Prospectus

for an offer of up to $200 million of Unsecured Subordinated Notes

New Zealand Post Group Finance Limited

12 March 2009

Arranger
Organising Participant

Joint Lead Managers

Co-Managers

This is a Prospectus for the purposes of the Securities Act 1978 relating to an offer of unsecured, subordinated notes by New Zealand Post Group Finance Limited. This Prospectus is dated and has been prepared as at 12 March 2009. It is an important document and should be read in its entirety.

INTRODUCTION

This Prospectus is dated 12 March 2009 and relates to an offer of unsecured, subordinated, redeemable, cumulative, interest bearing notes ("**Notes**") by New Zealand Post Group Finance Limited ("**Issuer**"). The Notes will be guaranteed on an unsecured, subordinated basis by New Zealand Post Limited ("**New Zealand Post**" or “**Guarantor**”). The Issuer is a wholly owned subsidiary of New Zealand Post.

The key terms of the Notes are summarised on pages 7 to 15 of this Prospectus.

A copy of this Prospectus, duly signed by or on behalf of the directors of the Issuer, New Zealand Post and the directors of New Zealand Post and having attached to it all documents and other materials required by section 41 of the Securities Act 1978, has been delivered to the Registrar of Companies at Wellington for registration under section 42 of the Securities Act 1978. New Zealand Post, and each director of New Zealand Post, is a "promoter" of the offer of the Notes, as that term is defined in the Securities Regulations.

The documents required by section 41 of the Securities Act 1978 to be endorsed on or attached to the copy of this Prospectus delivered to the Registrar of Companies for registration are:

- the Trustee’s statement, as set out on page 43 of this Prospectus;
- letters of authority authorising this Prospectus to be signed by the agent of directors of the Issuer or the agent of directors of New Zealand Post, as the case may be (where appropriate);
- copies of any material contracts referred to at pages 47 to 49 which have not previously been filed with the Registrar of Companies; and
- an acknowledgment from NZX to the effect that application has been made to NZX for permission to list the Notes and all requirements of NZX relating thereto that can be complied with at that time have been duly complied with.

This Prospectus constitutes an offer of Notes to the public in New Zealand and to investors in other jurisdictions where the Notes may be lawfully offered. No action has been or will be taken by the Issuer or New Zealand Post which would permit an offer of Notes to the public, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required other than New Zealand. Notes may only be offered for sale or sold in conformity with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered. No Holder, or any other person, may purchase, offer, sell, distribute or deliver Notes, or have in his or her possession, publish, deliver or distribute to any person, any offering material or any documents in connection with the Notes, in any jurisdiction other than in compliance with all applicable laws and regulations. By purchasing the Notes, each Holder is deemed to have indemnified the Issuer, New Zealand Post, the Joint Lead Managers, the Co-Managers and the Trustee and their respective directors, officers, employees, agents or advisers for any loss suffered by any of them by reason of any breach of the above selling restrictions.

Capitalised words and expressions appearing in this Prospectus are defined in the Glossary to this Prospectus on pages 54 to 56.

Borrowing Group

For the purposes of the Securities Regulations, New Zealand Post Group Finance Limited is the “issuer” and, there are no "guaranteeing subsidiaries" of the Issuer. Consequently, at the date of this Prospectus, New Zealand Post Group Finance Limited is the sole member of the “borrowing group” and references to the "borrowing group" in this Prospectus should be understood as a reference to the Issuer alone.

The obligations of the Issuer in relation to the Notes are guaranteed on an unsecured, subordinated basis by New Zealand Post ("**Guarantee**"). The terms and conditions relating to the Guarantee are set out on pages 37 to 38 of this Prospectus.

State Owned Enterprise

The Issuer is a wholly owned subsidiary of New Zealand Post, which is a State enterprise formed pursuant to and operating under the State Owned Enterprises Act 1986 ("**State Owned Enterprise**"). As such all of its shares are held by Ministers of the Crown on behalf of the Crown. The Crown does not guarantee the Notes or any of the obligations of the Issuer or New Zealand Post.

Rating

On 12 March 2009 Standard & Poor's is expected to assign an issue credit rating of A to the Notes. New Zealand Post has an issuer long term credit rating of AA-. This was first assigned by Standard & Poor's on 21 February 2001. The long term issuer credit ratings descriptions published by Standard & Poor's are as follows[1]:

> **AAA**: An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poor's.
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> **AA**: An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.
>
> **A**: An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
>
> **BBB**: An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.
>
> **BB, B, CCC, and CC**: Obligors rated 'BB', 'B', 'CCC', and 'CC' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'CC' the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.
>
> **BB**: An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.
>
> **B**: An obligor rated 'B' is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.
>
> **CCC**: An obligor rated 'CCC' is currently vulnerable, and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.
>
> **CC**: An obligor rated 'CC' is currently highly vulnerable.
>
> **Plus (+) or minus (-)**
>
> The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Based on the methodology adopted by the Rating Agency at the date of this Prospectus for assigning credit ratings, it is expected that any change in the issuer credit rating of New Zealand Post will result in a similar change to the credit rating of the Notes. The Rating Agency may in the future alter the methodology used to assign credit ratings and so alter the relationship between the issuer credit rating of New Zealand Post and the issue credit rating of the Notes.

The rating for the Notes referred to in this Prospectus is not a recommendation to buy, sell or hold the Notes, and the rating may be subject to revision or withdrawal at any time by Standard & Poor's. Any

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[1] Source: http://www2.standardandpoors.com/portal/site/sp/en/au/page.article/0,0,0,0,1204840817021.html#ID489

downward revision or withdrawal of the rating may have an adverse effect on the market price of the Notes.

Analytic services provided by Standard & Poor’s are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Credit ratings issued by Standard & Poor’s are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of credit ratings issued by Standard & Poor's should not rely on any such ratings or other opinion issued by Standard & Poor's in making any investment decision. Ratings are based on information received by Standard & Poor's. Other divisions of Standard & Poor’s may have information that is not available to the division of Standard & Poor's that has assigned or will assign a credit rating to New Zealand Post and the Notes. Standard & Poor’s has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

No Underwriting

None of the Notes offered will be underwritten.

Listing on the NZDX

Application has been made to NZX for permission to list the Notes, and all of the requirements of NZX relating thereto that can be complied with on or before the date of this Prospectus have been duly complied with. However, NZX accepts no responsibility for any statement in this Prospectus.

NZDX ticker code NZP has been reserved for the Notes.

Registered Notes

The Notes will be registered Notes. This means that title to a Note will be determined solely by who is entered on the Register in relation to that Note. The Issuer will rely on the relevant Register for the purpose of determining entitlements to interest payments on each Record Date relating to the payment of interest in relation to the Notes (other than interest payable on the first Interest Payment Date, 15 May 2009, which will be paid to the first registered holder of the Notes regardless of any transfer of the Notes prior to the first Interest Payment Date) and repayment of the Principal Amount on the relevant Redemption Date.

Applications

Instructions on how to make an application are set out in the Application Form attached to the Investment Statement. If you wish to apply for Notes you should complete the Application Form in accordance with the instructions.

Applicants accepting a Firm Allocation from a NZX Firm or other approved financial intermediary must return the relevant Application Form to the offices of that NZX Firm or approved financial intermediary which has provided that Firm Allocation in time to enable the Application Form to be forwarded to and received by the Registrar no later than 5:00pm on the Closing Date.

Public Pool applicants (being all applicants other than applicants in respect of Firm Allocations) must return the relevant Application Form, together with a cheque for payment, so that it is received by the Registrar at the address set out below, no later than 5:00pm on the Closing Date:

Link Market Services Limited
Level 16, 19 Victoria Street
PO Box 91976
Auckland 1142

Alternatively, completed Application Forms, together with a cheque for payment, may be lodged with the Joint Lead Managers or any of the Co-Managers (at the addresses set out in the Directory), or any other channel approved by NZX, but must be delivered in sufficient time to enable the Application Form to be forwarded to and received by the Registrar no later than 5:00pm on the Closing Date.

Applications from institutional investors must be lodged with the Joint Lead Managers in accordance with the arrangements made with the Joint Lead Managers.

Non-reliance

This Prospectus does not constitute a recommendation by the Issuer, New Zealand Post, the Joint Lead Managers, the Co-Managers, the Trustee, nor any of their respective directors, officers, employees or agents to subscribe for, or purchase, any of the Notes. None of the Joint Lead Managers, the Co-Managers, the Trustee nor any of their respective directors, officers, employees or agents accepts any liability whatsoever for any loss arising from this Prospectus or its contents or otherwise arising in connection with the Offer.

The Joint Lead Managers, the Co-Managers and the Trustee have not independently verified the information contained in this Prospectus. In accepting delivery of this Prospectus, the recipient acknowledges that neither the Joint Lead Managers, the Co-Managers, the Trustee nor their respective officers, employees, agents or advisers gives any warranty or representation of accuracy or reliability and they take no responsibility for it. None of them shall have any liability for any errors or omissions (including for negligence) in this Prospectus, and each recipient waives all claims in that regard.

Important Dates

Rate Set Date	24 March 2009
Opening Date	25 March 2009
Closing Date	22 April 2009
Issue Date	The Issuer intends to allot the Notes throughout the Offer period, with the final allotment of Notes to be made on the Final Issue Date
Final Issue Date	24 April 2009
Holding statements sent	27 April 2009
Expected Date of Quotation on the NZDX	27 April 2009
Interest Payment Dates	15 May and 15 November
First Interest Payment Date	15 May 2009
First Reset Date and Step-up Date*	15 November 2014
Maturity Date	15 November 2039

** If there is a Successful Remarketing Process, the Step-up Date will be changed as part of that process.*

These dates are indicative only and are subject to change. The Issuer has the right in its absolute discretion and without notice to close the Offer early, to accept late applications, to extend the Closing Date or to choose not to proceed with the Offer. If the Closing Date is extended, subsequent dates may be extended accordingly. Investors are encouraged to lodge their applications as soon as possible after the Offer opens as interest payments will accrue at the Interest Rate from the date subscription moneys for the Notes have been banked into the trust account operated in respect of the Offer.

DETAILS OF THE OFFER OF NOTES

The following is a summary of the main terms on which the Notes will be offered under the Trust Deed. Further details of the terms of the Offer are available elsewhere in this Prospectus.

The Offer	The Issuer is offering for subscription up to 150,000,000 Notes (with the ability to accept oversubscriptions of a further 50,000,000 Notes). The Offer is available only to New Zealand resident investors and to investors in other jurisdictions where the Notes may be lawfully offered.
Use of proceeds	The Issuer will use the proceeds of the Offer to make an unsecured, subordinated loan to New Zealand Post. New Zealand Post will use the proceeds of that loan for its general corporate purposes including to repay maturing debt (including $75 million of senior bonds maturing in April 2009) and to support the continued growth and development of the New Zealand Post Group.
Issue Price	$1.00 per Note.
Issuer	New Zealand Post Group Finance Limited, a wholly owned subsidiary of New Zealand Post.
Guarantor	New Zealand Post Limited.
Status of the Notes	The Notes constitute direct, unsecured, subordinated, redeemable, cumulative, interest bearing debt obligations of the Issuer.
Status of the Guarantee	The Guarantee constitutes direct, unsecured, subordinated obligations of New Zealand Post.
Credit rating	New Zealand Post has been assigned an issuer credit rating of AA- by Standard & Poor's. The Notes are expected to be assigned an issue credit rating of A by Standard & Poor's. The ratings are not a recommendation to buy, sell or hold the Notes and the ratings may be subject to revision or withdrawal at any time by Standard & Poor's. Any downward revision or withdrawal of the ratings may have an effect on the ability of investors to sell the Notes and the price at which the Notes may be sold.
Reset Dates	The First Reset Date is 15 November 2014. Subsequent Reset Dates will be each 5th anniversary of the First Reset Date or, if a Successful Remarketing Process has occurred, such other date or dates as may be set by the Issuer as part of that process.
Step-up Date	The Reset Date with effect from which the Step-up Margin first applies. This will be 15 November 2014, unless a Successful Remarketing Process has occurred prior to that date.
Maturity Date	15 November 2039.
Interest Rate	The Interest Rate for the period from (and including) the date on which a Holder's subscription moneys have been banked into

	the trust account for the Offer until (but excluding) the First Reset Date, will be announced by the Issuer on the Rate Set Date, following completion of the Bookbuild. Unless there is a Successful Remarketing Process, the Interest Rate will be reset on each Reset Date to be the sum of the Benchmark Rate on that Reset Date plus the Step-up Margin. If there has been a Successful Remarketing Process, the Interest Rate on the immediately following Reset Date will be the sum of the Benchmark Rate on that Reset Date plus the new Margin set by the Issuer as part of that process.
Benchmark Rate	The Benchmark Rate on a Reset Date will be determined by reference to the swap rates on the Reset Date for an interest rate swap for a term of five years, or such other term as may be set by the Issuer as part of a Successful Remarketing Process.
Step-up Margin	The Step-up Margin is equal to the Margin plus the Step-up Percentage.
Step-up Percentage	The Step-up Percentage is 1.00% or such other rate as may be set by the Issuer as part of a Successful Remarketing Process.
Interest payments	Other than for the first interest payment, interest will be payable semi-annually in arrears in equal amounts on 15 May and 15 November of each year (each an "**Interest Payment Date**"). The first interest payment will be made on 15 May 2009 in an amount that reflects the number of days from (and including) the date on which a Holder's subscription moneys have been banked into the trust account for the Offer to (but excluding) the first Interest Payment Date. Interest accrues on the Notes until (but excluding) the date on which they are redeemed or resold. The Interest Payment Dates may be changed as part of a Successful Remarketing Process.
Interest to Original Subscriber	Interest payable on the first Interest Payment Date (15 May 2009) will be paid to the first registered holder of the Notes regardless of any transfer of the Notes prior to the first Interest Payment Date.
Deferral of interest	The Issuer may defer any interest payment which is due to be paid on an Interest Payment Date for a period of up to five years from that Interest Payment Date ("**Deferred Interest Payment**"). A Deferred Interest Payment will itself accrue interest at the prevailing Interest Rate on the Notes and that interest will compound on each Interest Payment Date thereafter. If a Deferred Interest Payment, and all interest that has accrued thereon (together the "**Unpaid Deferred Interest**"), has not been paid in full by the fifth anniversary of the Interest Payment Date on which it was originally due, the Issuer must pay to Holders in full all Unpaid Deferred Interest outstanding at that time. If the Issuer elects to defer interest it must do so equally on all of the Notes.
Distribution Stopper	While any Unpaid Deferred Interest remains outstanding, the Guarantor must: (a) not pay any dividends or distributions to its ordinary

shareholders or holders of any other securities, or discharge any payment obligations, that rank junior to the Guarantee, or redeem, repay, reduce, cancel, buy-back or acquire any of those securities or payment obligations; and

(b) procure that, if:

i) the Guarantor has guaranteed the obligations of an issuer of securities; and

ii) all or a substantial proportion of the proceeds of the issue of those securities has been provided to the Guarantor; and

iii) the claims of the holders of the guarantee rank junior to the Guarantee,

that issuer shall not pay any dividends or distributions to the holders of those securities or redeem, repay, reduce, cancel, buy-back or acquire any of those securities.

This restriction ceases to apply once all outstanding Unpaid Deferred Interest has been paid in full.

Mandatory Redemption by the Issuer	The Issuer must redeem all of the Notes on the Maturity Date, which is 15 November 2039.

The Issuer must redeem all of the Notes if an Event of Default occurs. The Events of Default are set out in full in the Conditions and may be summarised as follows:

(a) the Issuer fails to pay any Unpaid Deferred Interest when due; or

(b) the Guarantor breaches any of its obligations referred to under the heading *Distribution Stopper* above; or

(c) the Issuer fails to pay all amounts due and payable to a Retiring Holder (defined below) on redemption of the Notes held by that Retiring Holder; or

(d) the Issuer or the Guarantor is insolvent, is placed into liquidation or any analogous event occurs in respect of the Issuer or the Guarantor or a secured party, trustee, receiver, receiver and manager, administrator, inspector under any companies or securities legislation, or similar official is appointed in respect of the Issuer or, as the case may be, the Guarantor or the whole or any part of its assets.

If a Successful Remarketing Process occurs prior to a Reset Date, the Issuer must, with effect from that Reset Date, redeem or procure the sale of the Notes held by Holders ("**Retiring Holders**") who provided a *Redemption Notice* or a *Bid Notice* specifying a margin higher than the new Margin.

If the Remarketing Process is unsuccessful Holders have no rights to require Redemption of their Notes but the Issuer may redeem some or all of the Notes under the Optional Redemption provisions described below.

Optional Redemption by the Issuer	The Issuer may redeem:

(a) all or some Notes on a Reset Date;

(b) all or some Notes on an Interest Payment Date if the

Step-up Margin applies on that date;

(c) all (but not some only) Notes if a Regulatory Event, Tax Event or Rating Agency Event occurs; and

(d) all (but not some only) Notes if at any time there are less than 50,000,000 Notes on issue,

provided the redemption would not result in a breach of the Replacement Capital Covenant Deed. The Replacement Capital Covenant Deed is described on pages 47 and 48.

Where some but not all Notes are to be redeemed, the Notes will be redeemed on a pro-rata basis.

The terms Regulatory Event, Tax Event and Ratings Agency Event are defined in full in the Conditions and are described below:

Regulatory Event - means the receipt by the Guarantor of an opinion from a reputable legal counsel that, as a result of any amendment, clarification of or change in the laws or any regulations of New Zealand, or any relevant administrative action which is effective or is announced on or after the first Issue Date, there is more than an insubstantial risk that the Issuer would be exposed to more than a minimal increase in its costs in respect of the Notes or the Guarantor would be exposed to more than a minimal increase in its costs in respect of the Guarantee.

Tax Event - means the receipt by the Guarantor of an opinion from a reputable legal counsel that, as a result of any amendment, clarification of or change in the laws, treaties or regulations affecting taxation in New Zealand or any political subdivision or taxing authority of New Zealand, or any relevant administrative action which is effective or is announced on or after the first Issue Date, there is more than an insubstantial risk that the Issuer would be exposed to more than a minimal increase in its costs in respect of the Notes or the Guarantor would be exposed to more than a minimal increase in its costs in respect of the Guarantee.

Ratings Agency Event - means the receipt by the Guarantor of advice from the Rating Agency that, as a result of a change in Rating Agency criteria, the Notes no longer meet the tests for receiving an Intermediate Equity Content (or higher) classification from the Rating Agency.

Payments on Redemption	On any redemption or resale of the Notes, the Issuer must pay to the relevant Holder the Principal Amount of the Notes and any accrued but unpaid interest (including Unpaid Deferred Interest) payable up to (but excluding) the date on which the redemption or resale is to occur.
Remarketing Process	In the period commencing six months prior to a Reset Date and ending 30 Business Days prior to that Reset Date ("**Invitation Period**"), the Issuer may issue an invitation ("**Remarketing Process Invitation**") to each Holder to participate in a Remarketing Process and notify Holders of the terms of the Notes which the Issuer proposes to vary if a Successful Remarketing Process is completed. Those terms may include a change to the Benchmark Rate, the Margin, the frequency and

	timing of Interest Payment Dates, the timing of the next Reset Date and the Step-up Percentage.
Remarketing Choice Notices	Upon receipt of a Remarketing Process Invitation, each Holder may give one of the following types of notices ("**Remarketing Choice Notices**") to the Issuer: i) *Redemption Notice* – indicating that the Holder wishes to redeem his or her Notes if a Successful Remarketing Process occurs; or ii) *Hold Notice* – indicating that the Holder wishes to continue to hold his or her Notes irrespective of the outcome of the Remarketing Process; or iii) *Bid Notice* – indicating that the Holder does not wish to continue to hold his or her Notes if a Successful Remarketing Process occurs unless the new Margin set as part of that process is at least equal to a rate specified by that Holder (which must be less than the Step-up Margin). A Holder has 20 Business Days from the date of issue of the Remarketing Process Invitation to give a Remarketing Choice Notice to the Issuer and each notice will apply to all of the Notes held by a Holder at that time (but not some only). If a Holder does not give the Issuer a Remarketing Choice Notice within that period, the Holder is deemed to have given a *Hold Notice* for all of the Notes held by that Holder. The forms of the Remarketing Choice Notices will accompany the Remarketing Process Invitation.
Successful Remarketing Process	A Successful Remarketing Process occurs if, following the completion of the Remarketing Process, the Issuer sets a new Margin. The Issuer is able to do this if Holders holding at least 25% of Notes on issue at the time the Remarketing Process Invitation was issued provide either: (a) Hold Notices (and for this purpose deemed Hold Notices are not included); or (b) Bid Notices specifying a margin equal to or less than the new Margin. The new Margin, together with the other revised terms specified in the Remarketing Process Invitation, will apply from (and including) the Reset Date immediately following the Successful Remarketing Process.
Mandatory redemption following a Successful Remarketing Process	If a Successful Remarketing Process occurs, the Issuer must redeem, or procure the sale of, the Notes held by Retiring Holders. The redemption must occur on the Reset Date immediately following the Successful Remarketing Process. All other Holders will continue to hold the Notes at the new Margin and on the revised terms (if any) specified in the Remarketing Process Invitation.
Resale	Instead of redeeming the Notes held by a Retiring Holder, the Issuer may sell or procure the sale of the relevant Notes to a third party for a net amount that is no less than the amount that would have been paid to the Holder if the Notes were

redeemed. The Issuer must redeem the Notes if the Issuer has not resold the Notes by the date on which the Notes would otherwise have been required to have been redeemed.

Unsuccessful Remarketing Process

If a Remarketing Process is unsuccessful or not conducted then the Issuer may elect to redeem some or all of the Notes and the Step-up Margin will apply to all Notes that remain on issue from the next Reset Date.

Remarketing Process Choices and Outcomes

Holder Action	Submit Redemption Notice	Submit Bid Notice	Submit Hold Notice or Do Nothing
Desired Outcome	Notes are redeemed on the Reset Date.	Continue holding the Notes only if the new Margin is equal to or higher than a specified margin.	Continue holding the Notes.
Outcome if Remarketing Process is Successful	Notes are redeemed or resold on the Reset Date.	If the new Margin is equal to or higher than the specified margin the Holder continues to hold the Notes and the new Margin and terms and conditions apply from the Reset Date. Otherwise the Notes are redeemed or resold on the Reset Date.	Holder continues to hold the Notes and the new Margin and terms and conditions apply from the Reset Date.
Outcome if Remarketing Process is Unsuccessful	Issuer can elect to redeem all or some of the Notes on the Reset Date. If the Notes are not redeemed then the Step-up Margin will apply to the Notes and the Interest Rate is reset as at the Reset Date		

Replacement Capital Covenant Deed

It is New Zealand Post's intention that the Notes will constitute a permanent component of the capital structure of the New Zealand Post Group. Accordingly, the Issuer and New Zealand Post have entered into a Replacement Capital Covenant Deed dated 12 March 2009 with Trustees Executors Limited under which the Issuer has agreed for the benefit of the Senior Lenders that, if it elects to redeem all or some of the Notes, it will, except in certain specified circumstances (which are described in the paragraph below) redeem the Notes with proceeds raised through the issue:

i) by New Zealand Post of ordinary shares in accordance with the State Owned Enterprises Act 1986; or

ii) by New Zealand Post or another issuer of other securities having substantially the same terms and conditions regarding maturity, ranking, deferral, replacement provisions, purchase and redemption and credit support as the Notes,

which attract an amount of equity content from the Rating Agency that is not less than the equity content assigned to the Notes when issued. That issue of new ordinary shares or securities ("**Replacement Securities**") must be made within a period of six months prior to the Redemption Date of the Notes

	to be redeemed. New Zealand Post will not be required to issue, or procure the issue, of the Replacement Securities if: i) New Zealand Post has, at the time the Issuer intends to redeem the Notes, a credit rating of AA (Standard & Poor's) or higher; ii) the aggregate amount of senior indebtedness of the Issuer and New Zealand Post at that time is less than $50,000,000; iii) a Ratings Agency Event or a Tax Event has occurred; or iv) the majority of the Senior Lenders have agreed that it is not required.
Form of Notes	The Notes will be entered onto the register maintained by the Registrar. No certificates of title in respect of the Notes will be issued to Holders. Title to the Notes passes by transfer and registration. The Issuer and the Registrar will rely on the Register for the purpose of determining entitlements to interest payments on each Interest Payment Date and for the repayment of the Principal Amount of the Notes when they are redeemed.
New Zealand taxation	A description of the applicable New Zealand taxes is set out under the heading *New Zealand taxation* on pages 35 to 36.
Offer Process	All of the Notes, including oversubscriptions, may be reserved for subscription by clients of the Joint Lead Managers, the Co-Managers, Primary Market Participants (as defined in the NZX Participant Rules) and other invitees to the Bookbuild ("**Firm Allocations**"). The aggregate number of Notes so reserved will be determined by the Issuer, in consultation with the Joint Lead Managers, on or before the Opening Date. The Issuer will issue Notes throughout the Offer period. The Issuer, in consultation with the Joint Lead Manager, will determine the arrangements in respect of Notes which are not subject to Firm Allocations (if any) following the Bookbuild. Those arrangements will be announced by the Issuer before the Opening Date.
How to apply	Instructions on how to make an application for Notes are set out under the heading *Where to send your Application Form and payment* in the Investment Statement, and in the Application Form attached to the Investment Statement. If you wish to apply for Notes you should complete the Application Form in accordance with the instructions.
Firm Allocation applications	Applicants accepting a Firm Allocation through a NZX Firm (as defined in the NZX Participant Rules) or approved financial intermediary, need to return the relevant application form to that NZX Firm or other approved financial intermediary in time for it to be forwarded to and received by the Registrar no later than 5:00pm on the Closing Date.
Public Pool applications	Public Pool applicants (being all applicants other than applicants in respect of Firm Allocations) must return the relevant

	Application Form so that it is received by the Registrar at the address set out below, no later than 5:00pm on the Closing Date: Link Market Services Limited Level 16, 19 Victoria Street PO Box 91976 Auckland 1142 Alternatively, completed Application Forms may be lodged with the Joint Lead Managers or any of the Co-Managers (at the addresses set out in the Directory), or any other channel approved by NZX, but must be delivered in sufficient time to enable the Application Form to be forwarded to and received by the Registrar no later than 5:00pm on the Closing Date.
Institutional Applications	Applications from institutional investors must be lodged with the Joint Lead Managers in accordance with arrangements made with the Joint Lead Managers.
Minimum Application Amount	The minimum application amount in respect of the Notes is $5,000, with multiples of $1,000 thereafter.
Payment of the Issue Price	Applicants must pay for the Notes applied for by a personal cheque or, if the application is for Notes of an aggregate Principal Amount of $500,000 or more, by direct credit, bank cheque or through the Austraclear system. Cheques should be in New Zealand dollars drawn on a New Zealand branch of a financial institution and submitted with the completed Application Form. Cheques should be made payable to "New Zealand Post Group Finance Note Offer" and crossed "Not Transferable" and must not be post-dated.
Refunds	If an application is not accepted in full by the Issuer, the relevant application money received with that application will be refunded no later than five Business Days after the Final Issue Date. Interest will not be paid on any application money which is refunded.
Brokerage	NZX has authorised Primary Market Participants to act in the Offer. Applicants are not required to pay brokerage for Notes under this Offer.
No underwriting	The Offer is not underwritten.
Risks	Investment in the Notes is subject to risks, which are summarised under the section entitled *Risk Factors* on pages 29 to 34.
Sale and Transfer	Applicants should not attempt to sell any Notes until they know whether, and how many, Notes have been allotted to them. Neither the Issuer nor New Zealand Post accepts any liability should any person attempt to sell or otherwise deal with the Notes before the applicant receives his or her holding statement.
Listing on the NZDX	Application has been made to NZX for permission to list the Notes and all the requirements of NZX relating thereto that can be complied with on or before the date of this Prospectus have been duly complied with. However, NZX accepts no

	responsibility for any statement in this Prospectus. NZDX ticker code NZP has been reserved for the Notes.
NZX waivers	NZX has provided the following waivers to the Issuer in relation to the Notes: - A waiver to the prohibition on imposing restrictions on the transfer of securities contained in Listing Rule 11.1.1. The waiver means that a transfer of Notes may be refused if the transfer is not in an integral multiple of 1,000 Notes and/or results in the transferor retaining, or the transferee holding, less than the minimum holding of 5,000 Notes (unless the transferor transfers all of his or her Notes). - A waiver to the requirement to make annual and half-yearly preliminary announcements within the timeframes set out in Listing Rule 10.4. The waiver aligns the timeframes within which the Issuer must make preliminary announcements to NZX with the timeframes that apply to New Zealand Post as a State Owned Enterprise. - A waiver of the requirement to submit annual and half-yearly reports within the timeframes set out in Listing Rule 10.5. The waiver aligns the timeframes within which the Issuer must submit its reports with the timeframes that apply to New Zealand Post as a State Owned Enterprise.
Arranger	ABN AMRO Craigs Limited.
Organising Participant	ABN AMRO Craigs Limited.
Joint Lead Managers	ABN AMRO Craigs Limited. First NZ Capital Securities Limited.
Co-Managers	ANZ, part of ANZ National Bank Limited. BNZ Capital, a division of Bank of New Zealand Forsyth Barr Limited.
Trustee	Trustees Executors Limited.

BUSINESS DESCRIPTION

New Zealand Post Group Finance

The Issuer, New Zealand Post Group Finance Limited, is a newly formed wholly owned subsidiary of New Zealand Post Limited. It is incorporated in New Zealand, with its registered office at Level 12, New Zealand Post House, 7 Waterloo Quay, Wellington.

As at the date of this Prospectus, New Zealand Post Group Finance Limited's principal activity is the issuance of the Notes to investors in New Zealand and the on-lending of the proceeds to New Zealand Post for the general corporate purposes of the New Zealand Post Group, including the repayment of debt and to support the continued growth and development of the New Zealand Post Group.

New Zealand Post

New Zealand Post guarantees the obligations of the Issuer under the Notes on an unsecured, subordinated basis. No other member of the New Zealand Post Group or any other person guarantees the Notes.

However, because a significant amount of New Zealand Post's business is carried out by its subsidiaries and associates, and New Zealand Post derives income from, and commits capital to, its investments in these subsidiaries and associates, the description below relates to the New Zealand Post Group as a whole, and not just New Zealand Post.

Business Overview for New Zealand Post

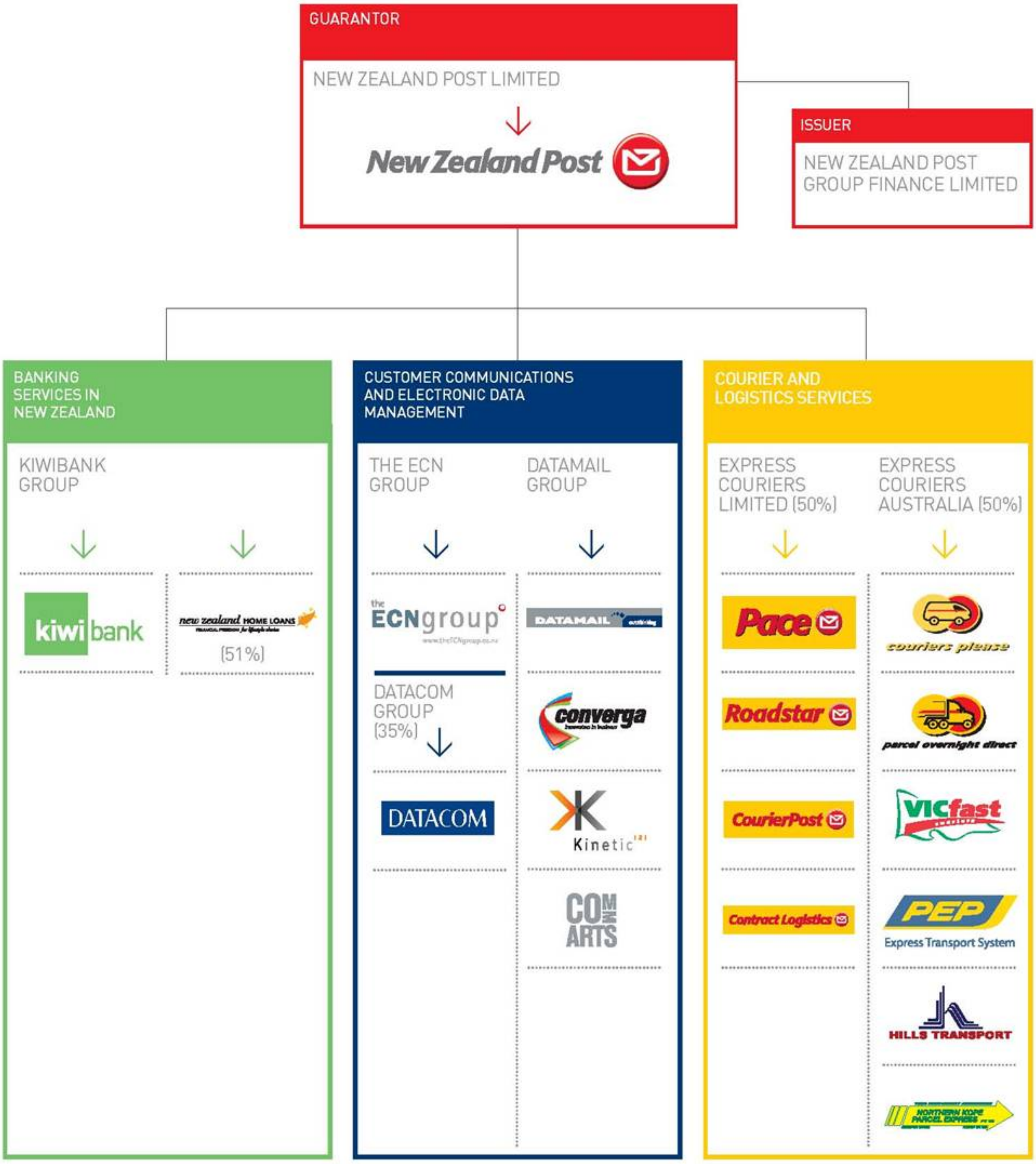
New Zealand Post is a State Owned Enterprise that provides a vital link between New Zealanders, their communities and businesses.

New Zealand Post has over 300 PostShops. More than 700,000 people visit them each week to send mail, pay bills and make financial transactions. New Zealand Post also operates over 600 PostCentres where customers can send mail and parcels. More than 30 million transactions are made in PostShops each year, from re-licensing a car to paying a phone or power bill.

Through its various investments, New Zealand Post has an interest in a diverse and expanding group of companies, covering a range of transport and communications solutions, banking and payment services, data management, and goods distribution and logistics services in New Zealand and Australia.

New Zealand Post's largest investment is in Kiwibank, which was successfully launched in 2002 and now has a branch presence in over 300 PostShops nationwide. It is continuing to grow rapidly, with around 2,000 customers joining Kiwibank every week.

Simplified Corporate Structure



State Owned Enterprise

New Zealand Post is a State Owned Enterprise and is 100% owned by Her Majesty the Queen in right of New Zealand (the "**Crown**"). Crown ownership is exercised through two shareholding Ministers, the Minister for State Owned Enterprises and the Minister of Finance. The shareholding Ministers are responsible for the appointment of New Zealand Post's Board of Directors.

The State Owned Enterprises Act 1986 requires the Board of Directors to prepare a Statement of Corporate Intent each year. The Statement of Corporate Intent sets out New Zealand Post's objectives, the nature and scope of its activities and certain financial and accounting-related information. The principal statutory objective of New Zealand Post, as set out in its Statement of Corporate Intent, is to operate as a successful business and specifically to achieve the following objectives:

- to operate an efficient, effective and profitable business and provide to the owners a commercial return on the capital employed;
- to be a good employer; and
- to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.

A copy of the current Statement of Corporate Intent is available at www.nzpost.co.nz/notes or can be obtained directly from New Zealand Post.

The Crown does not guarantee the Notes or any of the obligations of the Issuer or New Zealand Post.

Corporate Strategy

New Zealand Post's Statement of Corporate Intent sets out a number of strategic themes that drive its commercial decisions across the wider New Zealand Post Group:

- to sustain the profitability of its postal business, both domestic and international, by responding to the emerging needs of its customers;
- to grow Kiwibank as a commercially successful business;
- to grow the profitability of the express courier and logistics businesses;
- to optimise its retail network to enable future growth and to improve the experience for customers;
- to develop services that enable its customers to choose to interact electronically;
- to develop trans-Tasman and international connections and services that add value for New Zealand Post; and
- to create and deliver new, profitable, value-added services and solutions for its customers.

A key theme underlying the corporate strategy is that the postal business has and is expected to continue to exhibit a decline in volumes over time as a result of competition and electronic substitution. To mitigate against this, New Zealand Post has long pursued a diversification strategy to expand into complementary services, such as transport and communications, goods distribution and logistics, data management and banking and payment services.

The success of New Zealand Post's diversification strategy is evident in the graph below showing that postal services now makes up 40% of segment profits.

Segment profit

Note: Segment profit is from the unaudited accounts for the half year ended 31 December 2008 and is calculated on an after tax basis.

Corporate responsibility

Over time, New Zealand Post's customers have become more interested in how it does business, and what steps it takes to support New Zealand communities, people and the environment. Customers are increasingly making purchasing choices based on how they perceive New Zealand Post's corporate responsibility. Programmes to reduce fuel and electricity consumption, and the waste sent to landfills not only support New Zealand's environmental and corporate responsibility, but also increase productivity and competitiveness. Activities in these and other areas were recognised in December 2008 when New Zealand Post received the Ethical Governance Award at the Deloitte/Management magazine Top 200 Awards.

New Zealand Post measures its corporate responsibility based on targets in relation to employee engagement, reductions in lost time injury frequency rate, reductions in greenhouse gas emissions, and participation in the international, independently audited, Corporate Responsibility Index. Performance against corporate responsibility targets is disclosed in New Zealand Post's annual report.

The Business of New Zealand Post

Postal Services

New Zealand Post delivers around 1 billion postal items a year to around 1.4 million homes and businesses, over 200,000 rural addresses and 220,000 private boxes. New Zealand Post's business includes domestic and international postal services, rural delivery and electoral enrolment services.

The economics of the postal business are changing all the time. New Zealand Post has recorded declining international and domestic letter volumes as a result of electronic substitution, increased direct competition and a decline in economic activity. At the same time New Zealand Post's costs of running its mail network are increasing as the number of delivery points continues to grow and the items delivered are heavier and bulkier. Reflecting this change, New Zealand Post recently introduced a new system of pricing in proportion to an item's size and weight, for letters and parcels, to better reflect the costs of handling each item. The price of a standard letter was maintained at 50 cents. Additionally, a new range of products called ParcelPost™ which are designed to appeal to the online community, was launched in 2008.

In the letters business, New Zealand Post has recently completed an $85 million programme of investment, including in new automated equipment to sort mail. This has been accompanied by the introduction of new postcodes and an extensive campaign to inform businesses and consumers about their use.

Direct mail is an important growth opportunity for New Zealand Post's postal business. New Zealand Post's Mail Marketing Service team is working to embed the position of direct mail as a media brand by delivering insight and education-based services targeting New Zealand's largest advertisers and advertising agencies.

New Zealand Post also produces New Zealand stamps, and issues collectable coins on behalf of the Reserve Bank of New Zealand.

New Zealand Post represents New Zealand at the Universal Postal Union, a specialised agency of the United Nations that facilitates the flow of mail between borders. New Zealand Post also provides international postal services from Australia.

New Zealand Post's website is an integral part of its service offering to all of its customers. New Zealand Post is committed to continuing to offer new online services.

Under a memorandum of understanding with the Minister of Justice, New Zealand Post also provides electoral enrolment services on behalf of the Crown.

Retail Network

New Zealand Post's network of over 300 PostShops and over 600 PostCentres stretches from Te Kao in the far north to Halfmoon Bay, Stewart Island in the south, and from Tuatapere, in the west to Pitt Island in the east. The Retail Group is supported by around 3,500 employees and franchisees who work in their communities to provide a range of postal, banking and agency services.

New Zealand Post has a programme to refurbish PostShops and ensure they are in places where our customers want to shop and do business with us. The PostShop network enables New Zealanders to pay more than 80 different kinds of bills, buy foreign exchange and travel insurance, register for a personal IRD number, send mail, buy prepaid cards and undertake financial transactions with Kiwibank.

Regulatory framework

New Zealand Post is committed to providing a universal postal service throughout the country. Under its Deed of Understanding with the Crown, New Zealand Post has agreed to maintain a sizeable network of PostShops and PostCentres, a minimum number of delivery points throughout the country, and to provide access for other postal operators to its postal network. Currently, we have access arrangements with five competing postal operators.

New Zealand Post's Investments

New Zealand Post invests in subsidiaries, joint ventures and other companies to fulfil its strategic objectives. Set out below is a description of New Zealand Post's principal investments. New Zealand Post is the sole guarantor of the Notes. None of the other members of the New Zealand Post Group described below guarantee the Notes.

