NEW ZEALAND POST GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NEW ZEALAND POST GROUP

CONTENTS

PRIMARY STATEMENTS	CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	4
	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	5
	CONSOLIDATED STATEMENT OF FINANCIAL POSITION	6
	CONSOLIDATED STATEMENT OF CASH FLOWS	8
BASIS OF PREPARATION	NOTE 1. REPORTING ENTITY AND STATUTORY BASE	10
	NOTE 2. BASIS OF ACCOUNTING	10
FINANCIAL PERFORMANCE	NOTE 3. SEGMENT INFORMATION	15
	NOTE 4. REVENUE FROM OPERATIONS	16
	NOTE 5. EXPENDITURE	17
	NOTE 6. INCOME TAX	19
OPERATING ASSETS AND LIABILITIES	NOTE 7. JOINTLY CONTROLLED ENTITIES	21
	NOTE 8. CASH AND SHORT TERM DEPOSITS	26
	NOTE 9. ASSETS HELD FOR SALE	26
	NOTE 10. TRADE AND OTHER RECEIVABLES	27
	NOTE 11. PROPERTY, PLANT AND EQUIPMENT	28
	NOTE 12. GOODWILL AND INTANGIBLE ASSETS	30
	NOTE 13. TRADE AND OTHER PAYABLES	32
	NOTE 14. PROVISIONS	33
	NOTE 15. COMMITMENTS	34
	NOTE 16. FAIR VALUE	35
	NOTE 17. IMPAIRMENT OF NON-FINANCIAL ASSETS	39
FINANCING	NOTE 18. BORROWINGS	41
	NOTE 19. FINANCIAL INSTRUMENTS	42
	NOTE 20. EQUITY	50
OTHER DISCLOSURES	NOTE 21. RELATED PARTIES	52
	NOTE 22. CONTINGENCIES	53

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $m	2017 $m
Revenue from operations	4	877	890
Expenditure	5	930	887
Operating (loss)/profit		(53)	3
Financial instruments at fair value net gain/(loss)		1	(5)
Insurance proceeds		2	3
Share of net profit of jointly controlled entities	7(c)	52	30
Profit before interest and income tax from continuing operations		2	31
Interest income		16	20
Interest expense		(22)	(26)
Finance costs (net)		(6)	(6)
(Loss)/profit before income tax from continuing operations		(4)	25
Income tax income	6	17	2
Profit for the year after tax from continuing operations		13	27
Profit after tax from discontinued operations		-	42
Gain on sale of investment in subsidiary	1	-	24
Profit for the year		13	93
Attributable to:			
Owners of New Zealand Post Limited		13	93
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gains / (losses) on revaluation of land and buildings		1	(1)
Items that may be reclassified subsequently to profit or loss:			
Other comprehensive income arising from discontinued operations		-	9
Share of other comprehensive income of jointly controlled entity		2	8
Total other comprehensive income net of tax	20(b)	3	16
Total comprehensive income net of tax		16	109
Total comprehensive income for the year attributable to Owners:			
Continuing operations		16	34
Discontinued operations		-	75

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 53.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Fully Paid Ordinary Shares $m	Other Reserves $m	Retained Earnings $m	Non-controlling Interest $m	Total $m
Balance at 1 July 2016		192	(9)	1,068	42	1,293
Net effect of correction of error	2(b)	-	-	(7)	-	(7)
Restated balance at 1 July 2016		192	(9)	1,061	42	1,286
Profit for the year		-	-	93	-	93
Other comprehensive income	20(b)	-	16	-	-	16
Total comprehensive income for the year attributable to Owners		-	16	93	-	109
Other movements						
Transfer between revaluation reserve and retained earnings		-	(3)	3	-	-
De-recognition of reserves on partial sale of Kiwi Group Holdings		-	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	20(a)	-	-	(105)	-	(105)
Balance at 30 June 2017		192	36	1,050	-	1,278
Profit for the year		-	-	13	-	13
Other comprehensive income	20(b)	-	3	-	-	3
Total comprehensive income for the year attributable to Owners		-	3	13	-	16
Other movements						
Transfer between revaluation reserve and retained earnings		-	(2)	2	-	-
Transactions with Owners						
Dividends paid to shareholders	20(a)	-	-	(5)	-	(5)
Balance at 30 June 2018		192	37	1,060	-	1,289

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 10 to 53.

pwc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2018 $m	Restated 2017 $m
ASSETS			
Current assets			
Cash and cash equivalents	8	60	64
Short term deposits	8	142	222
Assets held for sale	9	8	9
Trade and other receivables	10	169	149
Inventories		8	8
Derivative financial assets	19	7	9
Loans to related parties	21	84	2
Tax receivable		-	1
Prepayments		8	7
Total current assets		486	471
Non-current assets			
Trade and other receivables	10	12	18
Property, plant and equipment	11	146	146
Intangible assets	12	225	225
Deferred tax asset	6	23	8
Investment properties		3	3
Loans to related parties	21	-	93
Investment in jointly controlled entity	7	906	857
Total non-current assets		1,315	1,350
Total assets		1,801	1,821
LIABILITIES			
Current liabilities			
Trade and other payables	13	183	157
Provisions	14	18	16
Borrowings	18	10	65
Derivative financial liabilities	19	11	11
Loans from related parties	21	76	-
Total current liabilities		298	249
Non-current liabilities			
Trade and other payables	13	10	14
Provisions	14	5	5
Loans from related parties	21	-	76
Borrowings	18	199	199
Total non-current liabilities		214	294
Total liabilities		512	543
Net assets		1,289	1,278

The above consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 10 to 53.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018 continued

	Note	2018 $m	Restated 2017 $m
EQUITY			
Ordinary parent shareholders' equity			
Share capital	20(a)	192	192
Retained earnings		1,060	1,050
Other reserves	20(b)	37	36
Total equity attributable to parent shareholder		1,289	1,278

The Board of Directors of New Zealand Post Limited authorised these financial statements for issue on 23 August 2018.

