New Zealand Post

Tukurau Aotearoa

Annual Report 2017

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This document is the New Zealand Post Annual Report 2017.

Financial commentary 2016/17

The New Zealand Post Group has reported a net profit after tax (NPAT) of $93m for the year ended June 2017 compared to a reported profit for the previous year of $141m. Kiwi Group Holdings (KGH) contributed $71m to the result ($131m for the comparable period last year). Excluding one-off items, the underlying net profit from NZ Post's core business (excluding KGH) was $4m compared with an $8m loss in the prior year. Operating revenue fell by 5.1% offset by a 9.0% reduction in operating expenditure.

On 31 October 2016, NZ Post sold 47% of its shareholding in KGH, which includes Kiwibank, Kiwi Insurance and Kiwi Wealth to NZ Super Fund and the Accident Compensation Corporation. A gain of $24m was realised on the sale, with the remaining 53% shareholding held at $857m as at 30 June 2017. Proceeds from the sale were used to repay $180m of debt and a special dividend of $100m was paid to the Crown.

In the core business (including parcels, letters and logistics), letter volumes continued to decline at a rate of approximately 11% but parcel volumes and revenue were up 8.5% and 3.5% respectively. Excluding one offs, the core business made a small profit for the year. Ongoing investment in processing and delivery technology position it well for strong e-commerce growth in the future.

The Statement of Financial Position of the Group remains stable and liquidity is supportive of the future goals of the business. The Group's credit rating remains at A+ with a stable outlook.

Other highlights for the New Zealand Post Group in FY 2017 include:

- $24m invested in the network transformation programme;
- 18% growth in international parcel volumes (inbound and outbound);
- 220,000 individual users of parcel delivery options – Authority to Leave at home, Parcel Collect at more than 190 locations and Parcel Redirect;
- Christchurch, Waikato and Taranaki operations centres opened and operational;
- 250 Paxster electric delivery vehicles in operation; and
- Automated mixed mail sorting machines in Auckland processing up to 70,000 items per night.

Reconciliation of profit after taxation to underlying NZ Post performance	**Year ended 30 June 2017 $m**	Reclassified Year ended 30 June 2016 $m
Group profit after tax for the year	**93**	141
Less: profit after tax from discontinued operations	**(42)**	(131)
Less: share of net profit of KGH	**(29)**	-
	22	10
Less: gain on sale of investments	**(24)**	(43)
Add back:		
Restructuring costs	**-**	15
Other	**6**	10
Underlying NZ Post profit after tax	**4**	(8)

NEW ZEALAND POST GROUP

FINANCIAL STATEMENTS

Primary Statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Note	**2017 $m**	Reclassified 2016 $m
Revenue from operations	4	**890**	938
Expenditure	5	**887**	975
Operating profit / (loss)		**3**	(37)
Financial instruments at fair value net loss		**(5)**	-
Finance costs (net)	6	**(6)**	(12)
Insurance proceeds		**3**	-
Share of net profit of joint ventures	9(b)	**30**	-
Gain on sale of investment in subsidiary	8(b)	**-**	43
Profit / (loss) before income tax from continuing operations		**25**	(6)
Income tax income	7	**2**	16
Profit for the year after taxation from continuing operations		**27**	10
Profit after tax from discontinued operations	8(a)ii	**42**	131
Gain on sale of investment in subsidiary	8(a)iii	**24**	-
Profit for the year		**93**	141
Attributable to:			
Owners of New Zealand Post Limited		**93**	141
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gains / (losses) on revaluation of land and buildings	22(c)	**(1)**	3
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		**-**	(3)
Other comprehensive income arising from discontinued operations	8(a)ii	**9**	11
Share of other comprehensive income of joint ventures	22(c)	**8**	-
Total other comprehensive income net of tax	22(c)	**16**	11
Total comprehensive income net of tax		**109**	152
Total comprehensive income for the year attributable to:			
Continuing operations		**34**	10
Discontinued operations		**75**	142

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes on pages 10 to 85.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Note	Fully Paid Ordinary Shares $m	Other Reserves $m	Retained Earnings $m	Non-controlling Interest $m	Total $m
Balance at 1 July 2015		**192**	**(20)**	**940**	**42**	**1,154**
Profit for the year		-	-	141	-	141
Other comprehensive income	22(c)	-	11	-	-	11
Total comprehensive income for the year		-	11	141	-	152
Other movements						
Transfer between revaluation reserve and retained earnings		-	(5)	5	-	-
Reclassification to profit or loss on sale of investment		-	5	(2)	-	3
Transactions with Owners						
Distributions to holders of perpetual capital		-	-	(11)	-	(11)
Dividends paid to shareholders		-	-	(5)	-	(5)
Balance at 30 June 2016		**192**	**(9)**	**1,068**	**42**	**1,293**
Profit for the year		**-**	**-**	**93**	**-**	**93**
Other comprehensive income	22(c)	**-**	**16**	**-**	**-**	**16**
Total comprehensive income for the year		**-**	**16**	**93**	**-**	**109**
Other movements						
Transfer between revaluation reserve and retained earnings		**-**	**(3)**	**3**	**-**	**-**
De-recognition of reserves on partial sale of KGH	22(c)	**-**	**25**	**(2)**	**-**	**23**
De-recognition of non-controlling interest		**-**	**-**	**-**	**(42)**	**(42)**
Reclassification to profit and loss on close-out of hedged item		**-**	**7**	**-**	**-**	**7**
Transactions with Owners						
Dividends paid to shareholders	22(a)	**-**	**-**	**(105)**	**-**	**(105)**
Balance at 30 June 2017		**192**	**36**	**1,057**	**-**	**1,285**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 10 to 85.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Note	**2017 $m**	2016 $m
ASSETS			
Current assets			
Cash and cash equivalents	10	**64**	68
Short term deposits	10	**222**	233
Assets held for sale	11	**9**	4
Trade and other receivables	12	**149**	186
Inventories		**8**	6
Derivative financial assets	21	**9**	9
Loans to related parties	23	**2**	-
Tax receivable		**1**	-
Other current assets		**7**	15
Total current assets		**471**	521
Non-current assets			
Trade and other receivables	12	**18**	23
Property, plant and equipment	13	**146**	165
Intangible assets	14	**225**	468
Deferred tax asset	7	**5**	16
Investment properties		**3**	4
Loans to related parties	23	**93**	2
Investment in joint venture	9	**857**	3
Total non-current assets		**1,347**	681
Specific banking assets			
Cash and cash equivalents	26(a)	**-**	509
Due from other financial institutions	26(b)	**-**	247
Available for sale assets	26(c)	**-**	955
Loans and advances	27(a)	**-**	16,689
Derivative financial instruments	28	**-**	658
Total specific banking assets		**-**	19,058
Total assets		**1,818**	20,260

The above consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 10 to 85.

	Note	2017 $m	2016 $m
LIABILITIES			
Current liabilities			
Trade and other payables	15	**147**	296
Provisions	16	**16**	17
Borrowings	20	**65**	190
Tax payable		**-**	3
Derivative financial liabilities	21	**11**	26
Total current liabilities		**239**	532
Non-current liabilities			
Trade and other payables	15	**14**	18
Provisions	16	**5**	13
Loans from related parties	23	**76**	-
Borrowings	20	**199**	199
Total non-current liabilities		**294**	230
Specific banking liabilities			
Due to other financial institutions	29(a)	**-**	135
Deposits	29(b)	**-**	14,782
Debt securities issued	29(c)	**-**	2,207
Subordinated debt	29(d)	**-**	356
Derivative financial instruments	28	**-**	725
Total specific banking liabilities		**-**	18,205
Total liabilities		**533**	18,967
EQUITY			
Ordinary parent shareholders' equity			
Share capital	22(a)	**192**	192
Retained earnings		**1,057**	1,068
Other reserves	22(c)	**36**	(9)
Total equity attributable to parent shareholder		**1,285**	1,251
Non-controlling interest		**-**	42
Total equity		**1,285**	1,293
Total equity and liabilities		**1,818**	20,260

The Board of Directors of New Zealand Post Limited authorised these financial statements for issue on 11 September 2017.

Jane Taylor
Chair

Carol Campbell
Director

The above consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 10 to 85.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	2017 $m	Reclassified 2016 $m
Cash flows from operating activities		
Receipts from customers	**880**	951
Other interest received	**14**	12
Payments to suppliers and employees	**(869)**	(932)
Net payments to agencies	**(15)**	(41)
Other interest paid	**(17)**	(24)
Income tax received	**12**	-
Net operating cash flows from discontinued operations	**(198)**	282
Net cash flows from operating activities	**(193)**	248
Cash flows from investing activities		
Sale of property, plant and equipment	**7**	5
Purchase of intangible software assets	**(22)**	(11)
Purchase of property, plant and equipment	**(37)**	(21)
Sale / (purchase) of short term deposits	**11**	(67)
Sale of investment in subsidiary net of cash	**(2)**	72
Investment in joint venture	**(221)**	-
Net investing cash flows from discontinued operations	**(26)**	(82)
Net cash flows from investing activities	**(290)**	(104)
Cash flows from financing activities		
Issue of borrowings	**124**	159
Repayment of borrowings	**(250)**	(160)
Dividends paid to New Zealand Post Limited shareholders	**(105)**	(5)
Dividends received from subsidiaries	**-**	29
Net financing cash flows from discontinued operations	**202**	(164)
Net cash flows from financing activities	**(29)**	(141)
Net increase / (decrease) in cash held	**(512)**	3
Cash at the beginning of the period - continuing operations	**60**	82
Cash at the beginning of the period - discontinued operations	**517**	497
Effect of foreign exchange translation adjustments	**(1)**	(5)
Cash at the end of the period	**64**	577
Composition of cash		
Cash and cash equivalents	**64**	577
Total cash and cash equivalents	**64**	577

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 10 to 85.

RECONCILIATION OF PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2017

	2017 $m	Reclassified 2016 $m
Profit for the year		
Continuing operations	**27**	10
Discontinued operations	**66**	131
Non-cash items:		
Financial instruments at fair value net loss	**(5)**	-
Depreciation	**22**	21
Amortisation	**10**	10
Impairment	**-**	(2)
Gain on sale of investments in subsidiaries	**(24)**	(43)
Share of net profit of joint ventures	**(30)**	-
Other	**4**	-
Disposal of discontinued operations	**89**	80
	66	66
Changes in assets and liabilities:		
Decrease / (increase) in trade and other receivables	**41**	(16)
(Increase) / decrease in inventories	**(2)**	3
Decrease / (increase) in other assets	**8**	(3)
(Decrease) / increase in trade and other payables	**(153)**	12
(Decrease) / increase in provisions	**(9)**	3
Increase / (decrease) in current taxation	**7**	(7)
(Increase) / decrease in balances due from related parties	**(93)**	-
Increase / (decrease) in balances due to related parties	**76**	-
Increase / (decrease) in balances due from other financial institutions	**69**	(53)
Decrease in financial assets held for trading	**-**	96
(Increase) / decrease in available for sale assets	**(74)**	272
(Increase) in loans and advances	**(476)**	(1,138)
(Decrease) in balances due to other financial institutions	**(16)**	(190)
Increase in deposits and other borrowings	**262**	1,051
Increase in KGH current taxation	**11**	(6)
(Decrease) in Kiwibank interest payable	**(5)**	-
(Increase) / decrease in Kiwibank interest receivable	**(3)**	2
Financing costs	**5**	15
	(352)	41
Net cash flows from operating activities	**(193)**	248

The above reconciliation of profit to net cash flows from operating activities should be read in conjunction with the accompanying notes on pages 10 to 85.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

Basis of Preparation

NOTE 1. REPORTING ENTITY AND STATUTORY BASE

The consolidated financial statements presented are for New Zealand Post Limited (the "Company" or "NZ Post") and its subsidiaries (together "the Group") for the year ended 30 June 2017. The Group accounts for joint ventures using the equity method.

The Group provides a full range of packaging and delivery of mail products and logistical and courier services. Prior to 1 November 2016 the Group provided financial services, such as wealth, insurance and banking services through its subsidiary Kiwibank Group Holdings ("KGH").

On 31 October 2016, the Group sold 47% of its investment in KGH to Accident Compensation Corporation ("ACC") and NZSF Tui Investments Limited ("NZSF"). The Group's remaining 53% shareholding is recognised as an interest in a jointly controlled entity for the eight months ended 30 June 2017.

KGH is a significant component of the Group's activities and the change in treatment from fully consolidated to equity accounted (refer to Note 8) had a material impact on the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows for the Group. Therefore, the operations of KGH consolidated prior to sale have been reclassified and shown separately as discontinued operations from 1 July 2015 through to 31 October 2016 in these financial statements.

The Company is incorporated and domiciled in New Zealand. The address of its registered office is New Zealand Post House, 7 Waterloo Quay, Wellington, New Zealand, 6011.

NOTE 2. BASIS OF ACCOUNTING

Note 2(a) Basis of preparation

The consolidated financial statements:

- have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Companies Act 1993, the Financial Reporting Act 2013, and the State-Owned Enterprises Act 1986. They comply with International Financial Reporting Standards (IFRS) and New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as well as other NZ accounting standards and authoritative notices applicable to entities that apply NZ IFRS. The Group is a for-profit entity for the purposes of complying with NZ GAAP.
- have been prepared using historical cost, as modified by the revaluation of certain assets and liabilities at fair value. The accrual basis of accounting has been used.
- are presented in New Zealand dollars and all values are rounded to the nearest million dollars unless otherwise stated.

The Company is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 ("FMCA").

Note 2(b) Comparative numbers

Due to the Group selling 47% of KGH on 31 October 2016 comparative balances in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows have been reclassified to meet the disclosure requirements of NZ IFRS 5 (refer to Note 8). The Group has also changed the presentation of the segment note (refer to Note 3). KGH was previously shown as a segment however due to the change in ownership this is now considered to be part of the Investment segment.

Note 2(c) Change in accounting policy

In June 2012, on acquisition of the Express Couriers Limited business, the Group recognised an indefinite life brand with a fair value of $41m. No deferred tax was recognised in relation to this asset at the time of the acquisition. This was based on the assumption that because an indefinite life brand is not amortised, its carrying amount is not expected to be consumed, rather, its carrying amount is expected to be recovered entirely through sale.

In November 2016, the IFRS Interpretations Committee ("IFRS IC") issued an agenda decision regarding the determination of the expected manner of recovery of intangible assets with indefinite useful life for the purposes of measuring deferred tax, in accordance with IAS 12 Income Taxes. As a result, the Group has reviewed the expected manner of recovery of the brands and concluded that they are expected to be recovered through use within the business operations. Accordingly, the Group has recognised a deferred tax liability of $12m on the brands, with a corresponding increase in the carrying amount of goodwill.

Comparatives for goodwill and deferred tax liability at 30 June 2016 and 1 July 2015 have been adjusted and both increased by $12m.

Note 2(d) Critical accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made a number of judgments and applied estimates of future events. In preparing these financial statements a significant judgement has been made as to the fair value of the retained investment in KGH (refer to Note 18(d)), the fair value of the assets and liabilities within the purchase price allocation (refer to Note 8(a) iv) and the valuation of the Core Post cash generating unit and investment in KGH as at 30 June 2017 (refer to Note 19). All other judgements and estimates which are material to the financial statements are found in the following notes:

Note 2(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Joint ventures have been equity accounted. Material subsidiaries and joint ventures at 30 June 2017 are listed below:

Name of entity	Place of business / country of incorporation	Functional currency	Ownership interest held by the Group and nature of the relationship 30 June 2017		30 June 2016		Principal Activities
Kiwi Group Holdings Limited ("KGH")	New Zealand	NZD	Joint Venture	53%	Subsidiary	100%	Holding Company
New Zealand Post Group Finance Limited	New Zealand	NZD	Subsidiary	100%	Subsidiary	100%	Financing Services

KGH has a number of subsidiaries including Kiwibank Limited, a registered bank, Kiwi Wealth Management Limited which provides Kiwisaver services, Kiwi Insurance Limited, which provides insurance services and The New Zealand Home Loan Company Limited which provides mortgage services.

On 30 June 2017 Express Couriers Limited ("ECL") was amalgamated into the Company, and therefore ceased to be a subsidiary on this date.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits and losses resulting from intra-Group transactions have been eliminated. Subsidiaries are consolidated from the date on which control is obtained and deconsolidated from the date that control ceases. The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Interests in joint ventures are accounted for using the equity method.

The financial statements of the subsidiaries and joint ventures are prepared for the same reporting period as the Company. Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring their accounting policies into line with the Group's accounting policies.

Note 2(f) Currency

Functional and presentation currency

The presentation currency of the Group and the functional currency of the Company is New Zealand dollars. All amounts are expressed in millions of New Zealand dollars, unless otherwise stated.

Note 2(g) Other accounting policies

Significant accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

Note 2(h) Standards and interpretations effective in the current period

There are no new standards and amendments to standards that would have a material effect on the Group that were mandatory for financial years commencing on or after 1 July 2016.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2. BASIS OF ACCOUNTING continued

Note 2(i) Standards and interpretations on issue but not yet effective

No new standards, amendments or interpretations to existing standards that are not yet effective, have been early adopted by the Group in these financial statements.

At the date of authorisation, the following new standards, amendments or interpretations to existing standards relevant to the Group were in issue but not yet effective:

Standard	Effective for annual reporting periods beginning on or after:
NZ IFRS 9 – Financial instruments	1 January 2018
NZ IFRS 15 – Revenue from Contracts with Customers	1 January 2018
NZ IFRS 16 - Leases	1 January 2019

The Directors expect to adopt the above standards, amendments and interpretations in the period in which they become mandatory.

NZ IFRS 9: Financial Instruments

NZ IFRS 9, issued in September 2014 and effective for annual periods beginning on or after 1 January 2018, replaces existing guidance in NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairments on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from NZ IAS 39.

Given the nature of Kiwibank and its operations, NZ IFRS 9 is expected to have a significant impact on both the KGH and Group financial statements. In particular, the calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances. However, as the impact of adoption depends on the financial instruments held by Kiwibank at the date of adoption, it is not currently practicable to quantify the effect.

The Group will apply this standard from 1 July 2018.

NZ IFRS 15: Revenue from Contracts with Customers

NZ IFRS 15, effective for annual periods beginning on or after 1 January 2018, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance including NZ IAS 18 *Revenue*, NZ IAS 11 *Construction Contacts* and NZ IFRIC 13 *Customer Loyalty Programmes* and is effective for all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount which reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group is yet to finalise the assessment of NZ IFRS 15's full impact, however initial assessment indicates an immaterial impact to the Group's revenue. The Group will apply this standard from 1 July 2018.

NZ IFRS 16: Leases

NZ IFRS 16, issued in January 2016 and effective for annual periods beginning on or after 1 January 2019, requires lessees to account for all leases under a single on balance sheet model in a similar way to finance leases under NZ IAS 17. NZ IFRS 16 will require lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts within the statement of financial position. The right-of-use asset will create increased interest expenditure and depreciation in the profit or loss.

The Group is yet to finalise the assessment of NZ IFRS 16's full impact, however initial assessment indicates a material impact to the Group. The Group will apply this standard from 1 July 2019.

Financial Performance

NOTE 3. SEGMENT INFORMATION

Basis of segmentation

The Group's reportable segments are the same as those used by the Senior Leadership Team ("SLT") in making decisions about allocating resources and in assessing segment performance. Transactions between reportable segments are accounted for in accordance with contractual arrangements and the accounting policies outlined within these financial statements. The Group's operating segments have primarily been determined with reference to differences in products and services. Due to the partial sale of KGH and resulting loss of control, KGH now forms part of the Investments segment.

Post

Packaging and delivery of mail products, business process operations, logistical and courier services, channels & digital, properties and Group functions.

Investments

Group investments in KGH (from 1 November 2016), Converga Group Limited and Speedscan Limited (to 30 November 2015) and ReachMedia New Zealand Limited.

30 June 2017	Post $m	Investments $m	Inter-segment reconciliations $m	Total $m
External revenue	**890**	**-**	**-**	**890**
Intersegment revenue	**-**	**-**	**-**	**-**
Total segment revenue from operations	**890**	**-**	**-**	**890**
Segment profit / (loss) before income tax	**(5)**	**30**	**-**	**25**
Segment profit / (loss)	**(3)**	**30**	**-**	**27**
Specific segment other income				
Share of net profits of joint ventures	**-**	**30**	**-**	**30**
Specific segment expenditure:				
Depreciation	**22**	**-**	**-**	**22**
Amortisation	**10**	**-**	**-**	**10**
Salaries and wages (including superannuation)	**311**	**-**	**-**	**311**
Severances	**(1)**	**-**	**-**	**(1)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3. SEGMENT INFORMATION continued

30 June 2016 (reclassified)	Post $m	Investments $m	Inter-segment reconciliations $m	Total $m
External revenue	899	39	-	938
Intersegment revenue	-	2	(2)	-
Total segment revenue from operations	899	41	(2)	938
Segment profit / (loss) before income tax	(54)	48	-	(6)
Segment profit / (loss)	(38)	48	-	10
Specific segment other income				
Gain on sale of investments	-	43	-	43
Specific segment expenditure:				
Depreciation	20	1	-	21
Amortisation	10	-	-	10
Impairment	(2)	-	-	(2)
Salaries and wages (including superannuation)	377	23	-	400
Severances	21	-	-	21

NOTE 4. REVENUE FROM OPERATIONS

	2017 $m	Reclassified 2016 $m
Revenue from operations		
Delivery of services	**880**	922
Sale of goods	**10**	16
Total revenue from operations	**890**	938

POLICIES

Revenue is measured at the fair value of the consideration received or receivable net of discounts, rebates and taxes.

Delivery of services

Revenue from the delivery of services is recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services provided.

Sale of goods

Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer and collectability of the related receivables is reasonably assured.

KEY ESTIMATE

Prepaid product revenue

An estimate is made for the amount of revenue from prepaid product sales as at balance date in respect of which the service has not yet been provided. This is included in unearned revenue in trade and other payables – refer to Note 15.

NOTE 5. EXPENDITURE

	2017 $m	Reclassified 2016 $m
Transportation costs	**293**	285
Production costs	**24**	42
Salaries and wages	**298**	383
Restructuring costs	**(1)**	21
Superannuation - defined contribution plans	**13**	17
Other personnel costs	**38**	24
Employee expenses	**348**	445
Property and operating costs	**48**	64
Property operational outgoings	**26**	26
Property cost recovery	**(3)**	(2)
Property expenses	**71**	88
Depreciation	**22**	21
Amortisation of intangibles	**10**	10
Depreciation and amortisation	**32**	31
Impairment of property, plant and equipment	**-**	1
Reversal of impairment	**-**	(3)
Net reversal of impairment	**-**	(2)
Computer expenses	**42**	45
Payment services	**14**	28
Professional services	**12**	13
Marketing expenses	**11**	10
Repairs and maintenance	**13**	11
Other operating lease and rental costs	**11**	11
Communications	**8**	7
Office expenses	**6**	7
Training and travel	**6**	7
Bad debt expense	**3**	1
Fees paid to auditors	**1**	1
Cost recovery (1)	**(16)**	(63)
Other expenditure	**8**	8
Other expenses	**119**	86
Total expenditure	**887**	975

(1) Cost recovery is money recovered from discontinued operations or joint ventures for expenditure the Company has incurred on their behalf.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 5. EXPENDITURE continued

POLICIES

Employee expenses

Employee entitlements to salaries and wages, bonuses, annual leave, long service leave, retiring leave and other similar benefits are recognised in profit or loss when they accrue to employees.