Banking Services

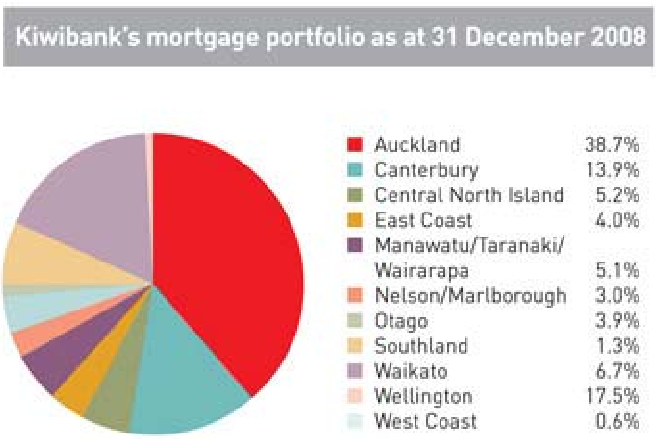
New Zealand Post's largest subsidiary is Kiwibank Limited. Kiwibank was launched in March 2002 and has grown significantly since then. Approximately 2,000 customers join Kiwibank every week.

Kiwibank offers a range of "low-fee" personal and business transactional banking accounts, savings accounts, term deposits, home loans, credit cards and revolving credit products. Additional products include insurance, personal loans, and technological innovations, such as mobile phone banking. Kiwibank intends to continue to add to its product suite, both organically and by investment.

Kiwibank operates extended banking hours, including weekends, in many of its outlets. Other distribution channels include its own network of around 300 ATMs, and telephone, mobile and internet banking. Kiwibank's mobile banking service enables its customers to carry out virtually all transactions available via Kiwibank's internet banking service using a mobile phone.

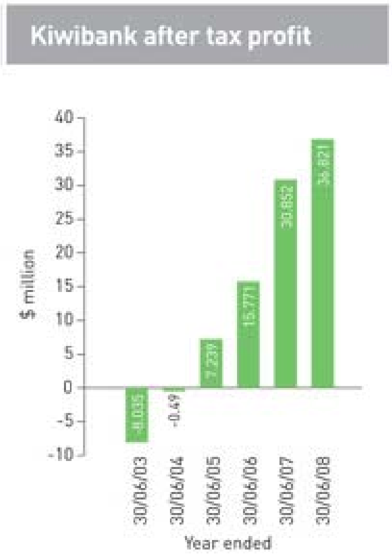
Kiwibank's primary lending is to the New Zealand home loan market. Mortgage lending is serviced by a direct lending team in Wellington, a nationwide team of specialist mobile mortgage managers, business banking centres, banking consultants in PostShops and through the limited use of mortgage brokers. Kiwibank's mortgage portfolio reflects its broad geographic spread. Kiwibank has been approved for the Government's guarantee scheme for retail deposits.

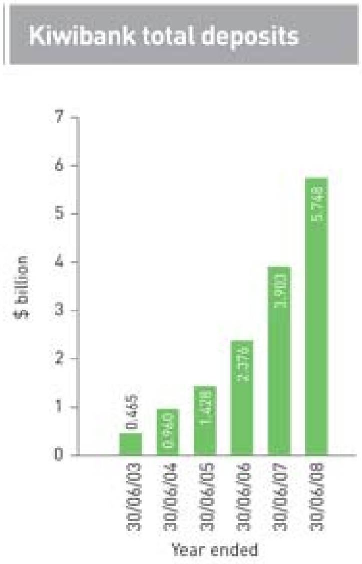
Kiwibank launched its first domestic subordinated bond issue in March 2007. This was followed by another successful domestic subordinated bond issue in September 2008. Both issues are excluded from the New Zealand Post guarantee of Kiwibank's bank deposits and other senior borrowings (described on page 28 under the heading *Capital structure*).



As shown above, as at 31 December 2008, 39% of Kiwibank's mortgage portfolio by value was located in the Auckland region. As at 31 December 2008 the average mortgage outstanding was approximately $176,000. For the majority of housing loan applications, Kiwibank has decentralised decision-making using automated application scoring systems. For the remainder of applications, decision-making is centralised. The proportion of accruing housing loans in arrears by greater than 30 days represents only 0.9% of Kiwibank's total housing loans. Kiwibank continues to use lender's mortgage insurance to manage the risk of loss on housing loans outside its standard lending criteria.

The service level and value proposition offered by Kiwibank, combined with its widespread distribution platform through the New Zealand Post network, has enabled Kiwibank to exhibit sustained growth since its launch in 2002. The bank achieved its target of making a profit in its third year of operation. In the financial year to 30 June 2008, it announced an audited after tax profit of $36.8 million. For the halfyear ended 31 December 2008, Kiwibank announced an unaudited after tax profit of $25.8 million. Kiwibank does not guarantee the Notes.





Numbers for the half year ended 31 December 2008 have not been audited.

Customer communications and electronic data management

Through New Zealand Post's wholly owned subsidiaries Datamail and The ECN Group, and its minority shareholding in Datacom Group, a range of services are provided to help organisations manage their customer communications and electronic data. None of the Datamail Group, The ECN Group or Datacom Group guarantees the Notes.

Datamail Group

The Datamail Group comprises Datamail, Kinetic121, Communication Arts and Converga. Datamail is New Zealand Post's core printing, mailing and information management business. It provides a range of services to corporate clients from the management of electronic data, storage and retrieval via the internet or private networks, to the production and mailing of printed documents, such as statements, invoices and personalised policy documents. Kinetic121 provides direct marketing services to its customers. Communication Arts is New Zealand Post's design and print production house. It helps clients deliver strategic branding and creative design across print and web media.

The Converga businesses operate in both Australia and New Zealand and help clients work more efficiently by providing business process solutions, including inbound response processing, accounts payable, mailroom, reprographic and reception services. Based either in its own premises, or the premises of a client, Converga works to streamline processes while delivering information and services that enable its clients to concentrate on their core businesses.

The ECN Group

The ECN Group ("**ECN"**) provides business to business electronic messaging, business process management and systems integration. Established in 1996, ECN now offers a broad suite of integration and messaging solutions across the Asia Pacific region. This expansion has included several acquisitions, notably of Infolink in 2004, and Australian eCommerce solutions provider TEDIS in 2005. ECN has operations in New Zealand, Australia and the Philippines.

Reachmedia

In November 2007, New Zealand Post and Australian company Salmat Limited entered into a 50:50 joint venture to form Reachmedia for the purpose of targeting the New Zealand unaddressed mail market. In creating the joint venture, the two companies merged two former standalone networks.

Datacom Group

New Zealand Post owns 35% of Datacom Group, which is amongst New Zealand's largest locally owned full-service information technology companies. It offers information technology services to a range of public and private sector clients in New Zealand, Australia and parts of Asia.

Courier and logistics services

New Zealand Post operates courier and logistics services in New Zealand and Australia, through 50:50 joint ventures with DHL - Express Couriers Limited ("**ECL**") in New Zealand and Express Couriers Australia Pty Limited ("**ECA**") in Australia. None of ECL, ECA or any of their subsidiaries guarantee the Notes.

Express Couriers

ECL was formed in 2005 and operates the CourierPost, Pace, Contract Logistics and Roadstar brands. With one of New Zealand's largest courier fleets of more than 650 couriers, CourierPost offers an extensive courier delivery network, with access to approximately 1.8 million delivery points. ECL has recently moved into a purpose built facility in Highbrook, Auckland, to replace three of its existing sorting centres and has commenced operating a new parcel sorting system at that facility.

Pace offers same day urgent courier services in and to major centres nationwide. Pace's fleet consists of vans, station wagons, motorcycles and bicycles, providing a choice of delivery solutions, which can be customised to meet customers' specific requirements. Together, CourierPost and Pace deliver around 40 million items throughout New Zealand each year.

ECL's Contract Logistics Group provides logistics consulting and management, warehousing and stock replenishment services to a broad range of customers from secure, best practice facilities. Tailored services include import/export documentation, inventory control, order fulfilment and distribution of orders throughout New Zealand and the world.

Roadstar Transport (acquired by ECL on 1 July 2007) specialises in the time-defined delivery of bulk, multi-package and heavyweight consignments throughout New Zealand. With a fleet of around 120 trucks, Roadstar delivers approximately 38,000 consignments a month nationwide. Roadstar also has technology products available to help customers manage their despatch processes.

Express Couriers Australia

ECA was formed in 2008 and services customers through its wholly owned transport businesses operating under the brands CouriersPlease, Parcel Overnight Direct, PEP Express Transport, Northern Kope Parcel Express, VicFast Couriers and Hills Transport.

Couriers Please offers local, regional and inter-state services. It has over 600 self-employed contractors and 150 staff with main branches in Sydney, Brisbane, Melbourne, Gold Coast, Adelaide and Perth.

Parcel Overnight Direct offers a door-to-door intra-state and inter-state transport service for bulk parcels and freight consignments for medium to large enterprises. It works with a select group of customers whose product profile and business strategy complements its model.

The four other ECA businesses provide state-based regional freight services.

FINANCIAL INFORMATION

The financial information in this Prospectus in relation to the New Zealand Post Group is intended to provide investors with an understanding of the financial performance of the New Zealand Post Group as a whole. Investors should be aware, however, that New Zealand Post is the sole guarantor of the Notes, and no other member of the New Zealand Post Group guarantees the Notes.

Financial information for the Issuer has not been presented as it has not commenced business, acquired an asset or incurred a liability prior to the date of this Prospectus.

Annual Result for the financial year ended 30 June 2008

In the financial year to 30 June 2008, the New Zealand Post Group reported a profit of $110 million and revenue from operations of $1,290 million. Earnings before interest, tax, depreciation and amortisation ("**EBITDA**") was $205 million.

This result reflected the benefits of the New Zealand Post Group's diversified growth strategy and the strong performance of Kiwibank. The return on average shareholders' equity was 17.6%, compared with 15.7% in the financial year to 30 June 2007.

Profit also included other income before tax of $19 million, compared with $13 million in the previous financial year. The major contributor to that amount was a non-recurring gain of $25 million from the sale of the Group's Australian courier and transport businesses into the Express Couriers Australia joint venture in June 2008. This gain, together with unrealised gains on the revaluation of investment properties, was partially offset by unrealised losses on financial instruments at fair value.

These financial results were achieved in the face of a number of negative economic trends, including high fuel prices, an international credit crunch and generally declining consumer activity across the economy. In addition to the strong contribution from Kiwibank, New Zealand Post Group's performance was well supported by a higher than budgeted contribution by the Datamail Group. The traditional postal and retail businesses, however, were impacted by the economic slowdown during the second half of the financial year.

The Board of Directors of New Zealand Post declared total dividends of $23.5 million relating to the financial year ended 30 June 2008.

Interim Result for the half year ended 31 December 2008

In the half year to 31 December 2008, the New Zealand Post Group reported an unaudited profit of $52.8 million, revenue from operations of $656 million and EBITDA of $103 million. Despite the challenging economic conditions, this result was only marginally down on the same period last year, where an unaudited profit of $52.9 million was reported.

The result demonstrates the ongoing benefits of the diversification strategy as the various parts of the New Zealand Post Group are being impacted differently. The postal business of New Zealand Post has suffered an accelerated decline in international and domestic mail volumes as a result of the slow down in business activity. The express courier businesses, however, performed well as retailers increased their use of 'just-in-time' inventory management to reduce inventory levels, resulting in more frequent stock shipments. Kiwibank continued to grow strongly and perform well, with profitability increasing by 14% compared to the same period last year.

With the agreement of the shareholders, the Board of Directors of New Zealand Post declared a reduced interim dividend of $6.9 million, compared to $16.9 million for the corresponding period in the previous year, to enable reinvestment into the business.

Summary Financial Information for New Zealand Post Group Finance Limited (the Issuer)

Financial statements for the Issuer have not been prepared as the Issuer has not commenced business, acquired an asset or incurred a liability prior to the date of this Prospectus. As a result, financial information for the Issuer has not been included, or referred to, in this Prospectus or the Investment Statement.

Summary Financial Information for New Zealand Post Limited (the Guarantor)

The following full year financial information for New Zealand Post has been extracted from audited financial statements of New Zealand Post. The interim financial information for the half year ending 31 December 2008 has not been audited.

	NZ IFRS Half year Ended 31 December 2008 $000s	NZ IFRS Year Ended 30 June 2008 $000s	NZ IFRS Year Ended 30 June 2007 $000s	NZ FRS Year Ended 30 June 2006 $000s	NZ FRS Year Ended 30 June 2005 $000s	NZ FRS Year Ended 30 June 2004 $000s
Revenue from Operations	415,088	784,652	754,976	731,072	772,256	772,552
Expenditure	393,341	744,213	706,787	679,462	709,825	727,731
Other Income(2)	4,027	10,205	11,758	12,305	164,763	4,368
Finance Costs (Net)	6,283	6,189	4,543	786	1,047	5,141
Profit Before Tax	19,491	44,455	55,404	63,129	226,147	44,048
Tax Expense	4,898	10,684	16,879	17,433	21,617	24,974
Profit	14,593	33,771	38,525	45,696	204,530	19,074
Total Assets	1,062,133	1,076,519	1,007,430	910,427	868,235	695,788
Total Tangible Assets	1,023,288	1,037,905	971,800	910,348	868,154	694,581
Total Liabilities	411,311	433,674	375,292	301,584	286,569	314,095
Total Equity	650,822	642,845	632,138	608,843	581,666	381,693

Notes to the financial information

(1) *The financial information for the years ended 30 June 2004 to 30 June 2006 has been prepared under the previous New Zealand Financial Reporting Standards ("**NZ FRS**"). The financial information for the years ended 30 June 2007 and 30 June 2008, and the half year ended 31 December 2008 has been prepared under New Zealand equivalents to International Financial Reporting Standards ("**NZ IFRS**"). A full reconciliation of the differences between the previous NZ FRS and NZ IFRS is detailed in note 31 of the 30 June 2008 financial statements included in the New Zealand Post 2008 Annual Report.*

(2) *On 31 December 2004 New Zealand Post Limited sold the assets of its courier businesses to ECL. On 1 January 2005 New Zealand Post Limited sold 50% of its ownership in ECL to DHL. This resulted in a gain of $150.5 million, which is included in Other Income in the year ended 30 June 2005.*

Summary Financial Information for New Zealand Post Group (the Group)

The following full year financial information has been extracted from audited financial statements of the New Zealand Post Group. The interim financial information for the half year ending 31 December 2008 has not been audited.

	NZ IFRS Half year Ended 31 December 2008 $000s	NZ IFRS Year Ended 30 June 2008 $000s	NZ IFRS Year Ended 30 June 2007 $000s	NZ FRS Year Ended 30 June 2006 $000s	NZ FRS Year Ended 30 June 2005 $000s	NZ FRS Year Ended 30 June 2004 $000s
Revenue from Operations[(2)]	656,190	1,290,008	1,195,224	1,083,985	1,105,671	1,047,943
Expenditure[(2)]	598,104	1,175,608	1,100,847	1,009,575	1,035,192	979,701
Other Income[(3)]	7,604	19,176	13,230	10,396	88,459	1,018
Finance Costs (Net)	5,119	12,818	5,744	3,272	4,068	8,454
Share of net profit of associates and jointly controlled entities	9,341	16,071	16,741	13,539	9,291	4,108
Profit Before Tax	69,912	136,829	118,604	95,073	164,161	64,914
Tax Expense	17,119	26,661	31,817	26,284	26,554	29,583
(Profit)/ Loss of Minority Interests	-	-	-	(133)	(374)	1,192
Profit	52,793	110,168	86,787	68,656	137,233	36,523
Total Assets	10,226,611	8,036,738	5,512,141	3,735,531	2,506,062	1,875,152
Total Tangible Assets	10,102,525	7,915,065	5,392,423	3,701,338	2,468,501	1,825,359
Total Liabilities	9,576,059	7,370,126	4,927,032	3,201,439	2,022,683	1,524,829
Total Equity	650,552	666,612	585,109	534,092	483,379	350,323

Notes to the financial information

(1) The financial information for the years ended 30 June 2004 to 30 June 2006 has been prepared under NZ FRS. The financial information for the years ended 30 June 2007 and 30 June 2008, and the half year ended 31 December 2008 has been prepared under NZ IFRS. A full reconciliation of the differences between the previous NZ FRS and NZ IFRS is detailed in note 31 of the 30 June 2008 financial statements included in the New Zealand Post 2008 Annual Report.

(2) Revenue from operations and expenditure are not directly comparable with the previous half year. This reflects the fact that, before 1 July 2008, results for Couriers Please and Parcel Overnight Direct were consolidated in the results for the New Zealand Post Group, but have since been accounted for on an equity basis through the ECA joint venture.

(3) On 31 December 2004 New Zealand Post sold the assets of its courier businesses to ECL. On 1 January 2005 New Zealand Post sold 50% of its ownership in ECL to DHL, resulting in a gain on sale of $78.6 million, included in Other Income in the year ended 30 June 2005. On 30 June 2008 the New Zealand Post Group sold its shareholding in NZP Australia Pty Limited, Couriers Please Pty Limited, Parcel Overnight Direct Pty Limited and Northern Kope Parcel Express Pty Limited to ECA. The Group purchased a 50% shareholding in ECA on 28 June 2008. The sale is subject to a performance-based purchase price adjustment in the current year. Included in Other Income was a gain on sale of $24.8 million for the year ended 30 June 2008 and a gain on sale of $4 million for the half year ended 31 December 2008.

The audited financial statements of New Zealand Post and the New Zealand Post Group for the year ending 30 June 2008 are attached at Appendix B of this Prospectus.

The unaudited financial statements of New Zealand Post and the New Zealand Post Group for the six months ending 31 December 2008 are available at www.nzpost.co.nz/notes.

New Zealand Post's annual reports, half year reports, statement of corporate intent and statement of corporate governance can be obtained via www.nzpost.co.nz/notes.

Capital structure

New Zealand Post maintains a conservative capital structure, with one of its key objectives the maintenance of a AA- rating from Standard & Poor's. As at 30 June 2008, total assets were $1,077 million, funded by a mix of shareholders equity ($643 million) and total liabilities of $434 million. New Zealand Post's net debt to equity ratio as at 30 June 2008 was 26%.

New Zealand Post currently has two senior bond issues outstanding totalling $175 million. The first $75 million of bonds mature in April 2009. It is intended that those bonds will be repaid using the proceeds of the Notes. The other $100 million of bonds mature in November 2011. In addition to these two bond issues New Zealand Post has a $200 million commercial paper programme (utilised to $40 million dollars as at 31 December 2008) supported by a $50 million undrawn bank facility with the Bank of New Zealand, and a $7 million overdraft facility with the Bank of New Zealand and an uncommitted $35 million facility with Kiwibank (drawn to $10 million).

In addition to these direct borrowings New Zealand Post has also guaranteed the obligations of Kiwibank, including any payment obligation in respect of deposits made with Kiwibank ("**Kiwibank Guarantee**"). The Kiwibank Guarantee does not apply to Kiwibank's payment obligations under the March 2007 and September 2008 unsecured, subordinated bonds and any other obligation of Kiwibank expressed not to have the benefit of the Kiwibank Guarantee. The Kiwibank Guarantee is terminable by New Zealand Post giving three months' notice. Termination of the Kiwibank Guarantee will not affect any payment obligations existing at the date of termination, which will continue to be guaranteed by New Zealand Post. The Kiwibank Guarantee has no expiry date and ranks senior to the Guarantee of the Notes.

New Zealand Post has also guaranteed a 50% share of ECL's $100 million facility from Commonwealth Bank of Australia and a US$10 million facility provided to one of its wholly owned subsidiaries, Air Post Limited.

The Notes in New Zealand Post's capital structure

Standard & Poor's is expected to assign an issue rating of A to the Notes and an Intermediate Equity Content upon their issue. However, the equity content assigned to the Notes will be reduced to minimal (0%) at the date falling 20 years prior to the Maturity Date.

It is New Zealand Post's intention that the Notes will constitute a permanent component of the capital structure of the New Zealand Post Group. Accordingly, the Issuer and New Zealand Post have entered into a Replacement Capital Covenant Deed with Trustees Executors Limited which is described in more detail under the heading *Replacement Capital Covenant Deed* on page 47.

Dividend policy

New Zealand Post's dividend policy is set out in its Statement of Corporate Intent. It is intended that funds surplus to New Zealand Post's investment and operating requirements will be distributed to its shareholders. The Statement of Corporate Intent states that net surpluses after tax generated by Kiwibank are to be retained by Kiwibank over the next three years to assist in funding its ongoing growth. The general policy is that the dividends are calculated as 60% of net profit after tax excluding Kiwibank's net profit after tax, and excluding any material unrealised fair value movements. However, New Zealand Post has varied the policy so that for a two-year period ending 30 June 2010, dividends will be calculated as 30% of net profit after tax excluding Kiwibank net profit after tax and excluding any material unrealised fair value movements. This is to enable a greater degree of profit to be reinvested in the business. After this period the current intention is to return to the general policy.

RISK FACTORS

There are a number of factors, specific to the Issuer, New Zealand Post and the New Zealand Post Group, and of a general nature, which may affect the future operating and financial performance of the New Zealand Post Group, the ability of the Issuer to make interest payments on the Notes and to redeem the Notes, the ability of New Zealand Post to make payments under the Guarantee, and the market value of the Notes.

Prospective investors should note that the risk factors set out below may not be exhaustive, and should consider these risk factors in conjunction with other information disclosed in this Prospectus. Each of the risks set out below could, if they eventuate, adversely affect the Issuer’s and New Zealand Post’s revenues, earnings or financial conditions and, as a result, the ability of the Issuer to meet its obligations under the Notes or the ability of New Zealand Post to meet its obligations under the Guarantee. Changes in variables affecting risk factors may offset each other to some extent or may be cumulative.

Prospective investors should carefully consider the factors in this section in order to appreciate the risks associated with an investment in the Notes. Prospective investors should carefully consider these factors in light of their personal circumstances and seek professional advice from their NZX Firm adviser, accountant, lawyer or other professional adviser before deciding whether to invest.

Insolvency

The principal risks for Holders are that:

- they may be unable to recover from the Issuer all or any of the Principal Amount of the Notes; or
- they may not receive timely, or any, interest payments on the Notes; or
- they are unable to recover from New Zealand Post amounts payable under the Guarantee.

These circumstances could arise if the Issuer or New Zealand Post or both become insolvent for any reason, or are placed into administration, receivership, liquidation or statutory management, or are otherwise not able to meet their obligations as they fall due.

As the Notes are unsecured, subordinated debt obligations of the Issuer, in the liquidation or winding up of the Issuer, Holders' rights to payment of any amounts owing under the Notes will rank after the claims of:

- persons to whom preferential payments must be made (including creditors of the Issuer preferred by law);
- secured creditors (if any); and
- unsubordinated creditors.

Claims of Holders will thereafter rank equally with all unsecured, subordinated creditors of the Issuer (other than creditors whose claims rank, or are intended or expressed to rank, subordinate to, the obligations of the Issuer under the Notes). As at the date of this Prospectus, there are no secured creditors of the Issuer whose claims rank senior to the Holders' rights to payment of any amounts owing under the Notes. The obligations of the Issuer under the guarantee in the Negative Pledge Deed will rank senior to the Holders' rights to payment of any amounts owing under the Notes.

Similarly, as the Guarantee is an unsecured, subordinated obligation of New Zealand Post, in the liquidation or winding up of New Zealand Post, Holders' rights to payment of any amounts owing under the Guarantee will rank after the claims of:

- persons to whom preferential payments must be made (including creditors of New Zealand Post preferred by law);

- secured creditors (if any); and
- unsubordinated creditors.

Claims of Holders under the Guarantee will thereafter rank equally with all unsecured, subordinated creditors of New Zealand Post (other than creditors whose claims rank, or are intended or expressed to rank, subordinate to the obligations of New Zealand Post under the Guarantee).

Under the Negative Pledge Deed, the Guarantor agrees that it will not create or permit to subsist any mortgage, charge or other security interest over any of its assets, other than certain permitted security interests described in more detail below under the heading *Negative Pledge Deed* on page 48.

The obligations of the Guarantor under:

- the guarantee in the Negative Pledge Deed;
- the Kiwibank Guarantee described on page 28; and
- the $175 million of senior bonds, the $200 million commercial paper facility (utilised as to $40 million as at 31 December 2008), supported by the $50 million undrawn bank facility with Bank of New Zealand, and the $7 million overdraft facility with Bank of New Zealand and the $100 million ECL facility with Commonwealth Bank of Australia, each as described under the heading *Capital structure* on page 28,

will rank senior to the Holders' rights to payment of any amounts owing under the Guarantee.

Holders will not in any circumstances be liable to pay money to any person as a result of the insolvency of the Issuer or New Zealand Post.

The factors that may contribute to an insolvency of the Issuer or New Zealand Post are set out below under the heading *Risks related to the industry and the business of the New Zealand Post Group* on page 32.

Risks specific to the Notes

Transfer risk

If a Holder transfers his or her Notes before they are redeemed the price at which they are able to sell their Notes may be less than the price paid for them. This is because changes in market interest rates and other factors can affect the market value of the Notes. For example, if market interest rates go up, the market value of the Notes may go down, and vice versa.

The price at which Holders are able to sell their Notes may also be affected by a deterioration, whether real or perceived, in the creditworthiness of the Issuer, New Zealand Post or the New Zealand Post Group, a lack of persons wishing to buy Notes, or the lack of an established market or demand for the Notes.

Market, liquidity and yield considerations

Depending on market conditions and other factors, investors seeking to sell relatively small or relatively large amounts of Notes may not be able to do so at prices comparable to those that may be available to other investors. Any secondary market for the Notes will also be affected by a number of other factors independent of the creditworthiness of the Issuer, New Zealand Post or the New Zealand Post Group. These factors may include the time remaining to the maturity of the Notes, the outstanding amount of the Notes, whether interest payments on the Notes have been deferred, the amount of such Notes being sold in the secondary market from time to time, any legal restrictions limiting demand for the Notes, the availability of comparable securities and the level, direction and volatility of market interest rates generally. Such factors will also affect the market value of the Notes.

No investor should purchase Notes unless the investor understands and is able to bear the risk that the Notes may not be readily saleable, that the value of Notes will fluctuate over time, and that such fluctuations may be significant and could result in significant losses to the investor. This is particularly the case for investors whose circumstances may not permit them to hold the Notes until maturity.

Deferral of interest payments

There is a risk that interest payments on the Notes will be deferred by the Issuer for a period of up to five years, as described under the heading *Deferral of interest* on page 8.

Redemption or resale prior to the Maturity Date

Although the Notes have a term of 30 years, the Issuer may choose to, or be required to, redeem the Notes early in certain circumstances.

The Issuer must redeem or procure the sale of the Notes in the circumstances outlined below under the heading *Mandatory Redemption by the Issuer* on page 9 and may elect to redeem the Notes in the circumstances outlined below under the heading *Optional Redemption by the Issuer* on page 10.

If the Issuer is entitled to or is required to redeem or resell any of the Notes, the method and date by which the Issuer elects or is required to do so may not accord with the preference of individual Holders. This may be disadvantageous in light of market conditions or a Holder's individual circumstances. Holders have no ability to request the Issuer to redeem their Notes, other than as described under the heading *Remarketing Process* on page 10.

Ability to vary the terms of the Notes

If a Successful Remarketing Process occurs, the Issuer may change certain terms of the Notes as described in more detail under the heading *Remarketing Process* on page 10.

These changes may not suit the needs or preferences of all Holders.

Credit Rating

The Guarantor of the Notes, New Zealand Post, has an issuer long term credit rating of AA-. This was first assigned by Standard & Poor's on 21 February 2001. The Notes are expected to be assigned an issue credit rating of A by Standard & Poor's on 12 March 2009. Ratings of BBB- and above are considered investment grade. Further detail on Standard & Poor's credit ratings is set out on page 4 of this Prospectus.

The rating of New Zealand Post and the Notes may change over time, depending on, amongst other things, the business, operational and financial performance of New Zealand Post and the wider New Zealand Post Group. The Interest Rate will not be adjusted for any such changes in the credit rating of New Zealand Post or the Notes.

The ratings are not a recommendation to buy, sell or hold the Notes and the ratings may be subject to revision or withdrawal at any time by Standard & Poor's. Any downward revision or withdrawal of the rating of the Notes or New Zealand Post may have an effect on the ability of investors to sell the Notes, and the market price of the Notes (and therefore the proceeds received from a sale of the Notes.

No limitation on issuing debt

The Issuer and New Zealand Post may from time to time issue additional notes or debt obligations which rank equally with, or ahead of, the Notes without the consent of Holders. Such securities may be issued on such terms as the Issuer or New Zealand Post, as the case may be, thinks fit.

The Issuer and New Zealand Post may also create mortgages, charges or other security interests over some or all of their assets, without the consent of Holders. Such security interests may be issued on such terms as the Issuer or New Zealand Post, as the case may be, thinks fit. Although the Issuer and New Zealand Post are not restricted from creating security interests over some or all of their assets under the Trust Deed, the Negative Pledge Deed restricts the circumstances in which the Issuer (when it accedes) or New Zealand Post may create security interests over their assets. The Notes do not receive the benefit of the covenants provided under the Negative Pledge Deed, the terms of which are described in more detail in the Prospectus.

Limited rights of Holders to enforce directly

Holders are not able to enforce their rights under the Trust Deed (including the Guarantee) directly against the Issuer or the Guarantor unless the Trustee fails to do so having become bound to enforce those rights in accordance with the Trust Deed. The terms of the Trust Deed are summarised in more detail on page 37.

Risks related to the industry and the business of the New Zealand Post Group

Dependence on New Zealand economy

New Zealand Post's results may be influenced by the level and cyclical nature of business activity in New Zealand. New Zealand business activity is impacted by both domestic and international economic and political events. A weakening in the New Zealand economy may have an adverse effect on New Zealand Post's operations and future results.

Dependence on the global economy

New Zealand Post's results may be influenced by the level and cyclical nature of business activity globally. This manifests itself through inbound and outbound letter and parcel volume from New Zealand, and also the activities of New Zealand Post and the wider New Zealand Post Group in its Australian and other offshore businesses.

Declining letter volumes and diversification strategy

New Zealand Post has recorded declining international and domestic letter volumes as a result of electronic substitution, increased direct competition and a decrease in economic activity. At the same time, New Zealand Post’s costs of running its mail network are increasing as the number of rural and urban delivery points continue to grow. These challenges are a key driver underlying New Zealand Post’s diversification strategy which has seen it invest in a range of subsidiaries and joint venture operations to diversify its revenue streams. There is a risk, however, that revenues and earnings derived from its postal services activities will continue to decrease as a result of the declining letter volumes and that this will not be offset by corresponding increases in revenues, and cost saving initiatives within the New Zealand Post Group. There is also a risk that the revenues and earnings from New Zealand Post’s diversification strategy are less than expected.

Regulatory risk and competitive environment

The New Zealand postal market is exposed to risks from new laws and regulations. In particular, it is possible that New Zealand Post and other postal and courier operators could be affected by regulatory change, changes to the Postal Services Act 1998 or other intervention. It is not possible to predict what form (if any) such future changes might take. Neither the Issuer nor New Zealand Post is aware of any current regulatory proposal that would have a material adverse effect on them.

New Zealand Post and the New Zealand Post Group operate in competitive environments. There can be no assurance that these competitive environments will not change, whether through competition, by intervention or otherwise, and as a result have a material adverse effect on performance.

Operational costs

Any increase in the New Zealand Post Group’s operational costs (in particular unforseen operational cost increases) may have a material adverse effect on earnings. For example, if fuel, energy or labour costs were to increase, Group expenditure would rise and earnings may decrease.

Information technology

New Zealand Post is reliant on the efficient and uninterrupted operation of its information technology systems and those of third parties. Any failure of these systems could adversely affect New Zealand Post's financial performance and operations.

Exchange rate risks

In the ordinary course of business New Zealand Post enters into transactions denominated in foreign currency and therefore is exposed to exchange rate risk. New Zealand Post takes out foreign exchange cover for foreign currency transactions in accordance with its treasury policy.

ECA earn-out and claw-back

Prior to the ECA joint venture being formed, NZP Australia Pty Limited ("**NZPA**"), a wholly owned subsidiary of New Zealand Post, owned the Couriers Please business. As part of forming the joint venture, ECA acquired NZPA.

The purchase price paid by ECA remains subject to an 'earn-out' and 'claw-back'. If Couriers Please achieves greater than A$6.7 million net profit before tax ("**NPBT**") for the year to 30 June 2009, an earn-out will apply (meaning ECA will be required to make a payment to New Zealand Post). If Couriers Please does not achieve greater than A$6.7 million NPBT for the year to 30 June 2009, a claw-back will apply (meaning New Zealand Post will be required to repay part of the purchase price received on the sale of NZPA). As at 31 December 2008, Couriers Please had achieved a NPBT result for the year to date which was on target to achieve a full year NPBT result of greater than A$6.7 million.

There remains a risk, however, that Couriers Please will not achieve NPBT of greater than A$6.7 million for the year to 30 June 2009 and that, as a result, New Zealand Post will be required to repay an amount under the 'claw-back'. The maximum 'claw-back' amount that New Zealand Post may be required to pay under the claw-back mechanism is A$25.75 million (including A$12.9 million total gain on sale recognised to date).

Risks relating to New Zealand Post's investment in Kiwibank

Kiwibank is a substantial investment by New Zealand Post.

To date New Zealand Post has contributed $275 million of capital to Kiwibank and is likely to be required to commit further capital. Kiwibank has not yet paid any dividends to New Zealand Post. In addition, New Zealand Post has guaranteed the obligations of Kiwibank under the Kiwibank Guarantee described under the heading *Capital structure* on page 28.

Kiwibank is exposed to a variety of risks associated with the business of banking, the most significant of which are credit risk, market risk, operational risk and liquidity risk. Failure to manage these risks could have an adverse effect on the financial performance, solvency and reputation of Kiwibank and consequentially New Zealand Post.

Credit risk

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of Kiwibank's businesses. Adverse changes in the credit quality of Kiwibank's borrowers and counterparties or a general deterioration in the economic conditions in New Zealand or globally, or arising from systemic risks in the financial systems, could affect the recoverability and value of its assets and require an increase in the allowance for impairment losses on credit exposures and other provisions of Kiwibank.

Market risk

The most significant market risks Kiwibank faces are interest rate, foreign exchange and bond price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the investment and trading portfolios of Kiwibank. Kiwibank has implemented risk management policies and procedures to mitigate and control these and other market risks to which it is exposed. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the financial performance and business operations of Kiwibank.

Operational risk

Kiwibank's business is dependent on its ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from theft, fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and business rules, equipment failures, natural disasters or the failure of external systems, for example, those of suppliers or counterparties. Although Kiwibank has in place risk controls and risk mitigation procedures, it is not possible to implement systems and procedures which eliminate all operational risks.

Liquidity risk

The inability of any bank, including Kiwibank, to anticipate and provide for unforeseen decreases or changes in funding sources could have consequences on such bank's ability to meet its obligations when they fall due.

Impact of regulatory changes

Kiwibank is subject to financial service laws, regulations, administrative actions and policies in the locations in which it operates. Changes in supervision and regulation could materially affect Kiwibank's business, the products and services offered or the value of its assets. Although Kiwibank works closely with the Reserve Bank of New Zealand and other regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of Kiwibank.

Competition in the banking industry

Kiwibank faces competition from both existing financial service providers and new entrants. Customers are able to choose from a number of providers in all of the areas of financial services provided by Kiwibank, including the residential lending market. Risks that may affect Kiwibank's ability to obtain new customers and retain existing customers, thereby affecting the profitability of Kiwibank, include, but are not limited to, the relative position of Kiwibank against its competitors in the:

- pricing and performance of products and services;
- convenience and ease of access to products and services;
- level and efficiency of service provided; and
- ability to develop new products and services to meet the changing needs of customers.

New Zealand taxation

Introduction

The returns on the Notes will be affected by taxes. If a law requires the Issuer (which for the purposes of this section of this Prospectus includes the Registrar acting on the Issuer's behalf) or the Guarantor to deduct an amount in respect of taxes from a payment to a Holder, or to pay an amount of any levy in respect of such a payment, then the Issuer or the Guarantor, as the case may be, will deduct the amount for the taxes or levies and pay it to the relevant authority. Neither the Issuer nor the Guarantor is obliged to gross-up, indemnify or otherwise compensate or pay any additional amounts to the Holder as a consequence of or otherwise in connection with such deduction.

The information set out below relates solely to New Zealand taxation and does not constitute taxation advice to any Holder. The information is believed by the Issuer and the Guarantor to be correct as at the date of this Prospectus. Taxation laws are subject to change, and such changes may materially affect your tax position with respect to an investment in the Notes. You should seek qualified, independent financial and taxation advice before deciding to invest. In particular, you should consult your tax adviser in relation to your specific circumstances.

All Holders (including those not resident in New Zealand for tax purposes) must give written notice to the Registrar (or, where applicable, to the custodian / nominee registered as the Holder in respect of Notes held on behalf of the beneficial owner) of their country of residence for taxation purposes and, if the Holder is not resident in New Zealand for tax purposes, whether the Holder is engaged in business in New Zealand through a branch or other fixed establishment in New Zealand. This requirement for written notice is satisfied for initial Holders where the relevant parts of the Application Form are completed by applicants.

New Zealand income tax implications: Financial Arrangements Holders

For Holders who are New Zealand tax resident or who are not New Zealand tax resident but are engaged in business in New Zealand through a fixed establishment in New Zealand and are acquiring Notes for the purpose of that business ("**Financial Arrangements Holders**"), the Notes will be financial arrangements that are subject to the "financial arrangements rules" in the Income Tax Act 2007. Interest paid to Financial Arrangements Holders under the Notes will be income that is taxable at the Holder's applicable tax rate (with a credit for resident withholding tax ("**RWT**") deducted - see below under the heading *Resident withholding tax: Resident Holders*).

The timing of that income for Financial Arrangements Holders will be governed by the financial arrangements rules. The financial arrangements rules may require that interest income be spread over the life of the Notes using a spreading method prescribed in the financial arrangements rules. Financial Arrangements Holders that are "cash basis persons" for the purposes of the financial arrangements rules (which should be most individuals) may not be required to apply the spreading methods but rather will be subject to tax on the interest in the year of receipt. Whether a Financial Arrangements Holder is a "cash basis person" will depend on their individual circumstances.

Corporate investors may also become eligible to be "cash basis persons" in the future if the current tax bill before Parliament is passed in its current form.

The financial arrangements rules may cause Financial Arrangements Holders to derive income on the transfer of Notes held by them. For example, if a gain is made on the transfer of Notes by Financial Arrangements Holders to whom the financial arrangements rules apply, the "base price adjustment" performed under the financial arrangements rules will bring the gain to account for New Zealand tax purposes and will cause that gain to be included in their income.

Financial Arrangements Holders should ascertain whether New Zealand's provisional tax rules apply to their individual situations.

Resident withholding tax: Resident Holders

For Holders who are Resident Holders (being Holders who are New Zealand tax resident or who are engaged in business in New Zealand through a fixed establishment in New Zealand), RWT will be deducted from the gross amount of interest paid or credited to them in accordance with the provisions of the Income Tax Act 2007. As at the date of this Prospectus, RWT of 19.5% will be deducted if the Holder's IRD number is supplied to the Registrar, unless the Holder elects for RWT to be deducted at a rate of 33% or 39% (although it should be noted that the 19.5% rate is not available to a corporate Resident Holder, unless the Holder is acting as a corporate trustee or is a Maori authority). Where the Resident Holder's IRD number is not supplied to the Issuer, RWT will be deducted at a rate of 39% (or such other maximum rate as specified in the Income Tax Act 2007) from all interest paid or credited to the Holder. From 1 April 2009 the Issuer may deduct RWT at a rate of 38% where a 39% rate would have applied prior to that date.

Given the personal tax rate changes that became effective on 1 October 2008 (and will continue to come into effect on 1 April 2009, 1 April 2010 and 1 April 2011), RWT rates may no longer align with individual Resident Holders' personal tax rates, or with the corporate tax rate of 30%. Depending on the Resident Holder's level of annual income, electing a RWT rate lower than the Holder's personal tax rate may result in a requirement to file a tax return (or the provision of an income statement by Inland Revenue), to account for the tax shortfall. Conversely, if a Resident Holder elects a RWT rate higher than the Holder's personal tax rate, a tax return may need to be filed in order to obtain the relevant tax refund. Investors are encouraged to seek tax advice in this respect by reference to their particular circumstances.

RWT will not be deducted where the Resident Holder provides a copy of a current RWT exemption certificate to the Registrar.

Approved issuer levy and non-resident withholding tax: Non-Resident Holders

The Issuer has registered, or will register, the Notes with Inland Revenue for the purposes of the approved issuer levy ("**AIL**") regime. Unless otherwise agreed, the Issuer will, where it is lawfully able, deduct AIL (currently 2% of amounts treated as interest) from payments made or credited to Holders who are not Resident Holders ("**Non-Resident Holders**") - i.e. Holders who are not New Zealand tax resident and do not engage in business in New Zealand through a fixed establishment in New Zealand.