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 53.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	2018 $m	2017 $m
Cash flows from operating activities		
Receipts from customers	882	880
Other interest received	16	14
Payments to suppliers and employees	(868)	(869)
Net payments to agencies	(15)	(15)
Other interest paid	(19)	(17)
Income tax received	3	12
Net operating cash flows from discontinued operations	-	(198)
Net cash flows from operating activities	(1)	(193)
Cash flows from investing activities		
Sale of property, plant and equipment	1	7
Purchase of intangible software assets	(19)	(22)
Purchase of property, plant and equipment	(21)	(37)
Sale of short term deposits	80	11
Sale of investment in subsidiary net of cash	-	(2)
Repayment of related party loans	11	-
Dividends received from related party	5	-
Investment in jointly controlled entity	-	(221)
Net investing cash flows from discontinued operations	-	(26)
Net cash flows from investing activities	57	(290)
Cash flows from financing activities		
Issue of borrowings	40	124
Repayment of borrowings	(95)	(250)
Dividends paid to New Zealand Post Limited shareholders	(5)	(105)
Net financing cash flows from discontinued operations	-	202
Net cash flows from financing activities	(60)	(29)
Net increase / (decrease) in cash held	(4)	(512)
Cash at the beginning of the period - continuing operations	64	60
Cash at the beginning of the period - discontinued operations	-	517
Effect of foreign exchange translation adjustments	-	(1)
Cash at the end of the period	60	64
Composition of cash		
Cash and cash equivalents	60	64
Total cash and cash equivalents	60	64

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 10 to 53.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018 continued

Reconciliation of profit to net cash flows from operating activities

	2018 $m	2017 $m
Profit for the year		
Continuing operations	13	27
Discontinued operations	-	66
Non-cash items:		
Financial instruments at fair value net gain/(loss)	1	(5)
Depreciation	20	22
Amortisation	13	10
Impairment	8	-
Gain on sale of investments in subsidiaries	-	(24)
Share of net profit of jointly controlled entities	(52)	(30)
Deferred taxation	(15)	11
Other	(1)	(7)
Disposal of discontinued operations	-	89
	(26)	66
Changes in assets and liabilities:		
(Increase) / decrease in trade and other receivables	(14)	41
(Increase) / decrease in inventories	-	(2)
(Increase) / decrease in prepayments	(1)	8
Decrease / (increase) in derivative financial assets	2	-
Increase / (decrease) in trade and other payables	22	(153)
Increase / (decrease) in provisions	2	(9)
Decrease / (increase) in tax receivable	1	7
Increase in balances due from related parties	-	(93)
Increase in balances due to related parties	-	76
Decrease in balances due from other financial institutions	-	69
Increase in available for sale assets	-	(74)
Increase in loans and advances	-	(476)
Decrease in balances due to other financial institutions	-	(16)
Increase in deposits and other borrowings	-	262
Increase in Kiwi Group Holdings current taxation	-	11
Decrease in Kiwibank interest payable	-	(5)
Increase in Kiwibank interest receivable	-	(3)
Financing costs	-	5
	12	(352)
Net cash flows from operating activities	(1)	(193)

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 53.

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 2018. The Group accounts for jointly controlled entities using the equity method.

The Group provides delivery and e-commerce logistics services. Prior to 1 November 2016 the Group provided financial services, such as wealth, insurance and banking services through its subsidiary Kiwi Group Holdings Limited ("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 was recognised as an interest in a jointly controlled entity for the eight months ended 30 June 2017 and the year ended 30 June 2018. The operations of KGH were shown separately as discontinued operations from 1 July 2016 through to 31 October 2016 in the comparative period of these consolidated 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) Correction of prior period error

An error was identified in the current financial year in the calculation of the liability for unearned revenue on courier tickets. The error was made in the establishment of the liability in a prior financial period and has been carried forward in the balance of the liability since. Movements in the liability recognised in profit or loss since establishment have been materially correct.

The error has been corrected by restating each of the affected financial statement lines for the prior periods as follows:

Statement of financial position (extract)	1 July 2016 (opening) $m	Increase / (decrease) $m	1 July 2016 (restated) $m	30 June 2017 as previously reported $m	Increase / (decrease) $m	30 June 2017 (restated) $m
Deferred tax asset	16	3	19	5	3	8
Current trade and other payables	296	10	306	147	10	157
Net assets	1,293	(7)	1,286	1,285	(7)	1,278
Retained earnings	1,068	(7)	1,061	1,057	(7)	1,050
Total equity	1,293	(7)	1,286	1,285	(7)	1,278

Note 2(c) Comparative numbers

Certain prior year comparatives have been updated to reflect current year disclosures.

NOTE 2. BASIS OF ACCOUNTING continued

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.

The assessment that there was no impairment of the goodwill and brands at 30 June 2018 is a key judgement based on an independent valuation of the Core Post cash generating unit. The valuation is based on management forecasts of future financial performance and therefore there is inherent estimation uncertainty. Assumptions made in the valuation and the underlying financial forecasts are detailed in Note 17 on page 39. A significant change in any of the assumptions could have a material impact on the impairment assessment and hence on the financial statements at 30 June 2018.

Another key judgement is the recognition of a deferred tax asset on the basis that it is considered probable that sufficient taxable profits will be available to utilise the losses in the near future. Further details are provided in Note 6 on page 20.

Other key judgements and estimates which are material to the consolidated financial statements are found in the following notes:

NOTE 4	REVENUE FROM OPERATIONS	Page 16	Prepaid product revenue
NOTE 7	JOINTLY CONTROLLED ENTITIES	Page 24, 25	• Level of control over KGH • Impairment assessment of investment in KGH
NOTE 13	TRADE AND OTHER PAYABLES	Page 32	Unearned revenue for prepaid services
NOTE 14	PROVISIONS	Page 33	Estimated costs of restructuring
NOTE 16	FAIR VALUE	Page 38	Valuation of assets and liabilities carried at fair value

Note 2(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Jointly controlled entities have been equity accounted. Material subsidiaries and jointly controlled entities at 30 June 2018 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				Principal Activities
			30 June 2018		30 June 2017		
Kiwi Group Holdings Limited ("KGH")	New Zealand	NZD	Jointly controlled entity	53%	Jointly controlled entity	53%	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.

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 jointly controlled entities are accounted for using the equity method.

The financial statements of the subsidiaries and jointly controlled entities are prepared for the same reporting period as the Company. Where necessary, adjustments are made to the financial statements of subsidiaries and jointly controlled entities 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.

Transactions and Balances

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of profit or loss and other comprehensive income. At balance date, foreign denominated monetary assets and liabilities are translated at the closing exchange rate, with exchange variations arising from these translations being recognised in the statement of profit or loss and other comprehensive income, except where deferred in equity as a qualifying cash flow hedge or qualifying net investment hedge. Foreign denominated non-monetary assets and liabilities measured at historic cost are translated using the exchange rate at the date of transaction. Foreign denominated non-monetary assets and liabilities measured at fair value are translated using the exchange rate at the fair value date. Any associated translation differences match the treatment of the fair value gains or losses either to the statement of profit or loss and other comprehensive income or directly to equity.

pwc

NOTE 2. BASIS OF ACCOUNTING continued

Note 2(g) Interest income 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 2(h) Other accounting policies

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

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

There are no new standards, amendments or interpretations which are effective for financial year beginning on 1 July 2017 that are material to the Group.

Note 2(j) Standards and interpretations issued but not yet effective

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

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

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

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 consolidated statement of financial position. The right-of-use asset will create increased interest expenditure and depreciation in the profit or loss.

Implementation and transition

The Group will apply NZ IFRS 16 from 1 July 2019. The Group intends to adopt the simplified transition approach and will not restate comparative amounts for the period prior to first adoption.