Long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Liabilities for salaries and wages, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related services are recognised in respect of employees' services up to the end of the reporting period and are measured using the amounts expected to be paid.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in profit or loss as they fall due.

Fees paid to auditors		
Audit and review of financial statements (1)	**1,011**	952
Other services		
Other assurance services (2)	**5**	7
Tax compliance services (3)	**18**	25
Other services (4)	**309**	309
Total other services	**332**	341
Total fees paid to auditors	**1,343**	1,293

(1) The audit fee includes the fees for both the annual audit of the financial statements and the review of interim financial statements (2016: same services).

(2) Other assurance services include trustee reporting and review of the consolidated earnings statement (2016: same services).

(3) Tax compliance relates to the review of tax returns (2016: same services).

(4) Other services relate to process reviews, workshop facilitation, advisory services, procurement review and tax pooling (2016: procurement review and advice provided on projects).

NOTE 6. NET FINANCE COSTS

	2017 $m	Reclassified 2016 $m
Interest expense	**(20)**	(24)
Interest revenue	**14**	12
Total net finance costs	**(6)**	(12)

POLICIES

Interest revenue and expense

Interest income and expense for all interest bearing financial assets and liabilities is recognised using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts and payments through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

NOTE 7. INCOME TAX

	2017 $m	Reclassified 2016 $m
Profit / (loss) before income tax		
Continuing operations	**25**	(6)
Discontinued operations	**-**	176
Tax at 28%	**7**	48
Non-assessable revenue - gain on sale of investments	**-**	(12)
Non-assessable revenue - income from joint ventures	**(9)**	-
Non-assessable revenue - other	**(1)**	(3)
Non-deductible items - impairment	**-**	(1)
Non-deductible items - other	**-**	2
Other tax adjustments	**1**	(5)
Income tax (income) / expense	**(2)**	29
Comprising:		
Current tax	**(1)**	31
Deferred tax	**(1)**	(2)
Total income tax (income) / expense	**(2)**	29
Total income tax (income) / expense attributable to:		
Continuing operations	**(2)**	(16)
Discontinued operations	**-**	45

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 7. INCOME TAX continued

	2017 $m	Reclassified 2016 $m
Deferred tax asset		
Balance at beginning of the year	**16**	19
Charged / credited to profit or loss	**1**	2
Revaluation of properties recognised in other comprehensive income	**1**	-
Prior year adjustment	**(1)**	(4)
Deferred tax on cash flow hedge reserve	**(7)**	(2)
Deferred tax on asset revaluation reserve	**1**	-
Disposal of discontinued operations	**(6)**	-
Other adjustments	**-**	2
Perpetual capital notes	**-**	(1)
Balance at end of the year	**5**	16
Comprising:		
Changes through other comprehensive income:		
- Cash flow hedges	**-**	20
Changes through profit or loss:		
- Provision for loan and receivable impairment	**1**	15
- Commissions receivable	**-**	2
- Provisions and other deferred assets	**16**	30
Deferred tax asset	**17**	67
Changes through other comprehensive income:		
- Revalued land and buildings	**-**	4
Changes through profit or loss:		
- Intangible assets	**-**	4
- Amortisation on software assets	**-**	12
- Other	**-**	2
Changes through statement of financial position		
- Intangible assets	**12**	12
Changes through equity:		
- Perpetual capital notes	**-**	17
Deferred tax liability	**12**	51
Net deferred tax assets	**5**	16
Imputation credits available for use in the future	**293**	333

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

POLICIES

Current taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred taxes

Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available to utilise them.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the accounting carrying amounts and the tax bases of assets and liabilities, other than for the following:

- Where they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss;
- Where taxable temporary differences relate to investments in subsidiaries, associates or interests in joint ventures, deferred income tax is provided except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill.

Offsetting deferred tax balances

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

Operating Assets And Liabilities

NOTE 8. DISPOSAL OF SUBSIDIARIES

Note 8(a) Partial sale of KGH

On 31 October 2016, the Company sold 47% of its investment in KGH to ACC and the NZSF for a total sale price of $493.5m. A gain of $24m was recognised on disposal.

As part of the sale transaction, the Company agreed to contribute $90m of ordinary share capital into KGH.

Note 8(a)i Discontinued operations

KGH is a significant component of the Group's activities and the change in treatment from fully consolidated to equity accounted has a material impact on the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows for the Group. Therefore, in accordance with NZ IFRS 5, the operations of KGH consolidated prior to the sale have been reclassified into a single line and shown separately as discontinued operations from 1 July 2015 through to 31 October 2016 in these financial statements. To calculate continuing and discontinued operations, intra-group eliminations have been allocated to be consistent with the way the transactions are accounted for between NZ Post and KGH after the disposal.

Note 8(a)ii Summary of results to sale date

	Note	4 months ended 31 October 2016 $m	12 months ended 30 June 2016 $m
Interest income		278	903
Interest expense		(153)	(525)
Net gains on financial instruments at fair value		3	3
Gross fee income		89	263
Direct fee expenses		(39)	(113)
Total operating income		178	531
Operating expenses		(116)	(328)
Profit before impairment, taxation and finance costs		62	203
Impairment losses on loans and advances		-	(11)
Profit before taxation and finance costs		62	192
Finance costs		(5)	(16)
Profit before taxation		57	176
Income tax expense		(15)	(45)
Profit after tax from discontinued operations		42	131
Gain on sale of investment in subsidiary	8(a)iii	24	-
		66	131
Other comprehensive income			
Net gain/(loss) from changes in reserves that may be subsequently reclassified to profit or loss			
Available-for-sale reserve (net of tax)		(3)	3
Cash flow hedge reserve (net of tax)		12	8
Other comprehensive income from discontinued operations		9	11

Note 8(a)iii Gain on sale calculation

The Company has not retained control of KGH following the sale (refer to Note 9) and therefore the transaction is treated as a disposal of a subsidiary and acquisition of a new jointly controlled investment in KGH. The resulting gain is recognised in profit or loss.

	31 October 2016 $m
Cash proceeds received	494
Fair value of residual equity investment	689
Carrying value of net assets of KGH derecognised	(1,172)
Derecognise non-controlling interest	42
Reclassification of reserves previously recognised in other comprehensive income	(25)
Transaction costs	(4)
Gain on sale of investment in subsidiary	24

Note 8(a)iv Purchase price allocation

The following table reconciles the fair value of the retained interest in KGH to the carrying value as at 31 October 2016.

	31 October 2016 $m
Assets	
Cash and cash equivalents	496
Due from NZ Post	85
Due from other financial institutions	178
Available-for-sale financial assets	1,026
Loans and advances	17,131
Derivative financial assets	573
Property, plant and equipment	27
Intangible assets	319
Goodwill	128
Deferred taxation	2
Other assets	51
Total assets	20,016

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 8. DISPOSAL OF SUBSIDIARIES continued

Liabilities	31 October 2016 $m
Due to financial institutions	119
Due to NZ Post	102
Deposits	15,022
Derivative financial liabilities	622
Debt securities issued	2,326
Current tax liability	26
Derivative tax liabilities	25
Other liabilities	102
Term subordinated debt	372
Total liabilities	18,716
Net assets	1,300

Group's carrying value of KGH	
Total identifiable net assets of KGH	1,300
Share of investment retained	53%
Fair value of the Group's investment in KGH at 31 October 2016	689

KEY ESTIMATE

Purchase price allocation

The partial sale of KGH resulted in a purchase price in excess of the net book value of the assets acquired. The excess value has been allocated to the assets and liabilities of KGH at sale date using estimates and judgements regarding the net tangible assets and fair value. The Group commissioned an independent valuer to complete the allocation at 31 October 2016.

Note 8(b) Prior year disposal of subsidiaries

On 30 November 2015, the Group sold its investment in Converga Group Limited to Canon Australia Pty Limited (Canon) for a total sale price of AUD$75m. A gain of NZD $43m was recognised on disposal.

NOTE 9. JOINTLY CONTROLLED ENTITIES

On 31 October 2016 the Company sold 47% of its shareholding in Kiwi Group Holdings Limited. At that date it entered into a Shareholders' Agreement with the purchasers, ACC and the NZSF and under that agreement there were a number of reserved matters that require the agreement of either all the shareholders or the Company and one other. These reserved matters include key management and governance decisions, such as appointment of Directors within the KGH Group, approval of dividends and decisions over the acquisition, disposal, distribution or revaluation of assets over $5m.

On 10 April 2017 KGH issued 247m redeemable preference shares to its shareholders. The Company purchased 53% of these for a total consideration of $131m.

Management has concluded that the Company has not retained control, as defined by NZ IFRS 10, of KGH following the transaction and that given the requirement for joint approval for key decisions, the investment is jointly controlled and should be equity accounted.

In addition, the Company holds a 50% shareholding in Reach Media New Zealand Limited. The investment is equity accounted for in the consolidated financial statements of the Group. The investment is considered immaterial to the Group and is therefore not disclosed in detail below.

This investment is held for sale at year end, refer to Note 11.

Note 9(a) Summarised statement of financial position of KGH

	30 June 2017 $m
Assets	
Cash and cash equivalents	**490**
Due from related parties	**81**
Due from financial institutions	**228**
Available-for-sale financial assets	**1,474**
Loans and advances	**17,795**
Derivative financial instruments	**370**
Property, plant and equipment	**29**
Intangible assets	**200**
Deferred taxation	**19**
Other assets	**55**
Total assets	**20,741**
Liabilities	
Due to financial institutions	**59**
Due to related parties	**104**
Deposits and other borrowings	**15,957**
Derivative financial instruments	**416**
Debt securities issued	**2,258**
Current tax liability	**10**
Other liabilities	**115**
Subordinated debt	**367**
Total liabilities	**19,286**
Net assets	**1,455**

Group's carrying value of KGH	
Total identifiable net assets of KGH	**1,455**
Share of investment retained	**53%**
Group's share of identifiable net assets	**771**
Group's share of goodwill and other additional intangible assets at 31 October 2016	**65**
Accumulated amortisation on other additional intangible assets	**(6)**
Adjustment for impairment on intangible assets with nil fair value in the purchase price allocation	**27**
Carrying value of the Group's investment in KGH at 30 June 2017	**857**

Reconciliation of Group's carrying value for the period 1 November 2016 - 30 June 2017	
Fair value of the Group's investment in KGH at 31 October 2016	**689**
Purchase of redeemable preference shares	**131**
Share of net profit of KGH	**29**
Share of other comprehensive income of KGH	**8**
Group's carrying value of KGH at 30 June 2017	**857**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 9. JOINTLY CONTROLLED ENTITIES continued

Note 9(b) Summarised statement of profit or loss and other comprehensive income of KGH for the period 1 November – 30 June 2017

	30 June 2017 (8 months) $m
Interest income	**559**
Interest expense	**(309)**
Net gains on financial instruments at fair value	**5**
Gross fee income	**194**
Direct fee expenses	**(64)**
Total operating income	**385**
Operating expenses	**(268)**
Profit before impairment, taxation and finance costs	**117**
Impairment losses on loans and advances	**6**
Other impairment losses	**(90)**
Profit before taxation and finance costs	**33**
Finance costs	**(11)**
Profit before taxation	**22**
Income tax expense	**(6)**
Profit after taxation	**16**
Group's 53% share of profit	**8**
Adjustment on consolidation to Group's share of net profits	**21**
Group's total 53% share of profit after taxation	**29**
KGH other comprehensive income	**16**
Group's 53% share of other comprehensive income	**8**
Group's share of net profits of KGH	**29**
Group's share of net profits of Reach Media Limited	**1**
Total share of net profits from investments	**30**

Note 9(c) KGH capital commitments

	30 June 2017 $m
Capital commitments	**9**
Operating lease commitments	**84**
Undrawn loan commitments	**2,857**
Total	**2,950**
Group's 53% share of commitments	**1,564**

Note 9(d) KGH contingencies

KGH held insurance policies at the date of the Kaikoura earthquake that provided cover for material damage and business interruption. It is probable that the policies will enable KGH to obtain a reimbursement for various costs incurred as a result of the earthquake. However, there is insufficient information to form a reliable estimate of the financial effect.

There are no contingent liabilities to disclose as at 30 June 2017.

POLICIES

Interests in joint ventures are accounted for using the equity method. Gains arising on the contribution of non-monetary assets to a joint venture that constitute a business are recognised in full.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The carrying amount of equity-accounted investments is tested for impairment whenever there are indicators of impairment (refer to Note 19).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 10. CASH AND SHORT TERM DEPOSITS

	2017 $m	2016 $m
Cash and cash equivalents		
Cash on hand	**10**	9
Cash at bank	**54**	59
Total cash and cash equivalents	**64**	68
Short term deposits		
Short term deposits	**222**	233
Total short term deposits	**222**	233

Included within cash at bank is $156m (2016: $132m) of cash offset by a $114m (2016: $95m) overdraft (with one institution) which is part of a master netting arrangement.

POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and owned deposits that are readily convertible to known amounts of cash.

Short term deposits

Short term deposits include cash held on deposit for a term of greater than 90 days or are not readily convertible to known amounts of cash.

NOTE 11. ASSETS AND LIABILITIES HELD FOR SALE

Properties

During the year properties with carrying values of $8m and $2m were transferred from property, plant and equipment and investment properties respectively, into held for sale (2016: $2m were transferred). During the year a net gain of $1.3m was realised on properties sold (2016: $1.9m gain).

Aircraft

At 30 June 2016 aircrafts with a carrying value of $0.53m were transferred from property, plant and equipment into held for sale. During the year a net gain of $0.2m was realised on the sale of one aircraft.

Investment

On 30 June 2017 proceedings were initiated to sell the Group's investment in Reach Media Limited. The carrying value of the investment has been transferred to held for sale.

Properties held for sale	**6**	3
Aircraft held for sale	**-**	1
Investment held for sale	**3**	-
Total assets held for sale	**9**	4

POLICIES

Assets held for sale

Assets and investments held for sale consist of all assets that the Board has agreed to sell, and that are actively being marketed for sale as at 30 June 2017. All assets and investments are expected to be sold within 12 months of balance date. All assets held for sale are stated at the lower of carrying amount or fair value less costs to sell.

NOTE 12. TRADE AND OTHER RECEIVABLES

	2017 $m	2016 $m
Trade receivables	**164**	187
Provision for impairment	**(3)**	(2)
Trailing commissions receivable	**-**	11
Interest receivable	**6**	6
Other receivables	**-**	7
Total trade and other receivables	**167**	209
Comprising:		
Current trade and other receivables	**149**	186
Non-current trade and other receivables	**18**	23
Total trade and other receivables	**167**	209
Trade receivables past due but not impaired		
Past due up to 30 days	**14**	18
Past due 31 - 60 days	**4**	4
Past due 61 - 90 days	**2**	3
Past due > 90 days	**9**	7
Total trade receivables past due but not impaired	**29**	32

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 12. TRADE AND OTHER RECEIVABLES continued

POLICIES

Trade receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less an allowance for impairment.

The amount which is neither overdue nor impaired has been assessed for collectability and no additional risk of default has been identified. There is no collateral held over past due trade receivables.

Impairment of trade receivables

The Group assesses at the end of each reporting period whether there is objective evidence that receivables are impaired and the Group will not be able to collect all amounts due as per the original transaction terms.

The carrying amount of an asset is reduced through the use of a provision account, and the amount of the loss is recognised in the profit or loss. When a receivable is uncollectible, it is written off against the provision account for receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

Impaired receivables mainly relate to receivables older than 90 days outstanding based upon the expectation of non-recovery of such debtors, as well as receivables that have been referred to a third party debt collector, or where a customer has entered into liquidation or bankruptcy proceedings.

NOTE 13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings (valuation) $m	Motor vehicles $m	Furniture, fittings and equipment $m	Computer equipment $m	Plant and equipment $m	Aircraft $m	Work in progress $m	Total $m
At 1 July 2015								
Cost or valuation	52	5	111	108	153	20	12	461
Accumulated depreciation and impairment	-	(3)	(78)	(93)	(118)	(19)	-	(311)
Net book amount	52	2	33	15	35	1	12	150
Year ended 30 June 2016								
Opening net book amount	52	2	33	15	35	1	12	150
Transferred (to) / from assets held for sale	(2)	-	-	-	-	(1)	-	(3)
Transferred (to) / from work in progress	-	2	15	3	1	-	(21)	-
Net revaluation of land and buildings	5	-	-	-	-	-	-	5
Additions	-	-	5	4	12	-	24	45
Net disposals	-	-	(2)	(1)	-	-	-	(3)
Depreciation charge	(1)	(1)	(7)	(7)	(12)	-	-	(28)
Impairment charge	-	(1)	-	-	-	-	-	(1)
Closing net book amount	54	2	44	14	36	-	15	165
At 1 July 2016								
Cost or valuation	54	5	124	108	134	-	15	440
Accumulated depreciation and impairment	-	(3)	(80)	(94)	(98)	-	-	(275)
Net book amount	54	2	44	14	36	-	15	165
Year ended 30 June 2017								
Opening net book amount	**54**	**2**	**44**	**14**	**36**	**-**	**15**	**165**
Transferred (to) / from assets held for sale	**(8)**	**-**	**-**	**-**	**-**	**-**	**-**	**(8)**
Transferred (to) / from work in progress	**-**	**1**	**3**	**2**	**9**	**-**	**(15)**	**-**
Net revaluation of land and buildings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Additions	**-**	**5**	**-**	**1**	**3**	**-**	**28**	**37**
Net disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net disposal of discontinued operations	**-**	**-**	**(10)**	**(11)**	**-**	**-**	**(5)**	**(26)**
Depreciation charge	**(1)**	**(1)**	**(6)**	**(2)**	**(12)**	**-**	**-**	**(22)**
(Impairment) / reversal of impairment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Closing net book amount	**45**	**7**	**31**	**4**	**36**	**-**	**23**	**146**
At 30 June 2017								
Cost or valuation	**45**	**11**	**106**	**41**	**142**	**-**	**23**	**368**
Accumulated depreciation and impairment	**-**	**(4)**	**(75)**	**(37)**	**(106)**	**-**	**-**	**(222)**
Net book amount	**45**	**7**	**31**	**4**	**36**	**-**	**23**	**146**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13. PROPERTY, PLANT AND EQUIPMENT CONTINUED

POLICIES

The value of purchased property, plant and equipment is measured at the cost to acquire the asset, including other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use, less depreciation and impairment.

Depreciation and amortisation

Depreciation is charged on a straight-line basis at rates that will allocate the cost or valuation of items of property, plant and equipment (except land, which is not depreciated), less any estimated residual values, over their estimated useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Buildings	25 – 50
Plant and equipment	8 – 15
Motor vehicles	5 – 10
Computer equipment	2 – 5
Furniture, fittings and equipment	8 – 15

De-recognition

An item of property, plant and equipment is de-recognised when it is sold or otherwise disposed of, or when its use is expected to bring no future economic benefit.

Land and buildings

The Group carries land and buildings at fair value. An independent valuation specialist was engaged by the Group to assess fair value as at 30 June 2017. Land and buildings were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The key assumptions used to determine the fair value of the properties and sensitivity analysis are provided in Note 18.

To the extent that any revaluation gains reverse a loss previously charged to profit or loss for the asset item, the gain is credited to profit or loss. Otherwise revaluation gains are credited to the asset revaluation reserve in equity. To the extent that any revaluation loss reverses a gain previously credited to the asset revaluation reserve for the asset item, the loss is debited to the asset revaluation reserve. Otherwise, revaluation losses are recognised in profit or loss.

NOTE 14. GOODWILL AND INTANGIBLE ASSETS

	Goodwill $m	Brands $m	Computer software $m	Acquired customer relationships $m	Computer software (work in progress) $m	Total $m
At 1 July 2015						
Cost	244	41	330	34	71	720
Accumulated amortisation and impairment	(25)	-	(251)	(17)	(1)	(294)
Net book amount	219	41	79	17	70	426
Year ended 30 June 2016						
Opening net book amount	219	41	79	17	70	426
Transferred (to) / from work in progress	-	-	49	-	(49)	-
Additions	-	-	7	-	71	78
Amortisation charge	-	-	(35)	(1)	-	(36)
Closing net book amount	219	41	100	16	92	468
At 1 July 2016						
Cost	219	41	375	16	92	743
Accumulated amortisation and impairment	-	-	(275)	-	-	(275)
Net book amount	219	41	100	16	92	468
Year ended 30 June 2017						
Opening net book amount	**219**	**41**	**100**	**16**	**92**	**468**
Transferred (to) / from work in progress	**-**	**-**	**12**	**-**	**(12)**	**-**
Additions	**-**	**-**	**-**	**-**	**23**	**23**
Net disposals	**-**	**-**	**-**	**-**	**-**	**-**
Net disposal of discontinued operations	**(75)**	**-**	**(80)**	**(16)**	**(85)**	**(256)**
Amortisation charge	**-**	**-**	**(10)**	**-**	**-**	**(10)**
Closing net book amount	**144**	**41**	**22**	**-**	**18**	**225**
At 30 June 2017						
Cost	**144**	**41**	**160**	**-**	**18**	**363**
Accumulated amortisation and impairment	**-**	**-**	**(138)**	**-**	**-**	**(138)**
Net book amount	**144**	**41**	**22**	**-**	**18**	**225**

At 30 June 2017 the net book value of computer software, plus the total balance of computer software (work in progress), of $33m is deemed to be internally generated (30 June 2016 - $188m).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 14. GOODWILL AND INTANGIBLE ASSETS continued

POLICIES

Brands and goodwill

Goodwill arises on the acquisition of subsidiaries and represents the cost of the acquisition less the net fair value of the acquired and identifiable assets, liabilities and contingent liabilities.

Goodwill and brands have indefinite useful lives and are recognised as an asset at cost and tested for impairment at least annually and whenever there are indicators of impairment (see Note 19).

Acquired customer relationships

Acquired customer relationships that are expected to generate net economic benefits beyond 12 months are recognised as intangible assets. Acquired customer relationships have finite lives and are amortised in profit or loss on a straight-line basis over their estimated useful lives which is currently between 6 and 25 years.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the assets to use. These costs are amortised on a straight line basis over the estimated useful lives of the licences (being 3-5 years). Developed software assets expected to generate net economic benefits beyond 12 months are recognised as intangible assets.

The cost of developed software assets includes the cost of all materials used in construction, direct labour on the project, and an appropriate proportion of variable and fixed overheads. Developed software intangible assets are amortised over their estimated useful lives (being 3-5 years).

Testing for impairment

The Group tests property, plant and equipment, intangibles and goodwill for impairment:

- at least annually for indefinite life intangibles, intangibles not yet available for use and goodwill; and
- where there is an indication that the asset may be impaired (which is assessed at least each reporting date); or
- where there is an indication that previously recognised impairment (on assets other than goodwill) may have changed.

