NZPost
Tukurau Aotearoa

Statement of Corporate Intent

1 July 2021 – 30 June 2024

Statement of Corporate Intent ('SCI')
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This statement is prepared in terms of section 14 of the State-Owned Enterprises Act 1986 (the 'Act').

Objectives

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

- to be as profitable and efficient as comparable businesses that are not owned by the Crown;
- to be a good employer; and
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.

Within this context the purpose and core strategies of NZ Post are defined.

Nature & Scope of our business

NZ Post, Tukurau Aotearoa, is a New Zealand-based delivery and eCommerce logistics company, with global reach.

While on the surface it may look like we just process and deliver items – parcels, packages and letters (both within New Zealand and internationally) - we are so much more than that, including getting essential goods to where they need to be, connecting businesses with their customers, and giving people a way to send loved ones something special.

As part of delivering to households and businesses across New Zealand, we maintain a rural network, and our offerings also include exceeding our commitment to provide at least 880 places to meet us face-to-face and providing bill payment services.

In providing these services we meet our obligations under a Deed of Understanding with the New Zealand Government as the Universal Service Obligation (USO) mail service provider. Also, we're the Designated Operator (DO) on behalf of the New Zealand Government for the Universal Postal Union (UPU).

Simply put, we bring New Zealand closer together and connect us with the world.

To do this, we partner to provide logistics services for and expertise to businesses, including many engaged in eCommerce with consumers and other businesses. Our international business helps New Zealand customers send and trade internationally and enables global customers to access our shores.

NZ Post established Kiwibank and retains 53% of Kiwi Group Holdings (KGH) - the company that holds Kiwibank, Kiwi Wealth, New Zealand Home Loans and Kiwi Insure.

As a State-Owned Enterprise our overall strategy is designed to deliver commercial value to our shareholder and as such we report on progress against our financial goals. However, we know that sustainable success requires an integrated strategy and so we have six sources of overall value (known as threads) which drive our business outcomes – these are: Commercial, Customers, People, Partnerships, Environment and Networks.

Purpose & Aspiration

At NZ Post our purpose is "Delivering what people care about".

We're a trusted part of New Zealand's communities - for the past 180 years Kiwis have been able to count on NZ Post, and it's our promise that they can count on us in the future.

We go the extra mile every day to make sure we're the first choice when it comes to delivering what New Zealanders care about, with a reach that is unrivalled.

However just like New Zealand, we're changing too - while we may have years of history behind us, we're committed to finding new ways to make things easy and be the best at what we do, now and in the future.

The past year has highlighted the need for us to continue to grow and change as both New Zealand, and the international community, face evolving challenges and opportunities.

Like other postal businesses across the globe, we are working to capture the opportunities that eCommerce and online shopping bring, while addressing the reality of ongoing letter decline.

As an organisation we continue to look at not just what we do, but how we do it, to ensure we're **"the best delivery business for New Zealand"**.

By continuing to invest and design services for the New Zealand of tomorrow, we're making sure New Zealanders are getting the best service today.

Strategy

Our six "threads" are the sources of value that collectively intertwine and weave together to create what is NZ Post. Individually our threads are all important, and when combined they not only become stronger, they create a rich tapestry of who we are and what we're about.

They are crucial to what drives us, differentiates us, and ensures our future success. The threads, including the outcomes we are seeking, are:

- **Commercial** – Financially strong, supporting our own future growth and delivering benefit back to our shareholder.
- **Customer** – Anticipating customer needs and delivering an experience that makes us the first choice.
- **People** – A place where people are valued, belong and thrive. They do their best work and love being here.
- **Partnerships** – Highly valued for the strong, long lasting relationships we've built and the contribution this makes for New Zealand.
- **Environment** – We aim to have reduced our carbon emissions by 32% (baseline 2018) and be carbon neutral from 2030. To be the leading sustainable brand in NZ.
- **Networks** – Running networks that are renowned for the excellence, reach, and customer choice they offer.