The Group has significant lease obligations as set out in Note 15. Therefore, they are likely to have a material impact on the consolidated statement of financial position and will impact the following line items in the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income:

- Recognition of a right of use asset
- Recognition of a lease liability
- Decrease in opening retained earnings
- Decrease in property and operating costs and other operating lease and rental costs
- Increase in depreciation and amortisation expense
- Increase in interest expense

The amount of the asset and liability that the Group will recognise upon adoption of NZ IFRS 16 will be determined by the operating lease commitments that exceed 12 months' duration at the time of adoption. As such, it is not yet possible to accurately estimate the financial impact of adoption of NZ IFRS 16 on the Group's financial statements. The above has no impact on the cashflows of the Group and the change is for financial reporting purposes only.

NZ IFRS 16 is also expected to impact upon KGH in the same way listed for NZ Post. On transition, any adjustment to retained earnings will impact upon the carrying value of NZ Post's investment in KGH. There will also be a flow on effect to the share of earnings recognised by NZ Post, however at this stage this is not yet possible to accurately estimate.

pwc

NOTE 2. BASIS OF ACCOUNTING continued

NZ IFRS 9: Financial Instruments

NZ IFRS 9, issued in September 2014, 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 derecognition of financial instruments from NZ IAS 39.

Classification and measurement

NZ IFRS 9 revised classification and measurement approach for financial assets reflects the business model in which assets are managed and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under NZ IFRS 9 are largely consistent with NZ IAS 39 with the exception that for financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income.

The classification and measurement of the Group's financial assets and liabilities upon adoption of NZ IFRS 9 based on the current assessment is outlined below:

	NZ IAS 39 classification	NZ IAS 39 measurement	NZ IFRS 9 classification and measurement
Financial Assets			
Derivative financial assets	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss
Cash and cash equivalents	Loans and receivables	Amortised cost	Amortised cost
Short term deposits	Loans and receivables	Amortised cost	Amortised cost
Trade and other receivables	Loans and receivables	Amortised cost	Amortised cost
Loans to related parties	Loans and receivables	Amortised cost	Amortised cost
Financial Liabilities			
Derivative financial liabilities	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss
Trade and other payables	Other financial liabilities at amortised cost	Amortised cost	Amortised cost
Borrowings	Other financial liabilities at amortised cost	Amortised cost	Amortised cost
Loans from related parties	Other financial liabilities at amortised cost	Amortised cost	Amortised cost

Impairment

NZ IFRS 9 replaces the incurred loss model under NZ IAS 39 with a forward-looking expected loss model. This model will be applied to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, and certain loan commitments and financial guarantees.

Implementation and transition

The Group will apply NZ IFRS 9 from 1 July 2018.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under NZ IAS 39. In the case of the Group, it applies to financial assets classified at amortised cost.

The Parent has completed an initial assessment of historical provision rates and forward-looking analysis and based on that there is not expected to be a material financial impact on the impairment provisions in the year of adoption.

The estimate of the impact of applying the classification and measurement requirements is immaterial.

pwc

NOTE 2. BASIS OF ACCOUNTING continued

NZ IFRS 9: Financial Instruments continued

When KGH transitions to NZ IFRS 9, there will be a retained earnings adjustment required which will also impact the carrying value of NZ Post's investment.

KGH's estimate of the impact of transitioning to NZ IFRS 9 is +/- $2 million, net of income taxes, in equity as at 1 July 2018. This estimate of the impact of applying NZ IFRS 9 for the Banking Group relates primarily to applying the new ECL impairment model for financial assets. Based on the assessment performed to date, this is not expected to have a material impact on the Group.

The Group will apply NZ IFRS 9 retrospectively by adjusting the opening balance of retained earnings by the total impact of transition.

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 Contracts* and NZ IFRIC 13 *Customer Loyalty Programmes* and is effective for all entities with revenue from contracts with customers.

NZ IFRS 15 requires identification of distinct performance obligations within contracts with customers and the allocation of the transaction price within the contract to each of those performance obligations. Revenue is recognised in profit or loss as each performance obligation is satisfied. Variable amounts of revenue can only be recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.

The following matters are relevant to the Group under NZ IFRS 15:

- The classification of similar contracts and performance obligations into contract portfolios for assessment.
- Considering the financial impact of the time between the lodgement of an item for delivery and the completion of the performance obligation, being delivery of the item.

Implementation and transition

The Group will apply NZ IFRS 15 from 1 July 2018.

The Parent is in its final stages of its assessment on all revenue streams of applying the five-step model framework of NZ IFRS 15 to all contracts with customers that are not specifically excluded from the scope of NZ IFRS 15. A key judgement in the assessment is the classification of similar contracts (or performance obligations) into contract portfolios. This is a practical expedient allowable under NZ IFRS 15 to then enable assessment of revenue from contracts to be performed at a "portfolio" level rather than on a contract by contract basis. An assessment of the principal / agent relationship is in progress. Based on the assessment completed to date there is not expected to be a material financial impact in the year of adoption.

KGH has also completed the same assessment and the majority of its revenue is outside the scope of NZ IFRS 15 due to the exclusion of contracts covered by other accounting standards including NZ IFRS 9 however, certain revenue streams are expected to be impacted by the adoption of NZ IFRS 15 where the recognition of income will be required to be spread consistently with the fulfilment of the relevant performance obligations.

KGH has estimated the total impact of transition on retained earnings is estimated to be a reduction of $2m to $3m with a corresponding decrease in the carrying value of the investment in KGH. As such the adoption of NZ IFRS 15 is not expected to have a material impact on the Group.

The Group will apply NZ IFRS 15 retrospectively by adjusting the opening balance of retained earnings by the total impact of transition.

pwc

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 consolidated financial statements. The Group's operating segments have primarily been determined with reference to differences in products and services.

Post

Delivery of parcels, packages and letters, business process operations, logistical and courier services, channels & digital, properties and Group functions.

Investments

Group investments in KGH (from 1 November 2016) and Reach Media New Zealand Limited ("Reach Media").