Assets are impaired if their recoverable amount is less than its carrying amount. An impairment loss is recognised in profit or loss for the difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

NOTE 15 . TRADE AND OTHER PAYABLES

	2017 $m	2016 $m
Trade payables	**76**	127
Accrued employee benefit liabilities	**43**	78
Unearned revenue	**23**	50
Payment services holding accounts	**14**	31
Trail commissions payable	**-**	4
Other accruals and payables	**5**	24
Total trade and other payables	**161**	314
Comprising:		
Current trade and other payables	**147**	296
Non-current trade and other payables	**14**	18
Total trade and other payables	**161**	314

POLICIES

Trade payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

Accrued employee benefits

Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows. Leave entitlements which can be carried forward (e.g. sick leave), but are unused at balance date, are accrued based on the additional cost expected to be paid as a result of the accumulated balance.

Unearned revenue

The Group recognises deferred income for services that have been sold but not yet delivered.

KEY JUDGEMENT

Unearned revenue – prepaid services

Judgment is applied to determine how much of each service is prepaid and the average time between purchase and delivery.

The Group also applies judgment to determine the level of stockpiling customers undertake before any prepaid product or service price increase. A review of customer trends is undertaken and any revenue earned from excess purchasing behaviour is deferred. The revenue is recognised in subsequent periods in line with normal customer purchasing trends. A reasonable change in the key assumptions in the prepaid stamp, ticket and stocking piling models would not result in a material change to the deferred revenue.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 16. PROVISIONS

	Restructuring $m	Properties $m	Other $m	Total $m
Opening balance at 1 July 2016	21	6	3	30
Utilisation	(5)	(2)	-	(7)
Additional provision	1	2	3	6
Release of unused provision	(3)	(1)	(3)	(7)
Discontinued operations	(1)	-	-	(1)
Total provisions at 30 June 2017	**13**	**5**	**3**	**21**
Comprising:				
Current provisions	**12**	**1**	**3**	**16**
Non-current provisions	**1**	**4**	**-**	**5**
Total provisions	**13**	**5**	**3**	**21**

POLICIES

Provisions are recognised when:

- there is a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of economic resources will be required to settle the obligation; and
- the amount can be reliably estimated.

Measurement is at the present value of the expenditure expected to be required to settle the obligation.

Restructuring

The Group recognises termination benefits at the earlier of:

- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of NZ IAS 37 and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

KEY ESTIMATES

Restructuring provision - estimated costs

The restructuring provision comprises estimated costs for redundancies. These charges are calculated based on detailed plans that are expected to improve the Group's cost structure and productivity. Judgment has been applied to determine the inputs (number of employees and cost per employee) used to calculate total restructure costs. The outcomes of similar historical restructuring plans have been utilised to minimise any uncertainties arising. A reasonable change in key assumptions would not result in a material change to the provision.

NOTE 17. COMMITMENTS

	2017 $m	2016 $m
Non-cancellable operating lease commitments		
Group as lessee (1)		
Payable no later than one year	**46**	50
Payable later than one year, not later than five years	**129**	134
Payable later than five years	**46**	52
	221	236
Group as lessor (2)		
Receivable no later than one year	**2**	2
Receivable later than one year, not later than five years	**4**	5
Receivable later than five years	**-**	-
	6	7
Non-cancellable finance lease commitments (3)		
Payable no later than one year	**5**	4
Payable later than one year, not later than five years	**6**	9
Payable later than five years	**-**	-
	11	13
Contractual commitments for acquisition of:		
Property, plant and equipment	**12**	17
Intangible assets - software	**1**	3
	13	20

(1) The Group leases the majority of its sites. All leases are standard operating leases. No leases have purchase options, onerous restrictions on use or contingent rental payments. Lease terms vary from monthly to long term. Many leases have rights of renewal.

(2) The Group leases space in some of its properties (mainly owned) to external tenants. All leases are standard operating leases. No leases have purchase options, onerous restrictions on use or contingent rental payments. Lease terms vary from monthly to long term. Many leases have rights of renewal.

(3) The Group has entered into commercial finance leases for a range of mailhouse printing and digital equipment.

POLICIES

Finance Leases

Finance leases transfer to the lessee substantially all the risks and rewards incidental to the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the lessee expects to receive benefits from their use.

Operating Leases

Payments made under operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in profit or loss in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 18. FAIR VALUE

Note 18(a) Fair value of financial assets and liabilities

The estimated fair values of the Group's financial assets and liabilities which differ from their carrying values are noted below.

	Carrying amount 2017 $m	Estimated fair value 2017 $m	Carrying amount 2016 $m	Estimated fair value 2016 $m
Financial liabilities				
Borrowings	**264**	**274**	389	404

The carrying values of the following financial instruments are a reasonable approximation of fair value because they are short-term in nature: cash and cash equivalents, short term deposits, trade receivables, and trade payables.

Note 18(b) Fair value measurement

	Note	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
30 June 2017					
Assets at fair value					
Investment properties		**-**	**-**	**3**	**3**
Land and buildings	13	**-**	**-**	**45**	**45**
Derivative financial assets	21	**-**	**9**	**-**	**9**
Loans to related parties	23	**-**	**-**	**95**	**95**
Total financial assets at fair value		**-**	**9**	**143**	**152**
Liabilities					
Derivative financial liabilities	21	**-**	**11**	**-**	**11**
Borrowings (carried at amortised cost)		**-**	**274**	**-**	**274**
Loans from related parties	23	**-**	**-**	**76**	**76**
Total financial liabilities at fair value		**-**	**285**	**76**	**361**
30 June 2016					
Assets at fair value					
Investment properties		-	-	4	4
Land and buildings	13	-	-	54	54
Derivative financial assets	21	-	9	-	9
Loans to related parties	23	-	-	2	2
Total financial assets at fair value		-	9	60	69
Liabilities					
Derivative financial liabilities	21	-	26	-	26
Borrowings (carried at amortised cost)		-	404	-	404
Total financial liabilities at fair value		-	430	-	430

There have been no transfers between levels 1 to 3 during the year (year ended 30 June 2016: no transfers).

Note 18(c) Fair value measurement of investment properties, land and buildings

All investment properties and land and buildings are categorised as level 3 in the fair value hierarchy. The key unobservable inputs used to measure fair value of investment properties and land and buildings properties are disclosed below, along with their sensitivity to a significant increase or decrease:

		Fair value measurement sensitivity to significant:	
Significant unobservable inputs	**Description**	**Increase in input**	**Decrease in input**
Market capitalisation rate	The capitalisation rate applied to the market rental to assess the property's value. Derived from similar transactional evidence taking into account location, weighted average lease term, customer covenants, size and quality of the property.	Decrease	Increase
Market rental	The valuers assessment of the net market income attributable to the property; includes both leased and vacant areas.	Increase	Decrease

The following table discloses the quantitative information by asset class of the key significant unobservable inputs disclosed above:

30 June 2017		**Market capitalisation rate**	**Market rental**
Asset class	**Description**	**% pa**	**$ psqm**
Property, plant and equipment	Post Shop	4.50 – 9.00	123 – 700
Property, plant and equipment	Mail Centre	8.25 – 10.75	69 – 159
Investment property	Investment Property	6.50 – 10.75	111 - 314
Property, plant and equipment	Post Shop	5.15 – 11.50	22 -700
Property, plant and equipment	Mail Centre	8.25 – 11.00	65 – 141
Investment property	Investment Property	6.00 – 10.75	92 - 385

Note 18(d) Fair value measurement of investment in joint venture

The investment in KGH was categorised as level 3 in the fair value hierarchy at the date of recognition. The Company engaged Deloitte to provide an update at 31 October 2016 to a previous valuation prepared at 30 June 2016 for KGH Group. This valuation was used for the initial recognition of the investment. The primary valuation approach was discounted cash flow (DCF) with a cross reference to a multiple of earnings and a multiple of net tangible assets. The key unobservable inputs used to measure the fair value of the residual equity investment is disclosed below, along with its sensitivity to a significant increase or decrease. The investment is subsequently accounted for using the equity method and therefore is no longer held at fair value.

31 October 2016			Fair value measurement sensitivity to significant:	
Significant unobservable inputs	**Description**	**Rates applied**	**Increase in input**	**Decrease in input**
Discount rate	Discount rate applied to forecast future cash flows	10.6% pa	Decrease	Increase
Terminal growth rate	Assumed growth rate at the end of the forecast period	3.0% pa	Increase	Decrease

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 18. FAIR VALUE continued

POLICIES

Fair value estimation

The Group measures financial instruments, such as derivatives, and some non-financial assets such as investment properties and land and buildings, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability; the Group must have access to the principal or most advantageous market at the measurement date.

Fair value hierarchy

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the quality and reliability of information used to determine the fair values. The three levels of the fair value hierarchy are defined as follows:

Level 1

Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2

Fair value measurements are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Fair value measurements where at least one input which could have a significant effect on the instruments valuation is not based on observable market data.

Land and buildings

The Group carries land and buildings at fair value. The group engaged an independent valuation specialist to assess fair value as at 30 June 2017. Land and buildings were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

The agreement by which the Company purchased the post office business from the Crown recognises potential land claims that may be lodged under the Treaty of Waitangi Act 1975. The effect on the valuation of assets resulting from potential claims 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.

If land and buildings had been measured using the cost method the carrying amounts would be as follows:

Land	**4**	4
Buildings	**15**	21

Loans to and from related parties

For loans to and from related parties' fair values are estimated using a discounted cash flow model (including interest at contractual rates) with reference to market interest rates.

KEY ESTIMATES

The fair values of assets and liabilities carried at fair value were determined by application of the following methods and assumptions.

Borrowings

For fixed rate borrowings recognised at amortised cost, fair values have been estimated using a discounted cash flow model with reference to market interest rates.

Derivative financial instruments

The fair values of exchange rate or interest rate contracts are obtained from observable market prices as at the reporting date, discounted cash flow models or option-pricing models as appropriate.

Investment properties and land and buildings

The carrying amount of investment properties and land and buildings is the fair value of the property as determined by a registered independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair value reflects the Board's assessment of highest and best use of each property at the end of the reporting period. The Group's finance team review the valuations performed by the independent valuers for financial reporting purposes. Full independent valuations are completed for land and buildings and investment property assets at least annually.

The fair values presented are based on market values, which are derived using the capitalisation method. The key assumptions used in the valuations are derived from recent comparable transactions to the greatest extent possible; however, the valuation method uses unobservable inputs in determining fair value.

Fair value of retained investment in KGH

An independent valuation was undertaken by Deloitte at 30 June 2016 for financial reporting purposes. The primary valuation approach was discounted cash flow (DCF) with a cross reference to a multiple of earnings and multiple of net tangible assets. KGH was valued in the range of $1.3b-$1.5b. In light of the partial sale of KGH, the valuation was reviewed and updated by Deloitte at 31 October 2016 with focus being on the impact of the $90m capital injection required, the Group's loss of full control of the subsidiary and changes in the market data. The valuation was updated with these changes and remains the same as that at 30 June 2016. Management assessed based on market uncertainties that it was prudent to use the lower end of the valuation range. $1.3bn was multiplied by the percentage of ownership (53%) to calculate the fair value of the resulting investment in KGH. The investment is subsequently equity accounted for, and is therefore no longer held at fair value at 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19. IMPAIRMENT OF NON-FINANCIAL ASSETS

Key assumptions used in Goodwill review

The Directors have concluded that there has been no impairment of the goodwill held in the Core Post cash generating unit (CGU). An independent valuation of the CGU has been used in forming this opinion.

Goodwill held within the Core Post CGU arose from the acquisition of Express Couriers Limited. The independent valuation of this CGU advised a range of valuations reflecting the inherent uncertainties particularly in the traditional postal business. The valuation was based on fair value less costs to sell, using a combination of methods, including discounted cash flow (DCF) using a three year forecast and comparable company multiples on revenue, net assets, EBITDA and price-to-earnings. This valuation is level 3 in the fair value hierarchy. The key assumptions used in the valuation include:

- Average rate of parcel volume growth and mail volume decline over the next three financial years are as per forecast;
- Pricing strategies for parcels and mail leading to margin improvements; and
- Capital projects are delivered in line with forecasts and benefits result as planned.

The carrying amount of the Core Post CGU at 30 June 2017, including the goodwill arising from the business combination of Express Couriers Limited, fell towards the upper end of the range of the recoverable amount estimated by the independent valuation. The Directors determined based on the independent advice received that no impairment was required.

The Directors' approach to determining the values assigned to each key assumption are consistent with external sources of information. The key inputs used in the DCF to calculate the top of the valuation range were as follows:

30 June 2017 Cash generating unit	Carrying value of goodwill and brands $m	Post-tax discount rate	Average EBIT growth rate	Terminal value growth rate	Terminal capex as a % of terminal depreciation
Core Post	**185**	**7.7% pa**	**33.3% pa**	**2.0% pa**	**80%**

A change in the terminal value growth rate to 1.6% pa or a rise in the post-tax discount rate to 8.1% pa would, all changes taken in isolation, result in the top end of the recoverable amount being equal to the carrying amount.

In the prior year the valuation of each CGU was primarily based on a DCF using a three year forecast. The key inputs used to calculate the fair value less costs to sell of each CGU in which goodwill is held were as follows:

30 June 2016 Cash generating unit	Carrying value of goodwill and brands $m	Post-tax discount rate	Average growth rate	Terminal value growth rate
The New Zealand Home Loans Company Limited operations and related Kiwibank operations	31	13.0% pa	3.4% pa	3.0% pa
Kiwi Wealth Limited operations	44	15.0% pa	28.9% pa	2.5% pa
Core Post	185	8.0% pa	23.5% pa	2.3% pa

In the prior year a change in terminal value growth rate to 1.5% pa or a rise in the post-tax discount rate to 8.4% pa would have, all changes taken in isolation, resulted in the top range of the recoverable amount being equal to the carrying amount at 30 June 2016.

A reasonable change in the assumptions used for the New Zealand Home Loans Company Limited operations and related Kiwibank operations and Kiwi Wealth Limited operations would not result in an impairment at 30 June 2016.

Review of investment in KGH

An independent valuation of KGH was carried out at 30 June 2017 based on fair value using a three year discounted cash flow. This valuation is level 3 in the fair value hierarchy. The key assumptions used for the calculation were:

- Continued ownership by NZ Post, ACC and NZSF;
- Successful and timely resolution of the treatment of AT1 capital instruments with the RBNZ; and
- No material adverse changes to the NZ credit growth industry nor adverse movements in mortgage lending.

The carrying value of KGH fell within the range of the recoverable amount estimated by the independent valuation received. The Directors determined based on the independent advice received that no impairment was required.

The carrying amount of KGH is within the range of the valuation calculated based on a three year DCF. The table below shows the key inputs used in the DCF to calculate the top of the valuation range for KGH:

Kiwi Group Holdings Limited	**857**	**10.6% pa**	**4.0% pa**

A change in terminal value growth rate to 3.5% pa or a rise in the post-tax discount rate of 11.0% pa would, all changes taken in isolation, result in the top end of the recoverable amount of NZ Post's share being equal to the carrying amount.

POLICIES

Testing for impairment

The Group tests property, plant and equipment, intangibles, goodwill and investments for impairment:

- at least annually for indefinite life intangibles, intangibles not yet available for use and goodwill; and
- where there is an indication that the asset may be impaired (which is assessed at least each reporting date); or
- where there is an indication that previously recognised impairment (on assets other than goodwill) may have changed.

Assets are impaired if their recoverable amount is less than its carrying amount. An impairment loss is recognised in profit or loss for the difference, except to the extent that there is a revaluation reserve for the impaired asset, in which case, the impairment is recognised first against the revaluation reserve for that asset. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (CGUs) or groups of CGUs, that is expected to benefit from the synergies of the business combination (assets or groups of assets that derive cash flow benefits to the Group). Impairment losses for goodwill are not reversed.

Goodwill acquired through business combinations has been allocated to individual cash generating units for impairment testing, as follows:

Acquisition of Express Couriers Limited	**Core Post**	**Post**
Acquisition of Express Couriers Limited	Core Post	Post
Acquisition of the New Zealand Home Loans Company Limited	The New Zealand Home Loans Company Limited operations and related Kiwibank operations	Investments
Acquisition of Kiwi Wealth Limited	Kiwi Wealth Limited operations	Investments

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

Financing

NOTE 20. BORROWINGS

	2017 $m	2016 $m
Current borrowings		
Commercial paper	**65**	40
New Zealand Post bond programme	**-**	150
Total current borrowings	**65**	190
Non-current borrowings		
New Zealand Post Group Finance subordinated notes	**199**	199
Total non-current borrowings	**199**	199

Funding activities

The following provides information about borrowings issued and repaid during the years presented:

Commercial Paper

During the year ended 30 June 2017 $125m (30 June 2016: $159m) of commercial paper was issued and $100m (30 June 2016: $160m) was repaid.

New Zealand Post Bond Programme

The New Zealand Post Bond Programme of $150m was repaid at maturity on 15 November 2016.

New Zealand Post Group Finance Subordinated Notes

The subordinated notes are part of the Group's core debt and have a maturity date of 15 November 2039 (2016: same).

POLICIES

Borrowings are recognised at amortised cost.

Any difference between the proceeds and the redemption value of borrowings is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowing costs directly attributable to the issuance of debt is capitalised and amortised over the life of the debt instrument.

NOTE 21. FINANCIAL INSTRUMENTS

Financial instruments by category

	Fair value through P&L $m	Loans and receivables $m	Total $m
30 June 2017			
Cash and cash equivalents	**-**	**64**	**64**
Short term deposits	**-**	**222**	**222**
Trade and other receivables	**-**	**167**	**167**
Derivative financial assets	**9**	**-**	**9**
Loans to related parties	**-**	**95**	**95**
Total financial assets	**9**	**548**	**557**

	Fair value through P&L $m	Other financial liabilities at amortised cost $m	Total $m
Trade and other payables	**-**	**137**	**137**
Derivative financial liabilities	**11**	**-**	**11**
Borrowings	**-**	**264**	**264**
Loans from related parties	**-**	**76**	**76**
Total financial liabilities	**11**	**477**	**488**

	Fair value through P&L $m	Loans and receivables $m	Total $m
30 June 2016			
Cash and cash equivalents	-	68	68
Short term deposits	-	233	233
Trade and other receivables	-	209	209
Derivative financial assets	9	-	9
Loans to related parties	-	2	2
Total financial assets	9	512	521

	Fair value through P&L $m	Other financial liabilities at amortised cost $m	Total $m
Trade and other payables	-	255	255
Derivative financial liabilities	26	-	26
Borrowings	-	389	389
Total financial liabilities	26	644	670

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 21. FINANCIAL INSTRUMENTS continued

POLICIES

Designation of financial instruments

Designation of financial assets and financial liabilities into instrument categories is determined by the business purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. Derivatives are categorised as held for trading unless they are designated as hedges. Financial assets at fair value through profit or loss are recognised initially at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Transaction costs are expensed as they are incurred.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group designates as at 'fair value through profit or loss'. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in profit or loss.

The Group assesses at the end of each reporting period whether there is objective evidence that loans and receivables are impaired and the Group will not be able to collect all amounts due as per the original transaction terms.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Borrowings are recognised when cash is advanced to the borrowers.

De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities

The Group classifies its financial liabilities as either fair value through profit or loss or at amortised cost. Financial liabilities at fair value through profit and loss comprise liabilities held for trading and financial liabilities designated at fair value through profit or loss and are recorded at fair value with any realised and unrealised gains or losses recognised in profit or loss. Transactions costs are expensed as they are incurred. Trade payables and borrowings are recognised at amortised cost (refer Note 15 and 20 respectively).

Derivative Financial Instruments

Derivatives that do not qualify for hedge accounting are classified as held for trading financial instruments with fair value gains or losses recognised in the profit or loss.

Financial risk management

The Group's exposure to risk arises directly from its operating, investing and financing activities. These activities involve the acceptance of credit, market (currency and interest rate), financing and operational risks. The management of risk is an essential element of the Group's strategy with emphasis placed on pro-active management to enhance shareholder value and minimise earnings volatility in individual financial years and multi-year periods.

The Board of Directors of the Group are responsible for the direction and strategies around risk management. To help with this obligation the Board has created a governance structure. The Board is responsible for policy setting (with advice from the Finance, Risk and Investment Committee) and the corporate finance team is responsible for execution of the policies. The management of each of these risks are summarised below:

- Liquidity risk (Note 21(b));
- Market risk, including foreign currency, interest rate and commodity price risk (Note 21(c)); and
- Credit risk (Note 21(d))

Note 21(a) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Refer to Note 10.

Note 21(b) Liquidity risk

Nature of the risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities that are settled by delivering cash or another financial asset when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Liquidity risk management

Management of liquidity risk is designed to ensure that the Group 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. The Group monitors this risk daily, primarily by forecasting future cash requirements.

Group borrowings include New Zealand Post Group Finance subordinated notes.

The Company has previously guaranteed the payment obligations of Kiwibank under a deed poll guarantee. This guarantee ended on 28 February 2017 but still applies to all payment obligations entered into prior to that date. Refer to Note 24 for further details.

The tables below summarise the cash flows payable by the Group under both non-derivative and derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the inherent liquidity risk is managed based on expected undiscounted cash flows.

	Up to 3 months $m	Between 3 and 12 months $m	Between 1 and 5 years $m	More than 5 years $m	Total $m
30 June 2017					
Non-derivative cash flows					
Cash and cash equivalents	**64**	**-**	**-**	**-**	**64**
Short term deposits	**142**	**80**	**-**	**-**	**222**
Trade and other receivables	**135**	**14**	**18**	**-**	**167**
Loans to related parties	**-**	**2**	**93**	**-**	**95**
Interest receivable	**2**	**4**	**2**	**-**	**8**
Trade and other payables	**(112)**	**(11)**	**(14)**	**-**	**(137)**
Borrowings	**(65)**	**-**	**-**	**(199)**	**(264)**
Loans from related parties	**-**	**-**	**(76)**	**-**	**(76)**
Interest payable	**(4)**	**(11)**	**(64)**	**(208)**	**(287)**
Net non-derivative cash flows	**162**	**78**	**(41)**	**(407)**	**(208)**
Derivative cash flows					
Foreign exchange derivatives - inflow	**42**	**7**	**-**	**-**	**49**
Foreign exchange derivatives - outflows	**(30)**	**(11)**	**-**	**-**	**(41)**
Interest rate derivatives - inflows	**1**	**3**	**6**	**-**	**10**
Interest rate derivatives - outflows	**(1)**	**(3)**	**(11)**	**(2)**	**(17)**
Commitments					
Capital commitments	**(6)**	**(7)**	**-**	**-**	**(13)**
Lease commitments	**(12)**	**(34)**	**(129)**	**(46)**	**(221)**
Lease receipts	**1**	**1**	**4**	**-**	**6**
Total off balance sheet cash flows	**(5)**	**(44)**	**(130)**	**(48)**	**(227)**
Net position	**157**	**34**	**(171)**	**(455)**	**(435)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 21. FINANCIAL INSTRUMENTS continued

	Up to 3 months $m	Between 3 and 12 months $m	Between 1 and 5 years $m	More than 5 years $m	Total $m
30 June 2016					
Non-derivative cash flows					
Cash and cash equivalents	68	-	-	-	68
Short term deposits	112	121	-	-	233
Trade and other receivables	171	15	23	-	209
Loans to related parties	-	-	2	-	2
Interest receivable	1	2	-	-	3
Trade and other payables	(220)	(17)	(18)	-	(255)
Borrowings	(40)	(150)	-	(199)	(389)
Interest payable	(5)	(10)	(51)	(234)	(300)
Net non-derivative cash flows	87	(39)	(44)	(433)	(429)
Derivative cash flows					
Foreign exchange derivatives - inflow	11	25	-	-	36
Foreign exchange derivatives - outflows	(18)	(23)	-	-	(41)
Interest rate derivatives - inflows	1	2	6	-	9
Interest rate derivatives - outflows	(2)	(3)	(10)	(4)	(19)
Commitments					
Capital commitments	(14)	(5)	(1)	-	(20)
Lease commitments	(13)	(37)	(134)	(52)	(236)
Lease receipts	1	1	5	-	7
Total off balance sheet cash flows	(34)	(40)	(134)	(56)	(264)
Net position	53	(79)	(178)	(489)	(693)

Note 21(c) Market risk

Nature of foreign currency risk

Currency risk is the risk of cash flow uncertainty that may arise from a movement in foreign exchange rates to which the Group may be exposed. In the case of the Group this is foreign exchange transaction risk and foreign exchange translation risk 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 five major traded currencies (USD, Yen, Euro, Pound Sterling and Renminbi (Chinese Yuan)). The composition of the basket is set by the International Monetary Fund. The foreign currency which the Group primarily deals in is the United States Dollar. The main objective of the management of currency risk is to manage the exposure to foreign exchange risk.