Non-Resident Holders may request by written notice to the Registrar that AIL not be deducted from interest paid or credited in respect of their Notes, and that non-resident withholding tax ("**NRWT**") be deducted instead, at the rate required by law (as reduced by any applicable double tax agreement, where the Non-Resident Holder provides satisfactory evidence to the Registrar of entitlement to such reduced rate).

If the Non-Resident Holder derives interest under the Notes jointly with one or more New Zealand tax residents, NRWT must be deducted from the interest paid or credited to the Non-Resident Holder at the applicable RWT rate, as reduced by any applicable double tax agreement (with evidence as discussed above).

SUMMARY OF THE TRUST DEED

Introduction

The following is a summary of the principal provisions of the Trust Deed. Investors requiring further information should refer to the Trust Deed and the conditions of the Notes set out in Appendix A of this Prospectus (*Conditions of the Notes*). Holders are bound by, and are deemed to have notice of, the provisions of the Trust Deed. Defined terms used in this section of this Prospectus, which are not otherwise defined in this Prospectus, have the meanings given to them in the Trust Deed.

Trust Deed

The Notes will be constituted by, and issued pursuant to, the Trust Deed. The Trust Deed sets out the rights of Holders.

The Trust Deed is available for inspection at the places indicated under the heading *Places of inspection of documents* on page 50 of this Prospectus.

The Trustee and Holders

The Trustee is appointed under the Trust Deed to act as trustee for Holders.

The Trustee does not guarantee the payment of interest or principal on the Notes.

Ranking of the Notes

As the Notes are the unsecured, subordinated obligations of the Issuer, in the liquidation or winding up of the Issuer, Holders' rights to payment of any amounts owing under the Notes will rank after the claims of:

- persons to whom preferential payments must be made (including creditors of the Issuer preferred by law);
- secured creditors (if any); and
- unsubordinated creditors.

Claims of Holders will thereafter rank equally with all unsecured, subordinated creditors of the Issuer (other than creditors whose claims rank, or are intended or expressed to rank, subordinate to the obligations of the Issuer under the Notes).

As at the date of this Prospectus, there are no secured creditors of the Issuer whose claims rank senior to the Holders' rights to payment of any amount owing under the Notes. The obligations of the Issuer under the guarantee in the *Negative Pledge Deed* will rank senior to the Holders' rights to payment of any amounts owing under the Notes.

Guarantee

The obligations of the Issuer under the Notes are guaranteed on an unsecured, subordinated basis by New Zealand Post under the Trust Deed. Under the terms of the Guarantee, New Zealand Post unconditionally and irrevocably guarantees to Holders and the Trustee on an unsecured, subordinated basis, the due and punctual payment by the Issuer of the moneys payable on or in relation to the Notes as and when those moneys become due and payable in accordance with the Trust Deed, and the due observance and punctual performance of, and compliance by the Issuer with, its obligations under the Trust Deed, to Holders and the Trustee.

In the event that the Issuer defaults in the due and punctual payment of moneys payable on or in relation to the Notes to Holders or the Trustee, New Zealand Post has agreed, immediately upon demand by the Trustee (or Holders if the Trustee fails to enforce their rights when it becomes bound to do so), to pay all amounts then due and payable in respect of such moneys.

As the Guarantee is an unsecured, subordinated obligation of New Zealand Post, in the liquidation or winding up of New Zealand Post, Holders' rights to payment of any amounts owing under the Guarantee will rank after the claims of:

- persons to whom preferential payments must be made (including creditors of the Issuer preferred by law);
- secured creditors (if any); and
- unsubordinated creditors.

Claims of Holders under the Guarantee will thereafter rank equally with all unsecured, subordinated creditors of New Zealand Post (other than creditors whose claims rank, or are intended or expressed to rank, subordinate to the obligations of New Zealand Post under the Guarantee).

Under the Negative Pledge Deed, the Guarantor agrees that it will not will not create or permit to subsist any mortgage, charge or other security interest over any of its assets, other than certain permitted security interests described in more detail below under the heading *Negative Pledge Deed* on page 48.

The obligations of the Guarantor under:

- the guarantee in the Negative Pledge Deed;
- the Kiwibank Guarantee described on page 28; and
- the $175 million of senior bonds, the $40 million commercial paper facility, the $50 million undrawn bank facility with Bank of New Zealand, the $7 million overdraft facility with Bank of New Zealand and the $100 million ECL facility with Commonwealth Bank of Australia, each as described under the heading *Capital structure* on page 28 above,

will rank senior to the Holders' rights to payment of any amounts owing under the Guarantee.

Issue and form of the Notes

The Trust Deed does not create any security over the assets of the Issuer or New Zealand Post. Other than the guarantee provided by New Zealand Post, none of New Zealand Post's subsidiaries, the Joint Lead Managers, the Co-Managers or the Trustee, nor any of their respective directors, officers or employees, nor the Crown nor any other person, guarantees the payment of interest or any other amounts due under the Notes or the amount of returns which investors may receive as Holders of Notes.

Covenants

The Trust Deed contains a number of covenants by the Issuer and New Zealand Post.

The covenants of the Issuer under the Trust Deed include the following:

- to comply with and perform all material obligations under the Agency Agreement and use all reasonable endeavours to ensure that the Registrar also does so;
- to promptly notify the Trustee and Holders of the occurrence of any Event of Default;
- to promptly notify the Trustee if the Issuer intends not to, or fails to, make a payment on the Notes when due;
- to maintain a Registrar and give notice to Holders of any resignation or removal of the Registrar and appoint any replacement Registrar as soon as reasonably practicable following such event;
- use reasonable endeavours to ensure that the Notes are, upon their issue, quoted on NZDX and that such quotation is maintained; and

- send a copy to the Trustee of each notice given by it to Holders generally.

In addition, the Issuer and New Zealand Post each covenants:

- to obtain, effect and promptly renew from time to time all authorisations required under any applicable law to enable it to perform and comply fully with the Trust Deed or required on its part for the validity or enforceability of the Trust Deed;
- whenever so requested, give to the Trustee such information as may reasonably be required for the purposes of the discharge of the duties, trusts and powers vested in the Trustee under the Trust Deed or imposed upon it by law;
- at all times comply with the Securities Act, Securities Regulations, Companies Act 1993, Financial Reporting Act 1993, the Listing Rules and all other applicable laws; and
- to maintain its corporate existence and not amalgamate, merge or consolidate with any person unless the resulting or surviving entity assumes, to the satisfaction of the Trustee, its obligations under the Trust Deed and, in the case of the Issuer, under the Notes.

Breach of any of the above covenants does not constitute an Event of Default under the Trust Deed.

Financial covenants

New Zealand Post also covenants to provide to the Trustee:

- the audited annual financial statements of the Issuer and the audited annual financial statements of the New Zealand Post Group;
- the half yearly financial statements of the Issuer and the half yearly financial statements of the New Zealand Post Group; and
- with the annual and half yearly financial statements mentioned above, a report signed by two directors on behalf of the board of the Issuer as to various matters relating to the Issuer and the Notes, including details of any matter that has arisen relating to the Issuer which would adversely affect the ability of the Issuer to perform its obligations under the Trust Deed and the Notes, compliance by the Issuer with the provisions of the Trust Deed, details of all Notes that have been redeemed or purchased by the Issuer or New Zealand Post or any of its subsidiaries in the immediately preceding financial year or financial half year, due maintenance and audit of the Register for the Notes, confirmation that the Issuer is not in material default in the payment of any amounts to its senior creditors, a confirmation that the Issuer has remained solvent, and a confirmation of the aggregate amount of the Notes outstanding at the end of the financial year or half year (as the case may be).

Duties and powers of the Trustee

The principal duties of the Trustee under the Trust Deed in relation to Holders are summarised as follows:

- to enforce the provisions of the Trust Deed against the Issuer and/or New Zealand Post, as the case may be, and exercise the powers of enforcement available to it in respect of the Notes and apply all moneys received in accordance with the provisions of the Trust Deed;
- to receive regular financial and other reports provided to it by the Issuer; and
- to perform a number of functions relating to the ongoing administration of the Trust Deed, including in relation to the meetings of Holders, and the exercise of discretions or the giving or withholding of consents (as appropriate) relating to such administration and other matters out of the ordinary, such as making an application to the High Court of New Zealand under the Securities Act and agreeing to modifications of the Trust Deed, all upon the terms set out in the Trust Deed.

In addition, the Trustee has a statutory duty pursuant to the Securities Act and the Securities Regulations to exercise reasonable diligence to:

- ascertain whether or not there has been any breach of the terms of the Trust Deed or of the terms of any offer of the Notes and to do all it is empowered to do to cause any such breach of those terms to be remedied (except where the Trustee is satisfied that the breach will not materially prejudice the interests of Holders); and

- ascertain whether or not the assets of the Issuer that are or may be available, whether by way of security or otherwise, are sufficient or likely to be sufficient to discharge the amounts of the Notes as they become due.

The Trustee is entitled to be indemnified by the Issuer, on an unsubordinated basis, in respect of all liabilities and expenses incurred by it in the performance or exercise of any of the trusts, powers, authorities or discretions conferred on the Trustee by the Trust Deed and against all actions, proceedings, costs, losses, claims and demands in respect of any matter or thing done or omitted in any way relating to the Trust Deed other than liabilities, expenses, actions, proceedings, costs, losses, claims or demands arising out of fraud, gross negligence, wilful breach of trust or dishonesty on the part of the Trustee or breach of trust where the Trustee fails to show the degree of care and diligence required of the Trustee having regard to the powers, authorities and discretions conferred on the Trustee by the Trust Deed. These duties must be read in the context of the particular characteristics of the Notes and the terms of the Trust Deed, including the unsecured, subordinated, cumulative, interest-bearing features of the Notes and the limited Events of Default under the Trust Deed (as described on page 40). The Trustee's obligations under the Trust Deed shall, to the extent permitted by law, be limited accordingly.

The Trustee has absolute discretion as to the exercise of its powers in relation to the Notes. Under the Trust Deed, the Trustee may, amongst other things, in relation to the Notes:

- decline to take any action or exercise any power or discretion or comply with or implement any direction or request given in accordance with the Trust Deed, whether or not it is otherwise bound to so act unless and until the Trustee is first indemnified by Holders to its satisfaction against all actions, proceedings, claims and demands to which it may be rendered liable and all costs, charges, losses, damages and expenses which it may incur by so doing;

- represent and act on behalf of Holders in any matter affecting the interests of Holders;

- invest any moneys, at the discretion of the Trustee, in the name of the Trustee or its nominee in any investments it considers fit with power to vary or transpose such investments for others of a like nature and deal with or dispose of such investments, and all income from such investments will belong to the person in respect of whom such moneys are held by the Trustee;

- in the performance of its duties, act on, or decline to act on, certificates signed by two directors of the Issuer, the advice or opinion of professional advisers or any certificate or report provided to the Trustee under the Trust Deed; and

- require the Issuer to report to Holders on certain matters, convene meetings of Holders or otherwise seek directions from Holders or a court of New Zealand.

Events of Default

Under the Trust Deed, the Issuer is required to redeem all of the Notes on the Business Day following the day on which an Event of Default occurs. The Events of Default are:

- the Issuer fails to pay any deferred interest which has become due and payable (the Issuer may defer the payment of interest on the Notes for up to five years from the original due date for payment of that interest, as mentioned under the heading *Deferral of Interest* on page 8 of this Prospectus); or

- New Zealand Post breaches its obligations to ensure that, while any Unpaid Deferred Interest remains outstanding, it: (i) does not make any distributions to ordinary shareholders or holders of any other securities or payment obligations ranking junior to the Guarantee (whether by way of dividend, buy-back, redemption, cancellation, acquisition or otherwise); and (ii) ensures that, for any person that has issued securities which are guaranteed by New Zealand Post (where the claims of holders in respect of that guarantee ranks junior to the Guarantee of the Notes) and all or a substantial proportion of the proceeds of the issue are provided to New Zealand Post, that person shall not make any distributions to holders of those securities (whether by way of dividend, buy-back, redemption, cancellation, acquisition or otherwise);

- the Issuer fails to pay all amounts due and payable to a Retiring Holder on redemption of the Notes held by that Retiring Holder; and
- the Issuer or New Zealand Post is insolvent, is placed into liquidation or any analogous event occurs in respect of the Issuer or New Zealand Post or a secured party, trustee, receiver, receiver/and manager, administrator inspector under any companies or securities legislation, or similar official is appointed in respect of the Issuer or, as the case may be, New Zealand Post or the whole or any part of its assets.

No enforcement by Holders

Holders have no direct enforcement rights and may not bring proceedings directly against the Issuer or New Zealand Post for the enforcement of any of their rights or remedies under the Trust Deed, unless the Trustee has failed to enforce such rights or remedies within a reasonable period after having become bound to do so under the provisions of the Trust Deed.

Meetings

The Trust Deed contains provisions for meetings of Holders and the matters that may be determined by ordinary or Extraordinary Resolutions.

The Issuer must call a meeting of Holders, or a class of Holders, at the request in writing of Holders of at least 10% of the aggregate principal amount of the Notes. The Trustee may convene a meeting of Holders at any time.

An Extraordinary Resolution passed at a meeting of Holders or a class of Holders is binding on all Holders, whether or not they were present at such meeting.

Holders have the power exercisable by Extraordinary Resolution to agree, approve, authorise, ratify and sanction various acts, matters or things in relation to, or in connection with, the Trust Deed, the Notes and the exercise or performance by the Trustee of its powers, duties and discretions. For example, Holders may, by an Extraordinary Resolution:

- sanction, either unconditionally or conditionally, any proposal by the Issuer for any modification, abrogation, novation, variation of, or arrangement in respect of, the rights of Holders against it arising under the Trust Deed or the Notes (including the payment of the Note Moneys);
- to authorise any person or persons to concur in and execute all such documents and do all such acts and things as may be necessary to carry out and give effect to any Extraordinary Resolution;
- subject to section 62 of the Securities Act 1978, to discharge or exonerate any person from any liability in respect of any act or omission for which such person may have become responsible under the Trust Deed or the Notes;
- to request the removal of the Trustee and to approve the appointment of a new trustee;
- to appoint any persons (whether or not Holders) as a committee to represent the interest of Holders and to confer upon such committee any powers or discretions which the Holders could themselves exercise by Extraordinary Resolution;
- to direct or request the Trustee to take such action or do such things as the Trustee may lawfully do under the Trust Deed and to authorise the Trustee to deduct its costs and expenses from any

amount received by the Trustee on account of Holders, to the extent such additional authority may be required.

An Extraordinary Resolution is a resolution passed at a meeting of Holders at which at least 75% of Holders voting at the meeting, vote in favour of the resolution. A quorum for the purpose of passing an Extraordinary Resolution is two or more Holders (present in person or by representative) holding or representing at least 10% of the Principal Amount of the Notes. If a quorum is not present and the meeting is adjourned, a quorum at the adjourned meeting is two or more Holders present (in person or by representative).

Amendment of Trust Deed

The Trustee may agree with the Issuer and New Zealand Post to modify the Trust Deed or the Conditions:

(a) without the consent of Holders if, in the opinion of the Trustee:

   (i) it is made to correct a manifest error; or

   (ii) it is made to comply with law or the Listing Rules; or

   (iii) it is of a formal or technical nature; or

   (iv) it is convenient for the purpose of obtaining or maintaining any quotation of the Notes on the NZDX; or

   (v) it is not, and is not likely to become, materially prejudicial to the interest of Holders generally; or

(b) if it is authorised by an Extraordinary Resolution; or

Any such modification or addition will be binding on all Holders. No such modification or addition will be effective unless it is in writing and signed by the Issuer, New Zealand Post and the Trustee.

In addition, subject to any direction or request given by Holders, the Trustee may from time to time by notice in writing to the Issuer and New Zealand Post waive in part or in whole, for a specified period or completely, and on such terms and conditions (if any) as it deems expedient, any breach or anticipated breach by the Issuer and New Zealand Post of any of the provisions of the Trust Deed or the Conditions, provided the Trustee is satisfied that the interests of Holders will not be materially prejudiced as a result. Any such waiver will not affect the rights of the Trustee and Holders in respect of any other breach, but will be binding on all Holders.

Miscellaneous

The Trust Deed also contains detailed provisions relating to procedures for holding meetings of Holders, transfer and registration of Notes and various other matters.

Because the Notes are to be registered (rather than bearer) Notes, the Trustee and the Issuer are entitled to rely on the Register as the sole and conclusive record of the Notes held by a Holder, notwithstanding any discrepancy between the Register and any certificate issued in respect of any Notes. A certificate will not constitute a document of title and transfers must be effected using a registrable transfer form, by means of Austraclear settlement system or the FASTER system operated by NZX. A transfer will not take effect until the transferee is registered as the holder of the Note.

Neither the Trustee nor the Issuer is liable to the other or to any Holder for relying on the Register or for accepting in good faith as valid the details recorded on the Register if they are subsequently found to be forged, irregular or not authentic.

Trustees Executors

Level 5 10 Customhouse Quay PO Box 3222 DX SP20011
Wellington New Zealand
PHONE 04-495-0999 FAX 04 - 496-2952

12 March 2009

The Directors
New Zealand Post Group Finance Limited
New Zealand Post House
Level 12
7 Waterloo Quay
WELLINGTON

Dear Sirs

TRUSTEE'S STATEMENT

Clause 13(3) of the Second Schedule to the Securities Regulations 1983, requires us to confirm that the offer of unsecured, subordinated Notes (the Securities) set out in this Prospectus dated 12 March 2009 complies with any relevant provisions of the Trust Deed dated 12 March 2009. These provisions are those which:

(i) entitle New Zealand Post Group Finance Limited (the Issuer) to constitute and issue under the Trust Deed the Securities offered in this Prospectus; and

(ii) impose restrictions on the right of the Issuer to offer Securities;

and are described in the summary of the Trust Deed in this Prospectus.

Our statement does not refer to the information or other material in the Prospectus which does not relate to the Trust Deed.

The Trustee draws attention to the "Duties and powers of the Trustee" as detailed on pages 39 and 40 of this Prospectus.

We confirm that the offer of the Securities set out in the Prospectus complies with any relevant provisions of the Trust Deed. We have given this confirmation on the basis:

(a) set out above; and

(b) that the Trustee relies on the information supplied to it by the Issuer and New Zealand Post Limited as the guarantor of the Securities, pursuant to the Trust Deed and does not carry out an independent check of that information.

Trustees Executors Limited does not guarantee the repayment of the Securities or the payment of interest thereon.

Yours sincerely
Trustees Executors Limited

Sean Roberts
Business Manager
Corporate Trust

STATUTORY AND OTHER INFORMATION

The order of this section of the Prospectus follows the order of the Second Schedule to the Securities Regulations 1983.

1 Main terms of offer

The name of the Issuer is New Zealand Post Group Finance Limited. The Issuer's registered office is:

New Zealand Post Group Finance Limited
New Zealand Post House
Level 12, 7 Waterloo Quay
Wellington

Private Bag 39990
Wellington Mail Centre
Lower Hutt 5045

The Notes being offered by the Issuer under this Prospectus and the Investment Statement are direct, unsecured, subordinated, redeemable, cumulative, interest bearing debt obligations of the Issuer. The terms and conditions of the Notes are set out at Appendix A (*Conditions of the Notes*) and are summarised at pages 7 to 15 of this Prospectus.

As at the date of this Prospectus, Notes of an aggregate Principal Amount of up to $150 million, with the ability to accept over-subscriptions of up to $50 million (for a maximum amount of $200 million) are being offered by the Issuer.

The Notes are being offered at an Issue Price of $1 per Note. Applications to subscribe for Notes must be for a minimum principal amount of $5,000 (and in multiples of $1,000 thereafter) and payment of the total application amount in full must accompany the Application Form attached to the Investment Statement.

2 Details of incorporation of the Issuer

New Zealand Post Group Finance Limited was incorporated under the Companies Act 1993 on 27 February 2009. The registered number of the Issuer is 2214658.

The public file relating to the incorporation of New Zealand Post Group Finance Limited is kept at the Companies Office, Business and Registries Branch, Ministry of Economic Development, and can be accessed on the Companies Office website at www.companies.govt.nz (in the case of certain archived documents, on payment of a prescribed fee).

3 Guarantor

The obligations of the Issuer in relation to the Notes are guaranteed on an unsecured, subordinated basis by New Zealand Post Limited. New Zealand Post was incorporated under the Companies Act 1955 on 24 February 1987 and reregistered under the Companies Act 1993 on 1 October 1996. The registered number of New Zealand Post Limited is 315766.

No other member of the New Zealand Post Group guarantees the obligations of the Issuer in relation to the Notes. The terms of the Guarantee are described in more detail on page 37.

The Guarantee is an unlimited guarantee and is not secured by a mortgage, charge or other security interest over the assets of New Zealand Post.

The Issuer and New Zealand Post are associated persons, the Issuer being a wholly owned subsidiary of New Zealand Post.

The net tangible assets of New Zealand Post as shown in the audited statement of financial position for the year ended 30 June 2008, and excluding any assets which are also assets of the Issuer or any subsidiary of the Issuer, is $604 million.

Although New Zealand Post is a State Owned Enterprise the Crown does not guarantee the Notes or any of the obligations of the Issuer or New Zealand Post.

4 Directors and Advisers

The Directors of the Issuer are:

James Harold Ogden
BCA (Hons), FCA, FinstD, CMA, CFIP
Wellington

John Richard Allen
LLB
Wellington

Peter Martin Schuyt
BCom, CA
Wellington

Each of the Directors of the Issuer may be contacted at the following address:

New Zealand Post Group Finance Limited
New Zealand Post House
Level 12, 7 Waterloo Quay
Wellington

Private Bag 39990
Wellington Mail Centre
Lower Hutt 5045

No Director of the Issuer is also an employee of the Issuer or any subsidiary of the Issuer.

No Director of the Issuer has been declared bankrupt during the five years preceding the date of this Prospectus.

The Company Secretary of the Issuer is Malcolm Shaw.

Promoters

New Zealand Post and each of its Directors are "promoters" (as defined in the Securities Regulations) of the offer of the Notes. The Directors of New Zealand Post are:

Rt Hon James Brendan Bolger
ONZ, Hon D Lit
(Chairman)
Te Kuiti

Kenneth George Douglas
ONZ, Hon LLD, JP
(Deputy Chairman)
Wellington

Shale Chambers
LLB
Auckland

Philippa Jane Dunphy
BHort.Sci, CFA
Auckland

Professor Ralph Heberley Ngatata Love
PCNZM, QSO, JP, PhD, BCA (Hons), BCom
Wellington

Sara Maree Lunam
BA, PG DIP Regional and Resource Planning
Auckland

James Harold Ogden
BCA (Hons), FCA, FinstD, CMA, CFIP
Wellington

Hon Stanley Joseph Rodger
CMG, JP
Dunedin

Justine Gay Bronwyn Smyth
BCom, CA
Auckland

Each Director of New Zealand Post, or his or her agent authorised in writing, has signed this Prospectus.

The Chairman of New Zealand Post, the Rt Hon James Brendan Bolger, is also a director and chairman of Trustees Executors Limited.

The Trustee of the Notes is Trustees Executors Limited. The Trustee holds on trust for the benefit of Holders the right to enforce the Issuer's obligations under the Notes and the right to enforce the Guarantee against New Zealand Post. The Trustee does not guarantee the Notes.

The Trustee's address is:

Trustees Executors Limited
Level 5, 10 Customhouse Quay
PO Box 3222
Wellington 6140

The names and addresses of the Issuer's auditor, the securities registrar and any bankers, sharebrokers or solicitors who have been involved in the preparation of this Prospectus are set out in the section of this Prospectus entitled Directory on page 57.

5 Restrictions on directors' powers

The Companies Act 1993 contains a number of provisions which could have the effect, in certain circumstances, of restricting the powers of Directors. For example, the Directors must not allow the Issuer to enter into any major transaction (as that term is defined in the Companies Act 1993) without the prior approval of a special resolution of shareholders. These provisions are common to any company registered under the Companies Act 1993. The constitution of the Issuer does not impose any other modification, exceptions or limitations on the powers of the board of the directors of the Issuer.

6 Description of activities of borrowing group

The Issuer is the only member of the borrowing group. The Issuer was incorporated for the purpose of issuing the Notes and participating in the Offer. The Issuer has not commenced business, acquired an asset or incurred a liability prior to the date of this Prospectus. The Issuer will be required to accede to the Negative Pledge Deed and will incur liabilities, and give certain undertakings, under the Negative Pledge Deed, as summarised on page 48.

As at the date of this Prospectus, none of the assets of the Issuer, New Zealand Post or any other member of the New Zealand Post Group or any other person are charged as security for the Notes.

7 Summary of financial statements

Financial statements for the Issuer have not been prepared as the Issuer has not commenced business, acquired an asset or incurred a liability prior to the date of this Prospectus. As a result, there is no summary of the financial statements of the Issuer included, or referred to, in this Prospectus.

8 Acquisition of business or subsidiary

The Issuer has not acquired a business and no person has become a subsidiary of the Issuer in the two year period preceding the date of this Prospectus.

9 Material contracts

The Issuer has entered into the following material contracts, within the meaning of the Securities Regulations (not being contracts entered into in the ordinary course of business):

Trust Deed

The Issuer, New Zealand Post and Trustees Executors Limited entered into the Trust Deed dated 12 March 2009 pursuant to which the Trustee agrees to act as trustee for Holders in respect of the Notes. The terms of the Trust Deed are summarised at pages 37 to 42.

Replacement Capital Covenant Deed

It is New Zealand Post's intention that the Notes will constitute a permanent component of the capital structure of the New Zealand Post Group. Accordingly, the Issuer and New Zealand Post have entered into a Replacement Capital Covenant Deed dated 12 March 2009 with Trustees Executors Limited under which the Issuer has agreed for the benefit of the Senior Lenders that, if it elects to redeem all or some of the Notes, it will, except in certain specified circumstances (which are described in the paragraph below) redeem the Notes with proceeds raised through the issue:

i) by New Zealand Post of ordinary shares in accordance with the State Owned Enterprises Act 1986; or

ii) by New Zealand Post or another issuer of other securities having substantially the same terms and conditions regarding maturity, ranking, deferral, replacement provisions, purchase and redemption and credit support as the Notes,

which attract an amount of equity content from the Rating Agency that is not less than the equity content assigned to the Notes when issued. That issue of new ordinary shares or securities ("**Replacement Securities**") must be made within a period of six months prior to the Redemption Date of the Notes to be redeemed.

New Zealand Post will not be required to issue, or procure the issue, of the Replacement Securities if:

a) New Zealand Post has, at the time the Issuer intends to redeem the Notes, a credit rating of AA (Standard & Poor's) or higher;

b) the aggregate amount of senior indebtedness of the Issuer and New Zealand Post at that time is less than $50,000,000;

c) a Ratings Agency Event or a Tax Event has occurred; or

d) the majority of the Senior Lenders have agreed that it is not required.

In the circumstances contemplated by paragraphs (a) to (d) above, the Rating Agency may withdraw the amount of equity content assigned to the Notes but will reinstate that amount of equity content if the Issuer confirms that it will continue to be bound by the restrictions on the exercise of its redemption rights in the Replacement Capital Covenant Deed notwithstanding the existence of those circumstances.

Ratings Agency Event - means the receipt by New Zealand Post of advice from the Rating Agency that as a result of a change in Rating Agency criteria the Notes no longer meet the tests for receiving an Intermediate Equity Content (or higher) classification from the Rating Agency.

Tax Event - means the receipt by New Zealand Post of an opinion from a reputable legal counsel that, as a result of any amendment, clarification of or change in the laws, treaties or regulations affecting taxation in New Zealand or any political subdivision or taxing authority of New Zealand, or any relevant administrative action which is effective or is announced on or after the first Issue Date, there is more than an insubstantial risk that the Issuer would be exposed to more than a minimal increase in its costs in respect of the Notes or New Zealand Post would be exposed to more than a minimal increase in its costs in respect of the Guarantee.

Negative Pledge Deed

The Issuer will be required to enter into a deed entitled "Deed Joining New Guaranteeing Subsidiary" under which the Issuer becomes bound as a "Guaranteeing Company" under the Negative Pledge Deed. New Zealand Post and Datamail Limited are the other Guaranteeing Companies under the Negative Pledge Deed at the date of this Prospectus.

Under the Negative Pledge Deed, each Guaranteeing Company guarantees the indebtedness of each other Guaranteeing Company. The Guaranteeing Companies also make certain covenants in favour of the beneficiaries under the Negative Pledge Deed.

Holders do not receive the benefit of the Negative Pledge Deed and, as a result, cannot enforce compliance by the Issuer or New Zealand Post of their obligations under the Negative Pledge Deed. The obligations of the Issuer (when it accedes) and New Zealand Post under the Negative Pledge Deed will rank senior to the Issuer’s obligations under the Notes and New Zealand Post’s obligations under the Guarantee.

Each Guaranteeing Company unconditionally and irrevocably guarantees the indebtedness of each other Guaranteeing Company owing to the senior creditors in whose favour the guarantees and covenants under the Negative Pledge Deed are provided.

The Negative Pledge Deed includes covenants:

- by New Zealand Post that it will not, and will procure that each Guaranteeing Company does not, create or permit to subsist any mortgage, charge or other security interest over any of its assets, other than certain permitted security interests including security interests in respect of indebtedness of the Guaranteeing Companies provided that indebtedness does not exceed 5% of the total tangible assets of the Guaranteeing Group (being all of the Guaranteeing Companies);

- by each Guaranteeing Company that it will not dispose of its assets where that would have a material adverse effect on the Guaranteeing Group, other than in certain permitted circumstances; and

- by each Guaranteeing Company that it will not, without the approval of the lenders by extraordinary resolution, lend money, provide financial accommodation, provide a guarantee, indemnity or similar financial support, or grant a security interest in favour of a related company that is not a Guaranteeing Company.

Subordinated Loan Agreement

The Issuer and New Zealand Post entered into a loan agreement dated 12 March 2009 under which the Issuer will lend the proceeds of the Offer to New Zealand Post ("**Subordinated Loan**") for general corporate purposes of the New Zealand Post Group, including the repayment of maturing debt and to support the continued growth and development of the New Zealand Post Group.

That Subordinated Loan will be made available to New Zealand Post in a series of instalments at the times the Notes are issued during the Offer period. New Zealand Post will be required to pay interest under the Subordinated Loan Agreement at the same times and in the amounts that the Issuer is required to pay interest payments in relation to the Notes. New Zealand Post will also be required to repay the loans made under the Subordinated Loan Agreement at the times and in the amounts that the Issuer is required to repay to Holders on redemption of the Notes.

The Subordinated Loan is an unsecured, subordinated obligation of New Zealand Post.

Registry Agreement

The Issuer and Link Market Services Limited ("**Registrar**") entered into a registry customer agreement dated 12 March 2009 which sets out the terms on which the Registrar agrees to provide registry services to the Issuer.

Listing Agreement

The Issuer and NZX Limited ("**NZX**") entered into a listing agreement dated 12 March 2009 which sets out the terms on which the Issuer may be listed on the NZX and Notes quoted on the NZDX.

10 Pending proceedings

There are no legal proceedings or arbitrations pending at the date of registration of this Prospectus that may have a material adverse effect on the Issuer.

11 Issue expenses

Applicants pay no fees or charges to invest in the Notes.

Brokerage fees and charges are however likely to be payable on any subsequent transfer of any Notes effected through a broker or financial intermediary.

NZX Firms and approved financial intermediaries will be paid a brokerage fee of 0.75% of the Issue Price in respect of Notes allotted pursuant to each valid retail application submitted by that NZX Firm or financial intermediary bearing their stamp.

Approved participants in the Bookbuild will be paid a Firm fee of 0.50% of the Issue Price in respect of Notes allotted to pursuant to valid applications submitted under Firm Allocations.

Issue expenses, including brokerage, legal, accounting, audit, registry, printing, distribution and promotion expenses, the Arranger's and Joint Lead Managers' fees and other fees to be incurred in respect of the Notes offered under this Prospectus, and based on a Principal Amount of $150 million, are estimated to be approximately $3.4 million.

12 Ranking of securities

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank equally with each other, and the Guarantee constitutes direct, unsecured, subordinated obligations of New Zealand Post. The ranking of the Notes and the Guarantee is described in detail on pages 37 and 38.

As at the date of this Prospectus, there are no securities of the Issuer that were secured by a mortgage or charge over the assets of the Issuer.

13 Provisions of the Trust Deed and other restrictions on borrowing group

The Notes will be constituted by and issued pursuant to the Trust Deed dated 12 March 2009.
A summary of the principal provisions of the Trust Deed is set out on pages 37 to 42.

Trust Deed

Duties of the Trustee

The duties of the Trustee under the Trust Deed are summarised on pages 39 to 40 of this Prospectus. The Trust Deed does not impose limitations relating to:

- the creation of new mortgages or charges over the assets of the Issuer; or
- any ratio of liabilities, or of any class of liabilities, to assets or any class of assets, of the Issuer.

Trustee's statement

The statement required to be made by the Trustee pursuant to clause 13(3) of the Second Schedule to the Securities Regulations is set out on page 43 of this Prospectus.

14 Other terms of offer and securities

All the terms of the Notes and all of the terms of the offer of the Notes are set out in this Prospectus, except for those implied by law or set out in a document that is registered with a public official, available for public inspection and referred to in this Prospectus.

15 Financial statements

Financial statements for the Issuer have not been prepared as the Issuer has not commenced business, acquired an asset or incurred a liability prior to the date of this Prospectus. As a result, financial statements for the Issuer are not included, or referred to, in this Prospectus.

The audited financial statements for New Zealand Post and the New Zealand Post Group for the year ended 30 June 2008 are attached in Appendix B to this Prospectus. Summary financial information for New Zealand Post and the New Zealand Post Group also appears at pages 26 to 27 of this Prospectus.

33 Places of inspection of documents

The constitution of the Issuer, the Trust Deed and the material contracts referred to under the heading "Material Contracts" in this section of this Prospectus, as well as the annual financial statements for New Zealand Post and the New Zealand Post Group, are filed with the Companies Office, Business and Registries Branch, Ministry of Economic Development, and can be accessed on the Companies Office website at www.companies.govt.nz. Copies of the publicly-filed documents may also be obtained (in the case of certain archived documents, on payment of a prescribed fee) by telephoning the Companies Office Contact Centre on 0508 266 726, or inspected free of charge at the registered office of the Issuer during normal business hours.

34 Other material matters

There are no material matters relating to the offer of the Notes other than those set out in this Prospectus.

35 Directors' statement

As no financial statements for the Issuer have been prepared or included, or referred to, in this Prospectus, this requirement is not applicable.

36 Auditors' report

As no financial statements for the Issuer have been prepared or included, or referred to, in this Prospectus, the requirement to provide an auditor's opinion in clause 36 of the Second Schedule to the Securities Regulations is not applicable.

EXECUTION

This Prospectus has been signed by New Zealand Post Limited and by each Director of the Issuer and each Director of New Zealand Post or by their agent authorised in writing.

NEW ZEALAND POST LIMITED by:

Signature of director

Signature of director

Directors of New Zealand Post Group Finance Limited

James Harold Ogden

John Richard Allen

Peter Martin Schuyt

Directors of New Zealand Post Limited

James Brendan Bolger

Kenneth George Douglas

Ralph Heberley Ngatata Love

James Harold Ogden

Justine Gay Bronwyn Smyth

Shale Chambers

Philippa Jane Dunphy

Sara Maree Lunam

Stanley Joseph Rodger

INDEX FOR THE SECURITIES REGULATIONS 1983

For the purposes of Regulation 5(6) of the Securities Regulations 1983, the matters required to be stated or contained in or distributed with this Prospectus by virtue of the Second Schedule to the Regulations are:

GLOSSARY

Application Form means the application form attached to the Investment Statement.

Austraclear System means the securities clearing and settlement facility operated by the Reserve Bank of New Zealand and known as the Austraclear New Zealand System.

Benchmark Rate means, on a Reset Date, for the period from (and including) that Reset Date until (but excluding) the next Reset Date, the rate per annum expressed on a percentage yield basis, and rounded up to the nearest two decimal places, which is the average of the bid and offered swap rates displayed at or about 11am on the first day of the relevant period on page FISSWAP (or any successor page) of the Reuters monitor screen for an interest rate swap with a term equal to five years, or such other term as may be set by the Issuer for the relevant period as part of a Successful Remarketing Process.

Bookbuild means the process conducted by the Joint Lead Managers before the Opening Date in which clients of the Joint Lead Managers or the Co-Managers, institutional investors and other approved participants are invited to lodge bids on the Notes. On the basis of those bids, the Issuer and the Joint Lead Managers will determine the initial Margin, the initial Interest Rate and the Firm Allocations.

Business Day means any day (other than a Saturday or a Sunday) on which banks are generally open for business in Auckland and Wellington.

Closing Date means 22 April 2009 or such other date that the Issuer may determine.

Conditions means the terms and conditions of the Notes contained in Schedule 1 of the Trust Deed. The Conditions are also set out in full in Appendix A of this Prospectus.

Deferred Interest Payment means an interest payment which the Issuer has elected to defer. The Issuer may defer the payment of interest on the Notes for a period of up to five years, as summarised under the headings *Deferral of Interest* and *Distribution Stopper* on page 8.

DHL means Deutsche Post Beteiligungen Holding GMBH.

Dollars, NZ$** and **$ means the lawful currency of New Zealand.

Event of Default has the meaning given to that term in the Trust Deed, as summarised under the heading *Mandatory Redemption by the Issuer* on page 9.

Extraordinary Resolution is a resolution passed at a meeting of Holders at which at least 75% of Holders voting at the meeting, vote in favour of the resolution. A quorum for the purpose of passing an Extraordinary Resolution is two or more Holders (present in person or by representative) holding or representing at least 10% of the Principal Amount of the Notes. If a quorum is not present and the meeting is adjourned, a quorum at the adjourned meeting is two or more Holders present (in person or by representative).

Final Issue Date means 24 April 2009.

First Reset Date means 15 November 2014.

Holder means a person whose name is recorded in the Register as the holder of a Note.

Interest Payment Date means 15 May and 15 November in each year commencing 15 May 2009 until and including the Maturity Date, unless altered as a result of a Successful Remarketing Process.

Interest Rate means, in relation to a Note, the rate of interest per annum payable on the Principal Amount of that Note.

Intermediate Equity Content means Standard & Poor's has assigned an "intermediate" equity content to the Notes. Where such an equity credit content is assigned, Standard & Poor's will consider that the Notes comprise 50% debt and 50% equity when calculating its financial ratios for New Zealand Post.

Investment Statement means the investment statement for the Notes dated 12 March 2009.

Issue Date means, in relation to a Note, the date on which it is issued under the Trust Deed.

Issuer means New Zealand Post Group Finance Limited.

Margin means, until there is a Successful Remarketing Process, the margin determined by the Issuer in consultation with the Joint Lead Managers and announced by the Issuer on the Rate Set Date and, after a Successful Remarketing Process, the margin set by the Issuer as part of that process.

Maturity Date means 15 November 2039.

Negative Pledge Deed means the deed entitled Negative Pledge and Cross-Guarantees dated 24 March 1997 between New Zealand Post and each of the Initial Guaranteeing Subsidiaries listed in Schedule 1, to which the Issuer will accede.

New Zealand Post means New Zealand Post Limited.

New Zealand Post Group or **Group** means New Zealand Post Limited, each of its direct and indirect subsidiaries, its associates and its jointly controlled entities.

Notes means unsecured, subordinated, redeemable, cumulative, interest-bearing notes offered by the Issuer pursuant to this Prospectus and the Investment Statement.

NZDX means the market for debt securities operated by NZX.

NZX means NZX Limited.

Offer means the offer of Notes by the Issuer under this Prospectus and the Investment Statement.

Principal Amount means, in relation to a Note, the amount (other than interest) payable on redemption or resale of that Note, being the amount recorded as such in the Register in respect of that Note.

Rate Set Date means 22 April 2009 or such other date that the Issuer may determine following the Bookbuild upon which the Issuer will announce the initial Interest Rate and Margin.

Rating Agency means Standard & Poor's (Australia) Pty Limited or any successor thereto.

Ratings Agency Event, Regulatory Event and Tax Event each has the meaning given in the Trust Deed, as summarised under the heading *Optional redemption of the Issuer* on page 10.

Record Date means, in relation to a payment due on a Note, the 10th calendar day before the applicable Interest Payment Date, Redemption Date or Maturity Date, and, if that Record Date is not a Business Day, the preceding Business Day.

Redemption Date means, in respect of a Note, the date on which that Note is to be redeemed in accordance with clause 3 of the Conditions.

Register means the register of Notes maintained by the Registrar.