30 June 2018	Post $m	Investments $m	Total $m
External revenue	877	-	877
Total segment revenue from operations	877	-	877
Segment profit / (loss) before income tax	(56)	52	(4)
Segment profit / (loss)	(39)	52	13
Specific segment other income			
Share of net profits of jointly controlled entities	-	52	52
Specific segment expenditure:			
Depreciation	20	-	20
Amortisation	13	-	13
Salaries and wages (including superannuation)	292	-	292
Restructuring costs	12	-	12

30 June 2017	Post $m	Investments $m	Total $m
External revenue	890	-	890
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 jointly controlled entities	-	30	30
Specific segment expenditure:			
Depreciation	22	-	22
Amortisation	10	-	10
Salaries and wages (including superannuation)	311	-	311
Restructuring costs	(1)	-	(1)

NOTE 4. REVENUE FROM OPERATIONS

	2018 $m	2017 $m
Revenue from operations		
Delivery of services	868	880
Sale of goods	9	10
Total revenue from operations	877	890

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 13.

pwc

NOTE 5. EXPENDITURE

	2018 $m	2017 $m
Contracted delivery services	317	293
Production costs	23	24
Salaries and wages	280	298
Restructuring costs	12	(1)
Superannuation - defined contribution plans	12	13
Other personnel costs	52	38
Employee expenses	356	348
Property and operating costs	55	48
Property operational outgoings	27	26
Property cost recovery	(4)	(3)
Property expenses	78	71
Depreciation	20	22
Amortisation of intangibles	13	10
Impairment	5	-
Depreciation, amortisation and impairment	38	32
Computer expenses	41	42
Payment services	14	7
Professional services	10	12
Marketing expenses	6	11
Repairs and maintenance	13	13
Other operating lease and rental costs	10	11
Communications	7	8
Office expenses	5	6
Training and travel	5	6
Bad debt expense	3	3
Fees paid to auditors	2	1
Cost recovery (1)	(10)	(9)
Other expenditure	12	8
Other expenses	118	119
Total expenditure	930	887

(1) Cost recovery is expenditure incurred by the Company and recovered from jointly controlled entities.

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.

pwc

NOTE 5. EXPENDITURE continued

	2018 $000's	2017 $000's
Fees paid to auditors		
Audit and review of financial statements (1)	965	1,011
Other services		
Other assurance services (2)	8	5
Tax compliance services (3)	8	18
Other services (4)	22	309
Supply chain risk and controls assessment (5)	525	-
Total other services	563	332
Total fees paid to auditors	1,528	1,343

(1) The audit fee includes the fees for both the annual audit of the financial statements and the review of interim financial statements (2017: same services).
(2) Other assurance services include trustee reporting and review of the consolidated earnings statement (2017: same services).
(3) Tax compliance relates to the review of tax returns (2017: same services).
(4) Other services relate to process reviews and general treasury advice (2017: process reviews, general treasury advice and procurement review).
(5) PricewaterhouseCoopers and the Group signed a Memorandum of Understanding ("MoU") on 28 March 2017 related to initiatives to ensure trust in our food supplies. Services relate to advice on supply chain risk and controls assessments as part of the broader Alibaba Food Trust Framework.

PricewaterhouseCoopers is the auditor of the New Zealand Post Superannuation Plan, which has audit fees of $28,300 (2017: $27,500) and other assurance fees of $43,800 (2017: $4,500). PricewaterhouseCoopers, on behalf of the OAG, is also the auditor of Kiwi Group Holdings Limited and its controlled entities.

NOTE 6. INCOME TAX

		2018 $m	Restated 2017 $m
(Loss)/profit before income tax		(4)	25
Tax at 28%		(1)	7
Non-assessable revenue - income from jointly controlled entities		(15)	(9)
Non-assessable revenue - other		(1)	(1)
Other tax adjustments		-	1
Income tax income		(17)	(2)
Comprising:			
Current tax		(2)	(1)
Deferred tax		(15)	(1)
Total income tax income		(17)	(2)
Deferred tax asset			
Balance at beginning of the year		8	16
Correction of error	2(b)	-	3
Restated balance at beginning of the year		8	19
Charged / (credited) to profit or loss		1	1
Revaluation of properties recognised in other comprehensive income		-	1
Prior year adjustment		(1)	(1)
Tax losses recognised		13	-
Imputation credits converted to tax losses		2	-
Deferred tax on cash flow hedge reserve		-	(7)
Deferred tax on asset revaluation reserve		-	1
Disposal of discontinued operations		-	(6)
Balance at end of the year		23	8
Comprising:			
Changes through profit or loss:			
- Provision for loan and receivable impairment		1	1
- Provisions and other deferred assets		19	19
Changes through statement of financial position			
- Tax losses recognised		13	-
- Imputation credits converted to tax losses		2	-
Deferred tax asset		35	20
Changes through other comprehensive income:			
- Revalued land and buildings		-	-
Changes through statement of financial position			
- Intangible assets		12	12
Deferred tax liability		12	12
Net deferred tax asset		23	8
Imputation credits available for use in the future		305	293

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

pwc

NOTE 6. INCOME TAX continued

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 or interests in jointly controlled entities, 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.

KEY JUDGEMENT

Recognition of deferred tax asset

The net deferred tax asset at balance date includes temporary timing differences of $8m and income tax losses of $15m available to carry forward against future taxable profit. These losses have been recognised as a deferred tax asset as it is considered probable based on current business plans and forecasts that sufficient taxable profits will be available to utilise the losses in the near future. The financial forecasts used in this assessment are the same as those used in the impairment review of goodwill and brands and the key assumptions are provided in note 17.

pwc

OPERATING ASSETS AND LIABILITIES

NOTE 7. JOINTLY CONTROLLED ENTITIES

The Company holds a 53% shareholding in Kiwi Group Holding Limited and a 50% shareholding in Reach Media New Zealand Limited (Reach Media). Both investments are equity accounted for in the consolidated financial statements of the Group. However, Reach Media is considered immaterial to the Group and is therefore not disclosed in detail below. The Group's investment in Reach Media is held for sale at year end, refer to Note 9.

Note 7(a) Summarised statement of financial position of KGH

	2018 $m	2017 $m
Assets		
Current assets		
Cash and cash equivalents	477	490
Due from related parties	88	5
Due from financial institutions	132	228
Available-for-sale financial assets	1,220	1,474
Current tax asset	13	-
Deferred tax asset	-	19
Loans and advances	1,268	1,319
Derivative financial instruments	89	60
Other assets	60	55
Total current assets	3,347	3,650
Non-current assets		
Due from related parties	-	76
Loans and advances	17,015	16,476
Derivative financial instruments	255	310
Intangible assets	181	200
Property, plant and equipment	46	29
Total non-current assets	17,497	17,091
Total assets	20,844	20,741
Liabilities		
Current liabilities		
Due to financial institutions	128	59
Due to related parties	90	28
Deposits and other borrowings	15,524	15,586
Derivative financial instruments	59	133
Debt securities issued	898	977
Current tax liability	-	10
Subordinated debt	3	3
Other liabilities	120	115
Total current liabilities	16,822	16,911
Non-current liabilities		
Due to related parties	-	76
Deferred tax liability	2	-
Deposits and other borrowings	636	371
Derivative financial instruments	234	283
Debt securities issued	1,367	1,281
Subordinated debt	225	364
Total non-current liabilities	2,464	2,375
Total liabilities	19,286	19,286
Net assets	1,558	1,455

pwc

NOTE 7. JOINTLY CONTROLLED ENTITIES continued

Note 7(a) Summarised statement of financial position of KGH continued

	2018 $m	2017 $m
Group's carrying value of KGH		
Total identifiable net assets of KGH	1,558	1,455
Share of investment	53%	53%
Group's share of identifiable net assets	826	771
Group's share of goodwill and other additional intangible assets at 31 October 2016	65	65
Accumulated amortisation on other additional intangible assets	(12)	(6)
Adjustment for impairment on intangible assets with nil fair value in the purchase price allocation	27	27
Carrying value of the Group's investment in KGH	906	857