Foreign currency risk management

The Group manages currency risk to the statement of profit or loss and other comprehensive income through the use of derivatives (foreign exchange contracts). The Group's policy is to hedge net foreign currency cash flows forecast to occur within 3 months (50%-100% cover), 12 months (0-50% cover) and 24 months (0-25% cover). Capital expenditure over $0.3m is hedged between 90%-100% as soon as a legal commitment has been made.

Exposure

The Group's exposure to foreign currency risk (prior to hedging contracts) at reporting date are:

	2017		2016	
	AUD NZD $m	**USD NZD $m**	AUD NZD $m	USD NZD $m
Cash and cash equivalents	**-**	**1**	-	5
Trade and other receivables	**1**	**45**	11	44
Derivative financial assets	**-**	**1**	-	-
Trade and other payables	**(1)**	**(18)**	-	(20)
Derivative financial liabilities	**-**	**-**	-	(1)
Net on balance sheet financial position	**-**	**29**	11	28

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 21. FINANCIAL INSTRUMENTS continued

The Group's sensitivity to foreign exchange movements

The table below summarises the pre-tax sensitivity of financial assets and financial liabilities to changes in currency risks with all other variables held constant. The fair value of the assets and liabilities were used as the basis for the analysis and financial modelling was used to determine the impact on those values of changes in each risk scenario.

The sensitivity percentage applied reflects a reasonable movement in variables that could likely impact the financial assets and financial liabilities of the Group. The sensitivity to foreign exchange risk has an equal impact on profit or loss and equity.

		+10%		-10%	
	Total currency exposure NZD $m	**Impact on profit NZD $m**	**Impact on equity NZD $m**	**Impact on profit NZD $m**	**Impact on equity NZD $m**
30 June 2017					
Financial assets / (liabilities)					
Cash and cash equivalents	**1**	**-**	**-**	**-**	**-**
Trade and other receivables	**46**	**5**	**5**	**(5)**	**(5)**
Derivative financial assets	**1**	**-**	**-**	**-**	**-**
Trade and other payables	**(19)**	**(2)**	**(2)**	**2**	**2**
Net impact	**29**	**3**	**3**	**(3)**	**(3)**
30 June 2016					
Financial assets / (liabilities)					
Cash and cash equivalents	5	1	1	(1)	(1)
Trade and other receivables	55	6	6	(6)	(6)
Trade and other payables	(20)	(2)	(2)	2	2
Derivative financial liabilities	(1)	-	-	-	-
Net impact	39	5	5	(5)	(5)

Nature of interest rate risk

Interest rate risk is defined as the risk of the Group's cost of funds changing (cash flow risk) or that the fair value of a liability will change (fair value risk) as a result of changes in the interest rates paid on outstanding debt. The main objective of the management of interest rate risk is to minimise the volatility in the cost of debt.

Interest rate risk management

The Group manages interest rate risk through the use of derivatives to modify its exposure to changes in interest rates. The derivatives entered into swap the variable rate of interest to a fixed rate to allow the Group to accurately forecast future funding cost requirements. Interest rate repricing on financial assets acts as an offset to repricing on financial liabilities.

Commercial paper is held for three months per issuance. Due to its short term nature this is considered to be low risk.

Exposure

The Group has floating rate borrowings with a face value of $65m at 30 June 2017 (30 June 2016 - $40m), and fixed rate borrowings with a face value of $200m (30 June 2016 - $350m). All borrowings are used to fund ongoing activities. As at 30 June 2017 the weighted average interest rate on borrowings (as amended by interest rate swaps) is 5.23% pa (30 June 2016 - 6.28% pa).

The Group's sensitivity to interest rate movements

The table below summarises the pre-tax sensitivity of financial assets and financial liabilities to changes in interest rate risks with all other variables held constant. The fair value of the assets and liabilities were used as the basis for the analysis and financial modelling was used to determine the impact on those values of changes in each risk scenario.

The sensitivity percentage applied reflects a reasonable movement in variables that could likely impact the financial assets and financial liabilities of the Group. The sensitivity to interest rate risks has an equal impact on profit or loss and equity.

		1%		**-1%**	
	NZD $m	**Impact on profit NZD $m**	**Impact on equity NZD $m**	**Impact on profit NZD $m**	**Impact on equity NZD $m**
30 June 2017					
Financial assets / (liabilities)					
Cash and cash equivalents	**64**	**1**	**1**	**(1)**	**(1)**
Short term deposits	**222**	**2**	**2**	**(2)**	**(2)**
Borrowings	**(264)**	**(3)**	**(3)**	**3**	**3**
Net impact	**22**	**-**	**-**	**-**	**-**
30 June 2016					
Financial assets / (liabilities)					
Cash and cash equivalents	68	1	1	(1)	(1)
Short term deposits	233	2	2	(2)	(2)
Borrowings	(389)	(4)	(4)	4	4
Net impact	(88)	(1)	(1)	1	1

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 21. FINANCIAL INSTRUMENTS continued

Note 21(d) Credit risk

Nature of the risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time. Counterparty credit exposures arise as a consequence of the Group entering into contractual arrangements that involve the future exchange of assets and/or services.

Credit risk management

The Group manages credit risk through the formulation of specific policy benchmarks and parameters (including credit terms for customers and debtor day targets) set by the Board which must be complied with in all situations. Credit risk is monitored on an ongoing weekly and monthly basis by management and the Board. No collateral is held as at 30 June 2017 (30 June 2016 - nil).

Credit risk exposure

The following table represents a worst case scenario of credit risk exposure to the Group at 30 June 2017 and 30 June 2016. The exposures set out are based on net carrying amounts as reported in the statement of financial position.

At balance date, 34% of the total maximum exposure is derived from trade and other receivables (30 June 2016 -47%). Management is confident in its ability to control and sustain minimal exposure of credit risk resulting from its financial assets.

There are no individual counterparties or connected persons where their credit exposure equalled or exceeded 10% of the Group's total credit exposure during the year (2016 - nil). The Group performs credit checks on new customers prior to creating an account. Debt is monitored regularly.

	2017 $m	2016 $m
Cash and cash equivalents	**64**	68
Short term deposits	**222**	233
Trade and other receivables	**170**	211
Derivative financial assets	**9**	9
Related party loans receivable	**95**	2
Total gross financial assets	**560**	523
Allowance for impairment losses	**(3)**	(2)
Total net financial assets	**557**	521

NOTE 22. EQUITY

Note 22(a) The nature of the Group's contributed equity

Ordinary Share Capital

At 30 June 2017 there were 192.2m authorised ordinary shares on issue (30 June 2016: 492.2m). 192.2m are fully paid (30 June 2016: 192.2m). The shares have no par value. All shares have equal voting rights and share equally in dividends and surplus on winding up. 300m shares (uncalled) were redeemed on 31 October 2016.

A final dividend for 2016 of $2.5m was paid to shareholders in October 2016 at $0.01 per fully paid share (2016: Final Dividend $0.01 per fully paid share). An interim dividend of $2.5m was paid to shareholders in March 2017 at $0.01 per fully paid share (2016: Interim Dividend $0.01 per fully paid share). A special dividend of $100m ($0.52 per fully paid share) was paid to shareholders in February 2017.

Note 22(b) Non-controlling interest

Perpetual capital notes

On 27 May 2015 Kiwibank issued 150 million perpetual capital notes with a nominal value of $1 per note. The PCNs are deemed to be a compound instrument. The debt component is disclosed within Note 29(d). The non-controlling interest was derecognised from 31 October 2016 on the partial sale of KGH.

Note 22(c) Other reserves

The following table shows a breakdown of the statement of financial position line item 'other reserves' and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided below the table.

	Property Revaluation Reserve $m	Available For Sale Reserve $m	Cash Flow Hedge Reserve $m	Total $m
Balance at 1 July 2016	**32**	**11**	**(52)**	**(9)**
Revaluation - gross	**(1)**	**-**	**-**	**(1)**
Deferred Tax	**-**	**-**	**-**	**-**
Market movements - gross	**-**	**(4)**	**17**	**13**
Deferred tax	**-**	**1**	**(5)**	**(4)**
Share of other comprehensive income of joint ventures	**-**	**(2)**	**10**	**8**
Other comprehensive income	**(1)**	**(5)**	**22**	**16**
Other movements				
Transfer between revaluation reserve and retained earnings	**(3)**	**-**	**-**	**(3)**
De-recognition of reserves on partial sale of KGH	**-**	**(8)**	**33**	**25**
Reclassification to profit and loss on close-out of hedged item	**-**	**-**	**7**	**7**
Balance at 30 June 2017	**28**	**(2)**	**10**	**36**

NOTES TO THE FINANCIAL STATEMENTS
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	Property Revaluation Reserve $m	Available For Sale Reserve $m	Cash Flow Hedge Reserve $m	Foreign Currency Translation Reserve $m	Total $m
Balance at 1 July 2015	32	8	(55)	(5)	(20)
Revaluation - gross	3	-	-	-	3
Deferred Tax	-	-	-	-	-
Market movements - gross	-	4	4	-	8
Deferred tax	-	(1)	1	-	-
Other comprehensive income	3	3	5	-	11
Other movements					
Transfer between revaluation reserve and retained earnings	(3)	-	(2)	-	(5)
Reclassification to profit or loss on sale of investment	-	-	-	5	5
Balance at 30 June 2016	32	11	(52)	-	(9)

Nature and purpose of reserves

Property revaluation reserve

The property revaluation reserves are used to record increments and decrements in the fair value of land and buildings to the extent that they offset for each asset.

Available for sale reserve

The available for sale reserve records movements in the fair value of available for sale financial assets.

Cash flow hedge reserve

The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Other Disclosures

NOTE 23. RELATED PARTIES

General

The ultimate shareholder of the Group is the Crown. The Group undertakes many transactions with other State-Owned Enterprises, Crown Entities and Government Departments, which are carried out in the normal course of business. All members of the Group are considered to be related parties of NZ Post. This includes all subsidiaries and joint ventures. Transactions and balances with subsidiaries are not disclosed as they eliminate on consolidation.

Transactions with KGH are treated as related party transactions from 1 November 2016 following the partial sale. Transactions with KGH prior to the sale are not shown as related party transactions below as KGH was part of the consolidated group. The balances presented in the following table summarises 8 months of related party transactions with KGH (i.e. for the period 1 November 2016 to 30 June 2017) and 12 months of related party transactions with Reach Media Limited:

	2017 $m	2016 $m
Related party transactions		
Dividends paid		
- Shareholders	**105**	5
- Non-controlling interest	**-**	11
Joint ventures		
- Sale of goods and services	**18**	9
- Expenditure recoveries	**27**	-
- Purchase of goods and services	**39**	1
- Interest received	**6**	-
- Interest paid	**4**	-
Related party balances		
The amounts outstanding with related parties at balance date were:		
Joint ventures		
- Short term deposits	**41**	-
- Current accounts receivable	**11**	1
- Derivative financial assets	**3**	-
- Current loans receivable	**2**	2
- Non-current loans receivable	**93**	-
- Current accounts payable	**(5)**	-
- Derivative financial liabilities	**(1)**	-
- Non-current loans payable	**(76)**	-
Total related party balances	**68**	3
Short-term employee benefits and Directors fees	**6**	6
Total key management personnel compensation	**6**	6
Loans to key management personnel	**-**	1
Deposits from key management personnel	**-**	2

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 23. RELATED PARTIES continued

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly including Directors. Key management personnel relates to Directors and Executive Team Members of the Group.

Current accounts are all payable on demand and settled monthly.

Current loans receivable	**Amount $m**	**Loan expiry**	**Interest rate range**
Reach Media New Zealand Limited	2	On Demand	7.00%
Total current loans receivable	**2**		

Kiwi Group Holdings Limited	76	31 March 19 to 28 June 19	3.51%, 3 month BKBM
Kiwi Group Holdings Limited	17	On Demand	7.93%
Total non-current loans receivable	**93**		

Kiwibank Limited	76	31 March 19 to 28 June 19	3.51%; 3 month BKBM
Total non-current loans payable	**76**		

NOTE 24. CONTINGENCIES

Contingent assets are disclosed only if it is probable that the benefit will be realised. Contingent liabilities are disclosed unless likelihood of an outflow of resources is remote. 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 Group is subject to additional claims, contingencies and investigations incurred in the normal course of business. Apart from those listed below, the Directors are not aware of any significant exposure to the Group.

Guarantees

New Zealand Post

1. The Company has agreed to provide up to $40m of capital to Kiwi Group Holdings Limited if required to allow completion of a project to replace the core banking system. If the capital is called upon, the Company will subscribe for ordinary shares in KGH and will make transfers to the other shareholders in the relative proportions of their shareholdings at that time for nil consideration.
   As part of a review of the transformation strategy of Kiwibank ("the Bank"), the Kiwibank Board is in the process of reviewing this project. While the review has not been completed at 30 June 2017, based on the work done to date, the Kiwibank Board considers it highly unlikely that the current delivery path of the core banking system project will meet key transformational objectives of the Bank and therefore the current project will not proceed without significant changes in the delivery path. It is therefore uncertain whether any of the $40m will be called upon. No provision has been made at 30 June 2017 as an amount payable cannot be reliably measured and the timing of any payment is uncertain.
2. The Company had previously guaranteed the payment obligations of Kiwibank Limited under a deed poll guarantee. The guarantee was withdrawn on 28 February 2017 and does not apply to any new payment obligations entered into after that date. Payment obligations entered into on or before 28 February 2017 remain under the guarantee until maturity. The value of payment obligations that remain covered by the guarantee at 30 June 2017 is as follows:

Retail deposits	**6,147**
Wholesale deposits	**42**
Foreign currency accounts	**2,701**
	8,890

NOTE 25. EVENTS OCCURRING AFTER REPORTING DATE

The Board of New Zealand Post Limited has declared a final dividend of $2.5m ($0.01 per fully paid share) which will be paid on 30 September 2017.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

KIWIBANK SPECIFIC DISCLOSURES

On 31 October 2016, the Group sold 47% of its investment in KGH to ACC and NZSF. The Group's remaining 53% shareholding is recognised as a jointly controlled entity for the eight months ended 30 June 2017. The change in treatment from fully consolidated to equity accounted has resulted in the Group's interest in KGH being disclosed in Note 9, and reduced disclosure requirements for the KGH entities.

The following disclosures relate solely to the Kiwibank Banking Group ("Kiwibank") at 30 June 2016 and are shown below as comparisons only. Kiwibank Banking Group consists of Kiwibank Limited and all other entities consolidated for financial reporting purposes for the publication of the Kiwibank Disclosure Statement.

NOTE 26. KIWIBANK – BANKING ASSETS

Note 26(a) Cash and cash equivalents

	2016 $m
Cash in hand	30
Cash with central bank	400
Call and overnight advances to financial institutions	79
Total cash and cash equivalents - current	509

POLICIES	Cash and cash equivalents is considered to be cash on hand, current accounts in banks, ATM's, overnight bank deposits, net of bank overdrafts and inter-bank balances arising from the daily RBNZ settlement process.

Note 26(b) Due from other financial institutions

	2016 $m
Unsettled receivables	42
Short term advances due from other financial institutions	40
Collateralised loans	165
Total due from other financial institutions - current	247

As at 30 June 2016, included within the balance above is $165m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties.

POLICIES

Balances due from other financial institutions are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest rate method. If the initial duration is less than 12 months, they are recognised at cost less impairment. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in profit or loss.

Reverse repurchase agreements

Kiwibank purchases (a reverse repurchase agreement) or borrows collateral in the form of securities and provides cash in exchange. Kiwibank may sell or re-pledge any collateral received, but has an obligation to return the collateral at the maturity of the contract and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the collateral is not recognised by Kiwibank which instead records a receivable for the cash provided. The difference between the purchase and sale price of the collateral represents interest income and is recognised in profit or loss over the term of the reverse repurchase agreement.

Note 26(c) Available for sale assets

	2016 $m
Government stock and multilateral development banks	727
Treasury bills	11
Local authority securities	9
Other debt securities	208
Total available for sale assets - current	955

POLICIES

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Available for sale financial assets are held at fair value and gains and losses resulting from changes in their value are recognised directly in equity except for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses which are all recognised in the profit or loss. For non-monetary available for sale financial assets (e.g. equity instruments) the fair value movements recognised in equity include any related foreign exchange component. On de-recognition the cumulative fair value gain or loss previously recognised directly in equity is taken to profit or loss in net gains / (losses) on financial instruments in Other Income.

Impairment

Kiwibank assesses at each reporting date whether there is objective evidence that an available for sale asset is impaired. An available for sale asset is impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the available for sale asset that can be reliably measured.

When a decline in fair value has been recognised directly in equity and there is objective evidence that the available for sale asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 27. KIWIBANK – LOANS AND ADVANCES

Note 27(a) Loans and advances

The table below presents gross loans and advances by type of product.

	2016 $m
Residential mortgage loans	14,642
Retail unsecured lending	400
Business exposures	1,702
Gross loans and advances	16,744
Collective allowance for impairment losses	(44)
Allowance for individually impaired assets	(9)
Fair value hedge adjustments	(2)
Total net loans and advances	16,689
Comprising:	
Current	1,267
Non-current	15,422
Total net loans and advances	16,689

POLICIES Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are subsequently measured at amortised cost using the effective interest rate method. Loans and advances issued with an initial duration of less than 12 months are recognised at cost less impairment. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired (note 27(b)). Interest income and impairment losses are recognised in the profit or loss.

Note 27(b) Asset quality

Summary of lending

	Residential mortgage loans 2016 $m	Retail unsecured lending 2016 $m	Business exposures 2016 $m	Total loans and advances 2016 $m
Neither past due nor impaired	15,495	443	683	16,621
Past due but not impaired	70	35	3	108
Impaired	8	2	5	15
Gross loans and advances	15,573	480	691	16,744
Collective allowance for impairment	(25)	(11)	(8)	(44)
Individual allowance for impairment	(4)	(1)	(4)	(9)
Fair value hedge adjustments	(2)	-	-	(2)
Net loans and advances	15,542	468	679	16,689

Loans and advances past due but not impaired

	Residential mortgage loans 2016 $m	Retail unsecured lending 2016 $m	Business exposures 2016 $m	Total loans and advances 2016 $m
Past due less than 30 days	54	25	3	82
Past due 30 -59 days	8	5	-	13
Past due 60 -89 days	3	3	-	6
Past due 90 days or greater	5	2	-	7
Total	70	35	3	108

Impaired Assets

	Residential mortgage loans 2016 $m	Retail unsecured lending 2016 $m	Business exposures 2016 $m	Total loans and advances 2016 $m
Balance at 1 July 2015	11	1	11	23
Transfers from performing	15	9	3	27
Transfers to performing	-	-	(6)	(6)
Asset realisations and loans repaid	(16)	-	(2)	(18)
Amounts written off	(2)	(8)	(1)	(11)
Balance at 30 June 2016	8	2	5	15
Individual allowance for impairment	(4)	(1)	(4)	(9)
Total net impaired assets	4	1	1	6

Reconciliation of collective allowance for impairment

	Residential mortgage loans 2016 $m	Retail unsecured lending 2016 $m	Business exposures 2016 $m	Total loans and advances 2016 $m
Balance at 1 July 2015	17	9	15	41
Impairment losses / (reversals) on loans not at fair value through profit or loss	8	2	(7)	3
Total	25	11	8	44

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 27. KIWIBANK – LOANS AND ADVANCES continued

Reconciliation of individual allowance for impairment by asset class

	Residential mortgage loans 2016 $m	Retail unsecured lending 2016 $m	Business exposures 2016 $m	Total loans and advances 2016 $m
Balance at 1 July 2015	5	1	6	12
Impairment losses on loans not at fair value through profit or loss	6	8	4	18
Amounts written off	(2)	(8)	(1)	(11)
Reversals of previously recognised impaired assets	(5)	-	(5)	(10)
Total	4	1	4	9

Asset quality of loans and advances

There were no real estate or other assets acquired through the enforcement of security / collateral held at 30 June 2016. There were no assets under administration as at 30 June 2016.

There are no unrecognised impaired assets as at 30 June 2016. The aggregate amount of undrawn limits on lending commitments to counterparties for whom drawn balances are classified as individually impaired is $2.9m at 30 June 2016.

Credit quality of financial assets neither past due nor impaired

A large portion of the credit exposures, such as residential mortgages, are secured. That is, the fair value of associated security is sufficient to ensure Kiwibank will recover the entire amount owing over the life of the facility and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

The credit quality of loans and advances to customers that were neither past due nor impaired can be assessed by reference to Kiwibank's credit scoring systems. At the origination of loans and advances to Customers, retail advances are credit scored based on a combination of debt servicing ability, behavioural loan characteristics and loan-to-valuation (LVR) ratios. Non-retail advances are individually risk graded against similar characteristics. These credit scoring characteristics are reviewed periodically for adverse changes during the loan's life. Interest continues to be accrued on all loans. No interest has been foregone.

Asset quality definitions

Impaired asset means any credit exposures against which an individually assessed provision has been recorded in accordance with NZ IAS 39 Financial Instruments: Recognition and measurement.

A 90 day past due asset is any loan which has not been operated by the borrower within its key terms for at least 90 days and which is not an impaired asset.

An asset under administration is any credit exposure which is not an impaired asset or a past due asset, but which is to a counterparty who is in receivership, liquidation, bankruptcy, statutory management or any form of administration.