Remarketing Process means the process under which the Issuer may propose an alteration to the terms of the Notes, as described under the headings *Remarketing Process*, *Remarketing Choice Notices*, *Successful Remarketing Process* and *Mandatory Redemption following a Successful Remarketing Process* on pages 9 to 11.

Replacement Capital Covenant Deed means the deed between the Issuer, the Guarantor and Trustees Executors Limited dated 12 March 2009, the terms of which are summarised under the heading *Replacement Capital Covenant Deed* on page 47.

Reset Date means the First Reset Date and each fifth anniversary of the First Reset Date, or if a Successful Remarketing Process has occurred, such other date or dates (if any) as may be specified by the Issuer in the applicable Remarketing Process Invitation as the Reset Date or Reset Dates.

Retiring Holder means, following a Successful Remarketing Process, any Holder who has provided a *Redemption Notice* or a *Bid Notice* specifying a margin higher than the new Margin set as part of the Remarketing Process.

Senior Lender means each creditor that has made or committed to be made available to the Issuer or New Zealand Post, unsubordinated indebtedness (excluding exposures under treasury transactions prior to close out, indebtedness owing to a related party and trade indebtedness incurred in the ordinary course of business) in an aggregate amount in excess of $10 million.

Step-up Date means the Reset Date with effect from which the Step-up Margin applies.

Step-up Margin means the Margin plus the Step-up Percentage.

Step-up Percentage means 1.00% or such other rate as may be set by the Issuer as part of a Successful Remarketing Process.

Successful Remarketing Process means a Remarketing Process where the Issuer has received sufficient Hold Notices and Bid Notices in appropriate form and has set a new Margin in accordance with clause 4.4(a) of the Conditions.

Trust Deed means the trust deed between the Issuer, the Guarantor and the Trustee dated 12 March 2009 which sets out, among other things, the terms and conditions on which the Notes are issued.

DIRECTORY

Issuer

New Zealand Post Group Finance Limited
New Zealand Post House
Level 12, 7 Waterloo Quay
Wellington

Private Bag 39990
Wellington Mail Centre
Lower Hutt 5045

Arranger, Organising Participant and Joint Lead Manager

ABN AMRO Craigs Limited
ABN AMRO Craigs House
158 Cameron Road
PO Box 13 155
Tauranga 3141

Joint Lead Manager

First NZ Capital Securities Limited
Level 10, Fujitsu Tower
282-292 Lambton Quay
PO Box 3394
Wellington 6140

Co-Managers

ANZ, part of ANZ National Bank Limited
Level 7, 1 Victoria Street
PO Box 540
Wellington 6145

BNZ Capital, a division of Bank of New Zealand
Level 6, 125 Queen Street
PO 995
Auckland 1140

Forsyth Barr Limited
Level 21, Vodafone on the Quay
157 Lambton Quay
PO Box 5266
Wellington 6145

Registrar

Link Market Services Limited
Level 16, 19 Victoria Street
PO Box 91976
Auckland 1142

Trustee

Trustees Executors Limited
Level 5, 10 Customhouse Quay
PO Box 3222
Wellington 6140

Legal Advisers to the Issuer and New Zealand Post

Russell McVeagh
Vodafone on the Quay
157 Lambton Quay
PO Box 10214
Wellington 6011

Legal Advisers to the Trustee

Morrison Daly
45 Johnston Street
PO Box 10341
The Terrace
Wellington 6143

Auditor

The Auditor-General is the auditor of New Zealand Post and the New Zealand Post Group. The Auditor-General has appointed Karen Shires, with the assistance of PricewaterhouseCoopers, to carry out the audit of the financial statements of New Zealand Post and the New Zealand Post Group attached to this Prospectus.

PricewaterhouseCoopers
119 The Terrace
PO Box 243
Wellington 6140

APPENDIX A - CONDITIONS OF THE NOTES

CONDITIONS OF THE NOTES

1. DEED

1.1 **Deed binding**: The statements in these Conditions are subject to the provisions of the trust deed dated 12 March 2009 ("**Deed**") between New Zealand Post Group Finance Limited as issuer, New Zealand Post Limited as guarantor and Trustees Executors Limited as trustee.

1.2 **Notice of deed**: Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, the Deed.

1.3 **Interpretation**:

(a) Unless otherwise specified, a reference to a clause is a reference to a clause of these Conditions.

(b) Terms defined in the Deed have the same meanings in these Conditions.

1.4 **Definitions**: In these Conditions unless the context otherwise requires:

"**Accrued Interest**" has the meaning in clause 2.3.

"**Administrative Action**" means any judicial decision, official administrative pronouncement, published or private ruling, response to application for a ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt a procedure or regulation).

"**Appointed Person**" has the meaning in clause 4.8.

"**Austraclear System**" means the securities clearing and settlement facility operated by the Reserve Bank of New Zealand and known as the Austraclear New Zealand System and includes any securities clearing and/or settlement facility which replaces or supersedes it from time to time.

"**Authorised Officer**" means a person appointed by a party to act as an Authorised Officer for the purposes of these Conditions.

"**Benchmark Rate**" has the meaning given in clause 2.1.

"**Bid Notice**" has the meaning in clause 5.3.

"**Bookbuild**" means the process conducted by the Issuer or its agents prior to the opening of the Offer whereby certain investors and brokers lodge bids for Notes and, on the basis of those bids, the Issuer determines the Margin and the Interest Rate for the first Calculation Period, and announces its determination on the Rate Set Date.

"**Calculation Period**" means the period from (and including) a Reset Date (or the Issue Date in the case of the first Calculation Period) to (but excluding) the next Reset Date.

"**Deferred Interest Payment**" has the meaning in clause 2.2.

"**Event of Default**" means any of the following events:

(a) the Issuer fails to pay any Unpaid Interest on a Mandatory Unpaid Interest Payment Date in accordance with clause 2.4(b); or

(b) the Issuer fails to comply with clause 2.6; or

(c) the Issuer fails to comply with its payment obligations under clause 3.8 in respect of a Redemption of Notes required by clause 3.4; or

(d) an Insolvency Event occurs in respect of the Issuer or the Guarantor.

"**FASTER System**" means the Fully Automated Screen Trading and Electronic Registration system operated by NZX, or any system which replaces the FASTER System.

"**First Interest Payment Date**" means 15 May 2009.

"**First Reset Date**" means 15 November 2014.

"**Hold Notice**" has the meaning in clause 4.3.

"**Insolvency Event**" means, in relation to the Issuer or the Guarantor, any of the following events:

(a) the Commencement of Liquidation; or

(b) an encumbrancer takes possession or a trustee, receiver, receiver/and manager, administrator inspector under any companies or securities legislation, or similar official is appointed in respect of the Issuer or, as the case may be, the Guarantor or the whole or any part of its assets.

"**Interest Payment**" means an interest payment under clause 2.1 or, as the case may be, clause 2.8.

"**Interest Payment Date**" means, in relation to a Note:

(a) 15 May and 15 November each year commencing on the First Interest Payment Date until the Redemption Date of the Note; or

(b) if a Successful Remarketing Process has occurred, such other dates (if any) as may be specified by the Issuer in the applicable Re-marketing Process Invitation as the Interest Payment Dates.

"**Interest Period**" means, in relation to a Note, the period from (and including) an Interest Payment Date (or, in the case of the first Interest Period, the date on which subscription moneys of an initial subscriber are first banked into the trust account operated by the Issuer in connection with the Offer) until (but excluding) the next Interest Payment Date (or, if the Note is Redeemed on a date that is not an Interest Payment Date, the Redemption Date).

"**Interest Rate**" has the meaning in clause 2.1.

"**Intermediate Equity Content**" means an equity content of "intermediate" has been assigned by the Rating Agency.

"**Issue Date**" means, in relation to a Note, the date on which the Note is issued.

"**Issue Price**" means the sum of $1 in respect of each Note.

"**Issuer Notice**" has the meaning given in clause 3.5.

"**Issuer Notice of Resale**" has the meaning given in clause 4.5.

"**Mandatory Unpaid Interest Payment**" has the meaning in clause 2.4.

"**Mandatory Unpaid Interest Payment Date**" has the meaning in clause 2.4.

"**Margin**" has the meaning in clause 2.1.

"**Maturity Date**" means 15 November 2039.

"**Minimum Holding**" has the meaning in clause 6.3.

"**New Margin**" has the meaning given in clause 4.4.

"**Offer**" means the invitation made by the Issuer under the Offer Documents for prospective investors to apply for Notes.

"**Optional Unpaid Interest Payment**" has the meaning in clause 2.4.

"**Rate Set Date**" means the date following the Bookbuild and preceding the Offer on which the Issuer announces the Margin and the Interest Rate for the first Calculation Period.

"**Rating Agency**" means Standard & Poor's (Australia) Pty Limited or its successors.

"**Rating Agency Event**" means receipt by the Guarantor of advice from the Rating Agency that as a result of a change in Rating Agency criteria the Notes no longer meet the tests for receiving an Intermediate Equity Content (or higher) classification from the Rating Agency.

"**Record Date**" means, in relation to a payment, the date which is 10 calendar days before the due date for the payment and, if that date is not a Business Day, the preceding Business Day, or such other date as may be required by NZX.

"**Redemption**" means the redemption of a Note in accordance with clause 3.8, and "**Redeem**" and "**Redeemable**" have corresponding meanings.

"**Redemption Date**" means the date on which Redemption is to occur according to clause 3.1, 3.2, 3.3 or 3.4.

"**Redemption Notice**" has the meaning in clause 4.3.

"**Regulatory Event**" means the receipt by the Guarantor of an opinion from a reputable legal counsel that, as a result of:

(a) any amendment to, clarification of, or change (including any announced prospective change) in the laws or any regulations of New Zealand;

(b) any Administrative Action; or

(c) any amendment to, clarification of, or change in an Administrative Action that provides for a position that differs from the current generally accepted position,

in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change or Administrative Action is made known, which amendment, clarification, change or Administrative Action is effective or such pronouncement or decision is announced on or after the first Issue Date, there is more than an insubstantial risk that the Issuer would be exposed to more than a minimal increase in its costs in respect of Notes or the Guarantor would be exposed to more than a minimal increase in its costs in respect of the Guarantee.

"**Re-marketing Process**" means the process described in clause 4.

"**Re-marketing Process Invitation**" means an invitation given by the Issuer to Holders when initiating a Re-marketing Process.

"**Replacement Capital Covenant Deed**" means the deed dated on or about the date of the Deed between the Issuer, the Guarantor and the Trustee entitled "Replacement Capital Covenant Deed".

"**Resale**" has the meaning given in clause 4.5, and "**Resell**" and "**Resold**" have corresponding meanings.

"**Resale Date**" has the meaning given in clause 4.5.

"**Reset Date**" means:

(a) the First Reset Date; and

(b) either:

(i) each fifth anniversary of the First Reset Date; or

(ii) if a Successful Re-marketing Process has occurred, such other date or dates (if any) as may be specified by the Issuer in the applicable Re-marketing Process Invitation as the Reset Date or Reset Dates.

"**Retiring Holders**" means a Holder who, in a Re-marketing Process, provides a Redemption Notice or a Bid Notice specifying a margin higher than the resulting New Margin.

"**Step-up Date"** means the Reset Date with effect from which the Step-up Margin applies in accordance with clause 4.2.

"**Step-up Margin**" means the Margin which prevailed immediately before the Step-up Date plus the Step-up Percentage.

"**Step-up Percentage**" means:

(a) 1.00%; or

(b) if a Successful Re-marketing Process has occurred prior to the Step-up Date, such other percentage (if any) as may be specified by the Issuer in the applicable Re-marketing Process Invitation as the Step-up Percentage.

"**Successful Re-marketing Process**" means the Re-marketing Process which results in a New Margin being set by the Issuer pursuant to clause 4.4(a)(i).

"**Tax Event**" means the receipt by the Guarantor of an opinion from a reputable legal counsel or other tax adviser that, as a result of:

(a) any amendment to, clarification of, or change (including any announced prospective change) in the laws, treaties, or any regulations affecting taxation of New Zealand or any political subdivision or taxing authority of New Zealand;

(b) any Administrative Action; or

(c) any amendment to, clarification of, or change in an Administrative Action that provides for a position that differs from the current generally accepted position,

in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change or Administrative Action is made known, which amendment, clarification, change or Administrative Action is effective or such pronouncement or decision is announced on or after the first Issue Date there is more than an insubstantial risk that the Issuer would be exposed to more than a minimal increase in its costs in respect of the Notes or the Guarantor would be exposed to more than a minimal increase in its costs in respect of the Guarantee.

"**Unpaid Interest**" has the meaning given in clause 2.3.

2. INTEREST PAYMENTS

2.1 **Interest Payments**: Subject to clauses 2.2 and 2.8, each Note entitles the Holder on a Record Date to receive in respect of an Interest Period an interest payment calculated according to the following formula:

$$\text{Interest Payment} = \frac{\text{Interest Rate x Issue Price}}{\text{N}}$$

where:

"**N**" = 2 or, if a Successful Re-marketing Process has occurred, such other number (if any) as may be specified by the Issuer in the applicable Re-marketing Process Invitation.

"Interest Rate" (expressed as a percentage per annum):

(a) for each Interest Period during the first Calculation Period, means the initial Interest Rate as announced by the Issuer on the Rate Set Date; and

(b) for each Interest Period during any subsequent Calculation Period, is calculated according to the following formula:

Interest Rate = Benchmark Rate + Margin.

where:

"Benchmark Rate" (expressed as a percentage per annum) means, for an Interest Period during a Calculation Period, the rate per annum expressed on a percentage yield basis, and rounded up to the nearest two decimal places, which is the average of the bid and offered swap rates displayed at or about 11am on the first day of the Calculation

Period on page FISSWAP (or any successor page) of the Reuters monitor screen for an interest rate swap with:

(a) a term equal to five years; or

(b) if a Successful Re-marketing Process has occurred prior to the commencement of the Calculation Period, such other term (if any) as may be specified by the Issuer to be the term of the Calculation Period,

or if there is a manifest error in the calculation of that average rate or that average rate is not displayed by 11am on that date, the rate specified in good faith by the Issuer at or around that time on that date having regard, to the extent possible, to the rates otherwise bid and offered for interest swaps of that term displayed on any Reuters page on that date.

"Margin" (expressed as a percentage per annum) means in respect of each Interest Period:

(a) during the first Calculation Period, the margin determined by the Issuer following the Bookbuild and announced on the Rate Set Date;

(b) during a Calculation Period which follows a Successful Re-marketing Process, the New Margin; and

(c) during a Calculation Period which does not immediately follow a Successful Re-marketing Process (other than the first Calculation Period), the Step-up Margin.

A Holder is not entitled to an Interest Payment in respect of an Interest Period until the relevant date specified in clause 2.7, and then only subject to clause 2.2.

2.2 **Deferral of Interest Payments**: An Interest Payment will not be made on its Interest Payment Date if the Board of the Issuer, at its discretion, declares that the Interest Payment is to be deferred ("**Deferred Interest Payment**"). This clause 2.2 does not apply to an Interest Payment scheduled to be made on a Redemption Date.

2.3 **Accrual of interest on Deferred Interest Payments**: If an Interest Payment has been deferred in accordance with clause 2.2, that Deferred Interest Payment shall itself accrue interest at a rate equal to the prevailing Interest Rate from (and including) the Interest Payment Date on which that Interest Payment was deferred ("**Deferral Date**") until (but excluding) the day on which that Deferred Interest Payment together with all accrued interest on that Deferred Interest Payment ("**Accrued Interest**", and together with the Deferred Interest Payment, "**Unpaid Interest**") is paid in full in accordance with clause 2.4. Accrued interest will be calculated on a daily basis and compound on each Interest Payment Date.

2.4 **Deferred interest is cumulative**: If an Interest Payment has been deferred in accordance with clause 2.2, the Issuer:

(a) may, in its absolute discretion, on a date which is notified to Holders (which date must be at least 10 Business Days before the payment), pay all or part of the Unpaid Interest relating to that Deferred Interest Payment ("**Optional Unpaid Interest Payment**"); and

(b) shall, if any Unpaid Interest has not been paid in full by the Issuer in accordance with clause 2.4(a) or clause 3.8(b) by the fifth anniversary of the relevant Deferral Date ("**Mandatory Unpaid Interest Payment Date**"), pay all Unpaid Interest on the Mandatory Unpaid Interest Payment Date ("**Mandatory Unpaid Interest Payment**"),

in each case to those persons registered as Holders on the Record Date in respect of that Optional Unpaid Interest Payment or Mandatory Unpaid Interest Payment as the case may be.

2.5 **No default**: The deferral of an Interest Payment under clause 2.2 will not constitute a default by the Issuer for any purpose.

2.6 **Restrictions in the case of deferral**: For as long as any Unpaid Interest remains outstanding, unless the approval of an Extraordinary Resolution has been obtained, the Guarantor:

(a) shall not:

(i) declare or otherwise determine to pay, or pay, any interest or a dividend or make any distribution or other payment in respect of any securities issued, or payment obligations incurred, by the Guarantor, that rank junior to the Guarantee; or

(ii) redeem, repay, reduce, cancel, buy-back or acquire for any consideration any such securities or payment obligations that rank junior to the Guarantee; and

(b) shall procure that, if:

(i) the Guarantor has guaranteed the obligations of an issuer of securities;

(ii) all or a substantial proportion of the proceeds of the issue of those securities have been provided to the Guarantor; and

(iii) the claims of the holders of the guarantee rank junior to the Guarantee,

the issuer will not:

(i) declare or otherwise determine to pay, or pay, any interest or a dividend or make any distribution in respect of those securities; or

(ii) redeem, reduce, cancel, buy-back or acquire for any consideration any of those securities.

2.7 **Interest Payment Dates**: Interest Payments (other than Deferred Interest Payments) will be payable on:

(a) each Interest Payment Date; and

(b) (if the Redemption Date is not an Interest Payment Date) the Redemption Date in respect of any Notes to be Redeemed on that date.

2.8 **First and last Interest Payments**: The interest payment made on:

(a) the First Interest Payment Date in respect of each Note shall be:

(i) calculated according to the following formula:

$$\text{Interest Payment} = \frac{\text{Interest Rate x Issue Price x N}}{365}$$

where "**N**" means, in respect of a Note, the number of days from (and including) the date on which the subscription moneys of an initial subscriber are banked into the trust account operated by the Issuer in connection with the Offer to (but excluding) the First Interest Payment Date; and

(ii) paid to the first subscriber for the Note, irrespective of any transfer of the Note before the First Interest Payment Date. If the first Interest Payment is deferred, any Optional Unpaid Interest Payment or Mandatory Interest Payment relating to that Interest Payment made in accordance with clause 2.4 shall be paid to the first subscriber for the Note in respect of which it is paid; and

(b) the Redemption Date of a Note which is not also an Interest Payment Date shall be calculated according to the following formula:

$$\text{Interest Payment} = \frac{\text{Interest Rate x Issue Price x N}}{365}$$

where "**N**" means, in respect of a Note, the number of days from (and including) the immediately preceding Interest Payment Date to (but excluding) the Redemption Date for that Note.

3. REDEMPTION

3.1 **Redemption at Maturity**: The Issuer shall Redeem all Notes on the Maturity Date.

3.2 **Redemption on Default**: Upon the occurrence of an Event of Default, whether or not within the control of the Issuer or, as the case may be, the Guarantor, the Notes will become immediately due and payable and the Issuer shall Redeem the Notes on the next Business Day following the Event of Default.

3.3 **Redemption at election of Issuer**: The Issuer may elect to Redeem:

(a) all or some Notes on a Reset Date;

(b) all or some Notes on any Interest Payment Date if the Step-up Margin applies on the Interest Payment Date;

(c) all (but not some only) Notes at any time, if a Regulatory Event, a Tax Event, or a Rating Agency Event has occurred; or

(d) all (but not some only) Notes at any time, if there are less than 50,000,000 Notes on issue, provided that the Issuer shall only elect to Redeem Notes in accordance with this clause 3.3 if the Redemption will not result in the Issuer or the Guarantor breaching their covenants under the Replacement Capital Covenant Deed.

3.4 **Redemption of Notes held by Retiring Holders**: Subject to clause 4.5, where a New Margin is set in accordance with clause 4.4(a)(i), the Issuer shall Redeem all Notes held by Retiring Holders on the Reset Date from which the New Margin will apply.

3.5 **Issuer Notice**: To elect to Redeem under clause 3.3 or when required to Redeem under clause 3.4, the Issuer must give a notice ("**Issuer Notice**") according to this clause 3.5. The Issuer Notice must:

(a) in the case of a Redemption under clause 3.3(a) or clause 3.3(b), be given no less than 35 Business Days (but no more than three months) before the relevant Reset Date or Interest Payment Date, and state the relevant Reset Date or Interest Payment Date as the Redemption Date;

(b) in the case of any other Redemption under clause 3.3, state as the Redemption Date the 15th day of the month following the month in which the Issuer Notice was given unless the Issuer determines an earlier date having regard to the best interests of Holders (collectively) and the relevant event;

(c) in the case of a Redemption under clause 3.4, be given within five Business Days after the last date for receipt of responses from Holders to a Re-marketing Process Invitation in accordance with clause 4.3, and state the applicable Reset Date as the Redemption Date; and

(d) if less than all Notes are being Redeemed, state the proportion of Notes to be Redeemed for each Holder.

3.6 **Partial Redemption**: If some but not all Notes are Redeemed, the Issuer must, in each case, endeavour to treat all Holders on an approximately proportionate basis but may adjust to take account of the effect on marketable parcels and other logistical considerations.

3.7 **Effect of Issuer Notice**: An Issuer Notice is irrevocable and, once given, constitutes a promise by the Issuer to Redeem the Notes as stated in that notice.

3.8 **Payment on Redemption**: If Notes are to be redeemed, on the Redemption Date, the Issuer must pay to the Holder in respect of each Note which is Redeemed the sum of:

(a) the Issue Price;

(b) any Unpaid Interest on that Note; and

(c) any Interest Payment scheduled to be paid on that date in accordance with clause 2.7.

4. RE-MARKETING PROVISIONS

4.1 **Notification of Re-marketing Process**: No earlier than six months and not later than 30 Business Days before a Reset Date, the Issuer may issue a Re-marketing Process Invitation that will include the terms, if any, of the Notes that will be adjusted with effect from the Reset Date if a Successful Re-marketing Process occurs. Those terms that may be adjusted are:

(a) the Benchmark Rate;

(b) the Step-up Percentage;

(c) the Margin (which may only be adjusted in accordance with clause 4.4);

(d) the frequency and timing of Interest Payment Dates;

(e) the timing of the next Reset Date (which must coincide with the beginning of an Interest Period); and

(f) the notice periods required under clause 3.5 or clause 4.3, having regard to the changes specified in the Re-marketing Process Invitation in respect of clause 4.1(d) or (e).

4.2 **Step-up Margin to apply**: If the Issuer does not issue a Re-marketing Process Invitation within the period before a Reset Date prescribed by clause 4.1, the Step-up Margin will apply with effect from the Reset Date and no other terms will be adjusted.

4.3 **Holder participation in Re-marketing Process**: Each Holder may, within 20 Business Days of the issue of a Re-marketing Process Invitation or such longer time period (ending not less than 25 Business Days before the Reset Date) which the Issuer nominates, give one of the following types of written notice to the Issuer:

(a) a "**Redemption Notice**" indicating that the Holder does not wish to continue to hold Notes if a New Margin is set by the Issuer in accordance with clause 4.4(a)(i);

(b) a "**Bid Notice**" indicating that the Holder does not wish to continue to hold Notes unless the New Margin is at least equal to a rate specified by the Holder (which must be less than the Step-up Margin) with effect from the Reset Date; or

(c) a "**Hold Notice**" indicating that the Holder wishes to continue to hold Notes irrespective of the Margin which applies with effect from the Reset Date.

If a Holder does not respond within 20 Business Days, or the longer time period nominated by the Issuer, the Holder is deemed to have given a Hold Notice.

4.4 **Result of Re-marketing Process**:

(a) If the Issuer issues a Re-marketing Process Invitation before a Reset Date in accordance with clause 4.1, it may, at its election, within five Business Days after the last date for receipt of responses from Holders:

(i) set a new margin ("**New Margin**") which, together with the other revised terms referred to in clause 4.1 (if any), will apply to the Notes with effect from the Reset Date; or

(ii) not set a New Margin.

(b) The Issuer may set a New Margin under clause 4.4(a)(i) only where Holders gave:

(i) Bid Notices under clause 4.3(b) specifying a margin equal to or less than the New Margin; or

(ii) Hold Notices under clause 4.3(c) (and for the purposes of this clause 4.4(b), a deemed Hold Notice must not be counted),

and notices under (i) and (ii) were cumulatively in respect of at least 25% of Notes on issue at the time the Re-marketing Process Invitation was issued.

(c) If clause 4.4(a)(ii) applies, the Step-up Margin will apply to any Notes which remain on issue with effect from the Reset Date and no other terms will be adjusted.

(d) The Issuer will confirm to the Trustee promptly, and no later than 5 Business Days:

(i) after making its election under clause 4.4(a), of the election made by the Issuer; or

(ii) after it applies, if clause 4.4(a)(ii) applies.

4.5 **Issuer Notice of Resale**: Where clause 3.4 applies, instead of Redeeming Notes in accordance with that clause, the Issuer may, subject to compliance with all applicable laws, give a notice ("**Issuer Notice of Resale**") which states that it will sell or procure the sale of Notes ("**Resale**") the subject of that notice to a third party for an amount such that the net proceeds of sale are at least equal to the amount which would have been paid on Redemption of Notes (determined as if Notes were being Redeemed on the date which would otherwise have been the Redemption Date) ("**Resale Date**") and remit the net proceeds to the Holder on the Resale Date.

4.6 **Redemption if Notes not Resold**: If the Issuer elects to Resell and Notes are not Resold on or before the Resale Date, the Notes must be Redeemed on the Resale Date. In this case, the Issuer Notice of Resale will be taken to be an Issuer Notice given in accordance with clause 3.5(c) stating the Issuer will Redeem the Notes on the Resale Date.

4.7 **Holder agreement to Resale**: If the Issuer elects to procure Resale under clause 4.5, each Holder is irrevocably taken to offer to sell the Notes the subject of that notice to the relevant third party.

4.8 **Power of attorney**: Each Holder irrevocably appoints the Issuer and its Authorised Officers (each an "**Appointed Person**") severally to be the attorney of the Holder and the agent of the Holder with power in the name and on behalf of the Holder to do all such acts and things including signing all documents or transfers as may in the opinion of the Appointed Person be necessary or desirable to be done in order to record or perfect the transfer of the Notes held by the Holder when required according to clause 4.5.

5. PAYMENTS AND OTHER MATTERS

5.1 **New Zealand Dollars**: All payments to be made by the Issuer under the Deed and these Conditions will be made in New Zealand Dollars.

5.2 **Calculation of Interest Payments**: All calculations of payments will be rounded to four decimal places. For the purposes of making any payment in respect of a Holder's aggregate holding of Notes, any fraction of a cent will be disregarded.

5.3 **No set-off**: The Holder has no right to set-off any amounts owing by the Holder to the Issuer against any amount owing by the Issuer.

5.4 **Time limit for claims**: A claim against the Issuer for payment according to these Conditions is void unless made within five years of the due date for payment.

5.5 **Manner of payment to Holders**: Monies payable by the Issuer or the Trustee to a Holder may be paid in any manner the Issuer or Trustee (as the case may be) decides, including:

(a) by any method of direct credit determined by the Issuer or Trustee (as the case may be) to the Holder or Holders shown on the Register or to such person or place directed by them;

(b) by cheque sent through the post directed to the physical or postal address of the Holder as shown in the Register or, in the case of joint Holders, to the physical or postal address notified to the Registrar for receipt of such monies (and in default of notification, to the physical or postal address shown in the Register as the address of the joint Holder first named in that Register); or

(c) by cheque sent through the post directed to such other physical or postal address as the Holder or joint Holders in writing direct.

5.6 **Unpresented cheques**: Cheques issued by the Issuer that are not presented within six months of being issued or such lesser period as determined by the Issuer may be cancelled. Where a cheque which is cancelled was drawn in favour of a Holder, the monies are to be held by the Issuer for the Holder as a non-interest bearing deposit or paid by the Issuer according to the legislation relating to unclaimed monies.

5.7 **Unsuccessful transfers**: Subject to applicable law and the Listing Rules, where the Issuer or Trustee:

(a) decides that an amount is to be paid to a Holder by a method of direct credit and the Holder has not given a direction as to where amounts are to be paid by that method;

(b) attempts to pay an amount to a Holder by direct credit, electronic transfer of funds or any other means and the transfer is unsuccessful; or

(c) has made reasonable efforts to locate a Holder but is unable to do so,

the amount is to be held by the Issuer for the Holder as a non-interest bearing deposit until the Holder or any legal personal representative of the Holder claims the amount or the Issuer is otherwise entitled to deal with the money by applicable law.

5.8 **Payment to Joint Holders**: A payment to any one of joint Holders will discharge the Issuer's liability in respect of the payment.

5.9 **Cessation of Rights**: Upon Redemption and payment of all amounts due in respect of a Note on the Redemption Date, all other rights conferred, or restrictions imposed, by that Note will no longer have effect.

6. ISSUE AND TRANSFER

6.1 **Effect of entries in Register**: Each entry in the Register in respect of a Note constitutes:

(a) an unconditional and irrevocable undertaking by the Issuer to the Holder to make all payments of principal and interest in respect of that Note according to these Conditions; and

(b) an entitlement to the other benefits given to the Holder under these Conditions in respect of that Note.

6.2 **Certificates**: At the request of a Holder, or otherwise as required by the Securities Act 1978 or any other applicable law, the Issuer shall procure the Registrar to issue to that Holder a certificate or notice of registration in relation to the Notes held by that Holder, such certificate or notice to be in the form agreed between the Issuer and the Registrar, or, in respect of any Listed Notes, a Statement complying with the Listing Rules (if applicable). A certificate, notice of registration or Statement issued in respect of a Note will not constitute a document of title. Entitlement will be determined solely by entry in the Register and, in the case of the beneficial interest in Notes lodged in Austraclear, the records of Austraclear.

6.3 **Transfers**: Notes may be transferred in minimum aggregate Principal Amounts of $1,000 or such lesser amount as the Issuer may from time to time permit subject to this clause 6 ("**Minimum Transfer Amount**"), provided that, following any such transfer, the transferor and the transferee each holds Notes with a minimum aggregate Principal Amount of $5,000 ("**Minimum Holding**"). A registered bank under the Reserve Bank of New Zealand Act 1989 or a Primary Market Participant (as defined in the NZX Listing Rules), may transfer Notes at any time with a Principal Amount less than the Minimum Transfer Amount.

6.4 **Form of Transfer**:

(a) Subject to these Conditions and the Deed, a Holder may transfer any Note held by the Holder by:

(i) **Written instrument**: a written instrument of transfer in the usual or common form signed by the transferor and the transferee; or

(ii) **FASTER System**: means of the FASTER System; or

(iii) **Austraclear System**: means of the Austraclear System; or

(iv) **Other method**: any other method of transfer of marketable securities which is not contrary to any law and which may be operated in accordance with the Listing Rules, and which is approved by the Issuer and the Registrar and delivered to the office of the Registrar.

(b) Each instrument of transfer must be accompanied by:

(i) any other evidence (including legal opinions) that the Issuer or the Registrar reasonably requires to prove:

(A) the title of the transferor; or

(B) the transferor's right to transfer the Notes; or

(C) the identity of the transferor and/or the transferee; and

(ii) if the form of the transfer is executed by some other person on behalf of the transferor or, in the case of the execution of the form of transfer on behalf of a corporation by its officers, the authority of that person to so execute that transfer.

6.5 **Registration process**:

(a) Subject to clause 6.5(b), neither the Issuer nor the Registrar shall charge a fee to any Holder for:

(i) registering transfers of Notes; or

(ii) splitting Statements in relation to Notes; or

(iii) issuing Statements (where bound to do so) and transmission receipts in relation to Notes; or

(iv) using holder or FASTER identification numbers in relation to Holders; or

(v) noting transfer forms in relation to Notes.

(b) The Issuer and the Registrar may:

(i) charge a fee where Statements are issued to replace a lost or destroyed Statement; and

(ii) require the payment of any taxes and other governmental charges payable as a result of the registration of any holding of Notes or the transfer of Notes.

(c) Neither the Issuer nor the Registrar will refuse to register or fail to register or give effect to a transfer of Notes except as permitted by the Deed and these Conditions, any applicable law or the Listing Rules.

(d) Subject to clause 6.6, a transfer of a Listed Note will be effected by the Registrar within the time prescribed by the Listing Rules.

6.6 **Refusal to register transfers**: The Issuer may direct the Registrar to refuse to register any transfer of Notes where these Conditions, the Deed, any Listing Rule or any applicable legislation permits or requires the Issuer to do so. The Registrar shall refuse to register any transfer where the Deed, these Conditions or the Listing Rules or any applicable law requires the Issuer or the Registrar to refuse to register the transfer.

6.7 **Notice of refusal to register**: Where registration of a transfer of Notes is refused under clause 6.6, the Issuer must direct the Registrar to give written notice of the refusal and the precise reasons for the refusal to the party lodging the transfer, if any, within five Business Days after the date on which the transfer was lodged. The failure to give such a notice will not invalidate the decision not to register.

6.8 **Retention of transfers**: The Issuer must direct the Registrar to retain all instruments of transfer of Notes which are registered, but any instrument of transfer of Notes the registration of which was declined or refused (except on the ground of suspected fraud) is to be returned to the party lodging the transfer.

6.9 **Powers of attorney**: Any power of attorney granted by a Holder empowering the donee to deal with, or transfer Notes, which is lodged, produced or exhibited to the Registrar will be deemed to continue and remain in full force and effect as between the Issuer, the Trustee, the Registrar and the grantor of that power, and may be acted on, until express notice in writing that it has been revoked or notice of the death of the grantor has been received by the Registrar.

6.10 **Transmission by operation of law**: Any person becoming entitled to any Note by operation of law (including the death or bankruptcy of any Holder) may, upon producing such evidence of entitlement as is acceptable to the Registrar, obtain registration as the Holder of such Note or execute a transfer of such Note. This provision includes any case where a person becomes entitled as a survivor of persons registered as joint Holder.

6.11 **Sale of less than Minimum Holding**: The Board may at any time give notice to any Holder holding less than a Minimum Holding of Notes that if at the expiration of three months after the date the notice is given the Holder still holds Notes which are less than a Minimum Holding, the Board may exercise the power of sale of those Notes set out in this clause 6.11, if the Notes are Listed, subject to and in accordance with the Listing Rules. If that power of sale becomes exercisable:

(a) if the Notes are Listed, the Board may arrange for the sale of those Notes through NZDX or in some other manner approved by NZX;

(b) the Holder shall be deemed to have authorised the Issuer to act on the Holder's behalf and to execute all necessary documents for the purposes of that sale;

(c) the Issuer shall account to the Holder for the net proceeds of sale of the Notes (after deduction of reasonable sale expenses), which shall be held on trust for the Holder by the Issuer and paid to the Holder on surrender of any Statement for the Notes sold; and

(d) the title of a purchaser of any Notes sold pursuant to this clause 6.11 shall not be affected by any irregularity or invalidity in the exercise of the power of sale or the sale itself.

6.12 **Address, account details and tax residency of transferee**: A transferee of Notes must designate to the Registrar an address, and a bank account to which payments under or in respect of the Notes transferred to it are to be made and the address and account so designated will be the address and account of such Holder for all purposes of the Deed and these Conditions. The transferee shall also give written notice to the Registrar of its residency for taxation purposes.

6.13 **Reliance on documents**: The Issuer and the Registrar shall be entitled to accept and assume the authenticity and genuineness of any instrument of transfer or other document, and will not incur any liability for registering any instrument of transfer which is subsequently discovered to be a forgery or otherwise defective, unless the Issuer or the Registrar had actual notice of such forgery or defect at the time of registration of such instrument of transfer.

6.14 **Selling restrictions**:

(a) Each Holder shall only offer for sale or sell any Note in conformity with all applicable laws and regulations in any jurisdiction in which it is offered, sold or delivered.

(b) No Offer Document or any advertisement or other offering material in respect of any Note may be published, delivered or distributed in or from any country or jurisdiction except under circumstances which will result in compliance with all applicable laws and regulations.

(c) By its purchase of Notes, each Holder agrees to indemnify the Issuer in respect of any loss, cost, liability or expense sustained or incurred by the Issuer as a result of a breach by the Holder of the restrictions contained in this clause 6.14.

APPENDIX B - FINANCIAL STATEMENTS

NEW ZEALAND POST LIMITED AND SUBSIDIARIES
INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

		GROUP		PARENT	
	Note	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Revenue from operations	1	**1,290,008**	1,195,224	**784,652**	754,976
Expenditure	2	**1,175,608**	1,100,847	**744,213**	706,787
Operating profit		**114,400**	94,377	**40,439**	48,189
Other income	1	**19,176**	13,230	**10,205**	11,758
Finance costs (net)	3	**(12,818)**	(5,744)	**(6,189)**	(4,543)
Share of net profit of associates and jointly controlled entities	16	**16,071**	16,741	**-**	-
Profit before income tax		**136,829**	118,604	**44,455**	55,404
Income tax expense	4	**26,661**	31,817	**10,684**	16,879
Profit for the year		**110,168**	86,787	**33,771**	38,525
Attributable to: Parent shareholders		**110,168**	86,787	**33,771**	38,525

NEW ZEALAND POST LIMITED AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008

	Note	GROUP		PARENT	
		2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Equity at the beginning of the year		**585,109**	518,074	**632,138**	598,563
Profit for the year		**110,168**	86,787	**33,771**	38,525
Fair value gains (net of tax)					
- land and building revaluations	5	**4,465**	17,841	**4,465**	17,841
- available for sale financial assets	5	**(2,333)**	(1,450)	**-**	-
Cash flow hedges (net of tax)	5	**(7,867)**	(2,124)	**-**	-
Foreign currency translation differences	5	**4,435**	(2,724)	**-**	-
Amalgamation of subsidiaries	17	**-**	-	**(164)**	8,504
Total recognised income and expense for the period		**108,868**	98,330	**38,072**	64,870
Dividends paid to shareholders	5	**(27,365)**	(31,295)	**(27,365)**	(31,295)
Equity at the end of the year	5	**666,612**	585,109	**642,845**	632,138

NEW ZEALAND POST LIMITED AND SUBSIDIARIES
BALANCE SHEETS
AS AT 30 JUNE 2008

	Note	GROUP		PARENT	
		2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
ASSETS					
Current assets					
Cash and cash equivalents	6	**52,950**	88,740	**42,982**	66,254
Trade and other receivables	7	**192,773**	180,920	**146,995**	143,201
Inventories	8	**14,578**	7,654	**8,757**	7,247
Assets held for sale	9	**9,600**	13,014	**9,600**	13,014
Taxation receivable	4	**9,872**	5,584	**2,398**	1,270
Other current assets		**6,697**	8,213	**3,428**	3,792
Total current assets		**286,470**	304,125	**214,160**	234,778
Specific banking assets					
Cash and cash equivalents	10	**257,235**	289,490	**-**	-
Due from other financial institutions	10	**150,910**	-	**-**	-
Financial assets held for trading	10	**420,311**	245,120	**-**	-
Available for sale assets	10	**697,359**	527,831	**-**	-
Loans and advances	10	**5,580,580**	3,560,641	**-**	-
Derivative financial instruments	11	**31,831**	76,031	**-**	-
Total specific banking assets		**7,138,226**	4,699,113	**-**	-
Non-current assets					
Investment properties	12	**70,160**	58,204	**70,160**	58,204
Property, plant and equipment	13	**327,692**	307,759	**283,283**	276,730
Intangible assets	14	**121,673**	119,718	**38,614**	35,630
Loans to related parties	15	**-**	-	**51,221**	94,694
Investments accounted for using the equity method	15/16	**92,517**	23,222	**68,198**	62,848
Investments in subsidiaries	15/17	**-**	-	**350,883**	244,546
Total non-current assets		**612,042**	508,903	**862,359**	772,652
Total assets		**8,036,738**	5,512,141	**1,076,519**	1,007,430
LIABILITIES					
Current liabilities					
Trade and other payables	18	**266,841**	248,466	**206,150**	186,629
Provisions	19	**6,214**	7,619	**6,214**	6,812
Borrowings	20	**120,313**	-	**108,846**	-
Derivative financial liabilties		**2,079**	4,730	**2,079**	4,730
Other current liabilities		**3,059**	5,395	**3,059**	3,700
Total current liabilities		**398,506**	266,210	**326,348**	201,871

NEW ZEALAND POST LIMITED AND SUBSIDIARIES
BALANCE SHEETS
AS AT 30 JUNE 2008

	Note	GROUP		PARENT	
		2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Specific banking liabilities					
Due to other financial institutions	21	**485,680**	66,795	**-**	-
Deposits	21	**5,748,297**	3,903,882	**-**	-
Debt securities issued	21	**482,312**	419,954	**-**	-
Derivative financial instruments	11	**61,641**	7,565	**-**	-
Total specific banking liabilities		**6,777,930**	4,398,196	**-**	-
Non-current liabilities					
Deferred tax liability	4	**10,167**	420	**5,272**	(30)
Employee benefit liabilities		**3,352**	3,619	**3,323**	3,473
Deferred settlement liabilities	22	**5,203**	12,366	**-**	-
Borrowings	20	**174,968**	246,221	**98,731**	169,978
Total non-current liabilities		**193,690**	262,626	**107,326**	173,421
Total liabilities		**7,370,126**	4,927,032	**433,674**	375,292
EQUITY					
Parent shareholders' equity					
Share capital	5	**192,200**	192,200	**192,200**	192,200
Retained earnings	5	**396,307**	313,370	**362,562**	356,186
Other reserves	5	**78,105**	79,539	**88,083**	83,752
Total equity		**666,612**	585,109	**642,845**	632,138
Total equity and liabilities		**8,036,738**	5,512,141	**1,076,519**	1,007,430

The Board of Directors of New Zealand Post Limited authorised these financial statements for issue on 20 August 2008, with signing of these financial statements on 21 August 2008.