Note 7(b) Reconciliation of Group's carrying value of KGH

Opening carrying value	857	-
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	52	29
Share of other comprehensive income of KGH	2	8
Dividends received	(5)	-
Group's carrying value of KGH	906	857

pwc

NOTE 7. JOINTLY CONTROLLED ENTITIES continued

Note 7(c) Summarised statement of profit or loss and other comprehensive income of KGH for the period

	30 June 2018 (12 months) $m	30 June 2017 (8 months) $m
Interest income	886	559
Interest expense	(467)	(309)
Net gains on financial instruments at fair value	9	5
Gross fee and other income	302	194
Direct fee expenses	(109)	(64)
Total operating income	621	385
Operating expenses	(392)	(245)
Depreciation and amortisation	(37)	(23)
Profit before impairment, taxation and finance costs	192	117
Impairment (losses) / reversals on loans and advances	(1)	6
Other impairment losses	(11)	(90)
Profit before taxation and finance costs	180	33
Finance costs	(16)	(11)
Profit before taxation	164	22
Income tax expense	(42)	(6)
Profit after taxation	122	16
Group's 53% share of profit	64	8
Adjustment on consolidation of Group's share of net profit	(2)	21
Adjustment for perpetual capital note distributions	(10)	-
Group's total 53% share of profit after taxation	52	29
KGH other comprehensive income	3	16
Group's 53% share of other comprehensive income	2	8

	2018 $m	2017 $m
Group's share of net profits of KGH	52	29
Group's share of net profits of Reach Media	-	1
Total share of net profits of jointly controlled entities	52	30

Note 7(d) KGH capital commitments

	2018 $m	2017 $m
Capital commitments	9	9
Operating lease commitments	88	84
Undrawn loan commitments	3,032	2,857
Total commitments	3,129	2,950
Group's 53% share of commitments	1,658	1,564

pwc

NOTE 7. JOINTLY CONTROLLED ENTITIES continued

Note 7(e) 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 the Group to obtain a reimbursement for various costs incurred as a result of the earthquake however there is insufficient information to form a reasonable estimate of the financial effect.

There are no material contingent liabilities to disclose as at 30 June 2018 (30 June 2017: nil).

Note 7(f) Review of carrying value of investment in KGH

An independent valuation of KGH was carried out at 30 June 2018 based on fair value using a combination of price to earnings and net tangible asset multiples. The valuation is level 3 in the fair value hierarchy. The key assumptions used for the independent valuation were:

- Continued ownership by NZ Post, ACC and NZSF;
- The Banking Group achieving lending growth in-line with forecasts;
- Adequate funding being available, particularly if the AT1 and Tier 2 instruments are called in the year ended 30 June 2019;
- No material adverse changes to the New Zealand credit growth industry nor adverse movements in mortgage lending; and
- The redeemable preference shares of $247m issued to the shareholders in April 2017 constitute surplus capital.

The carrying value of NZ Post's investment in 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 key inputs used to calculate the top of the valuation range were a net profit after tax (NPAT) multiple and a net tangible assets (NTA) multiple as follows:

30 June 2018 Investment	Carrying value of investment $m	NPAT Multiple	NTA Multiple
Kiwi Group Holdings Limited	906	11.7x	1.4x

A change in NPAT multiple to 11.1x or a change in the NTA multiple to 1.35x, all changes taken in isolation, would result in the top end of the range of recoverable amount of NZ Post's share being equal to the carrying amount.

30 June 2017

The independent valuation was based on a three year discounted cash flow. The key inputs used in the DCF to calculate the top of the valuation range for KGH were:

30 June 2017 Investment	Carrying value of investment $m	Post-tax discount rate	Terminal growth rate
Kiwi Group Holdings Limited	857	10.6%pa	4.0%pa

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

pwc

NOTE 7. JOINTLY CONTROLLED ENTITIES continued

Note 7(f) Review of carrying value of investment in KGH continued

POLICIES

Interests in jointly controlled entities are joint ventures which are accounted for using the equity method.

Under the equity method of accounting, interests in jointly controlled entities 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 jointly controlled entity equals or exceeds its interests in the jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

The carrying amount of equity-accounted investments is tested for impairment whenever there are indicators of impairment (refer to Note 17 for impairment policy).

KEY JUDGEMENT

The Company has a 53% shareholding in Kiwi Group Holdings Limited. It has a Shareholders' Agreement with ACC and NZSF and under that agreement there are several 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.

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

pwc

NOTE 8. CASH AND SHORT TERM DEPOSITS

	2018 $m	2017 $m
Cash and cash equivalents		
Cash on hand	10	10
Cash at bank	50	54
Total cash and cash equivalents	60	64
Short term deposits		
Short term deposits	142	222
Total short term deposits	142	222

Included within cash at bank is $126m (2017: $156m) of cash offset by a $84m (2017: $114m) 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 9. ASSETS HELD FOR SALE

Investment

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

	2018 $m	2017 $m
Properties held for sale	5	6
Investment held for sale	3	3
Total assets held for sale	8	9

POLICIES

Assets held for sale

Assets 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 2018. 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 10. TRADE AND OTHER RECEIVABLES

	2018 $m	2017 $m
Trade receivables	183	164
Provision for impairment	(5)	(3)
Interest receivable	3	6
Total trade and other receivables	181	167
Comprising:		
Current trade and other receivables	169	149
Non-current trade and other receivables	12	18
Total trade and other receivables	181	167
Trade receivables past due but not impaired		
Past due up to 30 days	13	14
Past due 31 - 60 days	5	4
Past due 61 - 90 days	2	4
Past due > 90 days	4	12
Total trade receivables past due but not impaired	24	34

Included within trade and other receivables is $19m (2017: $4m) of trade receivables offset by $14m (2017: $2m) trade payables which are part of a master netting arrangement.

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.

pwc

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings (valuation)	Motor vehicles	Furniture, fittings and equipment	Computer equipment	Plant and equipment	Work in progress	Total
	$m	$m	$m	$m	$m	$m	$m
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 from / (to) work in progress	-	1	3	2	9	(15)	-
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)
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
Year ended 30 June 2018							
Opening net book amount	45	7	31	4	36	23	146
Transferred from / (to) assets held for sale	1	-	-	-	-	-	1
Transferred from / (to) work in progress	-	4	5	1	21	(31)	-
Transferred (to) / from investment properties	(3)	-	-	-	-	-	(3)
Net revaluation of land and buildings	1	-	-	-	-	-	1
Additions	-	-	-	1	5	16	22
Net disposals	-	-	(1)	-	-	-	(1)
Depreciation charge	-	(1)	(5)	(2)	(12)	-	(20)
Closing net book amount	44	10	30	4	50	8	146
At 30 June 2018							
Cost or valuation	44	15	105	42	161	8	375
Accumulated depreciation and impairment	-	(5)	(75)	(38)	(111)	-	(229)
Net book amount	44	10	30	4	50	8	146

The carrying value of plant and equipment held under finance leases at 30 June 2018 was $7m (2017: $11m). There were no material additions during the year (2017: $3m) of property, plant and equipment under finance leases.

pwc

NOTE 11. 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:

Classes of Property, plant and equipment	Useful life (Years)
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 2018. 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 16.