NOTE 28. KIWIBANK - DERIVATIVE FINANCIAL INSTRUMENTS

Kiwibank used the following derivative instruments for both hedging and non-hedging purposes for the year ended 30 June 2016:

1. Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
2. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the market.
3. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
4. Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. Kiwibank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value. To control the level of credit risk taken, Kiwibank assesses counterparties using the same techniques as for its lending activities.
5. Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between Kiwibank and a customer over-the-counter. Kiwibank is exposed to credit risk on purchased options only and only to the extent of their carrying amount, which is their fair value.
6. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair value of derivative instruments is set out on page 62.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 28. KIWIBANK – DERIVATIVE FINANCIAL INSTRUMENTS continued

	Notional principal amount 2016 $m	Fair value Assets 2016 $m	Fair value Liabilities 2016 $m
Derivatives held for trading			
Foreign exchange derivatives	1,020	9	(20)
Interest rate derivatives	37,006	531	(544)
Total derivatives held for trading	38,026	540	(564)
Derivatives held for hedging			
Designated as cash flow hedges			
Interest rate derivatives	9,797	30	(123)
Exchange rate swaps	675	77	(14)
Total derivatives designated as cash flow hedges	10,472	107	(137)
Designated as fair value hedges			
Interest rate derivatives	1,552	11	(24)
Total derivatives held for hedging	12,024	118	(161)
Total derivative financial instruments	50,050	658	(725)
Comprising:			
Current derivative financial instruments		544	(623)
Non-current derivative financial instruments		114	(102)
Total derivative financial instruments		658	(725)

Fair value hedges

Kiwibank uses interest rate swaps to hedge interest rate risk exposure of a portion of its portfolio of fixed rate mortgage loans and fixed rate bonds. Kiwibank hedges this risk through the use of pay fixed interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate financial instruments and interest rate swaps. The fair value gains and losses are recorded through the profit or loss as incurred. When a fair value hedging relationship is de-designated, the fair value adjustments to the statement of financial position carrying value are amortised to profit or loss over the remaining period to the maturity date of the fixed rate financial instrument.

Kiwibank also partially hedges the interest rate risk arising from any potential change in the fair value of fixed rate subordinated debt issuances and medium term notes. Kiwibank hedges this risk through the use of receive fixed interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate liability and interest rate swap. The fair value gains and losses are recorded through profit or loss as incurred. When a fair value hedging relationship is de-designated, the fair value adjustments to the statement of financial position carrying value are amortised to profit or loss over the remaining period to the maturity date of the fixed rate liability.

Cash flow hedges

Kiwibank hedges the short term future reissuance of fixed rate loan customers and future retail term deposits through the use of interest rate swaps. Gains and losses deferred in the cash flow hedge reserve will be reclassified to the profit or loss over the next one to five years, as the cash flows under the hedged transactions occur.

Dual fair value and cash flow hedges

Kiwibank hedges fixed rate foreign currency denominated medium term debt issuances using cross currency swaps, designated as fair value hedges of foreign interest rates and cash flow hedges of foreign exchange rates.

POLICIES

Kiwibank uses derivatives as part of its asset and liability management activities to manage exposures to interest rate and foreign currency, including exposures arising from forecast transactions. These derivatives include swaps, futures, forwards, options and other contingent or exchange traded contracts in the interest rate and foreign exchange markets.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are presented as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on the nature of the item being hedged. Kiwibank designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (a "fair value hedge"); or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (a "cash flow hedge"). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

Kiwibank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Kiwibank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the profit or loss over the period to maturity.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective prior is recognised immediately in profit or loss.

Amounts accumulated in equity are recycled to the profit or loss in the periods in which the hedged items will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss.

Derivatives held for trading

Certain derivative instruments do not qualify for hedge accounting. These include derivatives transacted as part of the trading activity of Kiwibank, as well as derivatives transacted as economic hedges but not qualifying for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 29. KIWIBANK - BANKING LIABILITIES

Note 29(a) Due to other financial institutions

	2016 $m
Repurchase agreements	53
Cash collateral received	78
Unsettled payables	-
Transaction balances with other financial institutions	4
Total due to other financial institutions - current	135

Note 29(b) Deposits and other borrowings

	2016 $m
Demand deposits non-bearing interest	1,505
Demand deposits bearing interest	3,135
Term deposits	10,142
Total deposits from customers	14,782
Comprising:	
Current deposits	14,340
Non-current deposits	442
Total deposits from customers	14,782

In the event of the liquidation of Kiwibank, deposit holders will rank equally with all other creditors but ahead of holders of Kiwibank subordinated debt and Kiwibank Limited shareholders. In addition, all payment obligations of Kiwibank, excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the guarantee, were guaranteed under a deed poll guarantee (the "NZP Guarantee") provided by the Company which was withdrawn on 28 February 2017 (refer to Note 24).

Note 29(c) Debt securities issued

	2016 $m
Short term debt	
Commercial paper at fair value through profit or loss	290
Certificates of deposit	227
Long term debt	
Medium term notes	1,441
Covered bonds	215
Fair value hedge adjustment	34
Total debt securities issued	2,207
Comprising:	
Current debt securities	810
Non-current debt securities	1,397
Total debt securities issued	2,207

In the event of the liquidation of Kiwibank, holders of debt securities issued, with the exception of covered bonds, will rank equally with all other creditors but ahead of Kiwibank subordinated debt holders and Kiwibank Limited shareholders. In addition, all payment obligations of Kiwibank, excluding any payment obligations of which the terms expressly provide that they do not have the benefit of the NZP Guarantee, were guaranteed under the NZP Guarantee.

Kiwibank did not have any defaults of principal, interest or other breaches with respect to debt securities issued during the year ended 30 June 2016.

Note 29(d) Subordinated debt

	2016 $m
Subordinated bonds	150
Capital notes	108
Perpetual capital notes	98
Total subordinated debt	356
Comprising:	
Current subordinated debt	3
Non-current subordinated debt	353
Total subordinated debt	356

During the year ended 30 June 2016 $nil of subordinated debt was issued and called by Kiwibank.

The contractual terms of subordinated debt instruments on issue expressly provide that they do not have the benefit of the NZP Guarantee.

Kiwibank has not had any defaults of principal, interest or other breaches with respect to these liabilities during the year.

The subordinated debt instruments on issue are subordinate to all other general liabilities of Kiwibank and are denominated in New Zealand dollars.

The terms and conditions of the subordinated debt instruments on issue are as follows.

Instrument	Issue date	Amount $m	Coupon rate	Call date	Maturity date	Credit rating
Subordinated bonds	10 December 2012	150	5.80% p.a.	15 December 2017	15 December 2022	BB+
Capital notes	6 June 2014	100	6.61% p.a.	15 July 2019	15 July 2024	BB+
PCN's	27 May 2015	150	7.25% p.a.	27 May 2020	N/A	BB+

Capital notes

The Capital Notes have been issued by Kiwi Capital Funding Limited ("KCFL"), an entity controlled by and consolidated within Kiwibank. Interest on the Capital Notes is payable semi-annually at an initial rate of 6.61% p.a. subject to the condition that KCFL receives a corresponding payment of interest from Kiwibank on its investment in the Kiwibank Bonds. KCFL's obligation to pay interest changes or will terminate should any of the Kiwibank Bonds be converted into ordinary shares or written off. The Capital Notes have a maturity date of 15 July 2024, however, KCFL will make early repayment of the Capital Notes should Kiwibank elect to make early repayment of the Kiwibank Bonds. KCFL's obligation to repay the capital notes changes or terminate should any of the Kiwibank Bonds be converted into ordinary shares or written off.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 29. KIWIBANK – BANKING LIABILITIES continued

Subordinated debt

Subordinated debt issues are designated as financial liabilities at amortised cost. They are subsequently measured at amortised cost using the effective interest rate method. Amortisation and foreign exchange gains and losses, are recognised in the income statement as is any gain or loss when the liability is derecognised.

Perpetual capital notes

The Perpetual Capital Notes ("PCN's") were also issued by KCFL. The PCN's are perpetual in nature and do not have a maturity date, however, some or all of the PCN's may be repaid on a reset date (reset dates occur at 5-yearly intervals, commencing 27 May 2020). KCFL's obligation to pay interest on the PCN's is dependent on the receipt of a payment of interest on Perpetual Bonds, issued by Kiwibank to KCFL, on an equivalent payment date. Therefore, the Group's obligation to pay interest on the PCN's is discretionary as it has no contractual obligation in respect of interest payments on the PCN's. A group entity, Kiwi Group Holdings Limited, has entered into a scheduled call to purchase the PCN's from holders, for their principal amount, seven years from the issue date. As the PCN's contain both a liability component, represented by the scheduled call, and an equity component, represented by discretionary interest payments, they are classified as compound instruments. The amounts of the liability and equity components were determined on the date of issue of the PCN's. The PCN's are held with KGH and therefore differ to the disclosure made by Kiwibank.

POLICIES

Due to other financial institutions

Amounts due to financial institutions are designated as financial liabilities at amortised cost. They are subsequently measured at amortised cost using the effective interest rate method. Amortisation and foreign exchange gains and losses, are recognised in profit or loss as is any gain or loss when the liability is derecognised.

Repurchase agreements

Under Repurchase Agreements, collateral in the form of securities is advanced to a third party and Kiwibank receives cash in exchange. The counterparty is allowed to sell or re-pledge the collateral advanced under Repurchase Agreements in the absence of default by Kiwibank, but they have an obligation to return the collateral at the maturity of the contract. Kiwibank has determined that it retains substantially all the risks and rewards of the securities advanced and therefore they are not de-recognised and are retained within the relevant security portfolio 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 profit or loss over the term of the repurchase agreement.

Deposits and other borrowings

Deposits and other borrowings are designated as financial liabilities at amortised cost. They are subsequently measured at amortised cost using the effective interest rate method. Amortisation and foreign exchange gains and losses are recognised in the profit or loss as is any gain or loss when the liability is derecognised.

Debt securities issued

Debt securities issued, with the exception of commercial paper at fair value through profit or loss, are designated as financial liabilities at amortised cost. They are subsequently measured at amortised cost using the effective interest rate method. Amortisation and foreign exchange gains and losses, are recognised in profit or loss when the liability is derecognised.

Commercial paper

Commercial paper at fair value through profit or loss consists of European Commercial Paper ("ECP") and is measured at fair value with any realised and unrealised gains or losses recognised in the profit or loss. ECP issued has been designated at fair value through profit or loss as Kiwibank holds related derivatives at fair value through profit or loss, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Subordinated debt

Subordinated debt issues are designated as financial liabilities at amortised cost. They are subsequently measured at amortised cost using the effective interest rate method. Amortisation and foreign exchange gains and losses, are recognised in profit or loss as is any gain or loss when the liability is derecognised.

NOTE 30. KIWIBANK - OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The following tables set out the effect or potential effect of netting arrangements on Kiwibank's financial position. This includes the effect or potential effect of rights of set-off associated with Kiwibank's recognised financial assets and financial liabilities that are subject to an enforceable master netting arrangement irrespective of whether they are set off in accordance with its accounting policy.

The following financial assets were subject to offsetting, enforceable master netting arrangements at 30 June 2016.

			Related amounts not offset in the statement of financial position		
30 June 2016	Gross amounts of recognised financial assets $m	Net amounts of financial assets presented in the statement of financial position $m	Financial instruments $m	Cash collateral received $m	Net amount $m
Derivative financial assets	658	658	(551)	(78)	29
Total	658	658	(551)	(78)	29
Derivative financial liabilities	725	725	(551)	(165)	9
Repurchase agreements	53	53	(53)	-	-
Total	778	778	(604)	(165)	9

The financial instruments column identifies financial assets and liabilities that were subject to set off under netting arrangements such as ISDA Master agreements. The arrangement between Kiwibank and the counterparty allows for net settlement of the relevant financial assets or financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 31. KIWIBANK – FAIR VALUE OF BANKING FINANCIAL INSTRUMENTS

Note 31(a) Fair value of financial assets and liabilities

The following tables summarise the carrying values of banking financial assets and liabilities. The fair values presented in the tables are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

	Carrying amount 2016 $m	Estimated fair value 2016 $m
Financial assets		
Financial assets held for trading	-	-
Available for sale assets	955	955
Loans and advances	16,689	16,804
Derivative financial instruments	658	658
Financial liabilities		
Deposits and other borrowings	(14,782)	(14,796)
Derivative financial instruments	(725)	(725)
Debt securities issued	(2,207)	(2,213)
Subordinated debt	(356)	(367)

Note 31(b) Financial assets and liabilities carried at fair value

30 June 2016	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Derivative financial assets	-	658	-	658
Available-for-sale financial assets	462	493	-	955
Total financial assets at fair value	462	1,151	-	1,613
Financial liabilities				
Derivative financial liabilities	-	725	-	725
Debt securities issued	-	290	-	290
Total financial liabilities at fair value	-	1,015	-	1,015

There have been no transfers between levels 1 to 3 during the year ended 30 June 2016.

POLICIES

Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available for sale securities) is based on quoted market prices at the end of the reporting date or determined using market accepted valuation models as appropriate (including discounted cash flow models) based on observable market quotes. The quoted market price used for financial assets held is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not quoted in an active market is determined by using valuation techniques. Management use a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Asset backed securities not traded in active markets are valued using observable external third party inputs.

KEY ESTIMATES

The fair values of assets and liabilities carried at fair value were determined by application of the following methods and assumptions.

Held for trading and available-for-sale securities

Estimates of fair value for both held for trading and available for-sale securities are based on quoted market prices or determined using market accepted valuation models as appropriate (including discounted cash flow models) with inputs including an interest rate yield curve developed from quoted rates and market observable credit spreads.

Debt securities issued

Debt securities issued that are classified at fair value through profit or loss are short term in nature. For these liabilities fair value has been determined using a discounted cash flow model with inputs including an interest rate yield curve developed from quoted rates and market observable credit spreads.

Derivative financial instruments

Where Kiwibank's derivative financial assets and liabilities are not traded on an exchange, they are valued using valuation techniques, including discounted cash flow and option pricing models, as appropriate. The types of derivatives classified as level 2 and the valuation techniques used include:

- Interest rate swaps which are valued using discounted cash flow models; the most significant inputs into those models are interest rate yield curves which are developed from quoted rates.
- Foreign exchange derivatives that do not contain options which are priced using rates available from publicly quoted sources.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 31. KIWIBANK – FAIR VALUE OF BANKING FINANCIAL INSTRUMENTS continued

Note 31(c) Debt securities issued and subordinated debt

30 June 2016	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at amortised cost				
Loans and advances	-	-	16,804	16,804
Financial liabilities at amortised cost				
Deposits and other borrowings	-	-	14,796	14,796
Debt securities issued	-	1,923	-	1,923
Subordinated debt	-	367	-	367

POLICIES

The fair values of assets and liabilities carried at amortised cost were determined by application of the following methods and assumptions

Loans and advances

Kiwibank provides loans and advances to corporate and retail customers at both fixed and variable rates. The carrying value of the variable rate loans and advances is assumed to be their fair value. For fixed rate lending, several techniques are used to estimate fair value taking into account expected credit losses, prevailing market interest rates and expected future cash flows. For retail exposures, fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by Kiwibank and other financial institutions. Certain loans secured on residential properties are made at a fixed rate for a limited period, typically six months to five years, after which loans revert to the relevant variable rate. The fair value of such loans is estimated by reference to the market rates for similar loans of maturity equal to the remaining fixed interest rate period. The fair value of corporate loans is estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk.

Impaired and past due loans and advances

For impaired loans as well as past due loans, fair value is estimated by discounting the expected 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.

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 and subordinated debt

The fair values of these instruments are calculated based on quoted market prices, where available. For those instruments where quoted market prices are not available, a discounted cash flow model is used based on inputs including an interest rate yield curve developed from quoted rates and market observable credit spreads.

NOTE 32. KIWIBANK – BANKING FINANCIAL INSTRUMENTS

Financial instruments by category

30 June 2016	Loans and receivables $m	Available for sale $m	Assets at fair value through profit or loss: Held for trading $m	Assets at fair value through profit or loss: Designated at FVTPL $m	Derivatives used for hedging $m	Total $m
Cash and cash equivalents	509	-	-	-	-	509
Due from other financial institutions	247	-	-	-	-	247
Available-for-sale assets	-	955	-	-	-	955
Loans and advances	16,689	-	-	-	-	16,689
Derivative financial instruments	-	-	540	-	118	658
Total financial assets	17,445	955	540	-	118	19,058

30 June 2016	Liabilities at fair value through profit or loss: Held for trading $m	Liabilities at fair value through profit or loss: Designated at FVTPL $m	Derivatives used for hedging $m	Other financial liabilities at amortised cost $m	Total $m
Due to other financial institutions	-	-	-	135	135
Deposits and other borrowings	-	-	-	14,782	14,782
Derivative financial instruments	564	-	161	-	725
Debt securities issued	-	290	-	1,917	2,207
Subordinated debt	-	-	-	356	356
Total financial liabilities	564	290	161	17,190	18,205

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 32. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Risk management

Kiwibank's exposure to risk arises primarily from its business activities as a financial intermediary and financial markets participant. Kiwibank recognises the importance of effective risk management to its business success and to its customers. Risk management enables Kiwibank to both increase its financial and organisational growth opportunities and mitigate potential loss or damage.

Organisational perspective

Kiwibank approaches the management of risk using an organisational framework that is characterised by:

1. The Board providing oversight on risk appetites, strategies, and monitoring progress;
2. Business unit level accountability for the management of risks in accordance with agreed strategies and the Bank's risk management framework;
3. The Risk Management function is responsible for implementing a risk management framework and providing assurance around the management of various elements of risk; and
4. Independent oversight of business unit risk management by both internal and external audit functions to: i) provide regular risk evaluation and reporting; and ii) assess the adequacy and effectiveness of management's control of risk.

The Directors of Kiwibank are responsible for the stewardship of Kiwibank. To help discharge this obligation, the Board has established the Finance, Audit and Disclosures Committee, (which includes members who have appropriate financial experience and understanding of the banking industry in which Kiwibank operates) and the Risk, Credit and Compliance Committee, which collectively are responsible for:

1. Review and approval of Kiwibank's frameworks and policies for managing business, credit, market and operational risk and maintaining an effective risk management framework.
2. Monitoring the Bank's key risks, performance, exposures against limits, capital levels and management of Kiwibank's risks.
3. Monitoring anticipated changes in the economic and business environment and other factors relevant to Kiwibank's risk profile.
4. Review and approval of limits and conditions that apply to risk taking.
5. Review of internal audit activities and significant audit issues.
6. Review of financial and disclosure statements.

The following specialised principal management committees have been formed to translate Board risk appetite into appropriate strategies, policies, controls, processes and procedures for identifying, measuring and managing risk: i) the Asset-Liability Committee ("ALCO"), which is concerned with balance sheet structure, capital, funding and market risk; ii) the Executive Risk Committee, which is focused on business, credit and operational risk; iii) the Disclosure Committee, which is focused on continuous disclosure requirements; and iv) the Enterprise Portfolio Management Office, which considers certain risks associated with the Bank's key strategic projects and investment portfolio.

Independent Credit and Market risk-control units operate alongside the Kiwibank's lending business units and Treasury unit. These risk-control functions are accountable for identifying and quantifying credit and market risks, respectively, and for working with the lending and Treasury business units to implement appropriate policies, procedures and controls to manage those risks. Kiwibank's Risk Management Unit has been assigned the role of internal 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 business units' risk positions and the overall control environment, reporting on the Bank's key risks through the Executive Risk Committee, and onto the Board Risk, Credit and Compliance Committee and the Board Finance, Audit and Disclosures Committee as appropriate. No formal reviews of Kiwibank's risk management system were undertaken by external parties during the year ended 30 June 2016.

Internal audit

Kiwibank has an independent internal audit function, which appraises the adequacy and effectiveness of the internal control environment, and reports results to Management and the Board Finance, Audit and Disclosures Committee. The internal audit function reports directly to the Chair of the Board Finance, Audit and Disclosures Committee with matrix reporting to the KGH Chief Financial Officer.

In planning audit activities, internal audit adopts a risk-based approach that directs and concentrates resources to those areas of greatest significance, strategic concern and risk to the business. This encompasses reviews of major credit, market, technology, programmes, projects and operating risks within Kiwibank. Significant findings are reported quarterly to the Board Finance, Audit and Disclosures Committee. The audit plan is approved by the Board Finance, Audit and Disclosures Committee. All issues and recommendations reported to management are tracked and monitored internally to ensure completion and agreed actions are undertaken where appropriate.

Risk management framework

Kiwibank's risk management framework revolves around four key functions. Namely:

Strategic risk management

A framework and set of processes that Kiwibank uses to plan, organise, lead and control risk management activities in an effort to minimise the effects and impacts of risk events on Kiwibank's capital and earnings. This reflects the Basel III accord requirements for a properly framed structure from which risk management strategies and policy can be devolved. This framework provides:

1. A high level "risk structure" for the classification and categorisation of all risks deemed material to Kiwibank, which forms the basis of reporting Kiwibank's risk profile.
2. Risk appetite – Kiwibank's willingness to take on financial risks and a basic operational pre-requisite for the establishment of consistent risk limits.
3. Risk policy statements – these explicitly articulate Kiwibank's fundamental attitude towards risk and risk management. The risk policy statements are intended to ensure employees understand Kiwibank's risk management goals throughout the organisation.
4. Risk principles – these are central rules for risk management decision-making and form the basis for maximum uniformity in risk management decision-making.

Capital management and capital adequacy

Kiwibank's capital management strategy seeks to ensure that Kiwibank is adequately capitalised while recognising capital is often an expensive form of funding or insurance. Kiwibank seeks to maintain and acquire capital in an economically effective manner so as to: i) support future development and growth aspirations; ii) comply with regulatory capital requirements; iii) maintain a strong internal capital base to cover all material inherent risks; and iv) maintain an investment grade credit rating.

Kiwibank undertakes a programme of activities designed to ensure that it has sufficient financial resources to continue as a going concern even if it suffers a material unforeseen or unexpected risk event(s). This programme, called the Internal Capital Adequacy Assessment Programme ("ICAAP"), deals primarily with assessing Kiwibank's capacity to absorb risk based on: i) identification and quantification of its immediate risks; and ii) comparison of those risks with its financial capital (that may have to be sacrificed if these risks materialise).

The Board of Directors has ultimate responsibility for capital adequacy and approves capital policy and minimum internal capital levels and limits.

In ensuring that Kiwibank has adequate overall capital in relation to its risk profile, a mixture of risk capital estimates and judgement based estimates have been made relating to all material risks, even where they are hard to quantify. Included in these estimates is also a trade-off between the importance of allocating capital to such risks and the robustness of Kiwibank's approach to mitigating and managing these risks.

Kiwibank monitors its key risks and internal and regulatory capital adequacy, and reports on these to the Board Risk, Credit and Compliance Committee. In the event of large, unexpected losses, Kiwibank is committed to restoring its capital position. Management have developed plans accordingly.

Risk assessment and risk prioritisation

This function administered by the Risk Management Unit is designed to identify and assess the real risks facing Kiwibank. The prioritisation process is intended to ensure that management focus and appropriate resources are directed at isolating, reducing or controlling expected (probable) risk events. The risk prioritisation process involves assessing the probability and severity of losses using (where possible) quantitative risk and control data.