Rt Hon J B Bolger
Chairman

J H Ogden
Director

NEW ZEALAND POST LIMITED AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2008

	Note	GROUP		PARENT	
		2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Cash flows from operating activities					
Receipts from customers		**1,118,209**	1,104,244	**741,855**	758,885
Kiwibank interest received		**550,667**	309,887	**-**	-
Other interest received		**10,497**	5,552	**12,291**	6,755
Dividends received		**6,465**	3,805	**6,465**	3,804
Payments to suppliers and employees		**(1,058,063)**	(1,000,883)	**(635,967)**	(617,743)
Subvention payments		**-**	-	**(4,470)**	-
Net payments to agencies		**(17,656)**	(23,205)	**(17,114)**	(23,205)
Kiwibank interest paid		**(359,803)**	(225,111)	**-**	-
Other interest paid		**(18,284)**	(11,763)	**(16,494)**	(10,945)
Income tax paid	4	**(25,559)**	(30,747)	**(23,871)**	(26,487)
Kiwibank increase in financial assets held for trading		**(185,000)**	(119,000)	**-**	-
Kiwibank increase in available for sale assets		**(161,913)**	(279,778)	**-**	-
Kiwibank increase in loans and advances		**(1,981,752)**	(1,021,947)	**-**	-
Kiwibank increase in balances due from other financial institutions		**(141,432)**	-	**-**	-
Kiwibank increase in deposits		**419,598**	1,515,899	**-**	-
Kiwibank increase in balances due to other financial institutions		**1,792,612**	8,373	**-**	-
Net cash flows from operating activities	23	**(51,414)**	235,326	**62,695**	91,064
Cash flows from investing activities					
Sale of property, plant and equipment		**25,315**	5,902	**25,105**	5,235
Sale of investments	17	**94,224**	6,186	**-**	1,350
Repayment of loans from associates and jointly controlled entities	16	**4,118**	40,000	**333**	40,000
Repayment of loans from subsidiaries		**-**	-	**86,151**	25,000
Purchase of property, plant and equipment		**(45,156)**	(63,826)	**(34,723)**	(45,977)
Investments in associates and other companies	16	**(30,836)**	(6,240)	**(5,600)**	(6,240)
Investments in subsidiaries	17	**(32,140)**	(8,854)	**(111,696)**	(55,000)
Advances to associates and jointly controlled entities	16	**(68,368)**	-	**(4,267)**	-
Advances to subsidiaries		**-**	-	**(34,669)**	(10,304)
Purchase of intangible software assets		**(30,088)**	(18,105)	**(11,738)**	(3,582)
Net cash flows from investing activities		**(82,931)**	(44,937)	**(91,104)**	(49,518)
Cash flows from financing activities					
Issue of borrowings	20	**147,502**	323,028	**147,502**	248,028
Repayment of borrowings	20	**(115,000)**	(215,000)	**(115,000)**	(215,000)
Dividends paid to parent shareholders	5	**(27,365)**	(31,295)	**(27,365)**	(31,295)
Dividends paid to minority shareholders		**(835)**	(1,499)	**-**	-
Kiwibank increase in debt securities issued		**61,998**	11,094	**-**	-
Net cash flows from financing activities		**66,300**	86,328	**5,137**	1,733
Net (decrease)/increase in cash held		**(68,045)**	276,717	**(23,272)**	43,279
Cash at the beginning of the year		**378,230**	101,513	**66,254**	22,975
Cash at the end of the year		**310,185**	378,230	**42,982**	66,254
Composition of cash					
Kiwibank cash and cash equivalents	10	**257,235**	289,490	**-**	-
Other cash and cash equivalents	6	**52,950**	88,740	**42,982**	66,254
Total cash		**310,185**	378,230	**42,982**	66,254

NEW ZEALAND POST LIMITED AND SUBSIDIARIES
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2008

Reporting Entity

New Zealand Post Limited (the 'Parent') and its subsidiaries provide postal services, banking services, business solutions and courier services to New Zealand and Australian customers. The Parent is a limited liability company incorporated and domiciled in New Zealand. The Parent's registered office is Waterloo Quay, Wellington. The 'Group' comprises New Zealand Post Limited, its subsidiaries (including Kiwibank Limited, a Registered Bank – referred to as "Kiwibank"), its associates, and its jointly controlled entities.

Statement of Compliance

These financial statements comply with International Financial Reporting Standards (IFRS), New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These are the Group's and Parent's first financial statements complying with NZ IFRS. NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting* Standards has been applied in preparing these financial statements.

Basis of Preparation

The financial statements have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 1993, and the State-Owned Enterprises Act 1986. For the purposes of complying with New Zealand generally accepted accounting practice the Parent is designated as a profit-oriented entity.

The financial statements for the Parent and Group are for the year ended 30 June 2008, and have been prepared in accordance with those NZ IFRS standards and IFRIC interpretations issued and effective, or issued and early adopted, as at this time.

The Parent's and Group's financial statements were prepared in accordance with New Zealand Financial Reporting Standards (NZ FRS) until 30 June 2007. In preparing these financial statements, management has amended certain accounting policies and disclosures to comply with NZ IFRS, and in accordance with NZ IFRS 1, the Parent and Group have applied the relevant mandatory exemptions and certain of the optional exemptions from full retrospective application of NZ IFRS. The following optional exemptions from full retrospective application have been applied:

(a) *Business combinations*
Business combinations that occurred prior to the date of transition (1 July 2006) to NZ IFRS have not been restated retrospectively.

(b) *Designation of previously recognised financial instruments*
The Group reclassified various securities as available for sale assets and designated certain financial assets and financial liabilities at fair value through profit and loss.

(c) *Insurance contracts*
The transitional provisions in NZ IFRS 4 Insurance Contracts have been applied.

In addition, the Group has elected to early adopt NZ IFRS 8 *Operating Segments* in these financial statements. The adoption of this standard only affects the disclosures in these financial statements. There is no impact on profit or loss.

The comparative figures have been restated to reflect these changes. An explanation of how the transition from NZ FRS to NZ IFRS has affected previously reported financial positions, financial performances, and cash flows of the Parent and Group is provided in note 31.

The following standards have been recently issued or amended, but are not yet effective. These have not been applied by the Parent or Group in these financial statements. All will be effective for the financial statements of the Parent and Group for the year ended 30 June 2010.

Standard	Requirement	Impact on Financial Statements
NZ IAS 23 (revised) – Borrowing Costs	All borrowing cost associated with a qualifying asset must be capitalised.	The amendments are not expected to have any impact on the Parent or Group as they have no borrowing costs associated with qualifying assets.
NZ IAS 1 (revised) – Presentation of Financial Statements	Introduces a statement of comprehensive income. Impacts on some presentation requirements and changes titles of the financial statements.	The amendments will significantly affect the presentation of the Parent and Group financial statements, but will not have an impact on the measurement and recognition of amounts.
NZ IFRS 3 (revised) – Business Combinations and NZ IAS 27 (revised) – Consolidated and Separate Financial Statements	NZ IFRS 3 introduces a number of changes in accounting for business combinations that impact the amount of goodwill recognised, reported results of acquisition and future reported results. NZ IAS 27 requires changes in ownership interests of a subsidiary to be accounted for as an equity transaction, and changes to accounting for subsidiary losses, and loss of control.	The changes introduced must be applied prospectively and will affect future acquisitions and transactions with minority interests by the Group.

Specific Accounting Policies

The following accounting policies, which materially affect the measurement of financial performance, financial position and cash flows, have been consistently applied to all reporting periods presented in these financial statements, and in preparing an opening NZ IFRS balance sheet as at 1 July 2006 for the purposes of the transition to NZ IFRS.

The measurement base applied is historic cost, as modified by the revaluation of certain assets and liabilities as identified in these accounting policies. The accrual basis of accounting has been used unless otherwise stated.

Group Financial Statements

The Group financial statements consolidate the financial statements of the Parent and its subsidiaries, using the purchase method, and include the results of its associates and jointly controlled entities using the equity method. Under the purchase method, corresponding assets, liabilities, revenues and expenses are added together line by line. All material transactions between the Parent and its subsidiaries are eliminated on consolidation.

Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Parent. Control exists where the Group has the power to govern the financial and operating policies of an entity. The results and financial position of subsidiaries are included in the consolidated income statement and balance sheet from the date control is gained up to the date control ceases. At the time of acquisition of a subsidiary, identifiable assets and liabilities acquired are initially measured at fair value on acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired the difference is recognised directly in the income statement.

The parent investments in subsidiaries are recorded at cost less any accumulated impairment. Unrealised losses relating to any impairment are recognised in the income statement.

Associates

Associates are entities in which the Group has significant influence but not a controlling interest. Associates are initially recorded at cost, and include any goodwill identified on acquisition (net of any impairment losses). The Group's share of associates' post-acquisition results are included in the consolidated income statement from the date of acquisition or up to the date of disposal. Any other movements in the reserve accounts of associates are recognised in reserves of the Group. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Jointly Controlled Entities

Jointly controlled entities are entities in which the Group has joint control (being unanimous consent by the parties sharing control over the strategic financial and operating decisions). Jointly controlled entities are initially recorded at cost. The Group's share of the jointly controlled entity's post-acquisition results are included in the consolidated income statement from the date joint control began or up to the date the joint control ceased, using the equity method. Any other movements in the reserve accounts of jointly controlled entities are recognised in reserves of the Group.

Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operating segments are aggregated for disclosure purposes where they have similar products and services, production processes, customers, distribution methods, and regulatory environment.

Revenue Recognition

Revenue shown in the income statements comprises the fair value of amounts received and receivable by the Parent and Group for goods and services supplied to customers, net of rebates and discounts and after eliminating sales within the Group.

Supply 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 collectibility of the related receivables is reasonably assured.

Supply of Services

Revenue from the supply 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.

Interest

Interest income is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determined interest income each period. When a receivable is impaired, the carrying amount is reduced to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

Dividend Income

Dividend income is recognised when the right to receive payment has been established.

Rental Income

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted

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are recognised evenly over the term of the lease.

Trailing Commissions

Kiwibank receives trailing commissions from lenders on loans they have settled that were originated by Kiwibank. The trailing commissions are received over the life of the loans based on loan book balance outstanding. Kiwibank also makes trailing commission payments to Franchisees based on the loan book balance outstanding.

On initial recognition, trailing commission revenue and receivables are recognised at fair value, being the expected future trailing commission receivables discounted to their net present value. In addition, an associated payable and expense to the Franchisee are also recognised, initially measured at fair value being the future trailing commission payable to Franchisees discounted to their net present value.

Subsequent to initial recognition and measurement, both the trailing commission asset and trailing commission payable are measured at amortised cost. The carrying amount of the trail commission asset and trailing commission payable are adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in the profit and loss account.

Prepaid Product Revenue

Allowance is made for the assessed amount of revenue from prepaid product sales as at balance date in respect of which the service has not yet been provided.

Recognition of Loan Related Fees and Costs for Loans Not at Fair Value Through Profit or Loss

Loan origination fees, if material, are recognised as income over the life of the loan as an adjustment of yield. Commitment fees are deferred, and if the commitment is exercised, recognised in income over the life of the loan as an adjustment of yield or, if unexercised, recognised in income upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised in income when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised in income over the commitment period. If material, loan related administration and service fees are recognised in income over the period of service.

Direct loan origination costs, if material, are netted against loan origination fees and the net amount recognised in income over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

Expenditure

Expenditure shown in the income statements comprises the amounts paid and payable by the Parent and Group for goods and services provided from suppliers. Expenditure for the supply of goods and services is measured at the fair value of consideration paid. Expenditure for the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Expenditure for the supply of services is recognised at balance date in the accounting 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.

Interest

Interest expense is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Research and Development

Research expenditure is recognised in the income statement in the period that it is incurred. Development costs are capitalised as intangible assets where future benefits are expected to exceed those costs and it is probable that the project will provide future economic benefits, considering its commercial and technological feasibility, otherwise such costs are recognised in the income statement in the period that they are incurred.

Capitalised development costs are amortised over future periods (not exceeding three years) in relation to expected future revenue in each period. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amount so identified is written off.

Foreign Currency Translation

Functional and Presentation Currency

The functional currency and presentation currency of the Parent is New Zealand Dollars. The functional currency of some subsidiary companies differs to that of the Parent.

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 income statement. 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 income statement, 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 income statement or directly to equity.

Group Companies

The assets and liabilities of Group entities where their functional currency differs from the presentation currency, are translated at the closing rate. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences arising from such translations are recognised in the foreign currency translation reserve, together with unrealised gains and losses on foreign currency monetary liabilities that are identified as hedges against these operations. When a foreign operation is sold, the balance of the foreign currency translation reserve is recognised in the income statement as part of the gain or loss on sale.

Financial Instruments

Designation of financial assets and financial liabilities by individual entities 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

Financial assets held for trading and financial assets designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the income statement. Transaction costs are expensed as they are incurred.

The Parent and Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available for sale financial assets. Management determines the classification of its investments at initial recognition.

(a) 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. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also 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 the income statement in the period in which they arise.

(b) 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. Loans and receivables issued with duration less than 12 months are recognised at cost less impairment. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the income statement. Loans and receivables include cash and cash equivalents, trade and other receivable, taxation receivables, other assets and borrowings.

(c) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available for sale financial assets are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised directly in equity except for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses which are all recognised in the income statement. For non-monetary available for sale financial assets (eg. equity instruments) the fair value movements recognised in equity include any related foreign exchange component. On derecognition the cumulative fair value gain or loss previously recognised directly in equity is recognised in the income statement.

Purchases and sales of financial assets at fair value through profit or loss, and available for sale are recognised on trade-date – the date on which the Parent or Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Parent or Group has transferred substantially all risks and rewards of ownership.

Financial Liabilities

The Parent and Group classifies their financial liabilities as either fair value through profit or loss or at amortised cost. Financial liabilities held for trading and financial liabilities designated at fair value through profit and loss are recorded at fair value with any realised and unrealised gains or losses recognised in the income statement. Transactions costs are expensed as they are incurred.

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with duration less than 12 months are recognised at their notional value. Amortisation and foreign exchange gains and losses, are recognised in the income statement as is any gain or loss when the liability is derecognised.

Derivative Financial Instruments

Derivative financial instruments are recognised at fair value as either financial assets or financial liabilities. 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 income statement.

Hedge Accounting

Derivatives are hedge accounted for where appropriate hedge documentation is in place prior to the transaction date. Hedge derivatives are accounted for as follows:

(a) *Fair Value Hedges* – gains or losses are recognised in the income statement within other income. The carrying amount of the hedged item is adjusted by the gain or loss on the hedged item in respect of the risk being hedged, with

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this gain or loss also being recognised in the income statement. The Group applies fair value hedge accounting for hedging fixed interest risk on borrowings. Any gain or loss relating to any ineffective portion of the hedge is recognised in the income statement within other income.

(b) *Cash Flow Hedges* – the portion of the gain or loss determined as being effective is recognised directly in equity, with any ineffective portion of the gain or loss being recognised in the income statement within other income.

(c) *Hedges of a Net Investment* – the portion of the gain or loss determined as being effective is recognised directly in equity, with any ineffective portion of the gain or loss being recognised in the income statement within other income.

Gains or losses recognised directly in equity are transferred to the income statement in the same periods as when the hedged item affects the income statement.

Financial assets and financial liabilities are recorded as current assets and current liabilities except if they mature, or are expected to be realised, more than 12 months from balance date.

Fair Value Estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Parent and Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Parent and Group use a variety of methods and make assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Parent and Group for similar financial instruments.

Goods and Services Tax (GST)

The income statement and the statements of cash flow have been prepared so that all components are stated exclusive of GST, except where GST is not recoverable. All items in the balance sheet are stated net of GST with the exception of receivables and payables, which include GST invoiced.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with a maturity of no more than three months from the date of acquisition.

Banking cash and cash equivalents include inter-bank balances arising from the daily RBNZ settlement process.

Trade Receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. A provision for impairment is established when there is objective evidence that the Parent or Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Any movement in the provision is recognised in the income statement.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis. The cost of inventories comprises design costs, raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Property, Plant and Equipment

Property, plant and equipment other than land and buildings are recorded at cost less accumulated depreciation and any accumulated impairment losses.

Land and buildings are initially recorded at cost, and subsequently are recorded at fair value, as determined by an independent valuer, less any impairment losses and accumulated depreciation (for buildings) since the assets were last revalued. Land and buildings are valued annually at balance date. To the extent that any revaluation gain reverses a loss previously charged to the income statement for the asset item, the gain is credited to the income statement. Otherwise, revaluation gains are credited to an asset revaluation reserve for that class of asset. To the extent that any revaluation loss reverses a gain previously credited to an asset revaluation reserve for the asset item, the loss is debited to the asset revaluation reserve. Otherwise, revaluation losses are recognised in the income statement. On revaluation any accumulated depreciation is eliminated against the gross carrying amount of the asset. Each year the difference between depreciation based on the revalued amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the asset revaluation reserve to retained earnings.

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use. Costs cease to be capitalised as soon as the asset is ready for productive use.

Any realised gains or losses arising from disposal of property, plant and equipment are recognised in the income statement. Any balance in an asset revaluation reserve attributable to the disposed asset is transferred to retained earnings at the time of disposal.

Depreciation

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

Buildings	25-50	years
Plant and equipment	8-10	years
Motor vehicles	5-10	years
Computers, office equipment	2-5	years
Furniture and fittings	10	years
Aircraft	7	years

Investment Property

Investment properties are measured at fair value, as determined by an independent valuer. The basis of fair value is market value. Fair value gains or losses are recognised in the income statement.

Assets Held for Sale

Assets held for sale are recognised at the lower of net book value transferred from property, plant and equipment and fair value less costs to sell. For sales that are expected to occur beyond one year the Parent or Group measures the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time is presented in the income statement as a financing cost.

Investments held for disposal are stated at the lower of carrying amount and fair value less costs to sell.

Intangible Assets

Intangible assets are recorded at cost less any accumulated amortisation and accumulated impairment losses. The cost of identifiable intangible assets acquired in a business combination is their fair value at date of acquisition.

Intangible assets with finite lives are amortised on a straight-line basis over the useful life of the asset, with any amortisation charge being recognised in the income statement. Assets with indefinite useful lives are not amortised, but are tested at least annually for impairment.

Realised gains and losses arising from disposal of intangible assets are recognised in the income statement in the period in which the transaction occurs.

Goodwill

Purchased goodwill is recognised as an asset at cost and tested for impairment at least annually. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or business at the date of acquisition. Goodwill on acquisitions of subsidiaries and businesses is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. For the purposes of impairment testing, goodwill is allocated to cash-generating units. Any impairment is recognised as an expense in the income statement. Impairment losses on goodwill are not reversed. Internally generated goodwill is not recognised on the balance sheet.

Computer Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use. These costs are amortised over the estimated useful lives of the licences (being 3 to 5 years). Developed software assets expected to generate net economic benefits beyond 12 months are recognised as intangible assets. The cost of developed software assets includes the cost of all materials used in construction, direct labour on the project, and an appropriate proportion of variable and fixed overheads. Developed software intangible assets are amortised over their estimated useful lives (being 3 to 5 years).

Acquired Customer Contracts

Acquired customer contracts that are expected to generate net economic benefits beyond 12 months are recognised as intangible assets. Acquired customer contracts have finite lives and are amortised to the income statement on a straight-line basis over their estimated useful lives (being 7 years).

Acquired Customer Relationships

Acquired customer relationships that are expected to generate net economic benefits beyond 12 months are recognised as intangible assets. Acquired customer relationships have finite lives and are amortised to the income statement on a straight-line basis over their estimated useful lives (being from 21 months to 10 years).

Impairment

Intangible assets with indefinite useful lives (including goodwill) are impairment tested at least annually at balance date, and whenever there are indicators of impairment. Where the asset's recoverable amount is less than its carrying amount an impairment loss is recognised in the income statement for the difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The carrying amounts of most other assets, including intangible assets with finite useful lives, are reviewed at least annually to determine if there is any indication of impairment. Where such an indication exists the asset is impairment tested, with any impairment losses being recognised in the income statement, except where the asset is carried at a revalued amount in which case any impairment loss is recognised in the same way as revaluation losses. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

In the case of financial assets classified as available-for-sale, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument

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classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

Financial assets at fair value through profit or loss are not assessed for impairment as their fair value reflects the credit quality of the instrument and changes in fair value are recognised in the income statement.

Asset Quality

Impaired assets consist of restructured assets, assets acquired through the enforcement of security and other impaired assets.

'Restructured asset' means any credit exposure for which:

(a) The original terms have been changed to grant the counterparty a concession that would not have otherwise been available, due to the counterparty's difficulties in complying with the original terms;

(b) The revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and

(c) The yield on the asset following restructuring is equal to, or greater than, the institution's average cost of funds, or that a loss is not otherwise expected to be incurred.

Assets acquired through security enforcement are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of a debt. Other impaired assets refers to any credit exposure for which an impairment loss is recognised in accordance with NZ IAS 39. A past due asset is any loan which has not been operated by the borrower within its key terms for at least 90 days and which is not an impaired asset. Although not classified as impaired assets or past due assets, assets in which the counter-party is in receivership, liquidation, bankruptcy, statutory management or any form of administration are reported separately. These are classified as 'other assets under administration'.

Taxation

The income tax expense charged to the income statement includes both the current year's provision and the income tax effect of temporary differences, calculated using the liability method.

Deferred Income Tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet 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 assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Parent or Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Trade Payables

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

Employee Benefits

Employee Entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised in the income statement when they accrue to employees. 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 (ie. 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.

Pension Liabilities

Obligations for contributions to defined contribution retirement plans are recognised in the income statement as they fall due.

Termination Benefits

Termination benefits are recognised in the income statement only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits to be settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

Provisions

Provisions are recognised when the Parent or Group has 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 has been reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase are retained within the relevant financial asset category and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement. Securities held under reverse repurchase agreements are recorded as receivables.

The difference between the purchase and sale price represents interest income and is recognised in the income statement over the term of the reverse repurchase agreement.

Deferred Settlement Liabilities

Deferred settlement liabilities are recognised in the balance sheet at fair value and are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability. Changes in the fair value, other than the imputed interest, of a deferred settlement liability in a business combination are charged to goodwill where settlement is contingent.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, except where such borrowings are part of a documented fair value hedge. Any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Borrowings which are part of a documented fair value hedge are stated at fair value, and any difference in fair value is recognised in the income statement.

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.

Payments made under operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in the income statement 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.

Other Liabilities

Other liabilities are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities to be settled beyond 12 months are recorded at their present value.

Contingent Assets and Contingent Liabilities

Contingent assets and contingent liabilities are recognised in the notes at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Dividends Paid

Dividends distributed to the shareholders are recognised as a liability in the Parent's or Group's balance sheets in the period in which the dividends are approved.

Statement of Cash Flows

The following are the definitions of the terms used in the statement of cash flows:

(a) Cash is considered to be cash on hand, cash in transit, bank accounts and deposits with a maturity of no more than 3 months from date of acquisition.

(b) Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and of investments not falling within the definition of cash.

(c) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Parent. This includes equity, and debt not falling within the definition of cash. Financing activities also include dividends paid in relation to the capital structure.

(d) Operating activities include all transactions and other events that are not investing or financing activities.

Changes in Accounting Policies

Accounting policies are changed only if the change is required by a standard or interpretation or otherwise provides more reliable and more relevant information. All policies have been applied on a basis consistent across all periods.

Comparative Figures

Comparative figures from the 30 June 2007 annual financial statements have been adjusted for the transition to NZ IFRS. Some comparative figures have been reclassified to reflect current year disclosure.

Critical Accounting Judgements, Estimates and Assumptions

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Prepaid Revenue Recognition

The Parent and Group has prepaid revenue amounting to $11.5m relating to postal services paid for by the consumer, but where the service has not been provided at 30 June 2008. The amount of revenue to be deferred is based on historical customer holding patterns. The current prepaid revenue balance represents approximately 1.5 months of sales.

Deferred Settlement Liabilities

The Group has recognised the fair value of contingent deferred settlements in relation to put options held by minority shareholders of non-wholly owned

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subsidiaries. The Group has determined the fair value of the options by discounting the expected future cash flows at a rate that reflects current assessments of the time value of money and risks specific to the liability. The Group has also made judgements about the future profitability of the entities, contractual earnings multiples, and likely exercise dates for the options.

Goodwill

Goodwill represents the excess of any purchase consideration, including incidental expenses, over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or business at the date of acquisition. The determination of the fair value of assets and liabilities requires the exercise of management judgement. Different determinations of fair values would result in changes to the goodwill recognised.

Goodwill is tested for impairment at least annually. In assessing any impairment goodwill is allocated to cash-generating units (CGUs), and the carrying value of the CGU is compared to its recoverable amount. Recoverable amount is the higher of the CGU's fair value, less cost to sell, and its value-in-use. Value-in-use is the present value of expected future cash flows from the CGU. Fair value is the amount obtainable for the sale of the CGU in an arm's length transaction between knowledgeable, willing parties. The Group has made judgements about the future profitability of the CGUs and the appropriate discount rate for assessing value-in-use.

Kiwibank Fair Value Estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by Kiwibank is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not quoted in an active market, including Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008 and over-the-counter derivatives, is determined by using valuation techniques. Kiwibank uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of Kiwibank's retail fixed rate loan portfolio (originated prior to 1 January 2008) is determined by discounting estimated cash flows expected to be received. Expected cash flows are after allowance for prepayment risk and are discounted at current market rates including an adjustment for credit risk. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Kiwibank for similar financial instruments.

Kiwibank Impairment Losses on Loans and Advances not Held at Fair Value Through Profit or Loss

Kiwibank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, Kiwibank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

1. REVENUE AND OTHER INCOME

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Revenue from Operations				
Rendering of services	**923,741**	878,430	**716,857**	689,563
Sale of goods	**156,548**	151,265	**62,199**	60,084
Banking interest revenue (net)	**116,210**	79,891	**-**	-
Banking and lending fee revenue	**81,930**	71,975	**-**	-
Banking net commission revenue	**5,983**	8,334	**-**	-
Rental income - properties held for sale	**841**	841	**841**	841
Rental income - investment properties	**4,755**	4,488	**4,755**	4,488
Total Revenue from Operations	**1,290,008**	1,195,224	**784,652**	754,976
Other Income				
Sale of investments gain	**24,756**	-	**-**	1,470
Financial instruments at fair value net (loss)/gain	**(9,363)**	7,195	**(42)**	451
Revaluation of investment properties	**3,782**	5,169	**3,782**	5,169
Revaluation of other properties	**-**	864	**-**	864
Dividends from associates and jointly controlled entities	**-**	-	**6,464**	3,802
Other dividends received	**1**	2	**1**	2
Total Other Income	**19,176**	13,230	**10,205**	11,758
Net Banking Interest Revenue				
Banking interest revenue				
- Loans and advances at fair value through profit or loss	**269,563**	183,391	**-**	-
- Loans and advances at amortised cost	**87,152**	38,792	**-**	-
- Government and local authority securities	**5,246**	5,739	**-**	-
- Other securities	**185,134**	83,816	**-**	-
- Cash and liquid assets	**11,822**	7,225	**-**	-
Total banking interest revenue	**558,917**	318,963	**-**	-
Banking interest expense				
- Deposits by customers	**322,312**	178,166	**-**	-
- Debt securities issued	**120,395**	60,906	**-**	-
Total banking interest expense	**442,707**	239,072	**-**	-
Net banking interest revenue	**116,210**	79,891	**-**	-

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1. REVENUE AND OTHER INCOME continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Financial instruments at fair value net (loss)/gain				
Financial assets designated at fair value through profit or loss upon initial recognition	**38,014**	(55,845)	**-**	-
Derivative financial instruments	**(42,039)**	68,731	**-**	-
Financial liabilities designated at fair value through profit or loss upon initial recognition	**(358)**	-	**-**	-
Financial assets held for trading	**212**	(3,345)	**-**	-
Net ineffectiveness on qualifying cash flow hedges	**(674)**	-	**-**	-
Net ineffectiveness on qualifying fair value hedges	**37**	-	**-**	-
Cumulative loss transferred from the available for sale reserve	**(3,409)**	(1,101)	**-**	-
Cumulative loss transferred from the cash flow hedge reserve	**(1,104)**	(1,696)	**-**	-
(Loss)/gain on fair value hedges	**(42)**	451	**(42)**	451
Total financial instruments at fair value net (loss)/gain	**(9,363)**	7,195	**(42)**	451

2. EXPENDITURE

	GROUP 2008 $'000	GROUP 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Included in expenditure is:				
Depreciation				
- Buildings	**3,185**	2,427	**3,185**	2,427
- Motor vehicles	**443**	381	**330**	354
- Furniture and fittings	**6,295**	6,154	**5,806**	5,786
- Office equipment	**784**	840	**724**	757
- Computer equipment	**10,547**	8,789	**5,618**	4,925
- Plant and equipment	**9,550**	9,907	**6,165**	5,449
- Aircraft	**2,424**	-	**-**	-
Total depreciation	**33,228**	28,498	**21,828**	19,698
Amortisation				
- Computer software	**16,857**	14,916	**8,826**	8,014
- Acquired customer contracts	**425**	-	**-**	-
- Acquired customer relationships	**4,258**	1,262	**-**	-
- Other intangible assets	**182**	107	**182**	107
Total amortisation	**21,722**	16,285	**9,008**	8,121
Bad debt expense	**2,399**	1,637	**86**	257
Bad debt expense - related parties	**-**	-	**(1,799)**	1,799
Impairment				
- Goodwill	**-**	444	**-**	-
- Inventories	**671**	545	**471**	545
- Investments	**-**	-	**1,930**	1,165
- Loans and advances	**2,191**	460	**-**	-
- Other intangible assets	**-**	-	**-**	-
- Property, plant and equipment	**1,269**	2,136	**1,175**	1,300
Total impairment	**4,131**	3,585	**3,576**	3,010

2. EXPENDITURE continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Property operating lease and rental costs	**35,090**	30,660	**30,072**	24,634
Other operating lease and rental costs	**15,753**	15,211	**9,032**	8,858
Repairs and maintenance - investment properties	**138**	110	**138**	110
Revaluation of land and building	**302**	-	**302**	-
Research and development costs	**250**	77	**237**	77
Salaries and wages	**488,913**	461,844	**311,451**	292,841
Restructuring costs	**3,826**	3,263	**2,985**	1,881
Superannuation - defined contribution plans	**18,303**	17,853	**12,912**	12,691
Fees paid to auditors	**2,171**	1,808	**1,005**	758
Director fees	**950**	715	**502**	389
Donations	**66**	67	**66**	57
Sponsorships	**1,920**	1,114	**1,871**	1,048
Foreign exchange net (gain)/loss	**(4,247)**	5,432	**(9,153)**	9,334
Sale of assets net loss	**1,325**	790	**666**	202
Subvention payments	**-**	-	**4,470**	-
Other expenditure	**549,368**	511,898	**344,958**	321,022
Total Expenditure	**1,175,608**	1,100,847	**744,213**	706,787

Fees Paid to Auditors				
The auditor of the parent is PricewaterhouseCoopers, on behalf of the Auditor-General				
Amounts paid or payable to PricewaterhouseCoopers				
- Audit of the financial statements	**1,433**	1,288	**546**	497
- Assurance and related services	**139**	327	**86**	156
- Tax compliance	**120**	86	**115**	66
- Other services	**479**	107	**258**	39
Total services	**2,171**	1,808	**1,005**	758

3. FINANCE COSTS (NET)

Discount unwind on sale of asset	**1,489**	1,953	**1,489**	1,953
Discount unwind on deferred net settlement	**(11)**	537	**(11)**	537
Interest expense	**(18,355)**	(13,777)	**(18,257)**	(14,080)
Interest revenue	**4,059**	5,543	**10,590**	7,047
Total Finance Costs (Net)	**(12,818)**	(5,744)	**(6,189)**	(4,543)

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4. INCOME TAX

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Profit before income tax	**136,829**	118,604	**44,455**	55,404
Tax at 33%	**45,154**	39,139	**14,670**	18,283
Non-assessible revenue				
- share of net profit of associates and jointly controlled entities	**(5,303)**	(5,525)	**-**	-
- dividends received	**-**	-	**(2,133)**	(1,255)
- gain on sale of assets	**(1,306)**	(94)	**(1,306)**	(94)
- discount unwind on sale of asset	**(491)**	(644)	**(491)**	(644)
- gain on sale of investments	**(10,581)**	-	**-**	(485)
- other revenue	**-**	(937)	**2,051**	(207)
Non-deductible expenditure				
- impairment of investments	**-**	-	**637**	384
- provision against related party balances	**-**	-	**(594)**	594
- other expenditure	**472**	-	**(43)**	34
Other adjustments				
- deferred tax adjustments	**(511)**	483	**(275)**	355
- impact of change in corporate tax rate	**-**	150	**-**	150
- over provision in prior periods	**(833)**	(127)	**(1,832)**	(236)
- utilised tax losses not previously recognised	**-**	(498)	**-**	-
- effect of foreign tax rate difference	**60**	(130)	**-**	-
Income Tax Expense	**26,661**	31,817	**10,684**	16,879

Comprising:				
Current tax	**24,553**	27,613	**6,454**	14,559
Deferred tax	**2,108**	4,204	**4,230**	2,320
Total income tax expense	**26,661**	31,817	**10,684**	16,879

Taxation Receivable/(Payable)				
Balance at beginning of the year	**5,584**	1,985	**1,270**	(436)
Current year profit	**(24,553)**	(27,613)	**(6,454)**	(14,559)
Prior year adjustment	**(570)**	389	**-**	473
Payments	**25,559**	30,747	**7,260**	15,587
Withholding tax credits	**304**	205	**303**	205
Tax on equity reserves	**3,731**	-	**-**	-
Transfers from deferred tax	**3,053**	-	**-**	-
Acquisitions/disposals	**(3,057)**	(181)	**-**	-
Other adjustments	**(179)**	52	**19**	-
Balance at end of the year	**9,872**	5,584	**2,398**	1,270

4. INCOME TAX continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Deferred Tax Liability/(Asset)				
Balance at beginning of the year	**420**	(8,091)	**(30)**	(4,419)
Current year profit	**2,108**	4,204	**4,230**	2,320
Revalution of properties recognised in equity	**1,114**	1,501	**1,114**	1,501
Prior year adjustment	**1,272**	(625)	**378**	(427)
Impact of change in corporate tax rate	**(416)**	1,065	**(420)**	1,065
Transfers to current tax	**3,053**	-	**-**	-
Fair value measurement	**-**	(1,658)	**-**	-
Transfers from reserves	**-**	1,378	**-**	-
Acquisitions/disposals	**2,866**	3,122	**-**	-
Other adjustments	**(250)**	(476)	**-**	(70)
Balance at end of the year	**10,167**	420	**5,272**	(30)

Comprising:				
Deferred tax assets				
- Available for sale assets	**-**	(1,015)	**-**	-
- Cash flow hedges	**-**	(1,104)	**-**	-
- Loans at fair value through profit or loss	**-**	(1,140)	**-**	-
- Assets held for sale	**2,880**	3,904	**2,880**	3,904
- Provision for loan impairment	**(873)**	(86)	**-**	-
- Provisions	**(11,464)**	(12,857)	**(11,062)**	(12,193)
Total deferred tax assets	**(9,457)**	(12,298)	**(8,182)**	(8,289)
Deferred tax liabilities				
- Investment properties	**(5,250)**	(4,126)	**(5,250)**	(4,126)
- Commissions receivable	**(1,553)**	-	**-**	-
- Intangible assets	**(963)**	(2,704)	**-**	-
- Revalued land and buildings	**(11,152)**	(10,642)	**(11,152)**	(10,642)
- Aircraft revaluations	**20**	-	**-**	-
- Depreciation on property, plant and equipment	**(7,059)**	5,811	**(6,280)**	7,567
- Amortisation on software assets	**6,333**	(1,057)	**9,228**	(1,058)
Total deferred tax liabilities	**(19,624)**	(12,718)	**(13,454)**	(8,259)
Net deferred tax liability	**10,167**	420	**5,272**	(30)
Expected to be recovered after 12 months	**17,926**	14,043	**10,965**	9,561

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

There are no material unrecognised temporary differences associated with the Group's investments in subsidiaries, associates or jointly controlled entities.

Imputation Credits				
Balance at the beginning of the year	**120,998**	109,115	**119,993**	109,053
Income tax paid (net of refunds)	**23,903**	26,751	**23,871**	26,487
Dividends received	**2,693**	2,184	**2,693**	2,184
Dividends paid	**(13,478)**	(15,414)	**(13,478)**	(15,414)
Other movements	**-**	(1,638)	**754**	(2,317)
Balance at the end of the year	**134,116**	120,998	**133,833**	119,993

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5. EQUITY

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Share capital	**192,200**	192,200	**192,200**	192,200
Retained earnings	**396,307**	313,370	**362,562**	356,186
Property revaluation reserves	**88,083**	83,752	**88,083**	83,752
Available for sale reserve	**(3,783)**	(1,450)	**-**	-
Cash flow hedge reserve	**(9,991)**	(2,124)	**-**	-
Foreign currency translation reserve	**3,796**	(639)	**-**	-
Total Equity	**666,612**	585,109	**642,845**	632,138

Share Capital				
Balance at the beginning of the year	**192,200**	192,200	**192,200**	192,200
Balance at the end of the year	**192,200**	192,200	**192,200**	192,200

At 30 June 2008 there were 192.2m authorised ordinary shares, issued and fully paid (30 June 2007 - 192.2m). The shares have no par value. All shares have equal voting rights and share equally in dividends and surplus on winding up.

Retained Earnings				
Balance at the beginning of the year	**313,370**	256,704	**356,186**	339,278
Profit for the year	**110,168**	86,787	**33,771**	38,525
Transfer from asset revaluation reserves	**134**	1,174	**134**	1,174
Amalgamation adjustment	**-**	-	**(164)**	8,504
Dividends paid to shareholders ($0.14 per share)	**(27,365)**	(31,295)	**(27,365)**	(31,295)
Balance at the end of the year	**396,307**	313,370	**362,562**	356,186

Property Revaluation Reserves				
Balance at the beginning of the year	**83,752**	67,085	**83,752**	67,085
Revaluation of properties	**5,579**	19,342	**5,579**	19,342
Deferred taxation on revaluations	**(1,114)**	(2,565)	**(1,114)**	(2,565)
Impact of change in corporate tax rate	**-**	1,064	**-**	1,064
Transferred to retained earnings	**(134)**	(1,174)	**(134)**	(1,174)
Balance at the end of the year	**88,083**	83,752	**88,083**	83,752

Comprising:				
Land revaluation reserve	**60,654**	58,920	**60,654**	58,920
Buildings revaluation reserve (net of tax)	**27,429**	24,832	**27,429**	24,832
Total property revaluation reserves	**88,083**	83,752	**88,083**	83,752

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

Available for Sale Reserve				
Balance at the beginning of the year	**(1,450)**	-	**-**	-
Net loss from changes in fair value after tax	**(4,617)**	(2,188)	**-**	-
Cumulative loss transferred to the income statement within gains/losses on financial instruments at fair value	**3,409**	1,101	**-**	-
Tax effect of items transferred to income statement	**(1,125)**	(363)	**-**	-
Balance at the end of the year	**(3,783)**	(1,450)	**-**	-

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

5. EQUITY continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Cash Flow Hedge Reserve				
Balance at the beginning of the year	**(2,124)**	-	**-**	-
Net loss from changes in fair value after tax	**(8,607)**	(3,260)	**-**	-
Cumulative loss transferred to the income statement within gains/losses on financial instruments at fair value	**1,104**	1,696	**-**	-
Tax effect of items transferred to income statement	**(364)**	(560)	**-**	-
Balance at the end of the year	**(9,991)**	(2,124)	**-**	-

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.