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.

pwc

NOTE 12. 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 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 from / (to) 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 1 July 2017						
Cost	144	41	160	-	18	363
Accumulated amortisation and impairment	-	-	(138)	-	-	(138)
Net book amount	144	41	22	-	18	225
Year ended 30 June 2018						
Opening net book amount	144	41	22	-	18	225
Transferred from / (to) work in progress	-	-	26	-	(26)	-
Additions	-	-	1	-	20	21
Net disposals	-	-	(3)	-	-	(3)
Amortisation charge	-	-	(13)	-	-	(13)
Impairment	-	-	(1)	-	(4)	(5)
Closing net book amount	144	41	32	-	8	225
At 30 June 2018						
Cost	144	41	185	-	8	378
Accumulated amortisation and impairment	-	-	(153)	-	-	(153)
Net book amount	144	41	32	-	8	225

At 30 June 2018 the net book value of computer software, plus the total balance of computer software work in progress, of $25m is deemed to be internally generated (30 June 2017 - $33m).

NOTE 12. 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 17). Brands are considered to have an indefinite life where there is an intention to maintain and support the brand for an indefinite period.

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 3-15 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.

pwc

NOTE 13. TRADE AND OTHER PAYABLES

	2018 $m	Restated 2017 $m
Trade payables	84	76
Accrued employee benefit liabilities	38	43
Unearned revenue	50	33
Payment services holding accounts	14	14
Other accruals and payables	7	5
Total trade and other payables	193	171
Comprising:		
Current trade and other payables	183	157
Non-current trade and other payables	10	14
Total trade and other payables	193	171

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 for prepaid services

Judgment is applied to determine how much of each service is prepaid and the average time between purchase and delivery. A prior period error was identified in the current financial year in the unearned revenue deferred for prepaid courier tickets. Details of the error and corrections made are provided in note 2(b).

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 stock piling models would not result in a material change to the deferred revenue.

pwc

NOTE 14. PROVISIONS

	Restructuring $m	Properties $m	Other $m	Total $m
Closing balance at 30 June 2017				
Current provisions	12	1	3	16
Non-current provisions	1	4	-	5
Total provisions at 30 June 2017	13	5	3	21
Opening balance at 1 July 2017	13	5	3	21
Utilisation	(8)	-	-	(8)
Release of provision	(1)	-	-	(1)
Additional provision	8	3	-	11
Total provisions at 30 June 2018	12	8	3	23
Comprising:				
Current provisions	10	5	3	18
Non-current provisions	2	3	-	5
Total provisions	12	8	3	23

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 be expected to result in a material change to the provision.

NOTE 15. COMMITMENTS

	2018 $m	2017 $m
Non-cancellable operating lease commitments		
Group as lessee (1)		
Payable no later than one year	41	46
Payable later than one year, not later than five years	88	129
Payable later than five years	21	46
	150	221
Group as lessor (2)		
Receivable no later than one year	3	2
Receivable later than one year, not later than five years	4	4
	7	6
Non-cancellable finance lease commitments (3)		
Payable no later than one year	3	5
Payable later than one year, not later than five years	4	6
	7	11
Contractual commitments for acqusition of:		
Property, plant and equipment		
Payable no later than one year	7	12
Payable later than one year, not later than five years	3	-
	10	12
Intangible assets - software		
Payable no later than one year	-	1
	10	13

(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.

Transition to NZ IFRS 16

From 1 July 2019, the accounting policy for leases will change. Refer to Note 2 for details.

pwc

NOTE 16. FAIR VALUE

Note 16(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 2018 $m	Estimated fair value 2018 $m	Carrying amount 2017 $m	Estimated fair value 2017 $m
Financial liabilities				
Borrowings	209	218	264	274

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 16(b) Fair value measurement

	Note	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
30 June 2018					
Assets at fair value					
Investment properties	9	-	-	3	3
Land and buildings	11	-	-	44	44
Derivative financial assets	19	-	7	-	7
Loans to related parties (carried at amortised cost)	21	-	-	84	84
Total financial assets at fair value		-	7	131	138
Liabilities					
Derivative financial liabilities	19	-	11	-	11
Borrowings (carried at amortised cost)		-	218	-	218
Loans from related parties (carried at amortised cost)	21	-	-	76	76
Total financial liabilities at fair value		-	229	76	305
30 June 2017					
Assets at fair value					
Investment properties	9	-	-	3	3
Land and buildings	11	-	-	45	45
Derivative financial assets	19	-	9	-	9
Loans to related parties (carried at amortised cost)	21	-	-	95	95
Total financial assets at fair value		-	9	143	152
Liabilities					
Derivative financial liabilities	19	-	11	-	11
Borrowings (carried at amortised cost)		-	274	-	274
Loans from related parties (carried at amortised cost)		-	-	76	76
Total financial liabilities at fair value		-	285	76	361

There have been no transfers between levels 1 to 3 during the year (year ended 30 June 2017: no transfers).

NOTE 16. FAIR VALUE continued

Note 16(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 2018		**Market capitalisation rate**	**Market rental**
Asset class	**Description**	**% pa**	**$ psqm**
Property, plant and equipment	Post Shop	**4.50-8.25**	**152-700**
Property, plant and equipment	Mail Centre	**7.25-9.00**	**17-159**
Investment property	Investment Property	**7.20-10.50**	**111-314**

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

NOTE 16. 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 2018. 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:

	2018 $m	2017 $m
Land	5	4
Buildings	14	15

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.

pwc

NOTE 16. FAIR VALUE continued

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.

NOTE 17. IMPAIRMENT OF NON-FINANCIAL ASSETS

Key assumptions used in goodwill and brands review

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

Management has concluded that the core operations of the business, including delivery of mail products and logistical and courier services, but excluding investments in jointly controlled entities, form one cash generating unit. This key judgement is based on the integrated nature of the network used to deliver both mail and parcel products, with the majority of the Group's assets used to provide both mail and parcel services. For the purposes of the valuation there has been some consideration of cashflows for parcel products separate from other products and services (including mail) and separate discount rates have been applied based on relative estimated market and execution risks.

Goodwill and brands 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 three year discounted cash flow (DCF). The DCF valuation has then been cross-checked against comparable company multiples and the book value of operating assets within the business. This valuation is level 3 in the fair value hierarchy.