Enterprise risk management

Irrespective of their relative significance, the majority of risk situations facing Kiwibank occur in the day-to-day operations of the business. These risks (referred to as enterprise risks - as they arise from operating the business) are not confined to formal risk domains (i.e. credit, market, or operational risk) or business lines. As it is considered desirable to manage risk in a consistent and comprehensive manner across the whole of Kiwibank, a decision support model exists for any manager needing to make a risk management decision about a specific risk matter arising in their current or proposed operations (i.e. day-to-day business activities).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 32. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Kiwibank's high level "risk structure" recognises five main types of risk (or risk domains). Specifically:

Credit risk (Note 32(a))
The risk of financial loss arising from the failure of a customer or counterparty to honour any financial or contractual obligation.

Market risk (Note 32(b))
The potential for losses arising from adverse movements in the level and volatility of market factors, such as interest rates and foreign exchange rates. This risk domain also includes the risk that Kiwibank will not have sufficient funds available to meet financial and transactional cash-flow obligations.

Operational and compliance risk (Note 32(c))
The risk of direct or indirect losses resulting from inadequate or failed internal processes, people, and systems, or from external events. This risk domain includes legal and regulatory risk, which includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from regulatory actions, as well as private settlements.

Business and strategic risk (Note 32(d))
Macro or micro environmental events that could impede or prevent Kiwibank achieving its stated business goals or strategies, including missed opportunities and potential losses/damage arising from poor strategic business decisions.

Systemic Risk (Note 32(e))
The risk the global and domestic economic environment changes materially Kiwibank is unable to achieve its business goals and strategies. This includes changes in financial markets impacting credit and liquidity flows.

Note 32 (a) Credit Risk

Nature of the risk

Kiwibank's credit risks arise from lending to customers and from inter-bank, treasury, international and capital market activities. Kiwibank has clearly defined credit policies and frameworks for the approval and management of credit risk.

Credit Risk Management

Key elements of the Credit risk management framework are:

Credit risk
The Board requires sound lending growth for appropriate returns. Kiwibank pursues this objective in a structured manner, managing credit risk through application of sector specific credit underwriting standards including scorecards, a robust control environment, monitoring of the portfolios, review of all major credit risks and risk concentrations and through a tiered structure of delegated lending authorities designed to control the multiple facets of credit risk management.

An independent credit management function staffed by credit risk specialists exists to; i) provide independent credit decisions; ii) support front-line lending staff in the application of sound credit practices; iii) provide centralised remedial management of troublesome and impaired accounts; and iv) undertake portfolio monitoring and loan asset quality analysis and reporting.

The integrity and effectiveness of Kiwibank's credit risk management practices, asset quality and compliance with policy is supported by independent assessments by the Quality Assurance and internal audit functions.

Credit risk mitigation
Kiwibank's Board approved wholesale credit management policy sets out the parameters for which it can enter into credit exposures arising from on and off-balance sheet transactions. Kiwibank also has legal arrangements with its major institutional counterparties to allow netting of off-balance sheet exposures along with collateral management arrangements.

Portfolio structure and monitoring
Kiwibank's credit portfolio is divided into two Asset Classes, Retail and Corporate. The Retail Asset Class is comprised of housing loan, credit card and personal loan facilities and small to medium enterprise business lending. This segment is managed on a delinquency band approach and on a behavioural basis.

The Corporate Asset Class consists of lending to middle market and Corporate businesses. Each exposure is assigned an internal risk rating that is based on an assessment of the risk of default. These exposures are required to be reviewed on an annual basis. The overall composition and quality of the credit portfolios is monitored taking into account the potential changes in economic conditions.

Credit approval standards
Kiwibank has clearly defined credit underwriting policies and standards for all lending, which incorporate income and repayment capacity, acceptable terms, security, and loan documentation criteria. In the first instance, Kiwibank relies on the assessed integrity of the debtor or counterparty and their ability to meet their financial obligations for repayment.

Longer term Consumer lending is generally secured against real estate, while short term revolving consumer credit (personal lending) is generally unsecured. Kiwibank requires adequate and sustainable loan servicing capacity, and may also require security cover within loan to security valuation as set down in Kiwibank's credit policy.

Collateral security in the form of real property and/or general security interest over business assets is generally taken for business credit except for government, bank and corporate counterparties of strong financial standing. The Bank uses ISDA agreements to document derivative activities and limit exposures to credit losses. Under ISDA protocols, in the event of default, all contracts with the counterparty are terminated and settled on a net basis.

Problem credit facility management
Credit exposures are monitored regularly 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 facilities are monitored to ensure workout and collection and recovery strategies are established and enacted promptly to minimise risk of potential losses.

Credit risk portfolios are regularly assessed for objective evidence of impairment. Kiwibank maintains a collective impairment allowance where there is objective evidence that the portfolio contains probable losses that will be identified in future periods. Kiwibank also creates an individual allowance for impairment against specific credit exposures when there is objective evidence that it will not be able to collect all amounts due.

Operations control environment
Operationally, credit risk is controlled through a combination of approvals, limits, monitoring and review procedures which are carried out on a regular basis. Functions are segregated so that no one person is in a position to control all significant stages of the credit process, thereby reducing the chance of error or defalcation escaping detection. Preparation of formal lending documentation only occurs after an independent officer in the operations area has ensured that the credit has been approved and the facility documentation matches the terms of the credit approval.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 32. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Concentration of Credit Risk

Concentrations of credit risk arise where Kiwibank is exposed to risk in activities or industries of a similar nature. An analysis of specific banking financial assets by industry sector at the reporting date is as follows:

	2016 $m
New Zealand	
- government, local authorities and services	962
- finance, investment and insurance	1,397
- households	15,051
- transport and storage	67
- professional, scientific and technical services	39
- electricity, gas and water	3
- construction	220
- property and business services	836
- agriculture	24
- health and community services	92
- personal and other services	183
- retail and wholesale trade	86
- food and other manufacturing	108
Overseas	
- finance, investment and insurance	120
Total financial assets	19,188
Less allowance for impairment losses	(53)
Total financial assets	19,135

Credit risk relating to Statement of Financial Position assets	Maximum exposure 2016 $m	Collateral 2016 $m	Net exposure 2016 $m
Fixed rate lending at amortised cost	12,580	(12,573)	7
Variable rate lending	3,762	(3,760)	2
Unsecured lending	400	-	400
Balances with related parties	77	-	77
Due from other financial institutions	247	-	247
Derivative financial instruments	658	(78)	580
Financial assets held for trading	-	-	-
Available for sale assets	955	-	955
Cash and cash equivalents	509	-	509
Total gross financial assets	19,188	(16,411)	2,777
Allowance for impairment losses	(53)	-	(53)
Total net financial assets	19,135	(16,411)	2,724

The table above represents a worst case scenario of credit risk exposure to the Kiwibank at 30 June 2016. The exposures set out are based on net carrying amounts as reported in the statement of financial position.

Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes have been used as the basis for disclosing customer industry sectors.

The exposure of Kiwibank derived from loans and advances to retail and corporate customers is 87% of the local maximum exposure.

The table above provides a quantification of the value of the financial charges that Kiwibank holds over a borrower's specific asset (or assets) where Kiwibank is able to enforce the collateral in satisfying the debt in the event of the borrower failing to meet its contractual obligations. For the purposes of this disclosure, where collateral held is valued at more than the corresponding credit exposure, coverage is capped at the value of the credit exposure less amounts for which an individual impairment allowance has been recognised. The most common type of collateral is over real estate including residential, commercial, industrial and rural property. Kiwibank is potentially exposed to credit risk for undrawn loan commitments for an amount equal to the undrawn balance.

Note 32(b) Market Risk

Nature of the risk

Market risk arises from the mismatch between assets and liabilities in the banking business. In order to manage its own exposure to market risk, Kiwibank transacts in derivative instruments such as swaps, options, futures and forward rate agreements. These activities are managed using structural limits (including volume and basis point value limits) in conjunction with scenario analysis. Market risk limits are allocated based on business strategies, modelling and experience, in addition to market liquidity and risk concentration analysis.

Market risk management

The key elements of Kiwibank's Market risk management framework are:

Interest rate risk management

The Board expects reasonable stability in Kiwibank's net interest income over time. Kiwibank's Treasury function has been tasked with managing the sensitivity of net income to changes in wholesale market interest rates. This sensitivity (known as structural interest rate risk) arises from Kiwibank's lending and deposit taking activities and investment of capital and other liabilities. 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 trading 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 ALCO (comprising of executive management) is responsible for implementing and monitoring interest rate risk management policies within Board defined policy guidelines and limits. Interest rate risk is managed by Kiwibank's Treasury unit within pre-approved 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 re-priced. A separate independent Market Risk Management Unit is responsible for the daily measurement and monitoring of market risk exposures.

Kiwibank reduces interest rate risk by seeking to match the re-pricing 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.

The following tables summarise Kiwibank's exposure to interest rate risk. They include banking financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 32. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

30 June 2016	Total $m	Non interest bearing $m	Up to 3 months $m	3 to 6 months $m	6 months to 1 year $m	Between 1 and 2 years $m	Over 2 years $m
Financial Assets							
Cash and cash equivalents	509	31	478	-	-	-	-
Due from other financial institutions	247	42	205	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-
Available for sale assets	955	-	89	-	26	294	546
Loans and advances	16,689	(31)	5,313	1,559	3,185	5,304	1,359
Derivative financial instruments	658	658	-	-	-	-	-
Total financial assets	19,058	700	6,085	1,559	3,211	5,598	1,905
Financial Liabilities							
Due to other financial institutions	(135)	(4)	(131)	-	-	-	-
Deposits and other borrowings	(14,782)	(1,506)	(9,463)	(1,809)	(1,563)	(245)	(196)
Derivative financial instruments	(725)	(725)	-	-	-	-	-
Debt securities issued	(2,207)	-	(977)	(159)	(160)	(98)	(813)
Subordinated debt	(356)	-	-	-	-	(150)	(206)
Total financial liabilities	(18,205)	(2,235)	(10,571)	(1,968)	(1,723)	(493)	(1,215)
On balance sheet gap	853	(1,535)	(4,486)	(409)	1,488	5,105	690
Net derivative notional principals	20	-	4,706	(170)	(981)	(4,026)	491
Net effective interest rate gap	873	(1,535)	220	(579)	507	1,079	1,181

Currency risk management

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 into New Zealand dollars. Residual currency risks are monitored daily in terms of open positions in each currency and are managed within pre-approved limits.

Kiwibank take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Kiwibank Limited sets limits on the level of exposure by currency and in aggregate for overnight positions, which are monitored daily. The table below summarises Kiwibank's exposure to foreign currency exchange rate risk as at 30 June 2016. Included in the table are banking financial instruments at carrying amounts, categorised by currency.

30 June 2016	NZD $m	AUD $m	USD $m	GBP $m	EUR $m	CHF $m	OTHER $m	Total $m
Financial Assets								
Cash and cash equivalents	433	10	43	11	9	-	3	509
Due from other financial institutions	205	-	42	-	-	-	-	247
Financial assets held for trading	-	-	-	-	-	-	-	-
Available for sale assets	955	-	-	-	-	-	-	955
Loans and advances	16,687	-	1	-	1	-	-	16,689
Derivative financial instruments	248	(27)	(101)	(3)	(3)	512	32	658
Total financial assets	18,528	(17)	(15)	8	7	512	35	19,058
Financial Liabilities								
Due to other financial institutions	(92)	-	(43)	-	-	-	-	(135)
Deposits	(14,689)	(18)	(47)	(13)	(12)	-	(3)	(14,782)
Derivative financial instruments	(1,339)	177	305	4	5	-	123	(725)
Debt securities issued	(1,231)	(136)	(190)	-	-	(495)	(155)	(2,207)
Subordinated debt	(356)	-	-	-	-	-	-	(356)
Total financial liabilities	(17,707)	23	25	(9)	(7)	(495)	(35)	(18,205)
Net on balance sheet financial position	821	6	10	(1)	-	17	-	853

Liquidity and funding risk management

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's Treasury function has responsibility for liquidity management, under oversight of the ALCO.

Kiwibank monitors this risk daily, primarily by forecasting future cash requirements, both under normal conditions and during crisis situations. Kiwibank manages this by; i) holding readily tradable, investment assets, that are eligible for the RBNZ's repurchase facilities, and short term investments with high credit quality counterparties to provide for any unexpected patterns in cash movements; and ii) by seeking a stable funding base.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 32. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Kiwibank maintains liquidity crisis contingency plans defining an approach for responding to liquidity threatening events. Funding risk is allied to liquidity risk, but is concerned with Kiwibank's capacity to fund increases in assets while meeting its payment obligations, including repaying depositors and maturing wholesale debt.

Kiwibank employs asset and liability cash flow modelling to determine appropriate liquidity and funding strategies. This modelling helps ensure that an appropriate portion of Kiwibank assets are funded by customer liabilities, bank borrowing, and equity. This approach also recognises the favourable liquidity characteristics of long term customer liabilities and wholesale debt funding, in reducing the impact or volatility of short term funding.

Under normal business conditions, Kiwibank seeks to satisfy the majority of its funding needs from retail liabilities. Kiwibank's borrowing capacity is an estimate of the amount of funding that can be raised in the wholesale markets. Kiwibank's funding strategy is designed to deliver a sustainable portfolio of wholesale funds.

Treasury (under oversight of the ALCO) is responsible for monitoring Kiwibank's funding base and ensuring that this base is prudently maintained and adequately diversified.

Liquidity risk management

Kiwibank's liquidity management responsibilities include:

1. Day-to-day liquidity requirements. RBNZ liquidity ratios are calculated and monitored daily to ensure that Kiwibank:
   a.) is compliant with part 11 of the Conditions of registration and the RBNZ "Liquidity policy" (BS13)
   b.) maintains a prudent level of cash and highly liquid assets ("primary liquid assets") and marketable assets of limited credit risk ("secondary liquid assets") to meet both expected and projected outflows over a one week, one-month period;
   c.) maintains a diversified stable funding base
2. Securing an appropriately matched profile of future cash flows from maturing assets and liabilities.
3. Implementing Kiwibank's funding plan which includes the development of sustainable wholesale funding capacity.
4. Stress testing Kiwibank's funding and liquidity position with a range of adverse events covering a name crisis, an international credit crisis, a Kiwibank Name event combined with domestic funding stress.

Non-Derivative Cash Flows

The following tables summarise the cash flows payable by Kiwibank under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Kiwibank does not manage the liquidity risk on the basis of the information provided below.

Derivative Cash Flows

Derivatives settled on a net basis

The following tables analyses Kiwibank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

Derivatives settled on a gross basis

The following tables analyses Kiwibank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

30 June 2016	On demand $m	Up to 3 months $m	Between 3 and 12 months $m	Between 1 and 5 years $m	More than 5 years $m	Gross nominal inflow / outflow $m	Carrying amount $m
Financial Liabilities							
Non-derivative cash flows							
Due to other financial institutions	(135)	-	-	-	-	(135)	(135)
Deposits and other borrowings	(5,605)	(5,398)	(3,411)	(489)	-	(14,903)	(14,782)
Debt securities issued	(147)	(249)	(459)	(1,467)	(35)	(2,357)	(2,207)
Subordinated debt	(3)	-	(12)	(61)	(286)	(362)	(356)
Total financial liabilities	(5,890)	(5,647)	(3,882)	(2,017)	(321)	(17,757)	(17,480)
Financial Assets							
Cash and cash equivalents	509	-	-	-	-	509	509
Due from other financial institutions	247	-	-	-	-	247	247
Financial assets held for trading	-	-	-	-	-	-	-
Available for sale assets	8	11	72	925	-	1,016	955
Loans and advances	174	357	1,088	3,823	28,626	34,068	16,689
Total financial assets	938	368	1,160	4,748	28,626	35,840	18,400
Net non derivative cash flows	(4,952)	(5,279)	(2,722)	2,731	28,305	18,083	920
Derivative cash flows - net							
Interest rate derivatives	(18)	(11)	(55)	(34)	(2)	(120)	
Total derivative cash flows - net	(18)	(11)	(55)	(34)	(2)	(120)	
Derivative cash flows - gross							
Foreign exchange derivatives							
Inflow	437	170	377	747	35	1,766	
Outflow	(443)	(174)	(390)	(678)	(40)	(1,725)	
Total derivative cash flows - gross	(6)	(4)	(13)	69	(5)	41	
Off balance sheet cash flows							
Capital commitments	-	(5)	(1)	-	-	(6)	
Undrawn loan commitments	(2,650)	-	-	-	-	(2,650)	
Lease commitments	-	(1)	(4)	(13)	-	(18)	
Total off balance sheet cash flows	(2,650)	(6)	(5)	(13)	-	(2,674)	
Net position	(7,626)	(5,300)	(2,795)	2,753	28,298	15,330	
Cumulative net position	(7,626)	(12,926)	(15,721)	(12,968)	15,330	15,330	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 32. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Note 32 (c) Operational and Compliance Risk

Nature of the risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is mitigated by implementing the necessary process, systems and training regimes.

Compliance risk, a subset of operational risk, is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory standards and codes of conduct applicable to its banking activities.

Operational risk is inherent in Kiwibank's activities and inadequate practices to identify and assess operational risk can lead to non-compliance, sanctions fines/penalties and losses due to errors, compensation and internal fraud. Failure of processes/systems or human error could result in poor customer service or experience.

Operational risk covers a broad spectrum of activities, and is categorised into seven specific Basel "event types":

I. Internal fraud
II. External fraud
III. Employment practices & workplace safety
IV. Clients, products & business practices (NB: This category includes a large proportion of Kiwibank's compliance risks.)
V. Damage to physical assets
VI. Business disruption and system failures
VII. Execution, delivery and process management

Operational risk management

Operational risk management within Kiwibank is based on the following core elements:

I. Operational risk management relies on the support and participation of all Kiwibank staff. 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.
II. Business units are responsible for the management of their operational risks. Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk in their areas of responsibility.
III. A central Risk Management Unit owns and manages the operational risk and compliance framework and provides guidance, review and challenge to the first line.

General Managers provide attestations regarding their operational risk and compliance systems and any weaknesses. A summary of the responses and any issues identified is reported to the executive Disclosures Committee and to the Board Risk, Credit and Compliance Committee.

Note 32 (d) Business and Strategic Risk

Nature of the risk

There are numerous external and internal uncertainties that may derail the business strategies or goals of Kiwibank. Success in managing business risk is intrinsically more difficult than managing financial risks (i.e. credit, market and operational risks).

It is only through sound business strategies and skillful execution of these business strategies that Kiwibank's business goals/objectives will be achieved. Risk management strategies are not a substitute for good business strategies but aid in the selection of appropriate strategies and in their successful execution.

Business and strategic risk management

Kiwibank has three core business risk management strategies aimed at supporting the business strategies of the Bank. Specifically:

I. Establishment and maintenance of an internal organisational environment in which business and strategic risk can meaningfully be managed.
II. Establishment and maintenance of structures, measurement basis and risk management processes for the evaluation and management of business and strategic risks.
III. Building capability within Kiwibank to enable both the pursuit of opportunities and mitigation of vulnerabilities.

Concentration of Funding

Concentrations of funding arise where Kiwibank is funded by industries of a similar nature or in particular geographies. ANZSIC codes have been used as the basis for disclosing industry sectors. An analysis of financial liabilities by industry sector and geography at reporting date is as follows:

	2016 $m
New Zealand	
- transport and storage	135
- finance, investment and insurance	4,085
- electricity, gas and water	11
- food and other manufacturing	65
- construction	91
- communications	24
- government, local authorities and services	393
- agriculture	26
- health and community services	157
- personal and other services	233
- property and business services	415
- education	182
- retail and wholesale trade	55
- households	10,877
Overseas	
- finance, investment and insurance - Australia	100
- finance, investment and insurance - rest of world	992
- households - Australia	35
- households - rest of the world	231
Total financial liabilities	18,107

Note 32 (e) Risk governance

Risk Governance encompasses roles and responsibilities of the Kiwibank Board, CRO and the risk management function, and independent assessment of the Risk Governance Framework.

Support is provided in the Risk Division by CRO and the Risk Governance team which provides frameworks that quantify and communicate the level of risk the Bank is willing to accept to management.

Key elements of the Risk Governance function are:

Risk Appetite & supporting policy frameworks

The Risk appetite and culture framework includes a definition of risk culture, an effective risk appetite statement, and clearly defined risk limits. It also defines roles and responsibilities for the Kiwibank Board of Directors and senior management in establishing the approved risk appetite statement.

This requires clearly defined frameworks, including specific policy, for the development and maintenance of Credit Origination, Portfolio Management and Policies/Sector Policies and Delegated Lending Authorities. These frameworks are regularly reviewed and refined for continuous improvement and to support Business needs.

Kiwibank's Executive Risk Committee (comprising of executive management) is tasked with producing robust credit policies, credit management processes and asset writing strategies; examining portfolio standards, concentrations of lending, asset impairment; and monitoring compliance with policy.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 32. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Quality Assurance of credit activities

This provides assurance that Credit Policy, processes and systems are being used as designed, by both individual staff and systematically across the Bank.

The Risk governance function includes reviewing material credit change initiatives ensuring they are working as designed and producing intended outcomes.

Model Assurance

To provide assurance that models are fit for purpose and working as intended, the function is tasked with developing model validation standards with the primary focus on models used for rating credit exposure.

Sensitivity analysis

The tables below summarise the pre-tax sensitivity of financial assets and financial liabilities to changes in the two key risk variables, interest rate and currency risks. The sensitivity to interest rate movements models the impact of a 1% parallel movement, both up and down, in the yield curve on fair values and earnings.

Fair value sensitivity assesses whether changes in the fair value impact the net profit (for example, financial assets held for trading) or equity (for example, available for sale assets and cash flow hedges) only; market values are used as the basis for this calculation.

Earnings sensitivity calculates the impact on net profit for the previous year of a 1% movement in interest rate based upon financial assets and liabilities that have re-priced over the previous year that were held at the reporting date.

The sensitivity to currency movements models the impact on net profit of a 10% movement, both up and down, in the New Zealand Dollar relative to all currencies where Kiwibank held a material exposure at the reporting date.

Any changes in the value of financial assets and financial liabilities due to currency movements are considered to impact the net profit and, therefore, equity equally.