Foreign Currency Translation Reserve				
Balance at the beginning of the year	**(639)**	2,085	**-**	-
Sale of overseas subsidiaries	**904**	-	**-**	-
Translation of overseas subsidiaries to presentation currency	**3,531**	(2,724)	**-**	-
Balance at the end of the year	**3,796**	(639)	**-**	-

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements in foreign subsidiaries.

6. CASH AND CASH EQUIVALENTS

Cash on hand	**8,693**	7,524	**8,672**	7,519
Cash at bank	**43,286**	41,781	**33,339**	28,788
Deposits at call	**971**	39,435	**971**	29,947
Total Cash and Cash Equivalents	**52,950**	88,740	**42,982**	66,254

Balances not available for use by the Group:				
Cash held on behalf of agencies	**6,000**	6,000	**6,000**	6,000
Cash relating to unredeemed coupons	**-**	10,086	**-**	-

7. TRADE AND OTHER RECEIVABLES

Trade receivables	**174,237**	149,929	**136,663**	102,572
Derivative financial assets	**504**	680	**504**	680
Property trade receivable	**-**	22,481	**-**	22,481
Provision for impairment	**(731)**	(927)	**(611)**	(542)
Trail commission receivable	**10,108**	-	**-**	-
Receivables from subsidiaries	**-**	-	**1,784**	9,253
Receivables from related parties	**8,655**	8,757	**8,655**	8,757
Total Trade and Other Receivables	**192,773**	180,920	**146,995**	143,201

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7. TRADE AND OTHER RECEIVABLES continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Comprising:				
Current trade and other receivables	**176,886**	170,411	**131,108**	132,692
Non-current trade and other receivables	**15,887**	10,509	**15,887**	10,509
Total trade and other receivables	**192,773**	180,920	**146,995**	143,201

Impaired receivables mainly relate to receivables older than 90 days outstanding based 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.

Trade Receivables Past Due but Not Impaired				
Past due up to 30 days	**13,817**	14,767	**9,689**	9,222
Past due 30-60 days	**3,357**	2,846	**1,427**	696
Past due 60-90 days	**2,254**	1,471	**587**	317
Past due › 90 days	**1,167**	575	**1,167**	556
Total	**20,595**	19,659	**12,870**	10,791

There is no collateral held over past due trade receivables.

Impaired Assets - Trade Receivables

The breakdown of the gross amount of individually impaired trade receivables is as follows:

Gross Impaired				
Balance at the beginning of the year	**(927)**	(880)	**(542)**	(487)
Net additions	**-**	(47)	**(69)**	(55)
Disposals	**196**	-	**-**	-
Balance at the end of the year	**(731)**	(927)	**(611)**	(542)

The above trade receivables have been impaired as their recovery has been assessed as being unlikely.

There are no other classes of impaired assets, except as disclosed in note 10.

8. INVENTORY

Raw materials/supplies	**6,602**	1,054	**1,214**	1,054
Work in progress	**1,923**	816	**1,923**	816
Finished goods	**6,053**	5,784	**5,620**	5,377
Total Inventory	**14,578**	7,654	**8,757**	7,247

9. ASSETS HELD FOR SALE

Assets held for sale consist of all land and building assets that the Board has agreed to sell, and that are actively being marketed for sale as at 30 June 2008.

All properties are expected to be sold within 12 months of balance date.

During the year the following properties were sold:

- Wanganui ex Stamps Centre (gain on asset sale $0.267m)
- South Auckland Mail Centre (gain on asset sale $0.240m)

Properties held for sale are included in the segment assets balance for Property Services.

10. SPECIFIC BANKING ASSETS

	GROUP	
	2008 $'000	2007 $'000
Cash and Cash Equivalents		
Cash in hand	**26,893**	30,385
Cash with central banks	**204,784**	247,964
Call and overnight advances to financial institutions	**25,558**	11,141
Total cash and bank balances	**257,235**	289,490

Due from Other Financial Institutions		
Reverse repurchase agreements	**141,432**	-
Unsettled receivables	**9,478**	-
Total due from other financial institutions	**150,910**	-

All amounts due from other financial institutions are expected to be realised within the next 12 months.

Financial Assets Held for Trading		
Bank bills	**367,957**	204,233
Other securities	**52,354**	40,887
Total financial assets held for trading	**420,311**	245,120

All financial assets held for trading are expected to be realised within the next 12 months.

Available for Sale Assets		
Government stock and multilateral development banks	**179,449**	74,922
Local authority securities	**5,006**	-
Other debt securities	**512,904**	452,909
Total available for sale assets	**697,359**	527,831
Comprising:		
Current available for sale assets	**144,933**	106,997
Non-current available for sale assets	**552,426**	420,834
Total available for sale assets	**697,359**	527,831

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10. SPECIFIC BANKING ASSETS continued

	GROUP	
	2008 $'000	2007 $'000
Loans and Advances		
Designated upon initial recognition as fair value through profit or loss	3,154,159	2,676,363
At amortised cost	2,429,332	884,998
Allowance for impairment losses	(2,911)	(720)
Total loans and advances	5,580,580	3,560,641
Comprising:		
Current loans and advances	618,996	308,354
Non-current loans and advances	4,961,584	3,252,287
Total loans and advances	5,580,580	3,560,641
Cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value	(2,879)	(2,239)

The above changes in the fair value of the loans and advances that is attributable to changes in the credit risk of the financial asset is determined as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk.

Asset Quality

Interest revenue foregone on impaired assets is calculated using actual interest written off and interest suspended during the financial period. This amounts to $0.028m at 30 June 2008 (30 June 2007 - $0.001m). There are no real estate or other assets acquired through the enforcement of security held at 30 June 2008 (30 June 2007 - nil). There are no assets under administration at 30 June 2008 (30 June 2007 - nil). There are no unrecognised impaired assets at 30 June 2008 (30 June 2007 - nil).

Summary of Lending	**Loans and Advances to Retail Customers 2008 $'000**	**Loans and Advances to Corporate and Institutional Customers 2008 $'000**	**Total Loans and Advances 2008 $'000**	Loans and Advances to Retail Customers 2007 $'000	Loans and Advances to Corporate and Institutional Customers 2007 $'000	Total Loans and Advances 2007 $'000
Neither past due nor impaired	4,757,980	795,824	5,553,804	3,151,688	400,361	3,552,049
Past due but not impaired	24,029	1,591	25,620	8,998	250	9,248
Impaired	3,814	253	4,067	64	-	64
Gross amount	4,785,823	797,668	5,583,491	3,160,750	400,611	3,561,361
Allowance for impairment	(2,537)	(374)	(2,911)	(720)	-	(720)
Net amount	4,783,286	797,294	5,580,580	3,160,030	400,611	3,560,641

10. SPECIFIC BANKING ASSETS continued

Loans and Advances Neither Past Due Nor Impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Kiwibank.

	Retail Unsecured Lending 2008 $'000	**Retail Mortgage Lending 2008 $'000**	**Corporate and Institutional 2008 $'000**	**Total Loans and Advances 2008 $'000**	Retail Unsecured Lending 2007 $'000	Retail Mortgage Lending 2007 $'000	Corporate and Institutional 2007 $'000	Total Loans and Advances 2007 $'000
Grades								
Standard monitoring	**145,998**	**4,611,982**	**795,824**	**5,553,804**	104,590	3,047,098	400,361	3,552,049
Special monitoring	**-**	**-**	**-**	**-**	-	-	-	-
Sub-standard monitoring	**-**	**-**	**-**	**-**	-	-	-	-
Total	**145,998**	**4,611,982**	**795,824**	**5,553,804**	104,590	3,047,098	400,361	3,552,049

Standard monitoring of assets occurs when the asset is a performing asset or when it is 1 to 89 days past due.

Special monitoring of assets occurs when there is a risk of the asset becoming impaired and active management is required to maintain the debt.

Sub-standard monitoring of assets occurs when the asset is greater than 90 days past due.

Loans and Advances Past Due but Not Impaired

	Retail Unsecured Lending 2008 $'000	**Retail Mortgage Lending 2008 $'000**	**Corporate and Institutional 2008 $'000**	**Total Loans and Advances 2008 $'000**	Retail Unsecured Lending 2007 $'000	Retail Mortgage Lending 2007 $'000	Corporate and Institutional 2007 $'000	Total Loans and Advances 2007 $'000
Past due 30-60 days	**3,383**	**5,468**	**12**	**8,863**	2,735	1,855	250	4,840
Past due 60-90 days	**1,714**	**6,283**	**-**	**7,997**	1,038	1,359	-	2,397
Past due › 90 days	**1,309**	**5,872**	**1,579**	**8,760**	480	1,531	-	2,011
Total	**6,406**	**17,623**	**1,591**	**25,620**	4,253	4,745	250	9,248
Fair value of collateral	**-**	**13,217**	**1,193**	**14,410**	-	3,559	188	3,747

Ageing analysis of past due loans greater than 30 days is used by Kiwibank to measure and manage the credit quality of the retail lending portfolio. The remaining portfolios are managed on an individual basis. As such, the data for financial assets past due less than 30 days has not been presented as it does not correspond with Kiwibank's risk management practices.

Impaired Assets

The breakdown of the gross amount of individually impaired loans and advances by class and restructured loans is as follows:

	Unsecured Retail Lending		**Secured Retail Lending**		**Secured Corporate Lending**	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Gross Impaired						
Balance at the beginning of the year	**64**	60	**-**	-	**-**	-
Net additions	**202**	64	**3,612**	-	**253**	-
Deletions	**(38)**	(36)	**-**	-	**-**	-
Amounts written off	**(26)**	(24)	**-**	-	**-**	-
Balance at the end of the year	**202**	64	**3,612**	-	**253**	-

There are no other classes of impaired banking assets.

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10. SPECIFIC BANKING ASSETS continued

Restructured Assets

Restructuring activities include extended payment plans, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators of criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. There are no restructured assets as at 30 June 2008 (30 June 2007 - nil).

11. BANKING DERIVATIVE FINANCIAL INSTRUMENTS

Kiwibank uses the following derivative instruments for both hedging and non-hedging purposes.

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (ie cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps.

Kiwibank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, Kiwibank assesses counterparties using the same techniques as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between Kiwibank and a customer (over the counter). Kiwibank is exposed to credit risk on purchased options only and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate Kiwibank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and financial liabilities, can fluctuate significantly from time to time. The fair value of derivative instruments is set out below.

	GROUP	
	2008 $'000	2007 $'000
Derivatives Held for Trading		
Foreign exchange derivatives		
- Forward contracts	**(719)**	2,943
- Swap agreements	**(10,947)**	177
Total foreign exchange derivatives	**(11,666)**	3,120
Interest rate derivatives		
- Forward contracts	**18**	(122)
- Swap agreements	**(785)**	68,630
- Futures contracts	**23**	2
- Options	**-**	9
Total interest rate derivatives	**(744)**	68,519
Total derivatives held for trading	**(12,410)**	71,639

11. BANKING DERIVATIVE FINANCIAL INSTRUMENTS continued

	GROUP	
	2008 $'000	2007 $'000
Derivative Designated as Cash Flow Hedges		
Interest rate derivatives		
- Swap agreements	**(17,663)**	(3,270)
Total derivatives designated as cash flow hedges	**(17,663)**	(3,270)
Derivatives Designated as Fair Value Hedges		
Interest rate derivatives		
- Swap agreements	**263**	97
Total derivatives designated as fair value hedges	**263**	97
Total Derivative Financial Instruments	**(29,810)**	68,466

Comprising:		
Current derivative financial instruments	**199,433**	10,351
Non-current derivative financial instruments	**(229,243)**	58,115
Total derivative financial instruments	**(29,810)**	68,466

Fair Value Hedges

Kiwibank has entered into asset swaps to hedge interest rate risk resulting from any potential decrease in the fair value of fixed rate coupon bonds. Kiwibank hedges this risk through the use of fixed interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate assets and interest rate swaps. The fair value gains and losses are recorded through the income statement as incurred. The opposing fair value adjustments to the carrying balance sheet value are recognised through the income statement as the fixed rate asset and interest rate swap near maturity. The unrealised mark to market gains/losses on these hedging instruments at 30 June 2008 were a gain of $0.2m (30 June 2007 - gain of $0.5m).

Kiwibank also partially hedged the interest rate risk arising from any potential decrease in the fair value of fixed rate subordinated debt issuance. Kiwibank hedged this risk through the use of fixed interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate liability and interest rate swaps. The fair value gains and losses are recorded through the income statement as incurred. The opposing fair value adjustments to the carrying balance sheet value are recognised through to the income statement as the fixed rate liability and interest rate swap near maturity. The unrealised mark to market gains/losses on the hedging instruments at 30 June 2008 were a loss of $0.1m (30 June 2007 - loss of $0.6m).

Cash Flow Hedges

Kiwibank hedges the short term future reissuance of fixed rate customers and future retail term deposits through the use of interest rate swaps. Previously, Kiwibank also hedged the cash flows from variable rate loan assets and liabilities. All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur, which is anticipated to take place over the next ten years. The net unrealised mark to market gains/losses on these hedged instruments at 30 June 2008 was a gain of $15.8m (30 June 2007 - loss of $3.3m).

12. INVESTMENT PROPERTIES

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Balance at the beginning of the year	**58,204**	53,035	**58,204**	53,035
Additions	**-**	-	**-**	-
Revaluations	**3,782**	5,169	**3,782**	5,169
Transfers from property, plant and equipment	**8,174**	-	**8,174**	-
Disposals	**-**	-	**-**	-
Balance at the end of the year	**70,160**	58,204	**70,160**	58,204

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12. INVESTMENT PROPERTIES continued

Land and building are classified as investment property when:

- all of the space is occupied by external tenants; or

- there is a mixture of internal and external tenancies but the Group tenants occupy an insignificant portion of the total space (no more than 10%), and there is no clear intention for this to change in the future.

The above criteria is applied to each separable portion of a building, hence can result in part of a building being classified as investment property, and part being recognised as property, plant and equipment.

All investment properties were valued at 30 June 2008 and 30 June 2007 by DTZ New Zealand Limited (an independent valuer), associates of the New Zealand Institute of Valuers. Market values have been assessed based on lease terms and expected market rent.
Investment Properties have been valued in accordance with NZ IAS 40.

There are no restrictions on realisability, remittance of income or proceeds on disposal.

13. PROPERTY, PLANT AND EQUIPMENT

	GROUP		**PARENT**	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Land	**87,115**	88,316	**87,115**	88,316
Buildings	**104,849**	106,188	**104,849**	106,188
Motor vehicles	**884**	1,096	**854**	946
Furniture and fittings	**34,869**	18,975	**30,448**	14,423
Office equipment	**3,463**	3,810	**641**	1,195
Computer equipment	**24,790**	21,464	**9,797**	8,309
Plant and equipment	**45,208**	51,476	**37,570**	42,558
Aircraft	**10,961**	-	**-**	-
Work in progress	**15,553**	16,434	**12,009**	14,795
Total Property, Plant and Equipment	**327,692**	307,759	**283,283**	276,730

Land				
Cost at the beginning of the year	**88,316**	84,340	**88,316**	84,340
Classified as properties held for sale	**-**	(8,050)	**-**	(8,050)
Classified as investment property	**(3,060)**	-	**(3,060)**	-
Disposals	**-**	(265)	**-**	(265)
Revaluations	**1,859**	12,291	**1,859**	12,291
Cost at the end of the year	**87,115**	88,316	**87,115**	88,316
Carrying amount of land	**87,115**	88,316	**87,115**	88,316

13. PROPERTY, PLANT AND EQUIPMENT continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Buildings				
Cost at the beginning of the year	**106,188**	83,265	**106,188**	83,265
Additions	**321**	17,172	**321**	17,172
Classified as properties held for sale	**-**	(2,050)	**-**	(2,050)
Classified as investment property	**(5,114)**	-	**(5,114)**	-
Disposals	**-**	-	**-**	-
Acquisitions through business combinations	**-**	-	**-**	-
Revaluations	**3,454**	7,801	**3,454**	7,801
Cost at the end of the year	**104,849**	106,188	**104,849**	106,188
Accumulated depreciation at the beginning of the year	**-**	-	**-**	-
Depreciation	**(3,185)**	(2,427)	**(3,185)**	(2,427)
Revaluations	**3,185**	2,427	**3,185**	2,427
Accumulated depreciation at the end of the year	**-**	-	**-**	-
Carrying amount of buildings	**104,849**	106,188	**104,849**	106,188
Motor Vehicles				
Cost at the beginning of the year	**3,204**	3,413	**2,767**	2,713
Additions	**238**	245	**238**	244
Disposals	**(467)**	(454)	**(177)**	(190)
Acquisitions through business combinations	**-**	-	**-**	-
Cost at the end of the year	**2,975**	3,204	**2,828**	2,767
Accumulated depreciation at the beginning of the year	**(2,108)**	(1,864)	**(1,821)**	(1,618)
Depreciation	**(443)**	(381)	**(330)**	(354)
Disposals	**460**	137	**177**	151
Accumulated depreciation at the end of the year	**(2,091)**	(2,108)	**(1,974)**	(1,821)
Carrying amount of motor vehicles	**884**	1,096	**854**	946
Furniture and Fittings				
Cost at the beginning of the year	**58,424**	50,115	**51,341**	45,191
Additions	**24,115**	10,470	**23,128**	8,178
Disposals	**(3,520)**	(2,161)	**(2,559)**	(2,028)
Acquisitions through business combinations	**-**	-	**-**	-
Cost at the end of the year	**79,019**	58,424	**71,910**	51,341
Accumulated depreciation at the beginning of the year	**(39,449)**	(34,703)	**(36,918)**	(32,345)
Depreciation	**(6,295)**	(6,154)	**(5,806)**	(5,786)
Disposals	**1,594**	1,408	**1,262**	1,213
Accumulated depreciation at the end of the year	**(44,150)**	(39,449)	**(41,462)**	(36,918)
Carrying amount of furniture and fittings	**34,869**	18,975	**30,448**	14,423

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13. PROPERTY, PLANT AND EQUIPMENT continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Office Equipment				
Cost at the beginning of the year	**14,982**	14,442	**7,937**	7,895
Additions	**1,456**	1,117	**199**	249
Disposals	**(3,095)**	(577)	**(3,214)**	(207)
Acquisitions through business combinations	**-**	-	**-**	-
Cost at the end of the year	**13,343**	14,982	**4,922**	7,937
Accumulated depreciation at the beginning of the year	**(11,172)**	(10,848)	**(6,742)**	(6,178)
Depreciation	**(784)**	(840)	**(724)**	(757)
Disposals	**2,076**	516	**3,185**	193
Accumulated depreciation at the end of the year	**(9,880)**	(11,172)	**(4,281)**	(6,742)
Carrying amount of office equipment	**3,463**	3,810	**641**	1,195
Computer Equipment				
Cost at the beginning of the year	**75,215**	66,600	**47,830**	42,776
Additions	**14,686**	12,627	**7,743**	7,782
Disposals	**(9,997)**	(4,012)	**(7,016)**	(2,728)
Acquisitions through business combinations	**-**	-	**-**	-
Cost at the end of the year	**79,904**	75,215	**48,557**	47,830
Accumulated depreciation at the beginning of the year	**(53,751)**	(46,373)	**(39,521)**	(37,291)
Depreciation	**(10,547)**	(8,789)	**(5,618)**	(4,925)
Disposals	**9,184**	1,411	**6,379**	2,695
Accumulated depreciation at the end of the year	**(55,114)**	(53,751)	**(38,760)**	(39,521)
Carrying amount of computer hardware	**24,790**	21,464	**9,797**	8,309
Plant and Equipment				
Cost at the beginning of the year	**132,430**	123,383	**106,472**	98,374
Additions	**3,834**	19,507	**1,293**	11,855
Disposals	**(23,529)**	(10,460)	**(15,387)**	(3,757)
Acquisitions through business combinations	**843**	-	**-**	-
Cost at the end of the year	**113,578**	132,430	**92,378**	106,472
Accumulated depreciation at the beginning of the year	**(80,954)**	(79,751)	**(63,914)**	(61,493)
Depreciation	**(9,550)**	(9,907)	**(6,165)**	(5,449)
Disposals	**22,134**	8,704	**15,271**	3,028
Accumulated depreciation at the end of the year	**(68,370)**	(80,954)	**(54,808)**	(63,914)
Carrying amount of plant and equipment	**45,208**	51,476	**37,570**	42,558
Aircraft				
Cost at the beginning of the year	**-**	-	**-**	-
Additions	**2,427**	-	**-**	-
Disposals	**-**	-	**-**	-
Acquisitions through business combinations	**10,958**	-	**-**	-
Cost at the end of the year	**13,385**	-	**-**	-
Accumulated depreciation at the beginning of the year	**-**	-	**-**	-
Depreciation	**(2,424)**	-	**-**	-
Disposals	**-**	-	**-**	-
Accumulated depreciation at the end of the year	**(2,424)**	-	**-**	-
Carrying amount of aircraft	**10,961**	-	**-**	-

13. PROPERTY, PLANT AND EQUIPMENT continued

The agreement by which the Parent 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 Parent will be compensated by the Crown for any loss that occurs upon the resumption of any interest in land by the Crown.

Land and buildings were valued at 30 June 2008 and 30 June 2007 by DTZ New Zealand Limited (an independent valuer), associates of the New Zealand Institute of Valuers. Land and buildings have been valued in accordance with NZ IAS 16. The valuation process complied with the New Zealand Property Institute Practice Standards. Valuations are at fair value. The valuations are based on current occupancy arrangements and property operating expenses, and the state of the New Zealand property market in general as well as the sub-markets into which the properties fall. Where vacant space exists it has been rentalised at a market level and added to actual lease rentals.

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

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Land	**27,537**	28,751	**27,537**	28,751
Buildings	**73,003**	79,804	**73,003**	79,804

14. INTANGIBLE ASSETS

Computer software	**46,164**	34,695	**23,700**	13,049
Acquired customer contracts	**3,143**	-	**-**	-
Acquired customer relationships	**11,868**	9,236	**-**	-
Goodwill	**36,652**	49,090	**-**	-
Other intangible assets	**127**	54	**127**	54
Software work in progress	**23,719**	26,643	**14,787**	22,527
Total Intangible Assets	**121,673**	119,718	**38,614**	35,630

Computer Software				
Cost at the beginning of the year	**138,246**	120,228	**85,542**	82,434
Accumulated amortisation/impairment at the beginning of the year	**(103,551)**	(88,721)	**(72,493)**	(64,953)
Carrying value at the beginning of the year	**34,695**	31,507	**13,049**	17,481
Additions - internal development	**21,217**	14,995	**13,261**	2,335
Additions - purchased	**7,240**	3,109	**6,259**	1,247
Disposals	**(131)**	-	**(43)**	-
Amortisation expense	**(16,857)**	(14,916)	**(8,826)**	(8,014)
Balance at the end of the year	**46,164**	34,695	**23,700**	13,049

Comprising:				
Cost	**158,001**	138,246	**99,512**	85,542
Accumulated amortisation/impairment	**(111,837)**	(103,551)	**(75,812)**	(72,493)
Total computer software	**46,164**	34,695	**23,700**	13,049

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14. INTANGIBLE ASSETS continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Acquired Customer Contracts				
Cost at the beginning of the year	-	-	-	-
Accumulated amortisation/impairment at the beginning of the year	-	-	-	-
Carrying value at the beginning of the year	-	-	-	-
Acquisitions through business combinations	3,568	-	-	-
Amortisation expense	(425)	-	-	-
Balance at the end of the year	3,143	-	-	-
Comprising:				
Cost	3,568	-	-	-
Accumulated amortisation/impairment	(425)	-	-	-
Total acquired customer relationships	3,143	-	-	-

Acquired customer contracts relate to the expected future benefits of lease agreements held by the Group for aircraft assets and maintenance charges. Acquired customer contracts are being amortised over a seven year period to match the lease agreement terms. The seven years is due to expire in August 2014.

	GROUP		PARENT	
Acquired Customer Relationships				
Cost at the beginning of the year	10,498	-	-	-
Accumulated amortisation/impairment at the beginning of the year	(1,262)	-	-	-
Carrying value at the beginning of the year	9,236	-	-	-
Acquisitions through business combinations	11,718	10,498	-	-
Disposals	(4,828)	-	-	-
Amortisation expense	(4,258)	(1,262)	-	-
Balance at the end of the year	11,868	9,236	-	-
Comprising:				
Cost	17,388	10,498	-	-
Accumulated amortisation/impairment	(5,520)	(1,262)	-	-
Total acquired customer relationships	11,868	9,236	-	-

Acquired customer relationships relate to the expected future benefits of customer accounts in place on acquisition of The New Zealand Home Loan Company.

Acquired customer relationships are being amortised over a period that reflects the expected life of the customer relationships.

	GROUP		PARENT	
Goodwill				
Cost at the beginning of the year	49,534	42,177	-	-
Accumulated impairment at the beginning of the year	(444)	-	-	-
Carrying value at the beginning of the year	49,090	42,177	-	-
Acquisitions through business combinations	18,564	10,468	-	-
Disposals	(31,150)	-	-	-
Impairment losses recognised	-	(444)	-	-
Translation adjustment	148	(3,111)	-	-
Balance at the end of the year	36,652	49,090	-	-

14. INTANGIBLE ASSETS continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Comprising:				
Cost	**37,096**	49,534	**-**	-
Accumulated impairment	**(444)**	(444)	**-**	-
Total goodwill	**36,652**	49,090	**-**	-

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Other Intangible Assets				
Cost at the beginning of the year	**224**	142	**224**	142
Accumulated amortisation/impairment at the beginning of the year	**(170)**	(63)	**(170)**	(63)
Carrying value at the beginning of the year	**54**	79	**54**	79
Additions - purchased	**255**	82	**255**	82
Amortisation expense	**(182)**	(107)	**(182)**	(107)
Balance at the end of the year	**127**	54	**127**	54
Comprising:				
Cost	**224**	224	**279**	224
Accumulated amortisation/impairment	**(97)**	(170)	**(152)**	(170)
Total other intangible assets	**127**	54	**127**	54

Impairment Testing for Goodwill

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

BUSINESS COMBINATION	CASH GENERATING UNIT
Acquisition of Couriers Please Pty Limited	Couriers Please Pty Limited operations
Acquisition of Outsource Australia Pty Limited	Outsource Australia Pty Limited Group operations
Acquisition of Moore Gallagher business	Datamail Pty Limited operations
Acquisition of Outsource Solutions Limited	Outsource Solutions Limited operations
Acquisition of Tedis (now ECN Australia Pty Ltd)	ECN Australia operations
Acquisition of Infolink Limited (amalgamated into The ECN Group Ltd)	The ECN Group Limited operations
Acquisition of The New Zealand Home Loans Company Limited	The New Zealand Home Loans Company Limited operations and related Kiwibank operations

The recoverable amounts of all cash generating units have been determined based on a value in use calculation using cash flow projections as at 31 March based on financial budgets approved by senior management covering a five year period. The pre-tax risk free discount rate applied to cash flow projections was between 8.5% and 17.9% based on the risk associated with the operations. No growth rate is applied in the calculations.

NEW ZEALAND POST LIMITED AND SUBSIDIARIES
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14. INTANGIBLE ASSETS continued

	GROUP	
	2008 $'000	2007 $'000
The carrying value of goodwill assigned to each cash generating unit is		
Couriers Please Pty Limited operations	-	15,447
Outsource Australia Pty Limited Group operations	18,390	16,536
Datamail Pty Limited operations	2,888	2,888
Outsource Solutions Limited operations	2,948	2,948
ECN Australia operations	3,620	3,210
The ECN Group Limited operations	981	981
The New Zealand Home Loans Company Limited Operations and related Kiwibank operations	7,825	7,080
Total goodwill	36,652	49,090

15. RELATED PARTY TRANSACTIONS

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 on an arm's length basis and in the normal course of business. Kiwibank settles transactions with other New Zealand registered banks by way of the payment and settlement system operated by the Reserve Bank of New Zealand in its capacity as the central bank of New Zealand. All members of the Group are considered to be related parties of the Parent. This includes the subsidiaries, associate entities and jointly controlled entities identified in notes 16 and 17.

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Related Party Transactions				
Shareholders				
- dividends paid	27,365	31,295	27,365	31,295
Subsidiaries				
- sale of goods and services	-	-	23,144	27,104
- purchase of goods and services	-	-	21,749	18,138
- interest received/(paid)	-	-	7,501	2,046
- loans (advanced)/repaid	-	-	47,915	14,704
- equity investment	-	-	113,018	55,000
- impairment of receivable from Transend UK Ltd	-	-	(1,799)	1,799
Associates				
- purchase of goods and services	31,959	35,732	31,959	35,732
- dividends received	-	-	3,964	3,802
- equity investment	3,600	6,240	3,600	6,240
Jointly Controlled Entities				
- sale of goods and services	28,968	16,228	23,909	14,986
- purchase of goods and services	78,966	74,547	76,074	71,541
- interest received/(paid)	226	2,715	226	2,715
- dividends received	-	-	2,500	-
- loans (advanced)/repaid	(64,250)	-	-	40,000
- equity investment	22,000	-	2,000	-

15. RELATED PARTY TRANSACTIONS continued

During the prior year, Express Couriers Limited repaid a $40m loan advanced to it by the Parent. This repayment was financed through bank debt, guaranteed by the Parent Company, in line with its 50% shareholding. The repayment has the effect of reducing the carrying value of the Group's share of the net assets of Express Couriers Limited to below zero. In accordance with New Zealand generally accepted accounting practice the Group continues to account for Express Couriers Limited using the equity method.

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Other Related Parties				
- sale of goods and services	**49,300**	47,534	**49,300**	47,534
- purchase of goods and services	**13,906**	13,016	**13,906**	13,016
Other related parties include all entities under Crown control.				
Related Party Balances				
The amounts outstanding with related parties at balance date were:				
Subsidiaries				
- current accounts	**-**	-	**1,784**	9,253
- loans receivable	**-**	-	**46,779**	94,694
- investments	**-**	-	**350,883**	244,546
Total balances for subsidiaries	**-**	-	**399,446**	348,493
Associates				
- current accounts	**(3,419)**	(4,658)	**(3,419)**	(4,658)
- investments	**39,636**	31,170	**16,198**	12,598
Total balances for associates	**36,217**	26,512	**12,779**	7,940
Jointly Controlled Entities				
- current accounts	**(4,249)**	(5,467)	**(4,950)**	(5,314)
- loans receivable	**-**	-	**4,442**	-
- guarantee of obligations	**(8,049)**	(14,350)	**-**	-
- investments	**60,930**	6,402	**52,000**	50,250
Total balances for jointly controlled entities	**48,632**	(13,415)	**51,492**	44,936
Other Related Parties				
- current accounts	**8,655**	8,757	**8,655**	8,757
Total balances for other related parties	**8,655**	8,757	**8,655**	8,757
Represented by:				
Related party current accounts	**987**	(1,368)	**2,070**	8,038
Loans to related parties	**-**	-	**51,221**	94,694
Investments accounted for using the equity method	**92,517**	23,222	**68,198**	62,848
Investments in subsidiaries	**-**	-	**350,883**	244,546
Total related party balances	**93,504**	21,854	**472,372**	410,126

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15. RELATED PARTY TRANSACTIONS continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Key Management Personnel Compensation				
Short-term employee benefits	**5,444**	4,977	**3,644**	3,269
Other long-term benefits	**606**	289	**532**	199
Total key management personnel compensation	**6,050**	5,266	**4,176**	3,468

Key management personnel relates to Directors and Executive Team members of the Parent.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates	**39,636**	31,170	**16,198**	12,598
Investments in Jointly Controlled Entities	**52,881**	(7,948)	**52,000**	50,250
Total Investments Accounted for Using the Equity Method	**92,517**	23,222	**68,198**	62,848

Investments in Associates

NAME OF ENTITY	PRINCIPAL ACTIVITY	BALANCE DATE	2008 % HELD	2007 % HELD
Datacom Group Limited	Business solutions	31 March	**36**	34

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Balance at the beginning of the year	**31,170**	20,480	**12,598**	6,358
Acquisitions	**3,600**	6,240	**3,600**	6,240
Share of net profit of associates	**8,830**	8,252	**-**	-
Dividends received	**(3,964)**	(3,802)	**-**	-
Balance at the end of the year	**39,636**	31,170	**16,198**	12,598
Included within the above carrying value is:				
Goodwill at beginning of the year	**5,579**	1,223	**-**	-
Acquisitions	**2,770**	4,356	**-**	-
Divestments	**-**	-	**-**	-
Goodwill at end of the year	**8,349**	5,579	**-**	-

During the year the Group increased its investment in Datacom Group Limited from 34.47% to 35.57% on 27 July 2007.

The fair value of the Group's investment in Datacom Group Limited is $89.8m (30 June 2007 - $84.7m).

Summarised Financial Information of Associates	**31 March 2008**	31 March 2007
Total assets	**201,827**	149,982
Total liabilities	**111,967**	75,825
Total revenues	**449,246**	391,459
Total profit	**24,313**	22,791

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD continued

Investments in Jointly Controlled Entities

NAME OF ENTITY	PRINCIPAL ACTIVITY	BALANCE DATE	2008 % HELD	2007 % HELD
Express Couriers Australia Pty Limited	Courier and distribution	30 June	50	-
Express Couriers Limited	Courier and distribution	30 June	50	50
Reach Media New Zealand Limited	Unaddressed mail	30 June	50	-

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Balance at the beginning of the year	**(7,948)**	23,620	**50,250**	50,250
Acquisitions	**65,562**	-	**2,000**	-
Divestments	**(5,356)**	(57)	**(250)**	-
Loan repayment	**(4,118)**	(40,000)	**-**	-
Share of net profit of jointly controlled entities	**7,241**	8,489	**-**	-
Dividends received	**(2,500)**	-	**-**	-
Balance at the end of the year	**52,881**	(7,948)	**52,000**	50,250

Reach Media New Zealand Limited joint venture was formed on 1 November 2007. At formation the Parent acquired $2m of share capital.

On 28 June 2008 the Group acquired a 50% shareholding in Express Couriers Australia Pty Limited, a joint venture with Deutsche Post Beteilgungen Holding GMBH. Shares in Express Couriers Australia Pty Limited and a shareholder loan were issued in exchange for the shares in NZP Australia Pty Limited, valued at AU$80m.

On 27 August 2007 the Group increased its investment in Air Post Limited from 50% to 100% and started accounting for the investment as a subsidiary.

Share of jointly controlled entities' contingent liabilities	**-**	-

The Parent has guaranteed 50% of the bank debt of Express Couriers Limited, in-line with its shareholding. There is no obligation at 30 June 2008 (30 June 2007 - no obligation).

Share of jointly controlled entities' capital commitments	**487**	1

17. INVESTMENTS IN SUBSIDIARIES

Investment in Material Subsidiaries

NAME OF ENTITY	PRINCIPAL ACTIVITY	2008 % HELD	2007 % HELD
AirPost Limited*	Airline freight services	100	50
Communication Arts Limited	Print management	100	100
Couriers Please Pty Limited****	Distribution	-	100
Datamail Limited	Print, create mail and data management	100	100
Franchise Urban Network Limited**	Franchise of Letterbox Channel	-	100
Kiwibank Limited	Registered bank	100	100
Kiwibank Portfolio Investment Entity Unit Trust*****	Investment management services	-	-
Letterbox Channel Limited***	Postal service	-	100
MessageMedia NZ Limited***	E-marketing	-	100
The New Zealand Home Loan Company Limited	Mortgage services	51	51
New Zealand Post Australia Holdings Pty Limited	International mail business	100	100
New Zealand Post Holdings Limited	Holding company	100	100
NZP Australia Pty Limited****	Holding company	-	100

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17. INVESTMENTS IN SUBSIDIARIES continued

NAME OF ENTITY	PRINCIPAL ACTIVITY	2008 % HELD	2007 % HELD
Outsource Australia Pty Limited	Business process outsourcing	100	75
Outsource Solutions Limited***	Business process outsourcing	-	100
Parcel Overnight Direct Pty Limited****	Distribution	-	100
The ECN Group Limited	Electronic services	100	100
The ECN Group Pty Limited	Electronic services	100	100

All subsidiary companies were incorporated in New Zealand with the exception of Couriers Please Pty Limited, Parcel Overnight Direct Pty Limited, NZP Australia Pty Limited, New Zealand Post Australia Holdings Pty Limited, New Zealand Post Supply Chain Pty Limited, Outsource Australia Pty Limited and The ECN Group Pty Limited, which were incorporated in Australia.

* The Parent acquired the remaining 50% shareholding in Air Post Limited on 27 August 2007.

** Franchise Urban Network Limited was liquidated on 27 June 2008.

*** Letterbox Channel Limited and MessageMedia NZ Limited were amalgamated with the Parent on 27 June 2008.
Outsource Solutions Limited was amalgamated with Datamail Limited on 30 June 2008.

**** NZP Australia Pty Limited, and its subsidiaries Couriers Please Pty Limited and Parcel Overnight Direct Pty Limited were sold to Express Couriers Australia Pty Limited on 30 June 2008. The Group owns 50% of Express Couriers Australia Pty Limited. This investment is accounted for as a jointly controlled entity.

***** The Group consolidates the Trust on the basis that Kiwibank is deemed to control the Trust as the activities of the Trust are conducted on behalf of Kiwibank according to Kiwibank's specific business needs.

Acquisition of Subsidiaries

The following acquisitions took effect during the year:

- The Parent increased its investment in Air Post Limited from 50% to 100% on 27 August 2007.
- NZP Australia Pty Limited purchased 100% of Northern Kope Parcel Express Pty Limited on 29 February 2008.

During the prior year Kiwibank Limited purchased 51% of The New Zealand Home Loan Company Limited on 1 July 2006 (with an option to purchase the remaining 49%).

	GROUP 2008 $'000
Net assets acquired	
- bank balances	1,694
- net current assets (excluding cash)	9,589
- property, plant and equipment	11,801
- intangible assets	3,568
- deferred tax	(334)
- taxation provisions	(746)
- borrowings	(8,902)
Goodwill on acquisition	12,483
Investment in jointly controlled entity	(5,932)
Purchase price	23,221
Consideration payable	(1,321)
Bank balances acquired	(1,694)
Net cash impact of acquisition	**20,206**

17. INVESTMENTS IN SUBSIDIARIES continued

The fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition were

	Recognised on Acquisition	Carrying Value
	$'000	$'000
Bank balances	1,694	1,694
Net current assets (excluding cash)	9,589	9,589
Property, plant and equipment	11,801	11,801
Intangible assets	3,568	-
Deferred tax	(334)	(334)
Taxation provisions	(746)	(746)
Borrowings	(8,902)	(8,902)

Intangible Assets

Intangible assets represent customer contracts not recognised in the acquiree's balances at the time of acquisition. The excess of purchase price over net assets has been allocated against these contracts and is being amortised over the expected life of the contracts, being 7 years.

Goodwill on Acquisition

Goodwill recognised represents the future synergies and revenue growth expected to be achieved as a result of combining Northern Kope Parcel Express Pty Limited with the rest of the Group.

From the date of acquisition the acquirees have contributed $0.8m to the net profit of the Group.

If the combinations had taken place at the beginning of the year, the profit for the Group would have been $109.3m and the revenue from operations would have been $1,301.7m.

During the prior year Kiwibank Limited purchased 51% of The New Zealand Home Loan Company Limited on 1 July 2006 (with an option to purchase the remaining 49%).

Disposal of Subsidiaries

On 30 June 2008 the Group disposed of its shareholding in NZP Australia Pty Limited, Couriers Please Pty Limited, Parcel Overnight Direct Pty Limited and Northern Kope Parcel Express Pty Limited to Express Couriers Australia Pty Limited. The Group purchased a 50% shareholding in Express Couriers Australia Pty Limited on 28 June 2008. Proceeds from the sale were received by way of shares in Express Couriers Australia Pty Limited, shareholder loan and cash.

No subsidiaries were disposed of in the prior year.

	GROUP 2008 $'000
Net assets disposed	
- cash and cash equivalents	28,962
- net current assets (excluding cash)	(2,118)
- property, plant and equipment	4,866
- intangible assets (excluding goodwill)	887
- taxation balances	5,615
- borrowings	(21,537)
Investment in jointly controlled entity	32,065
	48,740
Goodwill disposed	31,150
Gain on divestment	24,756
Consideration	104,646

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17. INVESTMENTS IN SUBSIDIARIES continued

	GROUP 2008 $'000
Consideration comprises:	
Cash	**11,609**
Related Party loan receivable	**67,801**
Investment in jointly controlled entity	**25,236**
Total consideration	**104,646**

Amalgamation of Subsidiaries

The following companies were amalgamated with the Parent during the year:

- Letterbox Channel Limited on 27 June 2008

- MessageMedia NZ Limited on 27 June 2008

During the prior year New Zealand Post Alpha Limited, New Zealand Post Bravo Limited, New Zealand Post Charlie Limited and Transend Worldwide Limited were amalgamated with the Parent.