The key assumptions used in the valuation include:

- Terminal value for mail is break-even;
- 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 key assumptions in the underlying three year forecasts were:

- Mail volume decline is offset by revenue increases as a result of the pricing strategy;
- Parcel volume growth driven by whole of market growth; and
- Increase in network costs reflecting the impact of parcel volume growth partially offset by productivity savings and benefits of change programs.

The resulting valuation is heavily dependent on the assessed terminal value, which in turn is sensitive to the assumptions made in relation to the cost of capital, terminal growth rate, earnings before interest and tax (EBIT) and capital expenditure in the terminal year. The inputs used and sensitivity to changes in those inputs is provided below.

The carrying amount of the Core Post CGU at 30 June 2018, including the goodwill and brands arising from the business combination of Express Couriers Limited, fell in the middle 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 key inputs used in the DCF to calculate the top of the valuation range were as follows:

30 June 2018 Cash generating unit	Carrying value of goodwill and brands $m	Non-parcels post-tax discount rate	Parcels post-tax discount rate	Terminal value growth rate	Terminal capex as a % of terminal depreciation
Core Post	185	7.3%pa	9.0% pa	1.0% pa	100%

A change in the terminal value growth rate to a 0.55%pa decline rate or an increase in the parcels post-tax discount rate to 10.3%pa would, all changes taken in isolation, result in the top of the range of recoverable amount being equal to the carrying amount.

The terminal value for mail services being break-even is the valuation assumption with the most inherent uncertainty. A reduction in the terminal EBIT for mail from break-even to a $8m loss would result in the top of the range of recoverable amount being equal to the carrying amount.

In the prior year 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. The prior year valuation did not assume that the terminal value of mail was break-even, but all other key assumptions were the same as those in the current year.

The carrying amount of the Core Post CGU at 30 June 2017, including the goodwill and brands 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.

pwc

NOTE 17. IMPAIRMENT OF NON-FINANCIAL ASSETS continued

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%

In the prior year, a change in 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, have resulted in the top range of the recoverable amount 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:

30 June 2018 and 30 June 2017 Business combination	Cash generating unit	Operating segment
Acquisition of Express Couriers Limited	Core Post	Post

pwc

FINANCING

NOTE 18. BORROWINGS

	2018 $m	2017 $m
Current borrowings		
Commercial paper	10	65
Total current borrowings	10	65
Non-current borrowings		
New Zealand Post Group Finance subordinated notes	199	199
Total non-current borrowings	199	199

Net debt reconciliation

	Borrowings due < 1 year	Borrowings due > 1 year	Total
Opening balance at 1 July 2016	190	199	389
Cash flows	(126)	-	(126)
Other non cash movements	1	-	1
Balance at 30 June 2017	65	199	264
Opening balance at 1 July 2017	65	199	264
Cash flows	(55)	-	(55)
Other non cash movements	-	-	-
Balance at 30 June 2018	10	199	209

Funding activities

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

Commercial Paper

During the year ended 30 June 2018 $40m (30 June 2017: $125m) of commercial paper was issued and $95m (30 June 2017: $100m) was repaid.

New Zealand Post Group Finance Subordinated Notes

The subordinated notes of $199m (30 June 2017: $199m) are part of the Group's core debt and have a maturity date of 15 November 2039 (2017: 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 are capitalised and amortised over the life of the debt instrument.

pwc

NOTE 19. FINANCIAL INSTRUMENTS

Financial instruments by category

	Fair value through P&L $m	Loans and receivables $m	Total $m
30 June 2018			
Cash and cash equivalents	-	60	60
Short term deposits	-	142	142
Trade and other receivables	-	181	181
Derivative financial assets	7	-	7
Loans to related parties	-	84	84
Total financial assets	7	467	474

	Fair value through P&L $m	Other financial liabilities at amortised cost $m	Total $m
Trade and other payables (1)	-	139	139
Derivative financial liabilities	11	-	11
Borrowings	-	209	209
Loans from related parties	-	76	76
Total financial liabilities	11	424	435

	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 (1)	-	137	137
Derivative financial liabilities	11	-	11
Borrowings	-	264	264
Loans from related parties	-	76	76
Total financial liabilities	11	477	488

(1) Trade and other payables excludes unearned revenue and other taxes

NOTE 19. 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 or 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 13 and Note 18 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.

pwc

NOTE 19. FINANCIAL INSTRUMENTS continued

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 proactive 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 19(b));
- Market risk, including foreign currency and interest rate price risk (Note 19(c)); and
- Credit risk (Note 19(d))

Note 19(a) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 8 and Note 10.

Note 19(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 in a timely manner giving rise to higher borrowing costs.

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 22 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.

NOTE 19. 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 2018					
Non-derivative cash flows					
Cash and cash equivalents	60	-	-	-	60
Short term deposits	62	80	-	-	142
Trade and other receivables	151	14	12	-	177
Trade and other payables	(119)	(10)	(10)	-	(139)
Borrowings	(10)	-	-	(199)	(209)
Interest receivable	1	3	-	-	4
Interest payable	(4)	(11)	(51)	(208)	(274)
Loans to related parties	8	76	-	-	84
Loans from related parties	-	(76)	-	-	(76)
Net non-derivative cash flows	149	76	(49)	(407)	(231)
Derivative cash flows					
Foreign exchange derivatives - inflows	9	4	-	-	13
Foreign exchange derivatives - outflows	(6)	(4)	-	-	(10)
Interest rate derivatives - inflows	1	3	2	-	6
Interest rate derivatives - outflows	(1)	(2)	(9)	(1)	(13)
Commitments					
Capital commitments	1	6	3	-	10
Lease commitments	(11)	(30)	(88)	(21)	(150)
Lease receipts	1	2	4	-	7
Total off balance sheet cash flows	(6)	(21)	(88)	(22)	(137)
Net position	143	55	(137)	(429)	(368)

NOTE 19. 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 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 - inflows	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)

NOTE 19. FINANCIAL INSTRUMENTS continued

Note 19(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 consolidated 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:

	2018		2017	
	AUD	USD	AUD	USD
	NZD $m	NZD $m	NZD $m	NZD $m
Cash and cash equivalents	-	2	-	1
Trade and other receivables	-	51	1	45
Derivative financial assets	-	1	-	1
Trade and other payables	-	(25)	(1)	(18)
Net on balance sheet financial position	-	29	-	29

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 2018					
Financial assets / (liabilities)					
Cash and cash equivalents	2	-	-	-	-
Trade and other receivables	51	5	5	(5)	(5)
Derivative financial assets	1	-	-	-	-
Trade and other payables	(25)	(3)	(3)	3	3
Net impact	29	2	2	(2)	(2)
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)

NOTE 19. FINANCIAL INSTRUMENTS continued

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 $10m at 30 June 2018 (30 June 2017 - $65m), and fixed rate borrowings with a face value of $200m (30 June 2017 - $200m). All borrowings are used to fund ongoing activities. As at 30 June 2018 the weighted average interest rate on borrowings (as amended by interest rate swaps) is 5.89% pa (30 June 2017 – 5.23% 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 2018					
Financial assets / (liabilities)					
Cash and cash equivalents	60	1	1	(1)	(1)
Short term deposits	142	1	1	(1)	(1)
Borrowings	(209)	(2)	(2)	2	2
Net impact	(7)	-	-	-	-
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	-	-	-	-

NOTE 19. FINANCIAL INSTRUMENTS continued

Note 19(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 2018 (30 June 2017 - nil).