Delivering on our Aspiration

Over the past several years we have been managing strong growth in parcel volumes and structural decline in letter volumes. These trends were heightened by the effects of COVID-19, which has accelerated the decline in letter volumes (both domestic and international) and has contributed to record peaks of parcels moving through our network.

Effectively managing both decreasing mail volume, and the growth opportunities in parcels, is critical to our future success.

1. Parcels

To strengthen our future position, NZ Post is investing in its 10-year strategy for parcel growth. This includes investing in automation of the network backbone and associated technology which will allow us to double our annual parcel-processing capacity and process it more efficiently.

We are using a customer-led approach to continue to grow the eCommerce market and our parcel business. This involves understanding the audience we serve in our chosen markets, defining the experience we must provide our customers and building the capabilities we need to bring these experiences to life.

2. Mail

The rate at which mail is declining was accelerated by the effects of COVID-19, and NZ Post continues to manage the difficult balance between maintaining service and seeking a commercially sustainable mail service for the future. In Budget 2020, the Government announced funding of $130 million for a period of up to three years (1 July 2020 – 30 June 2023) for NZ Post to maintain agreed mail service levels in the interim. NZ Post is continuing to have conversations with the Government about the future of mail beyond this funding envelope.

3. Investment in Kiwi Group Holdings Limited (KGH)

NZ Post will continue to monitor and seek to maximise the value of its investment in KGH.

Sustainability Commitment

People Creating a positive social impact	**Our Communities** Strong and resilient communities **Our people** A great place to work	• Support the growth of social enterprise in New Zealand by using our procurement spend to buy from social enterprises • Deliver mail to those that need it and play a role in connecting communities where there are lower rates of digital uptake • Deliver meaningful and measurable social impact, which focuses on improving connection, belonging and inclusion through our community investment portfolio • Encourage our people to use their one day volunteer leave per year to support local charities and not for profits
Planet Decarbonising our business	**Our operations and our services** Carbon neutral from 2030 Reduce our emissions by 32% from FY18 to FY30 (approved science-based target[1])	• Implement carbon reduction projects that focus on our biggest emission sources to achieve our target
Prosperity Long-term inclusive growth	**Our business** Build a sustainable business and brand **Our customers** Develop sustainable products and services	• Embed integrated thinking into strategic planning, decision making and performance reporting – our six threads • Introduce sustainable packing solutions that fulfil our public commitment to the 100% reusable, recyclable or compostable packaging by 2025 or earlier

1 Target from Science Based Targets (https://sciencebasedtargets.org/)

Accounting Policies

The policies will be consistent with:

- the legal requirements of the Companies Act 1993 and any other relevant legislation; and
- New Zealand's Generally Accepted Accounting Principles.

NZ Post's detailed accounting policies are set out in NZ Post's latest half yearly report which can be found here:

https://www.nzpost.co.nz/sites/nz/files/uploads/shared/annual-reports/nz-post-group-interim-financial-statements-half-year-report-feb-2021.pdf

Performance Measures

Key Performance Targets		2021 Forecast	2022 Plan	2023 Plan	2024 Plan
Commercial					
Shareholder Returns					
- Total Shareholder Return	%	9.3%	8.6%	11.3%	14.3%
- Dividend yield	%	0.0%	0.0%	0.0%	0.0%
- Return on equity	%	2.0%	4.8%	6.9%	9.1%
Profitability / Efficiency					
- Return on capital employed	%	1.3%	3.7%	4.8%	6.3%
Leverage and Solvency					
- Gearing ratio (net)	%	13.9%	23.3%	25.7%	22.7%
- Interest cover	times	6.0	16.1	15.7	18.6
- Solvency (Current ratio)	times	0.8	0.9	0.6	1.0
Customer					
- Net Promoter Score (Consumer)		+17	+21	+26	+29
- Net Promoter Score (Business)		+22	+27	+31	+35
People					
- Engagement	%		Baseline	Baseline +2%	Baseline +4%
- Total Recordable Injuries	%	+20%	–	–	–
Environment					
- Total emissions	tCOe (k)	115.1	119.0	116.7	114.4
- Directly influencable emissions	tCOe (k)	65.6	61.9	58.7	55.4
Network					
- Standard letter service performance (Letters delivered to standard (Testpo Survey)	%	90%	90%	90%	90%

The financial KPTs above are based on the consolidated result of NZ Post including the share of profits from KGH.