Interest rate risk - fair value

30 June 2016	Carrying value $m	-1% Net profit $m	1% Net profit $m	-1% Equity $m	1% Equity $m
Financial Assets					
Cash and cash equivalents	509	-	-	-	-
Due from other financial institutions	247	-	-	-	-
Financial assets held for trading	-	-	-	-	-
Available for sale assets	955	-	-	23	(22)
Loans and advances	16,689	8	(8)	8	(8)
Derivative financial instruments	658	348	(332)	365	(348)
Total financial assets	19,058	356	(340)	396	(378)
Financial Liabilities					
Due to other financial institutions	(135)	-	-	-	-
Deposits and other borrowings	(14,782)	-	-	-	-
Derivative financial instruments	(725)	(325)	309	(403)	386
Debt securities issued	(2,207)	(26)	25	(26)	25
Subordinated debt	(356)	(2)	2	(2)	2
Total financial liabilities	(18,205)	(353)	336	(431)	413

Interest rate risk – earnings

30 June 2016	Carrying value $m	-1% Net profit $m	1% Net profit $m	-1% Equity $m	1% Equity $m
Financial Assets					
Cash and cash equivalents	509	(5)	5	(5)	5
Due from other financial institutions	247	(2)	2	(2)	2
Financial assets held for trading	-	-	-	-	-
Available for sale assets	955	(5)	5	(5)	5
Loans and advances	16,689	(113)	113	(113)	113
Derivative financial instruments	658	128	(128)	128	(128)
Total financial assets	19,058	3	(3)	3	(3)
Financial Liabilities					
Due to other financial institutions	(135)	1	(1)	1	(1)
Deposits and other borrowings	(14,782)	130	(130)	130	(130)
Derivative financial instruments	(725)	(177)	177	(177)	177
Debt securities issued	(2,207)	12	(12)	12	(12)
Subordinated debt	(356)	-	-	-	-
Total financial liabilities	(18,205)	(34)	34	(34)	34

Currency risk

30 June 2016	Carrying value $m	-10% Net profit $m	10% Net profit $m	-10% Equity $m	10% Equity $m
Financial Assets					
Cash and cash equivalents	509	8	(7)	8	(7)
Due from other financial institutions	247	-	-	-	-
Financial assets held for trading	-	-	-	-	-
Available for sale assets	955	-	-	-	-
Loans and advances	16,689	-	-	-	-
Derivative financial instruments	658	41	(37)	41	(37)
Total financial assets	19,058	49	(44)	49	(44)
Financial Liabilities					
Due to other financial institutions	(135)	(4)	4	(4)	4
Deposits and other borrowings	(14,782)	(11)	9	(11)	9
Derivative financial instruments	(725)	61	(56)	61	(56)
Debt securities issued	(2,207)	(93)	85	(93)	84
Subordinated debt	(356)	-	-	-	-
Total financial liabilities	(18,205)	(47)	42	(47)	41

Auditors' Report

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Independent auditor's report

To the readers of New Zealand Post Limited's Financial Statements for the year ended 30 June 2017

The Auditor-General is the auditor of New Zealand Post Limited and its subsidiaries (the "Group"). The Auditor-General has appointed me, Chris Barber, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the consolidated financial statements of the Group on his behalf.

Opinion

We have audited the consolidated financial statements of the Group on pages 4 to 85, that comprise the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our firm carries out other services for the Group in the areas of other assurance services, tax compliance and other services relating to process reviews, workshop facilitation, advisory services, procurement review and tax pooling. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

PricewaterhouseCoopers and the Group signed a Memorandum of Understanding ("MoU") on 28 March 2017 to work together on initiatives to ensure trust in our food supplies. At 30 June 2017 no work had been agreed or undertaken under this MoU.

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Information other than the consolidated financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.

Directors' responsibilities for the consolidated financial statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors' responsibilities arise from the Financial Markets Conduct Act 2013.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of readers taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibilities arise from the Public Audit Act 2001.

Chris Barber
On behalf of the Auditor-General
Wellington, New Zealand
11 September 2017

PricewaterhouseCoopers

PERFORMANCE OVERVIEW

Statement of Corporate Intent Performance

The Group has set a series of targets in our Statement of Corporate intent. This section shows how we have tracked against those targets in the 2016/17 year.

Scorecard Targets

		NZ Post Group		
		2016 Actual	2017 Actual	2017 Plan
Shareholder Returns				
(a) Total Shareholder Return (1)	%	9.7%	-17.2%	11.6%
(b) Dividend yield (excl Kiwibank)	%	0.4%	8.2%	16.4%
(c) Return on equity	%	11.9%	7.3%	8.7%
Profitability / Efficiency				
(d) Return on capital employed	%	5.5%	2.9%	3.2%
(e) Operating margin	%	17.4%	16.0%	16.0%
Leverage and Solvency				
(f) Gearing ratio (net)	%	87.5%	8.8%	7.7%
(g) Interest cover	times	7.5	7.4	9.9
(h) Solvency (Current ratio)	times	1.0	2.0	2.1
Good Employer				
(i) People engagement index (Raw engagement score per the Annual Employee Engagement Survey)	%	73.1%	58.7%	75.2%
(j) Lost Time Injury Frequency Rate (Lost time injuries per million hours worked)	per M	4.7	6.0	4.0
Corporate Responsibility				
(k) Letter service performance (Letters delivered to standard (Testpo Survey))	%	94.5%	89.1%	95.0%
(l) Customer favourability (% Who rate NZ Post as 'excellent' or 'very good')	%	38.0%	36.0%	39.0%
(m) Letters - Intensity increase (2)	%	5.9%	10%	1.9%
(n) Parcels - Intensity decline (2)	%	-1.3%	6.0%	3.3%

Notes

1. Total Shareholders Return includes changes in commercial valuation. FY17 includes a special dividend paid to the Crown of $100m. A Group valuation for 2017 has been completed, resulting in a reduction in value from 30 June 2016 of $381m. This is primarily due to the partial sale of Kiwi Group Holdings (KGH) as the Group valuation at 30 June 2017 only includes 53% of KGH. No change in commercial valuation was assumed in the 2017 plan.
2. "Intensity" measures the resource costs (translated into C02) needed to process/deliver each unit of letter/parcel.
   - Letter Intensity Increase - reflects a less efficient planned performance as the volume of letters is declining faster than the resource cost removed from the network
   - Parcel Intensity Decline - reflects a more efficient planned performance as volume growth drives down the unit cost required to deliver each parcel.

Four-year Trend Summary

Operating Revenue	$m	890	938	1,590	1,651
Operating Expenses	$m	887	975	1,430	1,495
Profit/(Loss) Before Tax	$m	25.0	- 6.0	191.0	140.0
Operating margin before tax	$m	0.3	- 3.9	10.1	9.4
Earnings per share	c/share	48.4	73.4	74.5	55.7
Total Assets**	$m	1,818	20,260	19,201	17,583
Average Shareholders Funds	$m	1,268	1,182	1,079	994
Return on Average Shareholders Funds		7.3%	11.9%	13.3%	10.8%
Net Asset Backing per Share		6.7	6.7	6.0	6.2
Average Shareholders Funds to Total Assets		69.7	5.8	5.6	5.7
Interim Dividend	c/share	1.3	1.3	1.3	1.3
Final Dividend	c/share	1.3	1.3	1.3	1.3
Special Dividend	c/share	52	-	-	-

* FY16 revenue, expense, profit and earnings figures have been restated to exclude the KGH Group, consistent with FY17.

** FY17 total assets excludes the individual assets of KGH but includes NZ Post's remaining investment in the KGH Group.

Our performance in the community

Disclosed in accordance with Postal Services (Information Disclosure) Regulations 1998

Frequency of Delivery Services - Summary as at 30 June 2017

SERVICE	**Delivery Points**	**6 Day**	**5 Day**	**4 Day**	**3 Day**	**2 Day**	**1 Day**
Residential	1,461,868	176,740	1,109	107	1,283,912	-	-
Business	78,070	10,290	74	13	67,693	-	-
Rural	252,402	-	250,788	-	1,101	371	142
BoxBag Farmer	2,883	2,614	269	-	-	-	-
BoxBag	157,251	147,167	10,083	-	1	-	-
Counter, Community Mailbox	30,012	19,075	10,595	147	195	-	-
TOTAL	**1,982,468**	**355,886**	**272,918**	**267**	**1,352,902**	**371**	**142**
PERCENT	100.00%	17.95%	13.77%	0.01%	68.24%	0.02%	0.01%

Percentage of points that receive 3 days or greater delivery	99.97%	(required minimum = 99.88%)
Counter, Community Mailbox percentage	1.51%	(allowed maximum = 3%)

Notes

1. 2,031 points in the Counter, Community Mailbox category are excluded from the calculation of the percentage of delivery points as these are where people have elected to take this service over another that is available, as per clause 5 of the Deed of Understanding.

   The number of people using temporary counter services (for up to 3 months) is excluded from the category.

2. The number of Counter and Community Mailbox users has been established by a survey and may differ slightly from practice.

3. Community mail boxes/counter services include instances where people are provided with a free PO Box or Private Bag by NZ Post rather than a Community Mailbox.

	Our performance
PostShop Stores (Corporate and Franchise)	270
PostCentre Outlets	611
Total Retail Outlets	881

	Our performance	**Our commitment***
Personal Assistance Service Points**	514	240
Total Service Points***	982	880

* Commitment as specified in 2013 Deed of Understanding (Deed).

** "Personal Assistance Service Points" means Service Points where personal assistance is available to consumers for the purchase of local, national and international parcel and packet services excluding bulk mail and courier services. Since our 2015 Annual Report we have changed the basis of reporting to take a more conservative approach to identifying Personal Assistance Service Points in alignment with the Deed's intent.

*** "Service Points" means service points at which consumers can purchase basic postal services, including but not limited to the acceptance of Basic Postal Items, excluding bulk mail. "Basic Postal Items" means a postal item that does not exceed 260mm height, 385mm length, 20mm thickness and/or 1kg weight, excluding parcel, priority, courier or express services. Service Points may include retail outlets owned by New Zealand Post, service points hosted in other businesses, electronic kiosks and New Zealand Post resellers with a street receiver or alternative lodgement point within a 50 metre radius of the reseller. For the 2017 Annual Report we have included certain resellers that meet the Deed's policy intent for the provision of basic postal services to consumers.

KANTAR TNS

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To The Directors, New Zealand Post Limited

TNS conducted a measure of New Zealand Post's letter delivery performance measuring performance against the following criteria according to the Postal Users Guide:

For FastPost:
- Delivery the next working day between major towns and cities across New Zealand

For Standard Post:
- Delivery within three working days for letters between major towns and cities within New Zealand

To measure the extent to which New Zealand Post is meeting these publicly stated objectives, we prepared for posting Standard Post and FastPost letters, which were sent to a representative sample of New Zealand Post's total customer base. Based on information supplied by New Zealand Post, 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 from the day of posting of the letter to the day the letter was received by the addressee. Transit day for Fast Post is Monday to Friday and Standard Post is Monday to Saturday, excluding local public holidays.

The annual result was calculated using the data collected in August 2016, February 2017, March 2017 and May 2017. In our opinion this report fairly represents the service performance achieved by New Zealand Post Limited during the time of measurement.

The results of this test are summarised in the table below.

	Weighted Results*
Total within specification	89.1%
Total within three days of specification	98.1%
More than three days later than specified	1.9%

**Weighted to replicate the proportion of FastPost and Standard Post mail flows in New Zealand based on unaudited ratios supplied by New Zealand Post*

Yours sincerely

David Thomas

Executive Director
Kantar TNS

Environment

Greenhouse Gas (GHG) Emissions

New Zealand Post Limited meets the requirements of CEMARS® certification having measured its greenhouse gas emissions in accordance with ISO 14064-1: 2006 and committed to managing and reducing its emissions in respect to the operational emissions of its organisation within New Zealand. For the purposes of CEMARS certification (FY17). This includes Kiwibank and ReachMedia. Both will be removed from the scope of CEMARS certification in the FY18 reporting year.

The Group has applied a baseline year of 2012-13 for its emissions inventory. The operational control consolidation approach has been used to account for operational emissions with reference to the methodology described in the GHG Protocol and ISO 14064-1:2006 standards.

Figure 1: 2016-17 GHG emissions by source

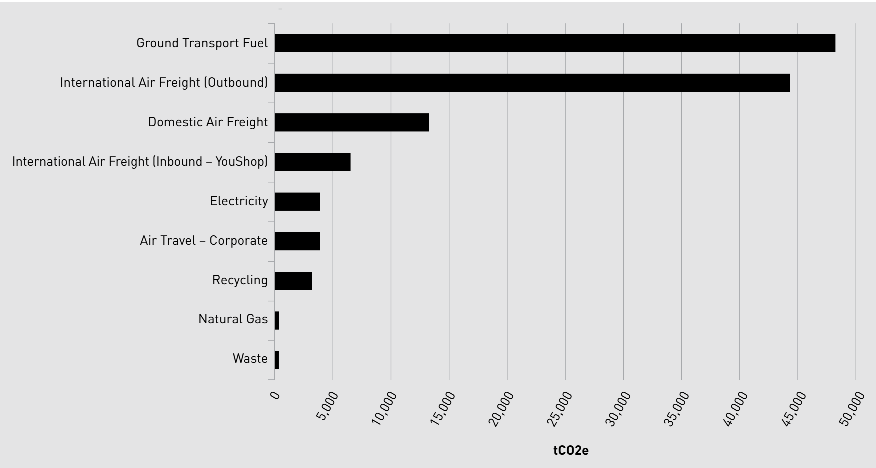

Figure 2: GHG emissions data summary (tCO_2e)

	2012-13 (base year)	2013-14	2014-15	2015-16	2016-17	Change from base year
Scope 1	16,403	16,093	15,650	14,866	2,308	-85.9%
Scope 2	5,607	4,507	4,664	4,671	3,856	-31.2%
Scope 3	108,296	98,217	93,400	102,237	117,460	8.5%
Total	**130,306**	**118,818**	**113,714**	**121,774**	**123,624**	**-5.1%**

- This statement is a summary of the verified information considered for CEMARS® certification. The full disclosure statement can be found at www.enviro-mark.com
- In FY16 the organisational boundary was expanded to include GHG emissions associated with Youshop services (a Scope 3 emissions source). In FY17 this accounted for an increase of 6,464 tCO2e.

Emissions audit statement

Certified Emissions Measurement And Reduction Scheme

CEMARS®

This is to certify that

New Zealand Post Limited

Meets the requirements of CEMARS® certification having measured its greenhouse gas emissions in accordance with ISO 14064-1:2006 and committed to managing and reducing its emissions in respect to the operational emissions of its organisation within New Zealand, including its New Zealand based wholly owned subsidiaries and its joint venture Reach Media New Zealand Limited and excluding Post Shop franchises in fuel stations, supermarkets, dairies and other outlets.

Belinda Mathers - Certifier

Company Address: 7 Waterloo Quay, Wellington, New Zealand
Certificate Number: 2016076J
Date Issued: 19 August 2016
Valid until: 19 August 2019
Certification status: Certified organisation
Certification Year Level of Assurance: Reasonable

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Certified by Enviro-Mark Solutions Limited

Please refer to the disclosure page on www.enviro-mark.com for further details
CEMARS is an annual certification programme and this certificate only remains valid with an annual surveillance audit

ENVIRO-MARK SOLUTIONS

New Zealand Post Limited and Subsidiaries
For the year ended 30 June 2017

Statutory Information

Consolidated earnings statement – information disclosure for the year ended 30 June 2017

	Letter Deliveries [1] $m	Other Services $m	Total $m
Operating revenue	302	588	890
Operating expenses	309	578	887
Operating (loss)/surplus before income tax	(7)	10	3

[1] Letters for delivery in New Zealand

Accounting Policies

Accounting policies adopted for the preparation of the Consolidated Earnings Statement – Information Disclosure are the same as those applied by the Group.

Statement of Assumptions

Letters are defined as any form of written communication, document or article that is addressed to a specific person or address, is conveyed or delivered other than by electronic means or courier service, falls within certain size and weight criteria and for which a charge is made. This includes letter deliveries of inbound products from other countries that are under 2 kgs in weight, which is above the amount set out in the legislation of 1kg.

Operating revenue

Operating revenue has been calculated using the Group's product costing model which has calculated the operating revenue for letter deliveries using actual financial data for the 2016/17 year. The costing model identifies the relevant letter products and the revenue earned by them.

Operating revenue in the year ended 30 June 2017 has been impacted by a change in the basis of allocation of stamp revenue between letters and parcels. This has resulted in an increase in revenue from letter deliveries of approximately $8 million relative to the allocation basis used in the prior year.

Operating expenses

Operating expenses have been calculated using the Group's product costing model which has calculated the operating expenditure for letter deliveries using actual financial data for the 2016/17 year. The costing model identifies the cost of activities within the Group based on resource drivers. Key resource drivers in the model are operational time that is recorded for activities performed. The cost of each activity is assigned to letter deliveries or other services based on the activity drivers. Key activity drivers of the model are operational volume. Key assumptions in the model are that all expenses are coded to the correct departments within the general ledger. Assumptions are also made about average weight and volume where operational data is unavailable. Any exchange gains or losses have not been included in this calculation.

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Independent review report

To the readers of New Zealand Post Limited's Consolidated Earnings Statement – Information Disclosure for the Year Ended 30 June 2017

The Auditor-General is the auditor of New Zealand Post Limited and its subsidiaries (the "Group"). The Auditor-General has appointed me, Chris Barber, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the consolidated financial statements of the Group on his behalf.

Report on the Consolidated Earnings Statement – Information Disclosure

In our capacity as auditor, we have carried out a review of the accompanying Consolidated Earnings Statement – Information Disclosure (the "Consolidated Earnings Statement") for the Group for the year ended 30 June 2017.

Directors responsibility

The Directors are responsible on behalf of the Group for the preparation and presentation of the Consolidated Earnings Statement in accordance with the Statement of Assumptions and for such internal controls as the Directors determine are necessary to enable the preparation of the Consolidated Earnings Statement that is free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying Consolidated Earnings Statement based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the Consolidated Earnings Statement, taken as a whole, is not prepared in all material respects, in accordance with the Statement of Assumptions. As the auditors of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the Consolidated Earnings Statement in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on the Consolidated Earnings Statement.

Our firm carries out other services for the Group in the areas of audit and other assurance services, tax compliance and other services relating to process reviews, workshop facilitation, advisory services, procurement review and tax pooling. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Consolidated Earnings Statement of the Group is not prepared, in all material respects, in accordance with the Statement of Assumptions.

Chris Barber

Chris Barber
On behalf of the Auditor-General
Wellington, New Zealand
11 September 2017

PricewaterhouseCoopers

PricewaterhouseCoopers

Disclosures Required Under the Companies Act 1993

Unless otherwise stated, the following disclosures are for New Zealand Post Limited and its subsidiaries (including Kiwi Group Holdings Limited (KGH) and its subsidiaries). KGH is defined as a subsidiary of NZ Post under the Companies Act 1993, but is a joint venture for financial reporting purposes.

Report of the Human Resources Committee on Executive Remuneration

The Human Resources Committee comprises five Directors from the New Zealand Post Board. The primary purpose of the Human Resources Committee is to assist the Board in fulfilling its oversight of 'good employer' and human resources governance responsibilities relating to New Zealand Post.

The Committee also has some specific responsibilities in respect to remuneration for New Zealand Post Limited's Chief Executive and executive leadership team, and for remuneration policy applicable to New Zealand Post Limited managers.

New Zealand Post's management remuneration structures are designed to attract, reward and motivate our executive talent while remaining mindful of affordability. In setting remuneration for New Zealand Post executives (including managers and specialists), market information from similarly-sized management positions within a broad range of New Zealand businesses is assessed.

With the exception of those in direct sales-focused roles and Kiwibank employees, executive remuneration does not include any at-risk pay or other form of financial incentive/bonus.

Termination payments (i.e. redundancy compensation) to former employees are included where relevant.

Employee numbers as at 30 June 2017 totalled 7,464 people (6,769 FTE). Across the Group, the total cost of remuneration for our employees during the year was $490m. Pay rates vary across the Group depending on market conditions in relation to each business sector.

Remuneration Bands

Remuneration includes base salary, incentive payments and other benefits, termination payments, and superannuation payments made to employees and former employees between 1 July 2016 and 30 June 2017.

Remuneration bands	Total in band for FY17
$100,000-$109,999	197
$110,000-$119,999	185
$120,000-$129,999	103
$130,000-$139,999	78
$140,000-$149,999	80
$150,000-$159,999	63
$160,000-$169,999	49
$170,000-$179,999	43
$180,000-$189,999	20
$190,000-$199,999	15
$200,000-$209,999	16
$210,000-$219,999	7
$220,000-$229,999	15
$230,000-$239,999	8
$240,000-$249,999	11
$250,000-$259,999	8
$260,000-$269,999	12
$270,000-$279,999	4
$280,000-$289,999	5
$290,000-$299,999	4
$300,000-$309,999	4
$310,000-$319,999	6
$330,000-$339,999	2
$350,000-$359,999	2
$370,000-$379,999	3
$400,000-$409,999	1
$410,000-$419,999	1
$420,000-$429,999	1
$440,000-$449,999	2
$450,000-$459,999	2
$490,000-$499,999	1
$510,000-$519,999	2
$520,000-$529,999	1
$540,000-$549,999	1
$550,000-$559,999	1
$560,000-$569,999	3
$620,000-$629,999	1
$660,000-$669,999	1
$720,000-$729,999	1
$740,000-$749,999	1
$760,000-$769,999	1
$770,000-$779,999	1
$880,000-$889,999	1
$1,050,000-$1,059,999	1
$1,680,000-$1,689,999	1
Total	**965**

Donations

During the year, the New Zealand Post Group made donations of **$100,847**. No donations were made to political parties.

Auditors

The auditor for the Group is Chris Barber assisted by PricewaterhouseCoopers, Wellington on behalf of the Auditor-General. The amount payable by New Zealand Post Group and Kiwi Group Holdings Limited to PricewaterhouseCoopers as audit and review fees in respect of the year is **$2,100,541**. The amount incurred in respect of the year for other services provided by PricewaterhouseCoopers is **$1,143,254**.

Directors' and employees' insurance and indemnity

New Zealand Post has insured the Directors and employees of the Group against costs or liabilities of the type referred to in s162(5) of the Companies Act 1993. New Zealand Post had also agreed to indemnify Directors of the Group and New Zealand Post appointed Directors of associate companies against any costs or liabilities of the type referred to in s162(4) of the Companies Act 1993 that are incurred in any proceedings of the type referred to in s162(3) of the Companies Act 1993, however, subsequent to the partial divestment of Kiwi Group Holdings Limited this indemnification has been amended to exclude Directors of Kiwi Group Holdings Limited (and its subsidiaries) other than Directors of those companies solely appointed by or representing New Zealand Post.

Directors' Fees & Benefits*

The total fees paid to members of the New Zealand Post Limited Board during the 2016/2017 financial year were $491,200. The total Board fees are within the amount authorised by shareholding Ministers.

Name	Total fees and benefits *
Jane Taylor, Chair *(appointed a director on 1 August 2016 and Chair from 1 November 2016)*	$79,780
Hon Sir Michael Cullen *(resigned on 31 October 2016)*	$32,000
Carol Campbell	$56,340
Alan Dunn	$49,840
Richard Leggat	$49,840
Jackie Lloyd, Dep. Chair	$65,880
Richie Smith	$49,840
Julia Hoare	$49,840
Richard Dellabarca	$57,840

* These fees exclude GST (if any) and relate to the New Zealand Post Limited Board only (including fees for Board committees).

Directors' Disclosures

No specific disclosures were given by Directors pursuant to s140(1) of the Companies Act 1993.