Until the date of amalgamation, the above companies were wholly-owned subsidiaries of the Parent. On amalgamation of the companies the Parent took control of all the assets and assumed responsibility for all liabilities. The above amalgamated companies have been removed from the New Zealand Register of Companies.

	PARENT	
	2008 $'000	2007 $'000
Net assets amalgamated		
- bank balances	**668**	1,798
- net current assets (excluding cash)	**(832)**	6,683
- property, plant and equipment	**-**	23
Balance recognised in the statement of movements in equity	**(164)**	8,504

The assets and liabilities have been brought into the Parent's financial statements at their carrying amounts which approximate their fair value. The operating results of the amalgamated companies have been included in the income statement of the Parent since amalgamation date. The balance on amalgamation has been recognised in the statement of movements in equity of the Parent.

18. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Trade payables	**98,093**	84,811	**69,134**	51,008
Payables to related parties	**7,668**	10,125	**8,369**	9,972
Trail commission payable	**5,270**	-	**-**	-
Payment services holding accounts	**44,303**	32,763	**40,754**	31,102
Unearned revenue	**27,563**	49,878	**27,341**	39,681
Accrued employee benefit liabilities	**75,636**	67,402	**58,567**	52,986
Other accruals and payables	**8,308**	3,487	**1,985**	1,880
Total Trade and Other Payables	**266,841**	248,466	**206,150**	186,629

Comprising:				
Current trade and other payables	**262,412**	245,755	**201,721**	183,918
Non-current trade and other payables	**4,429**	2,711	**4,429**	2,711
Total trade and other payables	**266,841**	248,466	**206,150**	186,629

19. PROVISIONS

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Employee medical claims	**3,667**	3,667	**3,667**	3,667
Operating lease contracts for vacant space	**825**	1,324	**825**	1,324
Telephone rentals	**1,078**	1,259	**1,078**	1,259
Property restorations	**644**	1,369	**644**	562
Total Provisions	**6,214**	7,619	**6,214**	6,812

Employee Medical Claims				
Balance at the beginning of the year	**3,667**	3,169	**3,667**	3,169
Additional provision	**-**	1,030	**-**	1,030
Utilisation of provision	**-**	(532)	**-**	(532)
Reversal of provision	**-**	-	**-**	-
Unwind of discounting	**-**	-	**-**	-
Balance at the end of the year	**3,667**	3,667	**3,667**	3,667

Comprising:				
Current portion	**733**	733	**733**	733
Non-current portion	**2,934**	2,934	**2,934**	2,934
Total employee medical claims	**3,667**	3,667	**3,667**	3,667

The Group is liable for employee medical claims relating to workplace injuries. The provision has been made in respect of future estimated costs relating to injuries that have occurred prior to balance date. Costs are expected to be paid over the next 5 years.

Operating Lease Contracts for Vacant Space				
Balance at the beginning of the year	**1,324**	1,324	**1,324**	1,324
Utilisation of provision	**(499)**	-	**(499)**	-
Balance at the end of the year (current)	**825**	1,324	**825**	1,324

The Group has operating lease contracts. This provision has been made in respect of future estimated irrecoverable expenses for unoccupied external leases.

Lease expiry of these contracts are within one year.

The balance of the provision covers rent and outgoings for the vacant former Christchurch Mail Centre through to lease expiry.

Telephone Rentals				
Balance at the beginning of the year	**1,259**	1,170	**1,259**	1,170
Additional provision	**-**	203	**-**	203
Utilisation of provision	**(181)**	(114)	**(181)**	(114)
Balance at the end of the year	**1,078**	1,259	**1,078**	1,259

Comprising:				
Current portion	**47**	55	**47**	55
Non-current portion	**1,031**	1,204	**1,031**	1,204
Total telepone rentals	**1,078**	1,259	**1,078**	1,259

The Group is liable to pay retiree's telephone rental and domestic toll charges. This provision has been made in respect of future estimated costs likely to be incurred relating to commitments prior to balance date. Costs are expected to be paid over at least the next 30 years.

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19. PROVISIONS continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Property Restorations				
Balance at the beginning of the year	**1,369**	715	**562**	332
Additional provision	**82**	654	**82**	230
Release of provision	**(807)**	-	**-**	-
Balance at the end of the year	**644**	1,369	**644**	562
Comprising:				
Current portion	**420**	-	**420**	-
Non-current portion	**224**	1,369	**224**	562
Total property restorations	**644**	1,369	**644**	562

The Group has operating lease contracts. This provision has been made in respect of future obligations to restore leased property to its initial condition, but allowing for fair wear and tear over the period of occupancy.

The provision is based on the Company's accommodation projections and its history of property restoration settlements.

The timing of lease expiries is generally fixed but individual restoration settlements are difficult to predict.

20. BORROWINGS

New Zealand Post bond programme	**172,697**	169,978	**172,697**	169,978
Kiwibank subordinated bonds	**76,237**	76,243	**-**	-
Commercial paper	**34,880**	-	**34,880**	-
Bank loans	**11,467**	-	**-**	-
Total Borrowings	**295,281**	246,221	**207,577**	169,978
Comprising:				
Current portion	**120,313**	-	**108,846**	-
Non-current portion	**174,968**	246,221	**98,731**	169,978
Total borrowings	**295,281**	246,221	**207,577**	169,978
New Zealand Post Bond Programme				
Fair value of bonds under fair value hedge	**132,708**	129,993	**132,708**	129,993
Bonds at amortised cost (unhedged)				
Face value of bonds on issue	**40,000**	40,000	**40,000**	40,000
Unamortised discount	**(11)**	(15)	**(11)**	(15)
Total New Zealand Post bond programme	**172,697**	169,978	**172,697**	169,978

Bonds outstanding have coupon rates of 7.10% and 6.48% (30 June 2007 - 7.10% and 6.48%) and maturity dates of 15 November 2011 and 15 April 2009 (30 June 2007 - 15 November 2011 and 15 April 2009). All bonds are unsecured and rank equally with other unsecured creditors.

It is the Group's intention to reissue these bonds as they mature.

$135m of bonds are hedged by interest rate swaps changing fixed rate interest to floating rate interest. Hedge documentation has been put in place to designate this hedge arrangement and hedge accounting has been applied in these financial statements. Effectiveness testing has been carried out at 30 June 2008 and 30 June 2007. Any fair value adjustment on the bonds has been recognised in the income statement.

20. BORROWINGS continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Kiwibank Subordinated Bonds				
Face value of bonds on issue	**75,000**	75,000	**-**	-
Interest accrued	**1,621**	1,620	**-**	-
Premium	**(326)**	(377)	**-**	-
Fair value hedge adjustment	**(58)**	-	**-**	-
Total Kiwibank subordinated bonds	**76,237**	76,243	**-**	-

Subordinated bonds outstanding have a coupon rate of 7.72% (30 June 2007 - 7.72%) and a maturity date of 20 March 2017 (30 June 2007 - 20 March 2017). The subordinated debt is subordinate to all other general liabilities of Kiwibank and is denominated in New Zealand dollars. The debt carries an A+ credit rating from Standard and Poor's Pty Limited at balance date. The subordinated debt is callable on 20 March 2012.

Commercial Paper				
Face value of commercial paper on issue	**35,000**	-	**35,000**	-
Unearned interest on commercial paper	**(120)**	-	**(120)**	-
Total commercial paper	**34,880**	-	**34,880**	-

$35m commercial paper was outstanding at 30 June 2008 (30 June 2007 - nil) with a yield of 8.41% and maturity date of 14 July 2008.

Bank Loans

The Group has a US$10m revolving committed cash advance facility agreement with the Bank of New Zealand (30 June 2007 - nil). At 30 June 2008 US$9.8m had been drawn down on the loan. Interest is charged at 3.295% and maturity date is 27 April 2009.

The Parent has a borrowing facility of $50m provided by the Bank of New Zealand (30 June 2007 - $50m provided by the Bank of New Zealand). At June 2008 and 30 June 2007 the faculty was undrawn.

21. SPECIFIC BANKING LIABILITIES

	GROUP	
	2008 $'000	2007 $'000
Due to Other Financial Institutions		
Repurchase agreements	**153,710**	53,779
Loans from other banks	**326,885**	-
Items in course of settlement	**5,019**	3,795
ATM cash at other banks	**66**	9,221
Total due to other financial institutions	**485,680**	66,795

All amounts due to other financial institutions are expected to be settled within the next 12 months.

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21. SPECIFIC BANKING LIABILITIES continued

	GROUP	
	2008 $'000	2007 $'000
Deposits		
Retail deposits	4,708,322	3,317,587
Wholesale deposits	920,510	586,295
Deposits with PIE Unit Trust	119,465	-
Total deposits	5,748,297	3,903,882
New Zealand	5,647,416	3,846,207
Overseas	100,881	57,675
Total deposits	5,748,297	3,903,882
Comprising:		
Current deposits	5,651,867	3,864,849
Non-current deposits	96,430	39,033
Total deposits	5,748,297	3,903,882

In the event of liquidation of Kiwibank, deposit holders will rank equally with all other creditors but ahead of subordinated debt holders and shareholders. In addition, all payment obligations of Kiwibank, excluding any payment obligations where the terms expressly provide that they do not have the benefit of the guarantee, are guaranteed under a deed poll guarantee provided by that Parent.

The Kiwibank PIE Unit Trust, established under the Unit Trusts Act 1960 in May 2008, operates two funds; the PIE Term Deposit Fund and PIE Online Call Fund. Kiwibank Investment Management Limited is the issuer and manager of the Unit Trust. Trustees Executors Limited is the trustee of the Unit Trust. Kiwibank is the promoter of the Trust. Units in the trust do not directly represent deposits or liabilities of Kiwibank, however the Unit Trust is invested exclusively in term and call deposits with Kiwibank. Kiwibank guarantees the payment obligations of the manager and any amounts owing to Unit Holders under the Trust Deed in respect of their Units and agrees to pay to Unit Holders any shortfall between the amount they may receive on redeeming their Units or in the winding up of the Trust and the balance of their Unit Accounts.

Debt Securities Issued		
Certificates of deposit	421,701	419,954
Other debt securities	60,611	-
Total debt securities issued	482,312	419,954
Comprising:		
Current debt securities	421,701	419,954
Non-current debt securities	60,611	-
Total debt securities issued	482,312	419,954

22. DEFERRED SETTLEMENT LIABILITIES

Balance at beginning of the year	12,366	8,147
Acquisitions	(7,703)	4,178
Finance costs	540	485
Fair value movements	-	(444)
Total Deferred Settlement Liabilities	5,203	12,366

22. DEFERRED SETTLEMENT LIABILITIES continued

In 2006 the Group acquired a 51% shareholding in The New Zealand Home Loan Company Limited and is required to purchase the remaining shares in the company by 1 July 2012 (or earlier at the option of Kiwibank or The New Zealand Home Loan Company Limited). The Group has recognised a deferred settlement liability for this option. The fair value of the option shown above is calculated by applying discounted cash flows analysis.

In July 2007 the Group exercised its option to purchase the remaining 25% shareholding in Outsource Australia Pty Limited.

23. RECONCILIATION OF PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Profit for the year	**110,168**	86,787	**33,771**	38,525
Non-cash items:				
Financial instruments at fair value net gain/(loss)	**9,363**	(7,195)	**42**	(451)
Revaluation of investment properties	**(3,782)**	(5,169)	**(3,782)**	(5,169)
Depreciation	**33,228**	28,498	**21,828**	19,698
Amortisation	**21,722**	16,285	**9,008**	8,121
Revaluation of land and building	**302**	(864)	**302**	(864)
Unrealised foreign exchange net (gain)/loss	**(5,531)**	6,083	**(9,264)**	8,261
Discount unwind on sale of asset	**(1,489)**	(1,953)	**(1,489)**	(1,953)
Discount unwind on deferred net settlement	**11**	(537)	**11**	(537)
Share of net profit of associates and jointly controlled entities	**(16,071)**	(16,741)	**-**	-
	37,753	18,407	**16,656**	27,106
Items classified as investing activities:				
Sale of investments net (gain)/loss	**(24,756)**	-	**-**	(1,470)
Sale of assets net loss/(gain)	**1,325**	790	**666**	202
	(23,431)	790	**666**	(1,268)
Changes in assets and liabilities:				
(Increase)/decrease in trade and other receivables	**(11,853)**	(23,966)	**(3,794)**	(11,637)
(Increase)/decrease in inventories	**(809)**	(378)	**(1,510)**	(540)
Decrease/(increase) in other assets	**1,516**	(1,421)	**364**	361
(Increase)/decrease in financial assets held for trading	**(185,000)**	(119,000)	**-**	-
(Increase)/decrease in available for sale assets	**(161,913)**	(279,778)	**-**	-
(Increase)/decrease in loans and advances	**(1,981,752)**	(1,021,947)	**-**	-
(Increase)/decrease in due from other financial institutions	**(141,432)**	-	**-**	-
Increase/(decrease) in due to other financial institutions	**1,792,612**	8,373	**-**	-
Increase/(decrease) in trade and other payables	**22,891**	22,811	**26,862**	31,379
(Decrease)/increase in provisions	**(1,405)**	1,241	**(598)**	817
(Decrease)/increase in tax liabilities	**(14,035)**	4,072	**(6,430)**	2,743
(Decrease)/increase in other liabilities	**(4,987)**	4,665	**(3,292)**	3,578
Increase/(decrease) in deposits	**419,598**	1,515,899	**-**	-
Increase/(decrease) in Kiwibank interest payable	**84,201**	14,969	**-**	-
Dividends from associates	**6,464**	3,802	**-**	-
	(175,904)	129,342	**11,602**	26,701
Net cash flows from operating activities	**(51,414)**	235,326	**62,695**	91,064

The following cash flows have been recognised on a net basis:

- Net payments to agencies - these cash flows represent transactions and operations of the agencies rather than the Parent.
- Changes in loans and advances to customers, deposits held by customers, balances with other banks, debt securities issued, available for sale assets, and financial assets held for trading - many of these cash flows reflect the activities of the customers rather than Kiwibank.

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24. SEGMENT INFORMATION

30 June 2008	Postal Services	Banking Services	Business Solutions	Property Services	Other Operating Segments	Reconciliations	Group
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
External revenue	727,062	243,904	185,083	20,050	113,909	-	1,290,008
Intersegment revenue	113,228	310	19,875	47,701	3,109	(184,223)	-
Total segment revenue from operations	840,290	244,214	204,958	67,751	117,018	(184,223)	1,290,008
Segment profit before income tax	58,915	54,569	14,527	18,379	39,723	(49,284)	136,829
Segment profit	58,654	36,821	12,566	18,379	41,424	(57,676)	110,168
Segment total assets	269,029	7,230,159	105,222	325,701	95,082	11,545	8,036,738
Specific segment revenue from operations:							
Banking interest revenue (net)	-	116,210	-	-	-	-	116,210
Banking and lending fee revenue	-	81,930	-	-	-	-	81,930
Rental income - properties held for sale	-	-	-	841	-	-	841
Rental income - investment properties	-	-	-	4,755	-	-	4,755
Specific segment other income							
Sale of investments gain	-	-	-	-	24,756	-	24,756
Financial instruments at fair value net gain/(loss)	-	(9,321)	-	-	-	(42)	(9,363)
Revaluation of investment properties	-	-	-	3,782	-	-	3,782
Specific segment expenditure:							
Depreciation	14,408	4,438	2,992	7,465	3,925	-	33,228
Amortisation	9,125	10,759	486	-	1,352	-	21,722
Bad debt expense	154	1,906	67	-	272	-	2,399
Impairment	1,317	2,191	36	239	348	-	4,131
Property operating lease and rental costs	441	5,166	4,472	29,835	573	(5,397)	35,090
Other operating lease and rental costs	8,959	2,367	2,865	112	2,970	(1,520)	15,753
Revaluation of land and building	-	-	-	302	-	-	302
Salaries and wages	310,368	45,115	93,121	2,635	35,151	2,523	488,913
Restructuring costs	2,985	123	622	-	96	-	3,826
Share of net profit of associates and jointly controlled entities	(764)	-	8,830	-	8,005	-	16,071

24. SEGMENT INFORMATION continued

30 June 2007	Postal Services	Banking Services	Business Solutions	Property Services	Other Operating Segments	Reconciliations	Group
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
External revenue	724,871	199,083	175,092	18,495	77,683	-	1,195,224
Intersegment revenue	121,746	310	20,587	41,473	3,967	(188,083)	-
Total segment revenue	846,617	199,393	195,679	59,968	81,650	(188,083)	1,195,224
Segment profit before income tax	68,888	44,682	10,380	21,701	5,150	(32,197)	118,604
Segment profit	68,938	30,852	8,913	21,701	7,074	(50,691)	86,787
Segment total assets	281,922	4,760,290	87,723	325,930	66,453	(10,177)	5,512,141
Specific segment revenue from operations:							
Banking interest revenue (net)	-	79,891	-	-	-	-	79,891
Banking and lending fee revenue	-	71,975	-	-	-	-	71,975
Rental income - properties held for sale	-	-	-	841	-	-	841
Rental income - investment properties	-	-	-	4,488	-	-	4,488
Specific segment other income							
Financial instruments at fair value net gain/(loss)	-	6,744	-	-	-	451	7,195
Revaluation of investment properties	-	-	-	5,169	-	-	5,169
Revaluation of other properties	-	-	-	864	-	-	864
Specific segment expenditure:							
Depreciation	13,014	3,473	3,781	7,378	852	-	28,498
Amortisation	8,402	7,052	-	-	831	-	16,285
Bad debt expense	347	1,021	-	-	269	-	1,637
Impairment	1,683	460	202	15	1,225	-	3,585
Property operating lease and rental costs	626	4,595	4,660	24,651	717	(4,589)	30,660
Other operating lease and rental costs	7,227	2,150	2,719	89	2,305	721	15,211
Revaluation of land and building	-	-	-	-	-	-	-
Salaries and wages	295,080	38,276	91,570	2,326	25,549	9,043	461,844
Restructuring costs	2,299	70	419	-	475	-	3,263
Share of net profit of associates and jointly controlled entities	-	-	8,252	-	8,489	-	16,741

Included within the 30 June 2008 Other Operating Segment's revenue line are revenues earned of $62.3m by New Zealand Post's Australian courier operations (30 June 2007 - $43.8m). These operations were partially divested in the 30 June 2008 year (refer to note 17).
In subsequent years the revenue from these operations will no longer be included within revenue, but will form part of the share of net profit of associates and jointly controlled entities.

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24. SEGMENT INFORMATION continued

Basis of Segmentation

The Group's operating segments have primarily been determined with reference to differences in products and services. Operating segments have been aggregated for reporting purposes where the following criteria has been met:

(1) aggregation is consistent with the core principle of NZ IFRS *8 Operating Segments*

(2) segments have similar economic characteristics

(3) segments are similar in each of the following respects:

(a) nature of the product and services

(b) nature of production process

(c) type or class of customer for their products and services

(d) methods used to distribute their products or provide their services

(e) nature of the regulatory environment.

The Group's reportable segments derive their revenue from the following products and services

Postal services	-	Packaging and delivery of mail products
Banking services	-	Financial management services
Business solutions	-	Information/process management services
Property services	-	Property management services

Basis of Measurement

The Group's reportable segment revenue, result and assets disclosed above are the same as those used by the chief operating decision makers 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 in the summary of significant accounting policies.

	New Zealand		Foreign Countries	
Geographical Information	**2008 $000**	2007 $000	**2008 $000**	2007 $000
External revenue from operations	**1,157,553**	1,084,723	**132,455**	110,501
Non-current assets (excluding financial instruments and tax assets)	**581,044**	479,088	**30,998**	29,815

Revenues are attributed to individual countries based on the country of residence of the entity earning the revenue.

25. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK

For the purposes of this note, 'the Group' refers to the Group excluding Kiwibank. Kiwibank financial instrument disclosures are disclosed in note 25.

Risk Management Policies

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), liquidity and operational risks. The management of risk is an essential element of the Group's strategy with emphasis placed on pro-active rather than retroactive management.

The 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 and Risk Committee), the Executive Treasury Group is responsible for strategy setting, and the Treasury team is responsible for execution of the policies and strategies.

Financing Risk

Financing risk is the risk of not being able to refinance debt obligations or other cash outflows when required, on terms that are no more unfavourable terms than those currently in place.

25. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK continued

The main objectives of the management of financing risk is to ensure sufficient funding is available to meet the Group's requirements and to avoid liquidity crises, achieve competitive pricing on sources of funding and lines of credit, and diversify sources of funding and liquidity.

The Group manages financing risk through maintaining a portfolio of liquid assets, developing and maintaining appropriate funding diversification strategies, arranging and maintaining committed bank facilities, and reducing the amount of debt maturing in any given period.

Interest Rate Risk

Interest rate risk is defined as the risk of the Group's cost of funds changing 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 cost of debt.

The Group manages interest rate risk through derivatives to modify the exposure to changes in interest rates. Interest rate repricing on financial assets acts as an offset to repricing on financial liabilities.

Borrowings

The Group has $47.9m of floating rate borrowings at 30 June 2008 (30 June 2007 - nil), and $175m of fixed rate borrowings (30 June 2007 - $175m). All borrowings are used to fund ongoing activities. The weighted average interest rate on borrowings (as amended by interest rate swaps) is 8.28% (30 June 2007 - 8.29%).

Air Post

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Derivative Financial Instruments				
The notional principal or contract amounts of interest rate swap/option contracts at balance date are:				
Interest rate swaps	**135,000**	135,000	**135,000**	135,000
Forward rate agreements	**50,000**	150,000	**50,000**	150,000

Repricing analysis

The following tables summarise the Group's and Parent's exposure to interest rate risk. It includes the financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

GROUP 30 June 2008	**Total**	**Interest Insensitive**	**Within 1 Year**	**Between 1 and 2 Years**	**Between 2 and 3 Years**	**Between 3 and 4 Years**	**Over 4 Years**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	52,950	32,884	20,066	-	-	-	-
Trade and other receivables	182,665	182,665	-	-	-	-	-
Taxation receivable	9,872	9,872	-	-	-	-	-
Trade and other payables	261,571	261,571	-	-	-	-	-
Current borrowings	(120,313)	-	(120,313)	-	-	-	-
Term borrowings	(98,731)	-	-	-	-	(98,731)	-
Deferred settlement liabilties	-	-	-	-	-	-	-
Derivative financial instruments	(2,079)	-	(1,050)	-	-	(1,029)	-
Net effective interest rate gap	285,935	486,992	(101,297)	-	-	(99,760)	-

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25. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK continued

GROUP 30 June 2007	Total	Interest Insensitive	Within 1 Year	Between 1 and 2 Years	Between 2 and 3 Years	Between 3 and 4 Years	Over 4 Years
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	88,740	28,388	60,352	-	-	-	-
Trade and other receivables	180,920	180,920	-	-	-	-	-
Taxation receivable	5,584	5,584	-	-	-	-	-
Trade and other payables	248,466	248,466	-	-	-	-	-
Term borrowings	(174,930)	-	-	(74,966)	-	-	(99,964)
Deferred settlement liabilties	(7,703)	-	(7,703)	-	-	-	-
Derivative financial instruments	(4,730)	-	-	(2,330)	-	-	(2,400)
Net effective interest rate gap	336,347	463,358	52,649	(77,296)	-	-	(102,364)

PARENT **30 June 2008**							
Cash and cash equivalents	**42,982**	**35,050**	**7,932**	**-**	**-**	**-**	**-**
Trade and other receivables	**146,995**	**146,995**	**-**	**-**	**-**	**-**	**-**
Taxation receivable	**2,398**	**2,398**	**-**	**-**	**-**	**-**	**-**
Loans to related parties	**51,221**	**-**	**-**	**-**	**-**	**-**	**51,221**
Trade and other payables	**206,150**	**206,150**	**-**	**-**	**-**	**-**	**-**
Current borrowings	**(108,846)**	**-**	**(108,846)**	**-**	**-**	**-**	**-**
Term borrowings	**(98,731)**	**-**	**-**	**-**	**-**	**(98,731)**	**-**
Derivative financial instruments	**(2,079)**	**-**	**(1,050)**	**-**	**-**	**(1,029)**	**-**
Net effective interest rate gap	**240,090**	**390,593**	**(101,964)**	**-**	**-**	**(99,760)**	**51,221**

PARENT 30 June 2007							
Cash and cash equivalents	66,254	20,822	45,432	-	-	-	-
Trade and other receivables	143,201	143,201	-	-	-	-	-
Taxation receivable	1,270	1,270	-	-	-	-	-
Loans to related parties	94,694	-	19,693	-	-	-	75,001
Trade and other payables	186,629	186,629	-	-	-	-	-
Term borrowings	(174,930)	-	-	(74,966)	-	-	(99,964)
Derivative financial instruments	(4,730)	-	-	(2,330)	-	-	(2,400)
Net effective interest rate gap	312,388	351,922	65,125	(77,296)	-	-	(27,363)

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 four major traded currencies (USD, Yen, Euro and Pound Sterling). The composition of the basket is set by the International Monetary Fund. The currency in which the Group primarily deals with is the United States Dollar.

The main objective of the management of currency risk is to manage the exposure to foreign exchange risk.

The Group manages currency risk through derivatives. The Group's policy is to hedge a defined percentage range of net foreign currency cash flows forecast to occur within the next two years, and foreign currency capital expenditure over a defined amount.

25. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK continued

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Derivative Financial Instruments				
The notional principal or contract amounts of interest rate swap/option contracts at balance date are:				
Forward foreign exchange contracts	**36,172**	17,976	**36,172**	17,976

The following tables summarise the Group's and Parent's exposure to foreign currency risk (all figures NZD equivalents).

GROUP	**GBP**	**AUD**	**USD**	**Total**
30 June 2008	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**1,724**	**29,345**	**17,023**	**48,092**
Trade and other receivables	**-**	**13,281**	**61,059**	**74,340**
Trade and other payables	**-**	**-**	**(53,208)**	**(53,208)**
Borrowings	**-**	**-**	**(11,467)**	**(11,467)**
Derivative financial instruments	**-**	**(1,238)**	**1,742**	**504**
Net on balance sheet financial position	**1,724**	**41,388**	**15,149**	**58,261**
GROUP				
30 June 2007				
Cash and cash equivalents	2,575	12,097	8,727	23,399
Trade and other receivables	-	14,568	39,878	54,446
Trade and other payables	-	(19,999)	(31,267)	(51,266)
Borrowings	-	-	-	-
Derivative financial instruments	630	(200)	250	680
Net on balance sheet financial position	3,205	6,466	17,588	27,259
PARENT				
30 June 2008				
Cash and cash equivalents	**395**	**15,338**	**7,044**	**22,777**
Trade and other receivables	**-**	**-**	**60,592**	**60,592**
Trade and other payables	**-**	**-**	**(53,208)**	**(53,208)**
Borrowings	**-**	**-**	**-**	**-**
Derivative financial instruments	**-**	**(1,238)**	**1,742**	**504**
Net on balance sheet financial position	**395**	**14,100**	**16,170**	**30,665**
PARENT				
30 June 2007				
Cash and cash equivalents	2,379	1,320	2,159	5,858
Trade and other receivables	-	-	39,878	39,878
Trade and other payables	-	-	(31,267)	(31,267)
Borrowings	-	-	-	-
Derivative financial instruments	630	(200)	250	680
Net on balance sheet financial position	3,009	1,120	11,020	15,149

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25. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK continued

Credit 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.

The Group manages credit risk through the formulation of specific policy benchmarks and parameters set by the Board, which must be complied with in all situations.

Credit risk is monitored on an ongoing basis. The Group does not have any significant concentrations of credit risk.

No collateral is held as at 30 June 2008 (30 June 2007 - nil).

Maximum Exposure to Credit Risk Before Collateral Held or Other Credit Enhancements

The following table represents a worst case scenario of credit risk exposure to the Group and Parent at 30 June 2008 and 30 June 2007. The exposures set out are based on net carrying amounts as reported in the balance sheet.

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Credit risk relating to on balance sheet assets				
Cash and cash equivalents	**52,950**	88,740	**42,982**	66,254
Trade and other receivables	**183,396**	181,847	**147,606**	143,743
Taxation receivable	**9,872**	5,584	**2,398**	1,270
Loans to related parties	**-**	-	**51,221**	94,694
Total gross financial assets	**246,218**	276,171	**244,207**	305,961
Allowance for impairment losses	**(731)**	(927)	**(611)**	(542)
Total net financial assets	**245,487**	275,244	**243,596**	305,419

75% of the total maximum exposure is derived from trade and other receivables. Management is confident in its ability to control and sustain minimal exposure of credit risk resulting from its financial assets.

Credit Exposure Concentration

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.

Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

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.

The tables below summarise the cash flows payable by the Group and Parent 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.

25. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK continued

GROUP 30 June 2008	Up To 3 Months $'000	Between 3 and 12 Months $'000	Between 1 and 5 Years $'000	More Than 5 Years $'000	Total $'000
Non-derivative cash flows					
Cash and cash equivalents	52,950	-	-	-	52,950
Trade and other receivables	134,365	42,521	15,887	-	192,773
Taxation receivable	-	9,872	-	-	9,872
Accured interest receivable	-	-	-	-	-
Trade and other payables	(222,490)	(39,923)	(4,429)	-	(266,841)
Accured interest payable	(3,059)	-	-	-	(3,059)
Borrowings	(34,880)	(73,966)	(110,198)	(76,237)	(295,281)
Net non derivative cash flows	(73,114)	(61,495)	(98,740)	(76,237)	(309,586)
Derivative cash flows					
Foreign exchange derivatives – inflows	569	877	311	-	1,757
Foreign exchange derivatives – outflows	(1,238)	(15)	-	-	(1,253)
Interest rate derivatives	-	(1,050)	(1,029)	-	(2,079)
Commitments					
Capital commitments	(3,763)	(11,290)	-	-	(15,053)
Lease commitments	(9,113)	(27,338)	(79,180)	(40,708)	(156,339)
Total off balance sheet cash flows	(13,545)	(38,816)	(79,898)	(40,708)	(172,967)
Net position	(86,659)	(100,311)	(178,638)	(116,945)	(482,553)

GROUP 30 June 2007					
Non-derivative cash flows					
Cash and cash equivalents	88,740	-	-	-	88,740
Trade and other receivables	119,985	50,426	10,509	-	180,920
Taxation receivable	-	5,584	-	-	5,584
Accured interest receivable	1,536	-	-	-	1,536
Trade and other payables	(222,376)	(23,379)	(2,711)	-	(248,466)
Accured interest payable	(3,700)	-	-	-	(3,700)
Borrowings	-	-	(169,978)	(76,243)	(246,221)
Net non-derivative cash flows	(15,815)	32,631	(162,180)	(76,243)	(221,607)
Derivative cash flows					
Foreign exchange derivatives – inflows	679	201	-	-	880
Foreign exchange derivatives – outflows	(200)	-	-	-	(200)
Interest rate derivatives	-	-	(4,730)	-	(4,730)
Commitments					
Capital commitments	(3,705)	(11,114)	-	-	(14,818)
Lease commitments	(10,492)	(31,475)	(84,577)	(42,878)	(169,422)
Total off balance sheet cash flows	(13,717)	(42,388)	(89,307)	(42,878)	(188,290)
Net position	(29,532)	(9,757)	(251,487)	(119,121)	(409,897)

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25. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK continued

PARENT 30 June 2008	Up To 3 Months $'000	Between 3 and 12 Months $'000	Between 1 and 5 Years $'000	More Than 5 Years $'000	Total $'000
Non-derivative cash flows					
Cash and cash equivalents	42,982	-	-	-	42,982
Trade and other receivables	88,587	42,521	15,887	-	146,995
Taxation receivable	-	2,398	-	-	2,398
Loans from related parties	-	-	-	51,221	51,221
Accured interest receivable	-	-	-	-	-
Trade and other payables	(161,799)	(39,923)	(4,429)	-	(206,150)
Accured interest payable	(3,059)	-	-	-	(3,059)
Borrowings	(34,880)	-	(172,697)	-	(207,577)
Net non-derivative cash flows	(68,169)	4,996	(161,239)	51,221	(173,190)
Derivative cash flows					
Foreign exchange derivatives – inflows	569	877	311	-	1,757
Foreign exchange derivatives – outflows	(1,238)	(15)	-	-	(1,253)
Interest rate derivatives	-	(1,050)	(1,029)	-	(2,079)
Commitments					
Capital commitments	(2,932)	(8,795)	-	-	(11,726)
Lease commitments	(7,192)	(21,577)	(67,809)	(31,209)	(127,787)
Total off balance sheet cash flows	(10,793)	(30,559)	(68,527)	(31,209)	(141,088)
Net position	(78,962)	(25,563)	(229,766)	20,012	(314,278)

PARENT 30 June 2007					
Non-derivative cash flows					
Cash and cash equivalents	66,254	-	-	-	66,254
Trade and other receivables	82,266	50,426	10,509	-	143,201
Taxation receivable	-	1,270	-	-	1,270
Loans from related parties	-	19,693	-	75,001	94,694
Accured interest receivable	1,536	-	-	-	1,536
Trade and other payables	(160,539)	(23,379)	(2,711)	-	(186,629)
Accured interest payable	(3,700)	-	-	-	(3,700)
Borrowings	-	-	(169,978)	-	(169,978)
Net non-derivative cash flows	(14,183)	48,010	(162,180)	75,001	(53,352)
Derivative cash flows					
Foreign exchange derivatives – inflows	679	201	-	-	880
Foreign exchange derivatives – outflows	(200)	-	-	-	(200)
Interest rate derivatives	-	-	(4,730)	-	(4,730)
Commitments					
Capital commitments	(3,039)	(9,117)	-	-	(12,156)
Lease commitments	(6,812)	(20,435)	(63,604)	(32,960)	(123,811)
Total off balance sheet cash flows	(9,372)	(29,351)	(68,334)	(32,960)	(140,017)
Net position	(23,555)	18,658	(230,514)	42,041	(193,369)

Equity Risk

Equity risk results from the re-pricing of equity investments. The Group does not undertake equity trading and there are no significant exposures to equity instruments.

25. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK continued

Capital Risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the development of its business.

The Group assesses it ability to absorb risk to ensure that it has sufficient financial resources to continue as a going concern even if it suffers a material unforeseen or unexpected event. To ensure adequate capital is maintained material risks are assessed and quantified through estimation/ judgement to provide information that enables management to monitor current and expected capital levels.

Components of Capital

Capital for the Group includes share capital, retained earnings, and reserves.

Sensitivity Analysis

The table below summarises the pre-tax sensitivity of financial assets and financial liabilities to changes in interest rate and currency risks with all other variables held constant. The market 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.

GROUP		**Interest Rate Risk**		**Currency Risk**		**Currency Risk**	
30 June 2008	**Carrying Value $'000**	**-1% Income Statement/ Equity $'000**	**+1% Income Statement/ Equity $'000**	**-10% Income Statement $'000**	**+10% Income Statement $'000**	**-10% Equity**	**+10% Equity**
Cash and cash equivalents	**52,950**	**(192)**	**192**	**4,944**	**(4,045)**	**400**	**(327)**
Trade and other receivables	**192,773**	**-**	**-**	**6,784**	**(5,551)**	**1,476**	**(1,207)**
Trade and other payables	**(266,841)**	**-**	**-**	**(5,912)**	**4,837**	**-**	**-**
Borrowings	**(295,281)**	**2,191**	**(2,191)**	**-**	**-**	**-**	**-**
Derivative financial instruments	**(1,575)**	**21**	**(21)**	**56**	**(45)**	**-**	**-**
GROUP							
30 June 2007							
Cash and cash equivalents	88,740	(603)	603	1,732	(1,416)	868	(710)
Trade and other receivables	180,920	-	-	4,431	(3,625)	1,619	(1,324)
Trade and other payables	(248,466)	-	-	(3,474)	2,842	-	-
Borrowings	(246,221)	1,699	(1,699)	-	-	-	-
Derivative financial instruments	(4,050)	47	(47)	76	(62)	-	-
PARENT							
30 June 2008							
Cash and cash equivalents	**42,982**	**(80)**	**80**	**2,531**	**(2,070)**	**-**	**-**
Trade and other receivables	**146,995**	**-**	**-**	**6,732**	**(5,508)**	**-**	**-**
Trade and other payables	**(206,150)**	**-**	**-**	**(5,912)**	**(4,837)**	**-**	**-**
Borrowings	**(207,577)**	**2,076**	**(2,076)**	**-**	**-**	**-**	**-**
Derivative financial instruments	**(1,575)**	**21**	**(21)**	**56**	**(45)**	**-**	**-**

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25. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK continued

PARENT		Interest Rate Risk		Currency Risk		Currency Risk	
30 June 2007	Carrying Value $'000	-1% Income Statement/ Equity $'000	+1% Income Statement/ Equity $'000	-10% Income Statement $'000	+10% Income Statement $'000	-10% Equity $'000	+10% Equity $'000
Cash and cash equivalents	66,254	(454)	454	651	(532)	-	-
Trade and other receivables	143,201	-	-	4,431	(3,625)	-	-
Trade and other payables	(186,629)	-	-	(3,474)	2,842	-	-
Borrowings	(169,978)	1,699	(1,699)	-	-	-	-
Derivative financial instruments	(4,050)	47	(47)	76	(62)	-	-

The sensitivity % applied above reflect a reasonable movement in variables that could likely impact the financial assets and financial liabilities of the Group and Parent.

Fair Values of Financial Instruments

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

	GROUP		**PARENT**	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Carrying Values				
Borrowings	**219,044**	169,978	**207,577**	169,978
Fair Values				
Borrowings	**220,816**	170,832	**209,349**	170,832

Fair Value Estimation

Quoted market prices, when available, are used as the measure of fair values for financial instruments. However, for some of the Group's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using present value or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgements made regarding risk characteristic of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair value.

The fair value estimates were determined by application of the methods and assumptions described below.

Cash and cash equivalents

For cash assets, the carrying amount is equivalent to the fair value. For short term liquid assets, estimated fair values are based on quoted market prices.

Trade and other receivables (including tax receivable)

For receivables, the carrying amount is equivalent to the fair value.

Loans to related parties

For loans to related parties, the carrying amount is equivalent to the fair value.

Trade payables

For trade payables, the carrying amount is equivalent to the fair value.

Deferred Settlment Liabilities

For deferred settlement liabilities, the carrying amount is equivalent to the fair value.

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.

25. FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK continued

Derivative financial instruments

For derivative financial instruments, the carrying amount is equivalent to the fair value.

26. KIWIBANK FINANCIAL INSTRUMENTS

Risk Management Policies

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

Organisational perspective

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

- The Board providing leadership and direction through setting formal risk appetites and strategies, and monitoring progress.
- Through approval, delegation and limit structures responsibility is delegated to the CEO and executive management for managing the arious elements of risk.
- Business unit level accountability for the management of risks in accordance with agreed strategies and the Bank's risk management framework.
- Independent oversight of business unit risk management to i) provide regular risk evaluation and reporting; and ii) assess the adequacy and effectiveness of management's control of risk.

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

- Review and approval of Kiwibank's frameworks and policies for managing business, credit, market and operational risk and maintaining an effective risk management framework.
- Monitoring the bank's risk profile, performance, exposures against limits, capital levels and management of Kiwibank's risks.
- Monitoring anticipated changes in the economic and business environment and other factors relevant to Kiwibank's risk profile.
- Review and approval of limits and conditions that apply to risk taking including the authorities delegated to the CEO and executive team.
- Review of internal audit activities and significant audit issues.

The CEO and executive management team are responsible for implementing the risk management framework approved by the Board and for developing appropriate strategies, policies, controls, processes and procedures for identifying, measuring and managing risk. Three specialised management committees have been formed to ensure bank-wide input and appropriate focus on specific risk matters, namely i) the Asset-Liability Committee (ALCO -which is concerned with balance sheet structure, capital, funding and market risk); ii) the Credit Committee (focused on credit risk); and iii) the Project Governance Board (which considers certain risks associated with the Bank's information technology capabilities).

Independent Credit and Market risk-control units operate alongside the bank's lending business units and Treasury unit. These risk-control functions are accountable for identifying and quantifying credit and market risks, respectively, and for working with the lending and Treasury business units to implement appropriate policies, procedures and controls to manage those risks.

Kiwibank's Risk Management Unit has been assigned the role of internal monitor. The Risk Management Unit is tasked with ensuring that risk based reporting of financial and non-financial threats to Kiwibank is undertaken on a regular basis. The unit provides an independent appraisal of business units' risk positions and the overall control environment, submitting reports on the bank's risk profile to the Board Finance, Audit and Risk Committee.

Kiwibank has an independent internal audit function, which has no direct authority over the activities of management. Internal audit undertake an annual review programme, the scope of which is determined by risk-based analysis, and results in operational, compliance, financial and systems audits over the business activities and support functions within Kiwibank. Internal audit provides independent assurance as to the effectiveness of the Bank's management systems and internal controls to the Board Finance, Audit and Risk Committee. The head of internal audit has unfettered access to the Board Finance, Audit and Risk Committee.