NZ Post is currently working to determine the most appropriate method of measuring people engagement and a baseline will be established during FY22. NZ Post is also currently considering whether Total Recordable Injuries (TRIs) is the best metric for measuring safety performance, and if changes are made these will be reflected in next year's Statement of Corporate Intent.

Ratio of Shareholders' Funds to Total Assets

NZ Post's targets for the ratio of Total Shareholders' Funds (TSF) to Total Assets are as follows:

	NZ Post Group			
Ratio of Shareholders' Funds to Total Assets	**2021 Forecast**	**2022 Plan**	**2023 Plan**	**2024 Plan**
TSF: Total assets	73.7%	67.4%	66.3%	69.3%

Shareholders' Funds may include share capital, equity bonds as defined in the Act, and reserves. Total assets include current assets, goodwill, investments (including NZ Post's investment in KGH) and fixed assets for NZ Post.

Capital Expenditure

To strengthen its position and support the growth in parcels, NZ Post is expecting to invest nearly $240 million over the next three years in the following areas:

- **Run the Business** – expenditure necessary to maintain the existing asset base at its current level of productivity (including property and seismic maintenance; management and information technology systems replacements and the replacement and refurbishment of lifecycle assets).
- **Change the Business** – expenditure incurred to improve operational efficiency, pursue business improvement strategies or develop new products and services.
- **Te Iho** – the Te Iho program (Network Backbone Strategy) is an investment into a new and improved network backbone and associated technology that will enable NZ Post to double its parcel processing capacity by 2033.

Dividend Policy

NZ Post aims to distribute funds surplus to its ongoing operating and investment requirements, by reference to Net Cash Flows from Operating Activities (less deductions from lease liabilities), less capital expenditure. The range that the Directors expect to target is between 25% and 75% of Net Cash Flows from Operating Activities less capital expenditure less repayment of lease liabilities. In determining the level of funds available for distribution, the Directors will take into consideration maintenance of a sustainable financial structure, financial market conditions, investment required to support the business strategy and the Shareholder's preference for dividends over new investment.

Any dividend declared will be at a level that allows NZ Post to continue execution of its business strategy and planned investment without recourse to the Shareholder while maintaining a long-term sustainable capital structure. The level of dividend will be reviewed annually as part of the business planning process and following the half and full financial year ends.

The target dates for payment of dividends will typically be the business day nearest to 31 March for any interim dividend and the business day nearest to 30 September for the final dividend.

In determining any dividend, the Directors will also consider other forms of value that NZ Post creates for the Crown and its other stakeholders. This value creation story is set out in NZ Post's annual Integrated Report using the International Integrated Reporting Council (IIRC) framework.

Reporting to Shareholding Ministers

NZ Post will provide to shareholding Ministers an Annual Report in accordance with section 15 of the Act and will report on the achievement of the objectives and targets set out in this SCI.

The half-yearly report submitted in accordance with section 16 of the Act will include an unaudited Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and such details as are necessary to permit an informed assessment of NZ Post's performance during that reporting period. Quarterly reports will be submitted to shareholding Ministers providing provisional financial results. NZ Post will submit a Business Plan and SCI for discussion prior to the start of each financial year in accordance with section 14 of the Act and with the Treasury's Owner's Expectations Guide.

In accordance with section 18 of the Act, NZ Post will provide other information relating to its affairs as may be requested from time to time by the shareholding Ministers.