Credit risk exposure

The following table represents a worst-case scenario of credit risk exposure to the Group at 30 June 2018 and 30 June 2017. The exposures set out are based on net carrying amounts as reported in the consolidated statement of financial position.

At balance date, 39% of the total maximum exposure is derived from trade and other receivables (30 June 2017 - 34%). 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 (2017 - nil). The Group performs credit checks on new customers prior to creating an account. Debt is monitored regularly.

	2018 $m	2017 $m
Cash and cash equivalents	60	64
Short term deposits	142	222
Trade and other receivables	186	170
Derivative financial assets	7	9
Related party loans receivable	84	95
Total gross financial assets	479	560
Allowance for impairment losses	(5)	(3)
Total net financial assets	474	557

NOTE 20. EQUITY

Note 20(a) The nature of the Group's contributed equity

Ordinary share capital

At 30 June 2018 there were 192.2m authorised ordinary shares on issue (30 June 2017: 192.2m). 192.2m are fully paid (30 June 2017: 192.2m). The shares have no par value. All shares have equal voting rights and share equally in dividends and surplus on winding up.

A final dividend for 2017 of $2.5m was paid to shareholders in September 2017 at $0.01 per fully paid share (for 2016: final dividend of $2.5m, $0.01 per fully paid share). An interim dividend of $2.5m was paid to shareholders in March 2018 at $0.01 per fully paid share (2017: Interim Dividend of $2.5m, $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 20(b) Other reserves

The following table shows a breakdown of the consolidated 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)
Gains / (losses) on revaluation of land and buildings - gross	(1)	-	-	(1)
Deferred Tax	-	-	-	-
Change in available for sale and cash flow hedge reserves - gross	-	(4)	17	13
Deferred tax	-	1	(5)	(4)
Share of other comprehensive income of jointly controlled entity	-	(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
Balance at 1 July 2017	**28**	**(2)**	**10**	**36**
Gains / (losses) on revaluation of land and buildings - gross	**1**	**-**	**-**	**1**
Deferred Tax	**-**	**-**	**-**	**-**
Share of other comprehensive income of jointly controlled entity	**-**	**-**	**2**	**2**
Other comprehensive income	**1**	**-**	**2**	**3**
Other movements				
Transfer between revaluation reserve and retained earnings	**(2)**	**-**	**-**	**(2)**
Balance at 30 June 2018	**27**	**(2)**	**12**	**37**

pwc

NOTE 20. EQUITY continued

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.

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 21. 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 and not disclosed here. All members of the Group are considered to be related parties of NZ Post. This includes all subsidiaries and jointly controlled entities. Transactions and balances with subsidiaries are not disclosed as they eliminate on consolidation.

Comparative period 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:

	2018 $m	2017 $m
Related party transactions		
Dividends paid		
- Shareholders	5	105
Jointly controlled entities		
- Sale of goods and services	22	18
- Expenditure recoveries	42	27
- Purchase of goods and services	54	39
- Interest received	7	6
- Interest paid	4	4
Related party balances		
The amounts outstanding with related parties at balance date were:		
Jointly controlled entities		
- Short term deposits	-	41
- Current accounts receivable	10	11
- Derivative financial assets	2	3
- Current loans receivable	84	2
- Non-current loans receivable	-	93
- Current accounts payable	(16)	(5)
- Derivative financial liabilities	(1)	(1)
- Current loans payable	(76)	-
- Non-current loans payable	-	(76)
Total related party balances	3	68
Short-term employee benefits and Directors fees	6	6
Termination benefits	1	-
Total key management personnel compensation	7	6

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, being Directors and Executive Team Members of the Group.

Current accounts are all payable on demand and settled monthly.

NOTE 21. RELATED PARTIES continued

Current loans receivable	Amount $m	Loan expiry	Interest rate range
Reach Media New Zealand Limited	1	On Demand	7.00%
Kiwi Group Holdings Limited	76	31 March 19 to 28 June 19	3.51%, 3 month BKBM
Kiwi Group Holdings Limited	7	On demand	7.93%
Total current loans receivable	**84**		

Current loans payable	Amount $m	Loan expiry	Interest rate range
Kiwibank Limited	76	31 March 19 to 28 June 19	3.51%; 3 month BKBM
Total current loans payable	**76**		

NOTE 22. 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 consolidated 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

I. The Company has agreed to provide up to $40m of capital to Kiwi Group Holdings Limited ("KGH") for the purposes of completion of a project to replace the Kiwibank ("the Bank") core banking system. If capital is required by the Bank for this purpose, the Company has agreed to subscribe for ordinary shares in KGH and transfer a pro rata proportion of those shares to the other shareholders of KGH to maintain the relative proportions of their shareholdings (for nil consideration). As part of a review of the transformation strategy of the Bank, the Bank's Board reviewed the core banking system project and made the decision to stop this project. Accordingly, no provision has been made as at 30 June 2018 as the cost of the core banking system project did not exceed the agreed threshold at which the additional capital could have been called upon.

II. The Company has received notice of a potential and unquantified warranty claim from Accident Compensation Corporation ("ACC") and NZSF Tui Investments Limited ("NZSF Tui"). Based on the materials provided by ACC and NZSF Tui, and the Company's legal advice, the Company does not consider that the potential warranty claim has any merit and therefore no provision has been made in respect of this claim at 30 June 2018. However, the Company remains in discussions with ACC and NZSF Tui about resolving the potential warranty claim.

III. 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 2018 is as follows:

	2018 $m	2017 $m
Retail deposits	2,091	6,147
Wholesale deposits	19	42
Foreign currency accounts	1,336	2,701
	3,446	8,890

pwc

Independent auditor's report

To the readers of New Zealand Post Limited's Consolidated Financial Statements for the year ended 30 June 2018

The Auditor-General is the auditor of New Zealand Post Limited and its subsidiaries (the "Group"). The Auditor-General has appointed me, Michele Embling, 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 53, that comprise the consolidated statement of financial position as at 30 June 2018, 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 2018, 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 (NZ IFRS) and International Financial Reporting Standards (IFRS).

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 advice on supply chain risk and controls assessments as part of the broader Alibaba Food Trust Framework, process reviews and general treasury advice. 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.

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 on the other information.

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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that. 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 NZ IFRS and IFRS, 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.

pwc

- 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 the 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.

Michele Embling
On behalf of the Auditor-General
Wellington, New Zealand
23 August 2018

PricewaterhouseCoopers