ANNUAL RESULTS
## Headline numbers

<table>
<thead>
<tr>
<th>NZ$m</th>
<th>Reported results</th>
<th>Last year</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from operations</td>
<td>1,279.7</td>
<td>1,204.2</td>
<td>75.5</td>
</tr>
<tr>
<td>Expenditure</td>
<td>1,309.6</td>
<td>1,179.3</td>
<td>130.3</td>
</tr>
<tr>
<td>EBIT</td>
<td>(25.0)</td>
<td>47.4</td>
<td>(72.4)</td>
</tr>
<tr>
<td>NPAT (as reported)</td>
<td>(35.6)</td>
<td>1.3</td>
<td>(36.9)</td>
</tr>
<tr>
<td>One off costs</td>
<td>77.4</td>
<td>72.3</td>
<td>5.1</td>
</tr>
<tr>
<td>NPAT pre one off costs</td>
<td>41.7</td>
<td>73.6</td>
<td>(31.9)</td>
</tr>
<tr>
<td>Total equity</td>
<td>794.4</td>
<td>832.5</td>
<td>(38.1)</td>
</tr>
<tr>
<td>Total assets</td>
<td>14,681</td>
<td>13,075</td>
<td>1,606</td>
</tr>
<tr>
<td>Net debt</td>
<td>202.9</td>
<td>235.6</td>
<td>(33.0)</td>
</tr>
</tbody>
</table>
Quakes and Write Offs

Adverse events impacted reported profits

→ Canterbury earthquakes – pre tax costs of $29.1m ($20.4m post tax) including a $25.0m provision for bad debts incurred by Kiwibank

→ Write down of $35.2m associated with ongoing divestment and sale process of PDG, our Australian courier businesses

→ Restructuring costs of $12.3m ($8.4m post tax) associated with business transformation

→ Kiwibank bad debt provisions increased by $67m (including $25m of earthquake costs above)

→ Other asset write downs – further evaluation of the portfolio due to:
  - Continued flat economic conditions impact future valuations
  - Strategy to simplify to core activities and divest/exit non core assets
Underlying profit shows resilience

Like for like profit of $41.7m prior to absorption of $77.4m of new costs

- 2011 underlying NPAT: $41.7m
- Christchurch earthquake (pre-tax $29.1m): $(20.4)m
- PDG divestment write-down: $(35.2)m
- Restructuring costs (pre-tax $12.3m): $(8.1)m
- Other: $(13.6)m
- 2011 reported NPAT: $(35.6)m

Source: NZP
Healthy cash flow

→ The majority of the financial impact on the 2011 results are non-cash balance sheet write downs

→ Net debt at NZP (excluding Kiwibank) remains stable given the underlying performance of the Group remains solid

→ Cash flow from operations remains healthy aided by the cash flows from the mature postal business and Kiwibank has largely funded current year growth from its own balance sheet

→ Free cash flow is set to benefit next year from rationalisation of projects and increased focus on capital returns

→ The transformation of NZP will not however be achieved without significant ongoing investment
Conservative debt funding

→ NZP retains a conservative debt position with funding coming from a range of sources and tenor – reducing any re-financing risk in any given year

→ NZP has access to various credit lines which it uses sparingly and has continued access to substantial undrawn short term liquidity

→ Kiwibank capital adequacy measures continue to be in excess of regulatory minimums despite recent market events

→ S&P rating of AA- (stable) reflecting S&P’s assessment of NZP’s business and support from the NZ Government
  
  – “Excellent” business profile – strong market position and trusted brand
  
  – “Intermediate” financial profile – low leverage of < 25% and strong liquidity

![NZP capital structure diagram](source: NZP)

![NZP debt maturity chart](source: NZP)
OUR PLAN
Three stage transformation

<table>
<thead>
<tr>
<th>2010</th>
<th>2011</th>
<th>2012 onwards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Develop Plan</strong></td>
<td><strong>Execute Plan</strong></td>
<td><strong>Benefits accrue</strong></td>
</tr>
<tr>
<td>First new management team in place</td>
<td>Completion of new Group Leadership Team including several external hires</td>
<td>NZ Post’s transformation is ongoing but benefits from 2 years of restructuring will begin to accrue</td>
</tr>
<tr>
<td>Review of businesses and group strategy</td>
<td>Strategic plan executed with long-term benefits but short-term restructuring costs</td>
<td>Target growth in core businesses</td>
</tr>
<tr>
<td>Development of a strategic plan to tackle reduced chronic reduction in postal volumes</td>
<td>Active portfolio management leading to further balance sheet write offs</td>
<td>Growth through the bank – committed to Kiwibank and funding its growth</td>
</tr>
<tr>
<td>Initial write offs booked</td>
<td>These changes will rebuild the profitability in the business and reposition it for the future</td>
<td>Reposition as a trusted digital intermediary alongside heritage postal business</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target mid term ROCE of at least 12% and overall stronger financial performance</td>
</tr>
</tbody>
</table>
New shape of NZ Post

→ NZ Post is focused on three core and growth businesses without the distraction of a large non-core portfolio.