General disclosures of interest made by the Directors of New Zealand Post Limited and New Zealand Post Limited subsidiaries pursuant to s140(2) of the Companies Act 1993 as at 30 June 2017 are:

New Zealand Post Limited Directors' Disclosures

Director	Interest
Jane Taylor *(appointed as director on 1 August 2016 and as Chair on 1 November 2016)*	Chair, Landcare Research New Zealand Limited Deputy Chair, Radio New Zealand Limited Director, Silver Fern Farms Limited Director, Silver Fern Farms Co-operative Limited Director, Silver Fern Farms Venison Limited Director, OTPP New Zealand Forest Investments Limited Board member, External Reporting Board Director/Shareholder, Tassenberg Limited Director, Hirepool Group Limited (until June 2017)
Sir Hon Michael Cullen *(resigned as director/Chair on 31 October 2016)*	Chief Treaty Claims Negotiator, Tuwharetoa Chair, Tuhoe Investment Committee
Carol Campbell	Director, The Business Advisory Group Limited (until April 2017) Director, Hick Bros Holdings Limited Director, T&G Global Limited Director, AlphaXRT Limited Director, Woodford Properties Limited Trustee, Ronald McDonald House Charities Director, Kingfish Limited Director, Marlin Global Limited Director, Barramundi Limited Director, Key Assets NZ Limited Director, Fostering First New Zealand Limited Director, NPT Limited Director, NZME Limited (from June 2016) Director, Nica Consulting Limited (from April 2017)
Richard Dellabarca	Director, New Zealand Rugby Union Director, Kea New Zealand Limited Director, Solvency II Solutions Limited (UK) CEO, New Zealand Venture Investment Fund Director, New Zealand Rugby Promotions Limited Director, Wynyard Group Limited (In Liquidation) Director, Harmoney Corporation (from May 2017)
Alan Dunn	Director, Burger Fuel Worldwide Limited Director, Z Energy Limited Director, Z Energy LTI Trustees Limited Director, Z Energy ESPP Trustees Limited Director, Vertical 4 Systems Limited Director, Nelson Regional Development Agency
Julia Hoare	Deputy Chair, Watercare Services Limited Director, AWF Group Limited Deputy Chair, The A2 Milk Company Limited Member, Institute of Directors (New Zealand) Inc Member, National Council of Institute of Directors (New Zealand) Inc Director, Port of Tauranga Limited
Richard Leggat	Director, Tourism NZ Director Cycling NZ Director, Trophy Metropolitan Limited Director, Mortleg Limited Director, Education New Zealand Director, Snow Sports NZ Chairman, New Zealand Cycle Trail Inc Member, NZ Markets Disciplinary Tribunal Director, Waterfront Auckland (until December 2016) Director, Development Auckland Director, Winter Games NZ Advisor, Busways Pty Limited (until September 2016) Director, MyMoneyFit Limited (from May 2017)

Director	Interest
Jackie Lloyd	Chair, Wellington Museums Trust Wellington Branch Deputy Chair & Committee Member, Institute of Directors (NZ) Inc Director, Worldwide Investments Limited Chair, State Services Commission Audit and Risk Committee Director & Trustee, Chair of Central Region Grants Committee, Lion Foundation Member, Weltec Whitireia Combined Council
Richie Smith	Director/Shareholder, Hilton Haulage Limited Director/Shareholder, Richie Smith Limited Director/Shareholder, Lands and Survey South Limited Director/Shareholder, Lands and Survey Limited Director, Ngai Tahu Farming Limited Director/Shareholder, Ligno Process Systems Limited Director/Shareholder, Proteus Holdings Limited Director/Shareholder, Maniototo Holdings Limited Director/Shareholder, West Coast Fresh Limited Director/Shareholder, The Toot Project Limited (formerly known as Pure New Zealand Milk Limited) Director/Shareholder, Pacific Biocomposites Limited Director/Shareholder, Biocomposites Limited Director/Shareholder, Tonhil Investments Limited Director/Shareholder, EX KFL Limited Director/Shareholder, Major Hornblower Holdings Limited Director, Timaru District Holdings Limited Director/Shareholder, Hades Holdings Limited Member of Advisory Board, Pivot Software Limited Member of Advisory Board, Tekapo Springs Limited Director/Shareholder – Lands and Survey (Auckland) Limited

Subsidiary Directors' Disclosures

Director	Interests
Nicholas Astwick *(resigned as director on 15 February 2017)*	Director and shareholder, Memorial Investments Limited Director, Payments NZ Limited (until September 2016) Trustee, Leadership New Zealand Future Director, Vector Limited
Carl Blanchard *(appointed as a director on 31 October 2016)*	Director, Talk Communications Limited Deputy Chair, Takeovers Panel Head- Direct Markets, Accident Compensation Corporation
Paul Brock	Trustee and beneficiary, Brock Family Trust Director and shareholder, Hotspur Limited Advisory Board member, Massey University Business School Director and shareholder, Stratx Limited
Malcolm Bruce	Trustee and beneficiary, Bruce Finance Trust (until June 2017) Trustee and beneficiary, Malcolm Bruce Family Trust Trustee, Mary Potter Hospice Trustee, Forever Foundation
Melissa Jannet Clark-Reynolds *(appointed as a director on 6 March 2017)*	Director & Chair of Finance and Risk Committee, Jasmax Group of Companies Director, Softed Limited Director, NZ Centre for the Future Advisory Board Member, Springload Limited Governor, Radio New Zealand Independent Advisor, MPI – PGP Program Panellist, EECA – LEV Fund Director, DD Limited

STATUTORY INFORMATION

Director	Interests
Stephen Cole *(resigned as a director on 29 August 2016)*	Director, Endeavour Securities Limited Director, Access Capital Limited Director, Access Finance Limited Director and shareholder, Bach Group Limited Director and shareholder, Bohemian Rhapsody Limited Director and shareholder, Adesso Limited Director and shareholder, Business Finance Limited
Gary Crawford	Director, Turkana Limited Trustee and Beneficiary, Turkana Trust Trustee and Beneficiary, Crawford Family Trust Board member, Wellington College Board of Trustees
Leo Davis *(resigned as a director on 29 August 2016)*	Director, Endeavour Securities Limited Director, Access Capital Limited Director, Access Finance Limited Director and shareholder, Davis Holdings Group Limited Director, Credit & Investment Nominees Limited Director, Sacred Heart College Limited Director, St Pauls College Auckland Limited Director, Marcellin College Limited Director, Bach Group Limited Director and shareholder, Business Finance Limited
Elizabeth Dawson	Director, New Zealand Cricket Director, New Zealand Olympic Committee Director, Hurricanes LP Director and Shareholder, Forsyth Morrison Limited Director, St Kilda Football Club Melbourne Trustee and Beneficiary, Liz Dawson Family Trust Panel member, New Zealand Rugby Respect and Responsibility Review Panel (from December 2016)
Alison Gerry *(resigned as a director on 31 December 2016)*	Director, Lindis Crossing Vineyard Limited Director and shareholder, Glendora Holdings Limited Director and shareholder, Glendora Avocados Limited Director and shareholder, Random Walk (2010) Limited Director, Television New Zealand Limited Director, NZX Limited Shareholder, Maungatapere Water Company Limited Director, Infratil Limited Director, New Zealand Clearing and Depository Corporation Limited Director, Vero Insurance New Zealand Limited Director, Vero Liability Insurance Limited Director, Asteron Life Limited Director, Spark New Zealand Limited (from August 2016)
Will Goodwin *(appointed as a director on 31 October 2016)*	Employee, Guardians of New Zealand Superannuation Director, New Ground Living (Hobsonville Point) Limited Director, Hobsonville Department GP Limited Director, NZSF Timber Investments (No. 4) Limited Director, NZSF Timber Investments (No. 2) Limited Director, NZSF Timber Investments (No. 1) Limited Director,NZSF Rural Investments (No. 1) Limited Director, NZSF Timber Investments (No. 3) Limited Director, Hobsonville Investments Limited Director, NZSF Land Holdings Limited Director, NZSF Southland Farms Limited Director, NZSF Tui Investments Limited Director, NZSF Rural Holdings Limited Director, NZSF Canterbury Farms Limited Director, NZSF Waikato Farms Limited
Phil Harris *(appointed as a director on 13 November 2016)*	Director, Moko Club NZ Limited Director, Waikato Rugby Union Shareholder, Chiefs Rugby Limited Partnership Trustee, Shorttail Trust Trustee, Longtail Trust Trustee, R&C Fletcher Trust

Director	Interests
Susan Macken *(appointed as a director on 28 November 2016)*	Board member, The Treasury Advisory Board Director, Fertility Associates Holdings Limited Director, Fertility Associates Limited Director, Fertility Associates Trustee Limited Director, FA Ventures One Limited Director, Development Auckland Limited Director, Blossom Bear Limited Director, Tamaki Regeneration Limited Director, THA GP Limited Director, Tamaki Redevelopment Company Limited Director, STG Limited Director, Spa Electrics Pty Limited (Australia)
Kevin Malloy (appointed as a director on 28 November 2016)	Director, Television New Zealand Limited Board Member, Graeme Dingle Foundation Board member, Halberg Disability Sport Foundation Director, kM54 Limited
Robert (Rob) Morrison *(resigned as a director on 13 April 2017)*	Director, Tamata Horticulture Limited Director, Tamata Holdings Limited Director, Acer Export Partnership Limited Director, Agriculture General Partner Limited Director and shareholder, RWB Nominees Limited Director and shareholder, Blind Pig Properties Limited Director and shareholder, Kotu Farms Limited Director, Kotu Management Limited Director and shareholder, Falkirk Management Limited Member, Asian Corporate Governance Association Chair, Pure Advantage Trustee, Rob Morrison Family Trust Shareholder, Fisher Funds Management Limited Director, Welnix GP Limited Director and shareholder, Investnix Holdings Limited Shareholder, Palliser Estate Wines of Martinborough Limited Chair, H.R.L Morrison & Co Group GP Limited Trustee, Moa Conservation Trust Director, Antarctica New Zealand Director, Morrison Nominees Limited
Alistair Nicholson	Shareholder, BPV Direct Management Investment Limited Director, Glendora Avocados Limited Director, Glendora Holdings Limited Director and shareholder, Hrothgar NZ Agri Holdings Limited Shareholder, Maungatapere Water Company Limited Director and shareholder, Random Walk (2010) Limited Chair of Audit and Finance Committee, Teach First New Zealand Executive Chair, Vulpes Investment Management Limited Member, Advisory Panel, Next Foundation Member, Avocado Industry Council Director, Avocado Growers' Association
Michael (Mike) O'Donnell *(appointed as a director on 15 November 2016)*	Director/Shareholder, MOD Associates Limited Director, Serato Audio Management Limited Chairman/Shareholder, Timely Limited Director, NZ Government to Government Knowhow Director, Tourism New Zealand Director/Shareholder, Raygun Limited COO/Shareholder, VWork Limited

STATUTORY INFORMATION

Director	Interests
Dame Alison Paterson	Director, Advanced Metering Assets Limited Director, Advanced Metering Services Limited Shareholder, Alandale Orchard Limited Director, ARC Innovations Limited Chair, BPAC NZ Limited (until May 2017) Shareholder, Brick Lane Limited Shareholder, Fairmount Farms Limited Chair, Farm IQ Systems Limited Director, Farm IQ PGP Limited Chair, Forestry Industry Safety Council Member, Health Quality and Safety Commission Director, Intueri Education Group Limited (until May 2017) Chair, New Zealand Formulary Limited Director, NGC Holdings Limited Director, On Gas Limited Shareholder, Storey Line Limited Chair, Te Aupouri Commercial Development Limited Director, Te Aupouri Fisheries Management Limited Director, Vector Limited Director, Vector Communications Limited Director, Vector Gas Limited Director, Vector Gas Contracts Limited Director, Vector Metering Data Services Limited Shareholder, Woodstock Investments Limited
Glenn Patrick *(appointed as a director on 27 July 2016)*	Director/Shareholder, New Square World Limited Director Kevin Patrick Limited Partner, Saunders Patrick Property Partnership Trustee, Patrick Family Trust Trustee, Jocelyn Patrick Family Trust
Rhoda Phillippo *(resigned as a director on 13 April 2017)*	Chair, Snapper Services Limited t Director, Vocus Communications Limited Director, Linq Limited Managing Director, Raghnall Consulting Limited Executive Chair, Vix Technology (until March 2017) Director, Vix Verify (until March 2017) Alternate Director, Perth Airport Pty Limited (from April 2016) Chair, 3DMeditech (from March 2017)
Scott Pickering *(appointed as a director on 8 November 2016)*	Director, Chubb Insurance New Zealand Limited Director, Chubb Insurance Company of Australia Limited
Neil Richardson	Adjunct Professor, The University of Waikato Chair and shareholder, SmartTrade Limited Director and shareholder, Imada/Prolificx group of companies Trustee/beneficiary, Neil Richardson Family Trust Director and shareholder, Leesville New Zealand Limited Trustee/beneficiary, Leesville Trust Director and shareholder, Richardson Trustee Limited Director and shareholder, Victoria Street Properties Director and shareholder, NRA Limited Director and shareholder, Quantec Limited Director, HPYN Limited Director and shareholder, Central Capital Investments (1) Limited Shareholder, Newbreed Properties
Brian Roche *(resigned as a director on 20 April 2017)**	Director and shareholder, Valley Road Forest Limited Director, Hurricanes GP Limited Member, Trustee Council for the New Zealand Business and Parliamentary Trust Chair, Major Events Investment Panel Director, Wellington Gateway General Partner No.1 Limited Director, Wellington Gateway General Partner No.2 Limited Trustee, National Military Heritage Charitable Trust Director, New Zealand Antarctic Institute Chair, Tait Limited (from February 2016)
Janet Selwood *(appointed as an alternate director on 23 September 2016 and as a director on 20 April 2017)*	Unswood Investments Limited

Director	Interests
Malcolm Shaw *(appointed as a director on 31 October 2016)*	Trustee, Akina Foundation
Mark Stephen	Director and shareholder, Pip Stephen Interior Design Limited Trustee/Beneficiary, Homestead Trust
David Walsh	Trustee, Board of Trustees St. Patrick's College Trustee, Board of Proprietors St. Patrick's College
Graeme Watt	Director and shareholder, Kiwi Dynamic Investments Limited Director and shareholder, Cabbage Tree Investments Limited Shareholder representative, Payments NZ Limited
Lindsay Wright *(resigned as a director on 31 October 2016)*	Board Member, Guardians of the NZ Superannuation Fund Director, BNY Mellon IM Korea Limited

Directors of New Zealand Post Subsidiaries

Nick Astwick	The New Zealand Home Loan Company Limited (until February 2017) AMP Home Loans Limited (Alternate Director, until February 2017) New Zealand Home Lending Limited (Alternate Director, until February 2017) KB Custodial Services Limited (Alternate Director until February 2017) Kiwi Investment Management Limited (until February 2017) Kiwi Insurance Limited (until February 2017)	
Carl Blanchard *(appointed as a director on 31 October 2016)*	Kiwi Group Holdings Limited (from October 2016) Kiwi Capital Funding Limited (from March 2017)	
Tom Bloomfield	New Zealand Post Australia Holdings Pty Limited	
Paul Brock	AMP Home Loans Limited GMI General Partner Limited GMI Wealth Limited Kiwi Capital Funding Limited (until March 2017) Kiwibank Custodial Services Limited Kiwibank Investment Management Limited Kiwi Wealth Limited (previously Gareth Morgan KiwiSaver Limited) Kiwi Wealth Management Limited New Zealand Home Lending Limited Portfolio Custodial Nominees Limited	
Malcolm Bruce	Kiwi Asset Finance Limited	
Carol Campbell	Kiwibank Limited	$68,250
Melissa Clark-Reynolds	Kiwi Insurance Limited (from March 2017)	$10,000
Stephen Cole	Kiwi Asset Finance Limited (until August 2016)	
George Collins	New Zealand Post Trustees Limited	
Gary Crawford	Portfolio Custodial Nominees Limited Kiwi Capital Funding Limited (until March 2017) Kiwi Asset Finance Limited	
Hon Sir Michael Cullen	Kiwibank Limited (until October 2016) New Zealand Post Trustees Limited (until July 2016)	$15,500
Leo Davis	Kiwi Asset Finance Limited (until August 2016)	
Elizabeth Dawson	Kiwi Insurance Limited	$40,000
Richard Dellabarca	New Zealand Post Trustees Limited	$7,500
Alan Dunn	New Zealand Post Trustees Limited	$15,000
Alison Gerry	Kiwibank Limited (until December 2016)	$32,375
Will Goodwin	Kiwi Group Holdings Limited (from October 2016)	

STATUTORY INFORMATION

Director	Subsidiary	Fees & Benefits
Sarah Graydon	New Zealand Post Trustees Limited (from March 2016)	$10,000
Phil Harris	The New Zealand Home Loan Company Limited (from November 2016)	$19,000
Anna Kenny	New Zealand Post Trustees Limited	
Susan Macken	Kiwibank Limited (from November 2016)	$77,722
Kevin Malloy	Kiwibank Limited (from November 2016)	$52,750
Rob Morrison	Kiwibank Limited (until April 2017)	$109,861
Jennifer Newman	New Zealand Post Trust Management Services Limited New Zealand Post Trustees Limited	
Alistair Nicholson	GMI General Partner Limited Portfolio Custodial Nominees Limited Kiwi Wealth Limited (previously Gareth Morgan KiwiSaver Limited) GMI Wealth Limited	$40,000
Michael (Mike) O'Donnell	Kiwibank Limited (from November 2016) GMI General Partner Limited (from March 2017) Kiwi Wealth Limited (from March 2017) GMI Wealth Limited (from March 2017) Portfolio Custodial Nominees Limited (from March 2017)	$52,750 $11,720
Dame Alison Paterson	GMI General Partner Limited (Chair) Portfolio Custodial Nominees Limited (Chair) Kiwi Wealth Limited (previously Gareth Morgan KiwiSaver Limited) (Chair) GMI Wealth Limited (Chair) Kiwi Wealth Management Limited (from April 2017)	$48,000
Glenn Patrick	Kiwi Insurance Limited (from July 2016)	$27,500
Rhoda Phillippo	Kiwibank Limited (from March 2016)	$64,664
Scott Pickering	Kiwibank Limited (from November 2016)	$54,889
Neil Richardson	The New Zealand Home Loan Company Limited (Chair)	$38,000
Brian Roche	Datam Limited (until April 2017) Kiwi Group Holdings Limited (until April 2017) Express Couriers Limited (until April 2017) New Zealand Post Australia Holdings Pty Limited (until April 2017) New Zealand Post Group Finance Limited(until April 2017) New Zealand Post CX Limited (until April 2017) Kiwi Wealth Management Limited (until April 2017) New Zealand Post Holdings Limited (until April 2017)	
Janet Selwood	Kiwi Group Holdings Limited (as alternate director from September 2016 and as director from April 2017)	
Malcolm Shaw	Kiwi Group Holdings Limited (from October 2016)	
Mark Stephen	Kiwi Asset Finance Limited Kiwi Insurance Limited Kiwi Financial Services Retail Limited (from September 2016)	
Jane Taylor	Kiwibank Limited (from October 2016)	$57,028
Peter Taylor	New Zealand Post Trustees Limited	
John van Woerkom	New Zealand Post Trust Management Services Limited Kiwi Group Holdings Limited (alternate Director from September 2016) Kiwi Financial Services Retail Limited (alternate director from September 2016) Kiwi Capital Funding Limited (from March 2017) New Zealand Post Group Finance Limited (alternate director from September 2016 and director from April 2017) New Zealand Post Holdings Limited (from April 2017) New Zealand Post Australia Holdings Limited (from April 2017) Datam Limited (from April 2017) Express Couriers Limited (from April to June 2017) New Zealand Post CX Limited (from April to June 2017)	

Director	Subsidiary	Fees & Benefits
David Walsh	Kiwi Group Holdings Limited Kiwibank Limited (Alternate director from August 2016) Express Couriers Limited (until June 2017) New Zealand Post Holdings Limited Datam Limited New Zealand Post CX Limited (until June 2017) New Zealand Post Group Finance Limited New Zealand Post Australia Holdings Pty Limited Reach Media New Zealand Limited Kiwi Financial Services Retail Limited (from September 2016)	
Graeme Watt	The New Zealand Home Loan Company Limited	
Mark Wilkshire	Kiwibank Investment Management Limited KB Custodial Services Limited The New Zealand Home Loan Company Limited (from November 2016)	
Lindsay Wright	Kiwibank Limited (until October 2016)	$15,500

Use of Company information by Directors

In accordance with section 145(3) of the Companies Act 1993 and with effect from 31 October 2016, Representative Directors on the boards of Kiwi Group Holdings Limited and Kiwibank Limited have been authorised to pass all information that come into their possession as directors to their appointing shareholder in accordance with the Shareholders' Agreement and constitutions, and subject to conditions set out in the respective Board resolutions.

Every other Director of Kiwibank Limited and Kiwi Group Holdings Limited subsidiaries (including Kiwibank's subsidiaries) are authorised to pass all Information that come into their possession as directors, to the Kiwi Group Holdings Limited Shareholders in accordance with the Shareholders' Agreement and their respective constitutions, subject to conditions set out in the Board resolutions.

Directory – New Zealand Post Limited

Chair	Jane Taylor (Director from 1 August 2016, appointed as Chair on 1 November 2016) Sir Michael Cullen (until 31 October 2016)
Deputy Chair	Jackie Lloyd
Members	Carol Campbell Richard Dellabarca Alan Dunn Julia Hoare Richard Leggat Richie Smith
Senior Leadership Team	
Chief Executive Officer	Brian Roche (to 30 April 2017)
Chief Executive Officer	David Walsh (from 1 May 2017)
General Manager, People, Culture & Communications	Jo Avenell
General Manager, Customer Solutions & Marketing	Bryan Dobson (from August 2017)
Executive Manager	Janet Selwood
General Manager, Governance & Sustainability	Malcolm Shaw
General Manager, Customer Sales & Channels	Ashley Smout (Interim)
Chief Operating Officer, Customer Service Delivery	Mark Stewart
General Manager, Customer Experience Transformation	Brendan Thawley (from August 2017)
Chief Financial Officer	John van Woerkom (Interim from 1 May 2017)
Bankers	Bank of New Zealand Limited
Auditor	Chris Barber assisted by PricewaterhouseCoopers, Wellington, on behalf of the Auditor-General.
Registered Office	Ground Floor New Zealand Post House 7 Waterloo Quay Wellington New Zealand
For further information about the contents of this report, please contact:	New Zealand Post Communications team Private Bag 39990 Wellington Mail Centre Lower Hutt 5045 New Zealand Telephone: +64-4-496 4999 Facsimile +64-4-496 4479 Email: post.communications@nzpost.co.nz
For more information about New Zealand Post's products and services, please contact:	New Zealand Post Customer Services Centre: Telephone toll free: 0800 501 501 Email: customersupport@nzpost.co.nz Website: www.nzpost.co.nz

This document is the New Zealand Post Annual Report for 2017.
The Integrated Report for New Zealand Post Limited can be seen online at:
https://www.nzpost.co.nz/about-us/investor-centre/reports-presentations

For more information on New Zealand Post, visit www.nzpost.co.nz

New Zealand Post

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