcing</td>
</tr>
</tbody>
</table>

→ Offering a business to consumer service but not just digitising the existing value proposition
→ Digital will underpin the range of customer services in both the postal and financial services divisions
Localist

Online and printed local directory service in Auckland

→ Localist helps NZP connect with a broad range of SME businesses through its digital offering

→ Directional media market is valued c. $1bn in New Zealand with approximately $350m in Auckland

→ A New Zealand market opportunity mirroring global changes
  – First directory in NZ with a substantial digital offering using cutting edge technology
  – Builds on trends for local recommendations – e.g. Yelp.com, citysearch.com
  – Localist is multi channel – print, digital, mobile

→ The print business has been softer than originally anticipated but the online offering has been successful to date

→ Leveraging and monetising the investment in the online platform will be critical for Localist’s success
Datacom

36% stake in growing ICT business

→ Track record of strong organic and inorganic growth
→ NZP’s investment was valued at $114m last year
→ Growing geographic diversity – over 50% from outside NZ in Australia/Asia
→ NZP has a ‘hold’ policy on the investment while looking to enhance the strategic value of its investment
Business processing outsourcing

→ There is a significant opportunity to offer business process outsourcing services to Government departments
  - The Better Public Service initiative which promotes greater efficiencies and lower costs is likely to generate opportunities in BPO
  - More efficient handling of back office – firstly intra-department then inter-department
  - NZP has secured a registry contract with Ministry of Health – outsourcing of data and communications management of the national cervical screening programme

→ Business process outsourcing to other corporates remains a large scale opportunity for digital services including:
  - Work flow management
  - Paperless accounts – and integration of hybrid mail
  - Software as a Service and cloud computing of statements/invoices etc
Active portfolio management

Rationalising the periphery businesses in line with the main strategy

→ Sale process of ECN underway and in final stages
→ Transend exit concluded at end of FY2011 with residual customer commitments being completed and/or transferred into other parts of NZP
→ Airpost - reviewing the ownership of fleet of remaining six aeroplanes
→ Parcel Direct Group – divestment or closure of all the regional transport businesses. Couriers Please retained and tracking profitably this year
Revenue and Expenses

- Revenues have declined in recent years as volume decreases in the core postal business impact on Group revenues
- Costs have remained static which has led to a decline in the operating margin
- Underlying volume decline in postal is inevitable due to technological substitution. Recently announced standard letter price increase helps to offset this but the cost base must be addressed
- Current initiatives seek to alter the cost base to reflect current and future demand
Profitability

→ Headline performance in recent years has been impacted by one off costs
→ Underlying profitability has been steady, with growth from financial services offsetting a decline in postal profits
→ Given the decline in postal profits, the Group is undergoing a significant restructuring
→ During this period, NZP’s shareholder, the NZ Government, has agreed to a reduced dividend payout until profitability has been restored in the postal business
Strong financial position

→ NZP retains a conservative debt position with leverage of c. 30%

→ NZP’s debt funding comes from a range of sources and tenor – reducing re-financing risk in any given year

→ The wholesale bond maturity of $100m in November 2011 was refinanced with a $150m 5 year issue at 5.225%

→ The retail hybrid note of $200m matures in 2039 and includes a 50% equity credit. Buyback and/or remarketing is possible in 2014 when a 1.0% step up margin occurs

→ Overall, the Group has ample credit lines available should the need arise. However, management is mindful of any impact on the credit rating particularly FFO/debt

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Facility (NZDm)</th>
<th>Drawn (NZDm)</th>
<th>Maturity</th>
<th>Coupon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash advance</td>
<td>50</td>
<td>0</td>
<td>Dec-12</td>
<td></td>
</tr>
<tr>
<td>Cash advance</td>
<td>50</td>
<td>0</td>
<td>Dec-13</td>
<td></td>
</tr>
<tr>
<td>Commercial paper</td>
<td>200</td>
<td>60</td>
<td>&lt;90 days</td>
<td></td>
</tr>
<tr>
<td>NZP Bonds</td>
<td>200</td>
<td>150</td>
<td>Nov-16</td>
<td>5.225%</td>
</tr>
<tr>
<td>NZP Hybrid Notes</td>
<td>200</td>
<td>200</td>
<td>Nov-39</td>
<td>7.50%</td>
</tr>
<tr>
<td>Kiwibank subordinated debt 1</td>
<td>60</td>
<td>60</td>
<td>Sep-18</td>
<td>8.75%</td>
</tr>
</tbody>
</table>

NZP debt maturity profile

Source: NZP
Capital structure

As at 30 June 2011

- Debt securities: $302m
- Hybrid bond: $200m (50% equity credit)
- Equity: $798m

<table>
<thead>
<tr>
<th>Capital Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>192</td>
</tr>
<tr>
<td>Reserves</td>
<td>456</td>
</tr>
<tr>
<td>Preference share</td>
<td>150</td>
</tr>
<tr>
<td>Hybrid bonds (50% equity credit)</td>
<td>200</td>
</tr>
<tr>
<td>Kiwibank subordinated debt</td>
<td>135</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>60</td>
</tr>
<tr>
<td>Bank loans</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>546</td>
</tr>
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</table>
Cash flow

→ NZP’s cash flows from operations remain healthy

→ In recent years, the growth of Kiwibank has absorbed cash but this trend is now improving

→ Capital expenditure has been extensively reviewed over the past year
  - A large number of projects were found to deliver limited financial returns – these have now been halted
  - Free cash flow will strengthen as these changes flow through
Standard & Poor’s credit rating

AA- (Negative outlook)

→ The rating reflects S&P’s assessment of NZP’s business and support from the NZ Government
  → “Strong” business profile – NZ’s postal operator and strong retail and distribution presence
  → “Intermediate” financial profile – low leverage of c. 30% and adequate FFO