<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>new zealand HOME LOANS</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>kiwibank It’s ours</td>
</tr>
<tr>
<td>Digital</td>
<td>Platforms to link businesses with customers, leveraging trusted brand position</td>
<td>PostShop</td>
</tr>
</tbody>
</table>
<pre><code>                                                                                 | New Zealand Post                  |
                                                                                 | Pace                             |
                                                                                 | datam                           |
                                                                                 | DATACOM                         |
                                                                                 | converga                        |
                                                                                 | Localist                        |
</code></pre>
Focus on the core portfolio

Postal

- Reorganisation from 1 July 2011 – Operations and Customer Services and Solutions
- Removal of duplicated costs in previously siloed businesses
- Re-focus on customer creating solutions to answer their needs rather than market pre-designed product
- Continual improvement of efficiency in both processing and delivery
- Retail transformation to overhaul store network including introduction of new technology (e.g. kiosks) and new locations (e.g. PO boxes at local supermarket/petrol station)

Financial Services

- Kiwibank was launched in 2002 and has achieved excellent growth since inception and 8% main bank share
- Kiwibank continues to innovate and is targeting diversification into a wider range of services to maintain asset growth: business banking, wealth management, bancassurance
- Management of risk – containing costs while growing the business
- $310m injected by NZP to date but targeting capital self sufficiency in the medium term
- Healthy liquidity with core funding ratio of 79% well in excess of 70% RBNZ requirement from July 2011

Digital

- Leverage NZP’s trusted brand, networks and experience to create an innovative digital service where NZP is a trusted intermediary in communications and transactions in the digital space
- Development of a digital post network – creating a unique offering integrating both the physical and digital offerings
- Localist – responding to the needs and demands of small, local businesses and the trend for consumers to both 1) use social media and 2) stay local
- Datacom – 36% stake in respected ICT provider with full service offering
## Meeting our challenges

<table>
<thead>
<tr>
<th>The Challenge</th>
<th>Our Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>A structural decline in postal volumes through substitution of digital media</td>
<td>Build a sustainable physical network that is New Zealand’s provider of choice</td>
</tr>
<tr>
<td>The second stage of growth of Kiwibank – from start up challenger brand to full service bank</td>
<td>Grow our core business and to diversify the bank into new markets – reducing portfolio risk and accessing new growth markets.</td>
</tr>
<tr>
<td>Creating a sustainable business in the digital market</td>
<td>Leverage our trusted brand to become the key enabler of the digital economy in New Zealand</td>
</tr>
<tr>
<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>
<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

→ We have a variety of initiatives in place to reconfigure our current network to be sustainable both now and in the future which focus on:

  ─ Altering the ratio of fixed to variable costs e.g. the Postie Pay model trials will change the pay model to relate hours worked rather than fixed cost postie runs.

  ─ Increasing the efficiency in the current network e.g. the Last Mile trial involving the cooperation of both NZ Post and CourierPost will lower costs and increase efficiency across the various delivery networks.

  ─ 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 also scenario testing a potential fundamental redesign of the network business model in the next 5 -10 years.

→ We are also keen to develop a partnering model – both locally and internationally – where the mutual benefits are appealing.
Grow the bank

→ Kiwibank is planning to 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:
  
  - a new and expanded proposition for business banking,
  - renewed focus on wealth management,
  - development of newly initiated businesses such as insurance and our own Kiwisaver product.

→ Kiwibank is targeting a reduction in their cost / income ratio with a 2014 target of under 60%.

→ The upcoming transformation of the store network will be instrumental in attracting new customers.

→ The Group is committed to providing the capital necessary to facilitate this ongoing growth. Kiwibank is targeting to be capital self sustainable by 2015.
Key enabler in the digital economy

→ We will develop unique digital postal options that will integrate both the physical and digital offerings and build on our competitive advantages
  - Our position at the intersection between government, enterprise and their clients
  - Our trusted community relationship.
→ We plan to expand sensitive database management business – a range of projects and pilots have already commenced.
→ 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.

→ Self service is a key strategic initiative for both NZP and Kiwibank – allowing us to enhance the customer experience and increase our community reach in an economic and sustainable way.

→ Our product offering will be dramatically rationalised in order to deliver a simple and efficient range of solutions and services.

→ The pilot of three new format stores will be trialled from October 2011:
  - A mix of larger growth stores with separate banking and postal counters, and express stores that will be more compact and located in places that Kiwis find most convenient in their daily routine
  - Customers will be able to complete simple transactions without having to queue up allowing front line staff to be freed-up to complete more complex transactions and deliver solutions.
Contact Details

Mark Yeoman  
Chief Financial Officer  
DDI: +64 4496 4099  
Mobile +64 21 778 404  
Email: mark.yeoman@nzpost.co.nz

Rhiannon McKinnon  
Investor Relations Manager  
DDI: +64 4496 4096  
Mobile: +64 212 488 882  
Email: rhiannon.mckinnon@nzpost.co.nz

Investor Centre  
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