Procedures for Share Acquisitions

Subscriptions for shares in any company or interests in any other organisation will, where substantial or which involve a significant overseas equity investment, be subject to consultation with shareholding Ministers. The procedures for the establishment of subsidiary companies, and the sale of substantial assets of NZ Post or of any of its subsidiaries, are set out in Appendix 1.

Compensation from the Crown

NZ Post reserves the right under Section 7 of the Act to seek compensation for the necessity to provide any service where NZ Post is constrained from acting in a normal commercial business-like manner, or regulatory change, or other factors, cause such loss of business as to threaten NZ Post's viability while it maintains its social obligations.

In Budget 2020, the Government announced funding of $130 million for up to three years (commencing 1 July 2020). This funding is to support the continued delivery of mail services, while their future is considered. NZ Post and the Crown entered into a contract for mail services on 22 June 2020 to give effect to this funding.

Commercial Value of the Crown's Investment

The New Zealand Post Limited Board (the "Board") has estimated that the commercial value of the Crown's investment in NZ Post at 30 June 2021 was **$1,706 million** represented by:

	June 2021	June 2020
Group Enterprise Value	**$1,711m**	**$1,489m**
Group Equity Value attributable to the Crown	**$1,706m**	**$1,561m**
Fully paid shares (no.of shares)	272,200,000	272,200,000
Value per fully paid share (NZ$ per share)	**$6.27**	**$5.73**

Note

- Group Enterprise Value is the combined value of NZ Post and NZ Post's 53% holding in KGH
- Group Equity Value attributable to the Crown is the Group Enterprise Value plus cash and short-term deposits less debt

The key characteristics of the valuation approach adopted in deriving this valuation are as follows:

- the commercial valuation has been undertaken on a 'Sum-of-the-Parts' basis due to the diverse nature of the Company's make-up and operations.
- the core postal business comprising the mail, parcel and courier businesses and associated activities has been valued using a discounted cash flows (DCF) valuation approach as the primary methodology. The DCF valuation has been cross-checked against comparable company multiples and the book value of net operating assets employed in the business.
- the commercial valuation of the core postal business was prepared by Deloitte Corporate Finance, prior to consideration and approval by the Board.
- KGH has been valued using a combination of DCF and a comparable company multiples approach. The valuation reflects NZ Post's 53% holding in KGH.
- Deloitte's commercial valuation of NZ Post was based on a series of assumptions about maintaining a sustainable mail service and that is subject to some risks that the Board will continue to actively monitor. If the most significant of these assumptions were not to manifest, it could have a material impact on our valuation.

The current commercial valuation of **$1,706 million** compares with a commercial valuation as at 30 June 2020 of $1,561 million. The key drivers behind the increase in commercial valuation since 30 June 2020 are an increase in the value of NZ Post reflecting strong growth in projected parcel earnings along with an increase in the value of NZ Post's holding in KGH reflecting Kiwibank's higher earnings trajectory and reduced uncertainty related to the financial and economic implications of COVID-19.

The value per share has increased from $5.73 at 30 June 2020 to $6.27 at 30 June 2021 reflecting the change in commercial valuation.

Appendices

Appendix 1 – Subsidiaries and Associated Companies

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

Except in respect of Kiwi Group Holdings Limited and its subsidiaries, NZ Post shall ensure at all times that:

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

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

- that which is to be sold, disposed of or invested in, is valued at more than 5% of the shareholders' equity in NZ Post; or
- the sale, disposal or purchase will materially change the nature and scope of the key business activities as recorded under "Nature and Scope of the Business".

Appendix 2 – Consultation

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

- any substantial capital (or equity) investment;
- the sale or disposal of the whole or any substantial part of the company or its subsidiaries;
- any substantial expansion of activities outside the scope of its business as defined under "Nature and Scope of the Business"; and
- any other significant transaction.