→ The strength of the Government relationship is fundamental to the rating
  → Strong evidence of historic and ongoing Government support
  → Uncalled capital facility of $300m is further evidence of this strong relationship
  → Operation of a flexible dividend policy

→ A return to a stable outlook will require a stabilisation of the postal business and improvement of FFO/debt to >30%
Property portfolio

$200m property portfolio

→ There is currently over $200m of property assets on the NZP balance sheet

→ $9m are investment properties (down from $31m last year) i.e. the tenant is external to NZP

→ A review of the portfolio is currently underway in order to rationalise the portfolio

→ In general, NZP aims to lease its sites in order to maximise flexibility and leave the risk of ownership to property specialists

→ Complicated ownership system with various pre-emptive rights etc will impede pace of rationalisation
### Key Financial Metrics

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profitability</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>1,290.0</td>
<td>1,253.8</td>
<td>1,204.2</td>
<td>1,279.7</td>
</tr>
<tr>
<td>Operating profit</td>
<td>114.4</td>
<td>90.4</td>
<td>24.4</td>
<td>-30.0</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>136.8</td>
<td>93.5</td>
<td>34.1</td>
<td>-34.6</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>110.2</td>
<td>71.8</td>
<td>1.3</td>
<td>-35.6</td>
</tr>
<tr>
<td>Extraordinary items</td>
<td>21.0</td>
<td>(5.8)</td>
<td>(72.3)</td>
<td>77.3</td>
</tr>
<tr>
<td>Normalised PBT</td>
<td>115.8</td>
<td>99.3</td>
<td>106.4</td>
<td>42.7</td>
</tr>
<tr>
<td>Normalised PAT</td>
<td>89.2</td>
<td>77.6</td>
<td>73.6</td>
<td>41.7</td>
</tr>
<tr>
<td>Normalised PBT (ex Kiwibank)</td>
<td>61.3</td>
<td>15.7</td>
<td>41.7</td>
<td>(7.2)</td>
</tr>
<tr>
<td>Normalised PAT (ex Kiwibank)</td>
<td>52.3</td>
<td>14.0</td>
<td>27.7</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kiwibank banking assets</td>
<td>7,138</td>
<td>10,259</td>
<td>12,141</td>
<td>13,753</td>
</tr>
<tr>
<td>Total assets</td>
<td>8,037</td>
<td>11,304</td>
<td>13,075</td>
<td>14,682</td>
</tr>
<tr>
<td>Kiwibank banking liabilities</td>
<td>6,778</td>
<td>9,799</td>
<td>11,457</td>
<td>13,075</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>7,370</td>
<td>10,635</td>
<td>12,243</td>
<td>13,888</td>
</tr>
<tr>
<td>Total voting equity</td>
<td>667</td>
<td>669</td>
<td>539</td>
<td>686</td>
</tr>
<tr>
<td>Preference shares</td>
<td>-</td>
<td>-</td>
<td>147</td>
<td>147</td>
</tr>
<tr>
<td><strong>Returns</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normalised ROE (ex Kiwibank)</td>
<td>7.9%</td>
<td>2.1%</td>
<td>5.1%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Normalised ROCE (ex Kiwibank)</td>
<td>9.8%</td>
<td>1.5%</td>
<td>8.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Normalised ROE (Total NZP)</td>
<td>13.4%</td>
<td>11.6%</td>
<td>10.7%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>
## Key Performance Indicators

<table>
<thead>
<tr>
<th>Section</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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</thead>
<tbody>
<tr>
<td><strong>Core Post</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic postal volumes</td>
<td>millions of items</td>
<td>951</td>
<td>887</td>
<td>843</td>
</tr>
<tr>
<td>International postal volumes</td>
<td>millions of items</td>
<td>101</td>
<td>99</td>
<td>96</td>
</tr>
<tr>
<td>Postal delivery points</td>
<td>millions</td>
<td>1.84</td>
<td>1.87</td>
<td>1.89</td>
</tr>
<tr>
<td>Standard letter service performance</td>
<td>%</td>
<td>96.5</td>
<td>94.4</td>
<td>95.9</td>
</tr>
<tr>
<td><strong>Store network</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PostShops</td>
<td></td>
<td>325</td>
<td>326</td>
<td>307</td>
</tr>
<tr>
<td>PostCentres</td>
<td></td>
<td>656</td>
<td>627</td>
<td>626</td>
</tr>
<tr>
<td><strong>Couriers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road on time performance</td>
<td>%</td>
<td>-</td>
<td>95.6</td>
<td>95.7</td>
</tr>
<tr>
<td>Air on time performance</td>
<td>%</td>
<td>-</td>
<td>89.4</td>
<td>88.5</td>
</tr>
<tr>
<td><strong>Kiwibank Banking Group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 capital (%)</td>
<td>%</td>
<td>8.3</td>
<td>7.7</td>
<td>9.8</td>
</tr>
<tr>
<td>Growth in Banking Group assets (%)</td>
<td>%</td>
<td>50.1</td>
<td>27.4</td>
<td>18.0</td>
</tr>
<tr>
<td>Main bank market share</td>
<td>%</td>
<td>6.1</td>
<td>7.3</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kiwibank Banking Group</td>
<td>FTE's</td>
<td>871</td>
<td>934</td>
<td>953</td>
</tr>
<tr>
<td>Postal Group</td>
<td>FTE's</td>
<td>8,752</td>
<td>8,088</td>
<td>7,757</td>
</tr>
<tr>
<td>Lost time injury frequency rate</td>
<td>per 1,000,000 hours worked</td>
<td>17.15</td>
<td>9.70</td>
<td>7.44</td>
</tr>
</tbody>
</table>
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Investor Centre  
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