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26. KIWIBANK FINANCIAL INSTRUMENTS continued

Risk management framework

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

Strategic risk management – A framework and set of processes that the bank uses to plan, organise, lead and control risk management activities in an effort to minimise the effects and impacts of risk events on the bank's capital and earnings. This reflects the Basel 2 accord requirements for a properly framed structure from which risk management strategies and policy can be devolved. This framework provides:

i) A high level "risk structure" for the classification/categorisation of all risks deemed material to the Bank, which forms the basis of reporting the bank's risk profile.

ii) Risk appetite – a formal statement of the bank's willingness to take on financial risks and a basic operational pre-requisite for the establishment of consistent risk limits.

iii) Risk policy statements - these explicitly articulate the bank's fundamental attitude towards risk and risk management. The risk policy statements are intended to ensure employees understanding of the bank's risk management goals throughout the organisation.

iv) Risk principles – these are central rules for risk management decision-making and form the basis for maximum uniformity in risk management decision-making.

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

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

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

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

The bank monitors its risk profile and internal and regulatory capital adequacy, and reports this on a regular basis to the Board. In the event of large, unexpected losses, the bank is committed to restoring its capital position. Management have developed plans accordingly.

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

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

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

Credit risk – the risk of financial loss arising from the failure of a customer or counterparty to honour any financial or contractual obligation.

Market risk – the potential for losses arising from adverse movements in the level and volatility of market factors, such as interest rates and foreign exchange rates.

Operational risk – the risk of direct or indirect losses resulting from inadequate or failed internal processes, people, and systems, or from external events. This risk domain includes legal risks (i.e. loss resulting from the failure to comply with laws as well as prudent ethical standards and contractual obligations). It also includes exposure to litigation from all aspects of the Bank's activities.

Business risk – events that impede or prevent the bank achieving its stated business goals or strategies, including missed opportunities and potential losses/damage arising from a poor strategic business decisions.

26. KIWIBANK FINANCIAL INSTRUMENTS continued

Credit Risk

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

Key elements of the Credit risk management framework are:

Strategy and organisational structure – The Board requires sound lending growth for appropriate returns. The Banking Group pursues this objective in a structured manner, managing credit risk through the formulation of high-level credit policies, application of credit underwriting standards, delegated authorities, a robust control environment, monitoring of the portfolios, review of all major credit risks and risk concentrations. The Board employs a structure of delegated authorities to implement and monitor the multiple facets of credit risk management.

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

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

The integrity and effectiveness of the bank's credit risk management practices and asset quality is supported by independent assessments by the Risk Management Unit and Internal Audit function.

Portfolio structure and monitoring – The Banking Group's credit portfolio is divided into two segments, Retail (Consumer), and Business and Institutional.

The Consumer segment is comprised of housing loan, credit card and personal loan facilities. This segment is managed on a delinquency band approach.

The Business segment consists of lending to small and medium sized businesses. Each exposure is assigned an internal risk rating that is based on an assessment of the risk of default. These exposures are generally required to be reviewed on an annual basis, unless they are small facilities that are managed on a behavioural basis after their initial rating at origination.

The Institutional portfolio is comprised of commercial exposures, including bank and government exposures. Exposures in the Institutional portfolio are all individually rated and are of minimum investment grade or equivalent quality.

The overall composition and quality of the credit portfolios is monitored taking into account the potential changes in economic conditions.

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

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

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

Larger credit facilities are approved through a hierarchy of delegated approval authorities that reflect the skill and experience of lending management.

Problem credit facility management – Credit exposures are monitored regularly through the examination of irregular and delinquent accounts. This enables doubtful debts to be immediately identified so that specific provisions for potential losses can be established as early as possible. Problem credit facilities are monitored to ensure workout and collection/recovery strategies are established and enacted. Kiwibank will seek additional collateral from a customer or counterparty if impairment is evident on individual loans and advances.

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

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

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26. KIWIBANK FINANCIAL INSTRUMENTS continued

Concentration of Credit Risk

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

	GROUP	
	2008 $'000	2007 $'000
New Zealand		
- government, local bodies and services	**284,630**	330,858
- finance, investment and insurance	**1,031,750**	584,990
- households	**4,785,822**	3,160,750
- transport and storage	**9,141**	17,475
- communications	**7,404**	9,520
- electricity, gas and water	**10,829**	10,271
- construction	**39,552**	20,619
- property services	**569,051**	287,164
- agriculture	**6,882**	4,872
- health and community services	**15,984**	12,455
- personal and other services	**59,237**	39,203
- retail and wholesale trade	**29,667**	19,291
- food and other manufacturing	**74,077**	13,212
Overseas		
- finance, investment and insurance	**217,111**	189,153
Total financial assets (interest earning)	**7,141,137**	4,699,833
Less collective allowance for impairment losses	**(2,911)**	(720)
Other financial assets	**23,319**	6,293
Total financial assets	**7,161,545**	4,705,406

An analysis of financial assets by geographical sector at balance date is as follows:

New Zealand		
- Upper North Island	**2,533,700**	1,466,605
- Lower North Island	**1,798,803**	998,045
- South Island	**1,155,660**	659,186
Overseas	**217,111**	189,153
- exposures not classified by geographical sector	**1,456,271**	1,392,417
Total financial assets	**7,161,545**	4,705,406

Exposures not classified by geographical sector relate to investment securities which cannot be meaningfully allocated to a geographic location.

26. KIWIBANK FINANCIAL INSTRUMENTS continued

Maximum Exposure to Credit Risk Before Collateral Held or Other Credit Enhancements

	GROUP	
	2008 $'000	2007 $'000
Credit Risk Relating to On Balance Sheet Assets		
Fixed rate mortgages	**4,701,615**	3,076,974
Variable rate mortgages	**607,702**	373,255
Unsecured lending	**274,174**	111,132
Due from other financial institutions	**150,910**	-
Derivative financial instruments	**31,831**	76,031
Financial assets held for trading	**420,311**	245,120
Available for sale assets	**697,359**	527,831
Cash and cash equivalents	**257,235**	289,490
Other assets	**23,319**	6,293
Total gross financial assets	**7,164,456**	4,706,126
Allowance for impairment losses	**(2,911)**	(720)
Total net financial assets	**7,161,545**	4,705,406

The above table represents a worst case scenario of credit risk exposure to Kiwibank at 30 June 2008 and 30 June 2007, without taking account of any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 78% of the total maximum exposure is derived from loans and advances to retail and corporate customers. Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from both its loan and advances portfolio and its wholesale assets.

Credit Exposures

The notional values for Kiwibank's off balance sheet financial instruments at balance date were:

Interest Rate Contracts		
Forward rate agreements	**725,000**	1,045,000
Futures	**300,000**	110,000
Options	**-**	300,000
Swaps	**5,546,000**	4,319,000
Total interest rate contracts	**6,571,000**	5,774,000
Foreign Exchange Contracts		
Swaps	**114,824**	25,545
Forwards	**99,712**	179,355
Total foreign exchange contracts	**214,536**	204,900

Kiwibank determines credit exposure according to Reserve Bank of New Zealand capital adequacy guidelines.

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26. KIWIBANK FINANCIAL INSTRUMENTS continued

Credit Exposure Concentrations

Credit Exposure to Individual Counterparties

Credit exposure concentrations are disclosed on the basis of actual exposures and gross of set-offs. The number of individual counterparties, excluding connected persons and OECD governments, where the year end and peak end-of-day aggregate actual credit exposures, net of specific provisions, equalled or exceeded 10% of the Kiwibank Group's shareholder's equity as at balance date are:

	30 June 2008		30 June 2007	
	Non-Bank	**Bank**	Non-Bank	Bank
As at balance date				
10% - 19%	1	4	-	6
20% - 29%	-	-	-	1
30% - 39%	-	1	-	1
40% - 49%	-	1	-	-
50% - 59%	-	-	-	-
60% - 69%	-	-	-	1
70% - 79%	-	-	-	-
80% - 89%	-	1	-	-
Peak exposure				
10% - 19%	1	4	1	4
20% - 29%	1	-	-	2
30% - 39%	-	1	-	2
40% - 49%	-	1	-	-
50% - 59%	-	1	-	1
60% - 69%	-	-	-	1
70% - 79%	-	-	-	-
80% - 89%	-	2	-	-

Market Risk

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

Key elements of the Kiwibank's Market risk management framework are:

Interest rate risk management – The Board expects reasonable stability in the Kiwibank's net interest income over time. Kiwibank's Treasury function has been tasked with managing the sensitivity of net income to changes in wholesale market interest rates. This sensitivity (known as structural interest rate risk) arises from the bank's lending and deposit taking activities and investment of capital and other liabilities. The provision of loans and accepting deposits at both fixed and variable rates gives rise to the risk that Kiwibank could have unmatched positions leading to material exposures in a shifting interest rate environment. Other activities, such as current account facilities and employing financial instruments such as swaps, options and forward rate agreements, also incur interest rate risks.

The main objective of the management of interest rate risk is to achieve a balance between reducing risk to earnings from the adverse effect of interest rate movements and enhancing net interest income through the correct anticipation of the direction and extent of interest rate changes.

Kiwibank's ALCO (comprising executive management) is responsible for implementing and monitoring interest rate risk management policies within Board defined policy guidelines and limits. Interest rate risk is managed by Kiwibank's Treasury unit within pre-approved limits.

Interest rate risk is measured in terms of Kiwibank's notional exposure to potential shifts in future interest rates relative to the timescale within which assets and liabilities can be re-priced. A separate independent Market Risk Management unit is responsible for the daily measurement and monitoring of market risk exposures.

26. KIWIBANK FINANCIAL INSTRUMENTS continued

Kiwibank reduces interest rate risk by seeking to match the re-pricing of assets and liabilities. A substantial portion of customer deposits and lending is at variable rates, which are periodically adjusted to reflect market movements. Where natural hedging still leaves a resultant interest rate mismatch, the residual risks are hedged within predefined limits through the use of physical financial instruments, interest rate swaps and other derivative financial instruments.

The table below summarises Kiwibank's exposure to interest rate risk. It includes the financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The fair value adjustment on the revaluation of financial assets and financial liabilities is categorised in the interest insensitive category below.

30 June 2008	**Total**	**Interest Insensitive**	**Within 6 Months**	**Between 6 months and 1 Year**	**Between 1 and 2 Years**	**Between 2 and 5 Years**	**Over 5 Years**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets							
Cash and cash equivalents	257,235	26,892	230,343	-	-	-	-
Due from other financial institutions	150,910	9,478	141,432	-	-	-	-
Financial assets held for trading	420,311	-	420,311	-	-	-	-
Available for sale assets	697,359	-	123,195	21,583	161,122	391,459	-
Loans and advances	5,580,580	8,756	1,395,730	741,579	1,337,144	2,069,391	27,980
Derivative financial instruments	31,831	31,831	-	-	-	-	-
Other financial assets	23,319	23,319	-	-	-	-	-
Total financial assets	7,161,545	100,276	2,311,011	763,162	1,498,266	2,460,850	27,980
Financial Liabilities							
Due to other financial institutions	485,680	-	485,680	-	-	-	-
Deposits	5,748,297	347,213	4,767,333	528,245	60,276	52,878	(7,648)
Debt securities issued	61,641	61,641	-	-	-	-	-
Derivative financial instruments	482,312	-	399,181	21,782	-	61,349	-
Term subordinated debt	76,237	-	-	-	-	76,237	-
Other financial liabilities	45,136	45,136	-	-	-	-	-
Total financial liabilities	6,899,303	453,990	5,652,194	550,027	60,276	190,464	(7,648)
On balance sheet gap	262,242	(353,714)	(3,341,183)	213,135	1,437,990	2,270,386	35,628
Net derivative notional principals	-	-	3,507,000	(246,000)	(1,093,000)	(2,168,000)	-
Net effective interest rate gap	262,242	(353,714)	165,817	(32,865)	344,990	102,386	35,628
30 June 2007							
Financial Assets							
Cash and cash equivalents	289,490	41,526	247,964	-	-	-	-
Financial assets held for trading	245,120	34	245,086	-	-	-	-
Available for sale assets	527,831	-	52,769	54,228	45,693	315,034	60,107
Loans and advances	3,560,641	8,698	705,323	193,413	840,667	1,812,540	-
Derivative financial instruments	76,031	76,031	-	-	-	-	-
Other financial assets	6,293	6,293	-	-	-	-	-
Total financial assets	4,705,406	132,582	1,251,142	247,641	886,360	2,127,574	60,107

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26. KIWIBANK FINANCIAL INSTRUMENTS continued

30 June 2007 continued	Total $'000	Interest Insensitive $'000	Within 6 Months $'000	Between 6 months and 1 Year $'000	Between 1 and 2 Years $'000	Between 2 and 5 Years $'000	Over 5 Years $'000
Financial Liabilities							
Due to other financial institutions	66,795	2,075	64,720	-	-	-	-
Deposits	3,903,882	224,166	3,276,712	364,295	27,929	8,626	2,154
Derivative financial instruments	7,565	7,565	-	-	-	-	-
Debt securities issued	419,954	-	419,954	-	-	-	-
Term subordinated debt	76,243	-	-	-	-	76,243	-
Other financial liabilities	35,308	35,308	-	-	-	-	-
Total financial liabilities	4,509,747	269,114	3,761,386	364,295	27,929	84,869	2,154
On balance sheet gap	195,659	(136,532)	(2,510,244)	(116,654)	858,431	2,042,705	57,953
Net derivative notional principals	-	-	2,768,000	55,000	(925,000)	(1,898,000)	-
Net effective interest rate gap	195,659	(136,532)	257,756	(61,654)	(66,569)	144,705	57,953

Currency risk management

Currency risk results from the mismatch of foreign currency assets and liabilities. These mismatches can arise from the day-to-day purchase and sale of foreign currency and from deposit and lending activity in foreign currencies. Kiwibank has a policy of hedging all foreign currency borrowing into New Zealand dollars. Foreign currency denominated revenue and expense flows are forecast and hedged on a proportional basis determined by the ALCO. Residual currency risks are monitored in terms of open positions in each currency. Currency risks are monitored daily.

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

30 June 2008	**NZD $'000**	**AUD $'000**	**USD $'000**	**GBP $'000**	**EUR $'000**	**Total $'000**
Financial Assets						
Cash and cash equivalents	234,735	10,406	9,979	1,239	876	257,235
Due from other financial institutions	150,910	-	-	-	-	150,910
Financial assets held for trading	420,311	-	-	-	-	420,311
Available for sale assets	497,137	200,222	-	-	-	697,359
Loans and advances	5,580,580	-	-	-	-	5,580,580
Derivative financial instruments	37,442	(6,127)	516	-	-	31,831
Other financial assets	23,319	-	-	-	-	23,319
Total financial assets	6,944,434	204,501	10,495	1,239	876	7,161,545
Financial Liabilities						
Due to other financial institutions	485,680	-	-	-	-	485,680
Deposits	5,735,158	2,244	8,780	1,239	876	5,748,297
Derivative financial instruments	(133,486)	195,127	-	-	-	61,641
Debt securities issued	482,312	-	-	-	-	482,312
Term subordinated debt	76,237	-	-	-	-	76,237
Other financial liabilities	45,136	-	-	-	-	45,136
Total financial liabilities	6,691,037	197,371	8,780	1,239	876	6,899,303
Net on balance sheet financial position	253,397	7,130	1,715	-	-	262,242

26. KIWIBANK FINANCIAL INSTRUMENTS continued

30 June 2007	NZD $'000	AUD $'000	USD $'000	Total $'000
Financial Assets				
Cash and cash equivalents	279,801	1,718	7,971	289,490
Financial assets held for trading	245,120	-	-	245,120
Available for sale assets	338,678	189,153	-	527,831
Loans and advances	3,560,641	-	-	3,560,641
Derivative financial instruments	256,526	(181,977)	1,482	76,031
Other financial assets	6,293	-	-	6,293
Total financial assets	4,687,059	8,894	9,453	4,705,406
Financial Liabilities				
Due to other financial institutions	66,795	-	-	66,795
Deposits	3,897,689	606	5,587	3,903,882
Derivative financial instruments	7,565	-	-	7,565
Debt securities issued	419,954	-	-	419,954
Term subordinated debt	76,243	-	-	76,243
Other financial liabilities	35,308	-	-	35,308
Total financial liabilities	4,503,554	606	5,587	4,509,747
Net on balance sheet financial position	183,505	8,288	3,866	195,659

Liquidity and funding risk management – Liquidity risk is the risk that Kiwibank will not have sufficient funds available to meet its financial and transactional cash flow obligations.

Management of liquidity risk is designed to ensure that Kiwibank has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis. Responsibility for liquidity management is delegated to the Bank's Treasury function, under oversight of the ALCO.

Kiwibank monitors this risk daily, primarily by forecasting future cash requirements, both under normal conditions and during crisis situations. Kiwibank manages this by

i) holding readily tradable, investment assets and deposits on call with high credit quality counterparties to provide for any unexpected patterns in cash movements; and

ii) by seeking a stable funding base.

Kiwibank maintains a stock of prime liquid assets. Some assets classified as investment securities in the balance sheets fit the definition of liquid assets for this purpose.

Kiwibank maintains liquidity crisis contingency plans defining an approach for responding to liquidity threatening events.

Funding risk is allied to liquidity risk, but is concerned with the Bank's capacity to fund increases in assets while meeting its payment obligations, including repaying depositors and maturing wholesale debt.

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

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

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

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26. KIWIBANK FINANCIAL INSTRUMENTS continued

Non-Derivative Cash Flows

The table below summarises the cash flows payable by Kiwibank under non-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.

Derivative Cash Flows

Derivatives settled on a net basis

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

Derivatives settled on a gross basis

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

30 June 2008	**Up To 3 Months $'000**	**Between 3 and 12 Months $'000**	**Between 1 and 5 Years $'000**	**More Than 5 Years $'000**	**Total $'000**
Non-derivative cash flows					
Financial Liabilities					
Due to other financial institutions	485,970	-	-	-	485,970
Deposits	4,249,746	1,569,030	118,825	-	5,937,601
Debt securities issued	407,324	26,917	70,381	-	504,622
Term subordinated debt	2,895	2,895	92,370	-	98,160
Other financial liabilities	36,132	-	-	-	36,132
Total financial liabilities	5,182,067	1,598,842	281,576	-	7,062,485
Financial Assets					
Cash and cash equivalents	257,235	-	-	-	257,235
Due from other financial institutions	151,080	-	-	-	151,080
Financial assets held for trading	423,000	-	-	-	423,000
Available for sale assets	117,243	103,060	601,107	-	821,410
Loans and advances at FVTPL	283,573	411,012	2,003,241	12,226,721	14,924,547
Loans and advances at amortised cost	-	-	-	-	-
Other financial assets	11,239	6,052	6,028	-	23,319
Total financial assets	1,243,370	520,124	2,610,376	12,226,721	16,600,591
Net non derivative cash flows	(3,938,697)	(1,078,718)	2,328,800	12,226,721	9,538,106
Derivative cash flows - net					
Interest rate derivatives	(1,998)	32,712	(56,184)	-	(25,470)
Total derivative cash flows - net	(1,998)	32,712	(56,184)	-	(25,470)
Derivative cash flows - gross					
Foreign exchange derivatives					
Inflow	141,321	24,685	49,675	-	215,681
Outflow	(145,223)	(27,286)	(56,315)	-	(228,824)
Total derivative cash flows - gross	(3,902)	(2,601)	(6,640)	-	(13,143)
Off balance sheet cash flows					
Capital commitments	(264)	-	-	-	(264)
Loan commitments	(269,904)	-	-	-	(269,904)
Lease commitments	(55)	(105)	(142)	-	(302)
Total off balance sheet cash flows	(270,223)	(105)	(142)	-	(270,470)
Net position	(4,214,820)	(1,048,712)	(2,265,834)	12,226,721	9,229,023
Cumulative net position	(4,214,820)	(5,263,532)	(2,997,698)	9,229,023	9,229,023

26. KIWIBANK FINANCIAL INSTRUMENTS continued

30 June 2007	Up To 3 Months $'000	Between 3 and 12 Months $'000	Between 1 and 5 Years $'000	More Than 5 Years $'000	Total $'000
Non-derivative cash flows					
Financial Liabilities					
Due to other financial institutions	68,510	-	-	-	68,510
Deposits	3,228,312	755,144	45,240	-	4,028,696
Debt securities issued	352,800	74,220	-	-	427,020
Term subordinated debt	2,895	2,895	98,160	-	103,950
Other financial liabilities	35,308	-	-	-	35,308
Total financial liabilities	3,687,825	832,259	143,400	-	4,663,484
Financial Assets					
Cash and cash equivalents	289,480	-	-	-	289,480
Financial assets held for trading	246,000	-	-	-	246,000
Available for sale assets	12,342	122,445	391,896	11,367	538,050
Loans and advances at FVTPL	73,842	234,512	1,212,628	7,625,588	9,146,570
Loans and advances at amortised cost	-	-	-	-	-
Other financial assets	6,293	-	-	-	6,293
Total financial assets	627,957	356,957	1,604,524	7,636,955	10,226,393
Net non derivative cash flows	(3,059,868)	(475,302)	1,461,124	7,636,955	5,562,909
Derivative cash flows - net					
Interest rate derivatives	7,829	27,247	69,156	-	104,232
Total derivative cash flows - net	7,829	27,247	69,156	-	104,232
Derivative cash flows - gross					
Foreign exchange derivatives					
Inflow	173,702	2,309	12,251	-	188,262
Outflow	(170,576)	(2,491)	(12,248)	-	(185,315)
Total derivative cash flows - gross	3,126	(182)	3	-	2,947
Off balance sheet cash flows					
Capital commitments	(442)	-	-	-	(442)
Loan commitments	(92,195)	-	-	-	(92,195)
Lease commitments	(246)	(66)	(8)	-	(320)
Total off balance sheet cash flows	(92,883)	(66)	(8)	-	(92,957)
Net position	(3,141,796)	(448,303)	1,530,275	7,636,955	5,577,131
Cumulative net position	(3,141,796)	(3,590,099)	(2,059,824)	5,577,131	5,577,131

Equity Risk

Equity risk results from the re-pricing of equity investments. Kiwibank does not undertake equity trading and there are no significant exposures to equity instruments.

Operational Risk

Operational risk is the potential exposure to financial and other damage arising from the way in which Kiwibank pursues its business objectives. While operational risk can never be eliminated, Kiwibank endeavours to minimise the impact of operational incidents by ensuring that the appropriate risk management methodologies, controls, systems, staff and processes are in place.

The key sources of operational risk included in the Bank's operational risk measurement framework are i) internal fraud; ii) external fraud; iii) acts inconsistent with workplace employment, health and safety laws; iv) unintentional or negligent failure to meet professional obligations to specific customers (including fiduciary and suitability requirements) or from the design of a product; v) failed transaction processing or process management; vi) disruption to business or system failures; and vii) loss or damage to physical assets from natural disaster or other events.

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26. KIWIBANK FINANCIAL INSTRUMENTS continued

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

– Senior management are accountable to the Board for maintaining an adequate and effective control environment that is commensurate with Kiwibank's risk appetite and business objectives.

– Business units are responsible for the management of their operational risks. Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk in their areas of responsibility.

– A central Risk Management Unit supports business units with operational risk identification, measurement and prioritisation. This unit also includes the Bank's legal function, which assists business units with legal and legislative compliance.

The Risk Management Unit undertakes elementary quantitative operational risk measurements (using internal loss and potential loss data) across the Bank and reports quarterly to the Board Finance Audit and Risk Committee on the Kiwibank's overall operational risk profile.

An independent Internal Audit function, which appraises the adequacy and effectiveness of the internal control environment, and reports results to both management and the Board Finance Audit and Risk Committee.

Key management and control techniques employed by Kiwibank, include clear delegation of authority, segregation of duties, sound project management, change control disciplines and business continuity planning. These techniques are enhanced by a focus on staff competency and supervision. Where appropriate these management practices are augmented by risk transfer mechanisms such as insurance, and by regular risk and control assessments.

Concentration of Funding

Concentrations of funding arise where Kiwibank is funded by industries of a similar nature or in particular geographies. An analysis of financial liabilities by industry sector and geography at balance date is as follows:

	GROUP	
	2008 $'000	2007 $'000
New Zealand		
- transport and storage	**41,561**	104,143
- financing, investment and insurance	**1,178,941**	601,180
- electricity, gas and water	**28,812**	-
- food and other manufacturing	**10,943**	-
- construction	**20,552**	13,063
- government, local bodies and services	**242,578**	217,846
- agriculture	**16,210**	10,234
- health and community services	**203,367**	45,197
- personal and other services	**194,948**	39,923
- property and business services	**218,870**	108,434
- education	**184,184**	134,312
- retail and wholesale trade	**29,210**	32,660
- other	**-**	26,285
- households	**4,383,110**	3,083,487
Overseas		
- households	**100,881**	57,675
Total financial liabilities (interest bearing)	**6,854,167**	4,474,439
Other financial liabilites	**45,136**	35,308
Total financial liabilities	**6,899,303**	4,509,747

Sensitivity Analysis

The table below summarises the pre-tax sensitivity of financial assets and financial liabilities to changes in the two key risk variables, interest rate and currency risks. The market 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.

26. KIWIBANK FINANCIAL INSTRUMENTS continued

		Interest Rate Risk		Currency Risk	
30 June 2008	**Carrying Value $'000**	**-1% Income Statement/ Equity $'000**	**+1% Income Statement/ Equity $'000**	**-10% Income Statement/ Equity $'000**	**+10% Income Statement/ Equity $'000**
Financial Assets					
Cash and cash equivalents	**257,235**	4	(4)	1,014	(830)
Due from other financial institutions	**150,910**	-	-	-	-
Financial assets held for trading	**420,311**	306	(305)	-	-
Available for sale assets*	**697,359**	9,894	(9,547)	22,247	(18,202)
Loans and advances	**5,580,580**	85,790	(83,351)	-	-
Derivative financial instruments**	**31,831**	73,788	(71,390)	23,816	(19,486)
Other financial assets	**23,319**	-	-	-	-
Total financial assets	**7,161,545**	169,782	(164,597)	47,077	(38,518)
Financial Liabilities					
Due to other financial institutions	**485,680**	(19)	19	-	-
Deposits	**5,748,297**	(20,563)	20,180	-	-
Derivative financial instruments**	**61,641**	(142,892)	138,248	(46,121)	(37,735)
Debt securities issued	**482,312**	(1,883)	1,843	-	-
Term subordinated debt	**76,237**	(2,418)	2,326	-	-
Other financial liabilities	**45,136**	-	-	-	-
Total financial liabilities	**6,899,303**	(167,775)	162,616	(46,121)	(37,735)
30 June 2007					
Financial Assets					
Cash and cash equivalents	289,490	29	(29)	-	-
Due from other financial institutions	-	-	-	-	-
Financial assets held for trading	245,120	113	(113)	-	-
Available for sale assets*	527,831	5,144	(4,909)	20,342	(16,643)
Loans and advances	3,560,641	60,371	(58,020)	-	-
Derivative financial instruments**	76,031	(61,629)	58,892	(22,053)	18,043
Other financial assets	6,293	-	-	-	-
Total financial assets	4,705,406	4,028	(4,179)	(1,711)	1,400
Financial Liabilities					
Due to other financial institutions	66,795	(5)	5	-	-
Deposits	3,903,882	(11,401)	11,135	-	-
Derivative financial instruments**	7,565	5,577	(5,329)	1,996	(1,663)
Debt securities issued	419,954	(774)	2,598	-	-
Term subordinated debt	76,243	(2,437)	472	-	-
Other financial liabilities	35,308	-	-	-	-
Total financial liabilities	4,509,747	(9,040)	8,881	1,996	(1,663)

* Movements in the fair value of available-for-sale assets will not impact the income statement immediately as changes in fair value are taken directly to the available-for-sale reserve in equity.

** Movements in the fair value of interest rate swaps in designated cash-flow hedge relationships are taken directly to the cash-flow hedge reserve in equity. Of the unfavourable and favourable impacts identified approximately 64% will impact income whilst all will impact equity.

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26. KIWIBANK FINANCIAL INSTRUMENTS continued

Fair Value of Financial Instruments

	Carrying Amount 2008 $'000	**Estimated Fair Value 2008 $'000**	Carrying Amount 2007 $'000	Estimated Fair Value 2007 $'000
Financial Assets				
Cash and cash equivalents	**257,235**	**257,235**	289,490	289,490
Due from other financial institutions	**150,910**	**150,910**	-	-
Financial assets held for trading	**420,311**	**420,311**	245,120	245,120
Available for sale assets	**697,359**	**697,359**	527,831	527,831
Loans and advances	**5,580,580**	**5,582,504**	3,560,641	3,554,023
Derivative financial instruments	**31,831**	**31,831**	76,031	76,031
Other financial assets	**23,319**	**23,319**	6,293	6,293
Total financial assets	**7,161,545**	**7,163,469**	4,705,406	4,698,788

	Carrying Amount 2008 $'000	**Estimated Fair Value 2008 $'000**	Carrying Amount 2007 $'000	Estimated Fair Value 2007 $'000
Financial Liabilities				
Due to other financial institutions	**485,680**	**485,680**	66,795	66,795
Deposits	**5,748,297**	**5,750,972**	3,903,882	3,903,784
Derivative financial instruments	**61,641**	**61,641**	7,565	7,565
Debt securities issued	**482,312**	**481,834**	419,954	419,954
Term subordinated debt	**76,237**	**72,363**	76,243	74,954
Other financial liabilities	**45,136**	**45,136**	35,308	35,308
Total financial liabilities	**6,899,303**	**6,897,626**	4,509,747	4,508,360

Fair Value Estimation

Quoted market prices, when available, are used as the measure of fair values for financial instruments. However, for some of Kiwibank's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using present value of future cash flow or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgements made regarding risk characteristic of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair value.

The fair value estimates were determined by application of the methods and assumptions described below.

Cash and cash equivalents

For cash assets, the carrying amount is equivalent to the fair value. For short term liquid assets, estimated fair values are based on quoted market prices.

Held for trading securities

For held for trading securities, estimated fair values are based on quoted market prices.

Available for sale securities

For available for sale securities, estimated fair values are based on quoted market prices.

Loans and advances

For variable rate loans and advances, the carrying amount is a reasonable estimate of fair value. For fixed rate loans and advances, fair values have been estimated using a discounted cash flow model with reference to market interest rates, prepayment rates and estimated credit losses.

Other financial assets

For other financial assets, the carrying amount is equivalent to the fair value.

26. KIWIBANK FINANCIAL INSTRUMENTS continued

Deposits by customers

For fixed term deposits by customers, fair values have been estimated using a discounted cash flow model with reference to market interest rates. For other deposits by customers, the carrying amount is a reasonable estimate of fair value.

Debt securities issued

For debt securities issued, estimated fair values are based on quoted market prices.

Term subordinated debt

For term subordinated debt, estimated fair values are based on quoted market prices.

Other financial liabilities

For other financial liabilities, the carrying amount is equivalent to the fair value.

Impaired and past due assets

For non-accrual and restructured impaired assets as well as past due loans, the fair values are estimated by discounting the estimated future cash flows using current market interest rates incorporating an appropriate risk factor or, where such loans are collateralised and have been written down to the current market value of the collateral, the estimated fair value is based on the written down carrying value.

Interest rate contracts

For interest rate contracts, fair values were obtained from quoted market prices, discounted cash flow models or option-pricing models as appropriate. Where such techniques are not appropriate, a cash basis has been adopted.

Foreign exchange contracts

For foreign exchange contracts, fair values were obtained from quoted market prices, discounting cash flow models or option-pricing models as appropriate. Where such techniques are not appropriate a cash basis has been adopted.

27. LEASES

Non-Cancellable Operating Lease Commitments	**GROUP**		**PARENT**	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Payable no later than one year	**36,451**	41,967	**28,769**	27,247
Payable later than one year and no later than five years	**79,180**	84,577	**67,809**	63,604
Payable later than five years	**40,708**	42,878	**31,209**	32,960
Total operating lease commitments	**156,339**	169,422	**127,787**	123,811

The Company leases a majority of its sites. All leases are standard operating leases. No leases have purchase options, onerous restrictions on use, contingent rent, etc. Lease terms vary from monthly to long term. Many leases have rights of renewal.

Non-Cancellable Future Operating Lease Receipts				
Receivable no later than one year	**7,355**	8,034	**7,355**	8,034
Receivable later than one year and no later than five years	**10,154**	12,128	**10,154**	12,128
Receivable later than five years	**1,045**	1,682	**1,045**	1,682
Total future operating lease receipts	**18,554**	21,844	**18,554**	21,844

The Company 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, contingent rent, etc. Lease terms vary from monthly to long term. Many leases have rights of renewal.

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28. CAPITAL COMMITMENTS

	GROUP		PARENT	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Contractual commitments for acquisition of:				
Investment properties - repairs and maintenance	**-**	90	**-**	90
Property, plant and equipment	**8,474**	8,291	**5,726**	5,892
Intangible assets - software	**6,579**	6,437	**6,000**	6,174
Total contractual commitments	**15,053**	14,818	**11,726**	12,156

29. CONTINGENCIES

The following contingencies have not been accrued in the financial statements. The amounts disclosed are the maximum potential losses, excluding the effects of tax.

The Parent has guaranteed the payment obligations of Kiwibank under a deed poll guarantee. There are no limits on the amount of the undisputed obligations guaranteed. The guarantee is unsecured and can be terminated on not less than three months notice by the Parent to the creditors. There is no obligation at 30 June 2008 (30 June 2007 - nil).

The Parent has guaranteed 50% of the bank debt of Express Couriers Limited, in line with its shareholding. There is no obligation at 30 June 2008 (30 June 2007 - nil).

The Group is subject to additional claims, contingencies and investigations incurred in the normal course of business. The Directors do not believe these will result in any significant exposure to the Group.

30. EVENTS OCCURRING AFTER BALANCE DATE

The Board of New Zealand Post has declared a final dividend of $6.6m which will be paid on 30 September 2008.

No other material events have occurred subsequent to balance date that require recognition of, or additional disclosure in these financial statements.

31. EXPLANATION OF THE TRANSITION TO NZ IFRS

	Note	Previous NZ FRS $'000	Effect of Transition to NZ IFRS $'000	NZ IFRS $'000	Previous NZ FRS $'000	Effect of Transition to NZ IFRS $'000	NZ IFRS $'000
Reconciliation of profit for the year ended 30 June 2007			**GROUP**			**PARENT**	
Revenue from operations	note A	1,222,165	(26,941)	1,195,224	773,811	(18,835)	754,976
Expenditure	note B	1,121,239	(20,392)	1,100,847	723,330	(16,543)	706,787
Operating profit		100,926	(6,549)	94,377	50,481	(2,292)	48,189
Other income	note C	-	13,230	13,230	-	11,758	11,758
Finance costs (net)	note D	-	(5,744)	(5,744)	-	(4,543)	(4,543)
Share of net profit of associates and jointly controlled entities	note E	-	16,741	16,741	-	-	-
Profit before income tax		100,926	17,678	118,604	50,481	4,923	55,404
Income tax expense	f	29,300	2,517	31,817	15,220	1,659	16,879
Profit for the period		71,626	15,161	86,787	35,261	3,264	38,525
Attributable to:							
Parent shareholders		70,214	16,573	86,787	35,261	3,264	38,525
Minority interests	e	1,412	(1,412)	-	-	-	-

31. EXPLANATION OF THE TRANSITION TO NZ IFRS continued

	Note	Previous NZ FRS $'000	Effect of Transition to NZ IFRS $'000	NZ IFRS $'000	Previous NZ FRS $'000	Effect of Transition to NZ IFRS $'000	NZ IFRS $'000
Reconciliation of equity as at 1 July 2006			**GROUP**			**PARENT**	
ASSETS							
Current assets							
Cash and cash equivalents		51,397	-	51,397	22,975	-	22,975
Trade and other receivables	note F	137,907	19,047	156,954	112,451	19,113	131,564
Inventories		7,276	-	7,276	6,707	-	6,707
Properties held for sale		4,208	-	4,208	4,208	-	4,208
Associate investment held for sale		5,280	-	5,280	-	-	-
Taxation receivable		1,732	253	1,985	-	-	-
Other current assets		6,792	-	6,792	4,153	-	4,153
Total current assets		214,592	19,300	233,892	150,494	19,113	169,607
Specific banking assets							
Cash and cash equivalents		50,116	-	50,116	-	-	-
Financial assets held for trading	d	-	116,411	116,411	-	-	-
Available for sale assets	d	-	261,364	261,364	-	-	-
Investment securities	d	378,474	(378,474)	-	-	-	-
Loans and advances	d, l	2,608,569	(14,725)	2,593,844	-	-	-
Deferred arrangement fees	c	1,661	(1,661)	-	-	-	-
Derivative financial instruments	g	-	7,393	7,393	-	-	-
Total specific banking assets		3,038,820	(9,692)	3,029,128	-	-	-
Non-current assets							
Property receivable	note F	20,158	(20,158)	-	20,158	(20,158)	-
Deferred tax asset	f	11,050	(2,959)	8,091	10,009	(5,590)	4,419
Investment properties	a	13,628	39,407	53,035	13,628	39,407	53,035
Property, plant and equipment	note G	364,121	(89,206)	274,915	320,022	(72,664)	247,358
Intangible assets	note H	34,193	58,369	92,562	79	33,679	33,758
Loans to related parties		-	-	-	149,407	-	149,407
Investments accounted for using the equity method	m	43,980	120	44,100	56,608	-	56,608
Investments in subsidiaries		-	-	-	190,711	-	190,711
Total non-current assets		487,130	(14,427)	472,703	760,622	(25,326)	735,296
Total assets		3,740,542	(4,819)	3,735,723	911,116	(6,213)	904,903

31. EXPLANATION OF THE TRANSITION TO NZ IFRS continued

	Note	Previous NZ FRS $'000	Effect of Transition to NZ IFRS $'000	NZ IFRS $'000	Previous NZ FRS $'000	Effect of Transition to NZ IFRS $'000	NZ IFRS $'000
Reconciliation of equity as at 1 July 2006 continued			**GROUP**			**PARENT**	
LIABILITIES							
Current liabilities							
Trade and other payables	note I	204,291	1,051	205,342	151,356	961	152,317
Taxation payable		-	-	-	689	(253)	436
Provisions	n	2,865	3,513	6,378	2,865	3,130	5,995
Borrowings	g	64,940	(366)	64,574	64,940	(366)	64,574
Other current liabilities	note J	4,086	1,374	5,460	3,478	1,374	4,852
Total current liabilities		276,182	5,572	281,754	223,328	4,846	228,174
Specific banking liabilities							
Due to other financial institutions	d	65,496	(1,864)	63,632	-	-	-
Deposits		2,376,648	-	2,376,648	-	-	-
Debt securities issued		408,964	-	408,964	-	-	-
Derivative financial instruments	d	-	123	123	-	-	-
Total specific banking liabilities		2,851,108	(1,741)	2,849,367	-	-	-
Non-current liabilities							
Employee benefit liabilities		4,213	-	4,213	3,998	-	3,998
Deferred settlement liabilities	e	-	8,147	8,147	-	-	-
Borrowings	g	74,947	(779)	74,168	74,947	(779)	74,168
Total non-current liabilities		79,160	7,368	86,528	78,945	(779)	78,166
Total liabilities		3,206,450	11,199	3,217,649	302,273	4,067	306,340
EQUITY							
Parent shareholders' equity							
Share capital		192,200	-	192,200	192,200	-	192,200
Retained earnings	note K	258,118	(1,414)	256,704	334,972	4,306	339,278
Other reserves	note L	83,774	(14,604)	69,170	81,671	(14,586)	67,085
Total equity		534,092	(16,018)	518,074	608,843	(10,280)	598,563
Total equity and liabilities		3,740,542	(4,819)	3,735,723	911,116	(6,213)	904,903

31. EXPLANATION OF THE TRANSITION TO NZ IFRS continued

	Note	Previous NZ FRS $'000	Effect of Transition to NZ IFRS $'000	NZ IFRS $'000	Previous NZ FRS $'000	Effect of Transition to NZ IFRS $'000	NZ IFRS $'000
Reconciliation of equity as at 30 June 2007			**GROUP**			**PARENT**	
ASSETS							
Current assets							
Cash and cash equivalents		88,740	-	88,740	66,254	-	66,254
Trade and other receivables	note F	182,143	(1,223)	180,920	139,006	4,195	143,201
Inventories		7,654	-	7,654	7,247	-	7,247
Properties held for sale		13,014	-	13,014	13,014	-	13,014
Taxation receivable		5,802	(218)	5,584	1,608	(338)	1,270
Other current assets		8,213	-	8,213	3,792	-	3,792
Total current assets		305,566	(1,441)	304,125	230,921	3,857	234,778
Specific banking assets							
Cash and cash equivalents		289,490	-	289,490	-	-	-
Financial assets held for trading	d	-	245,120	245,120	-	-	-
Available for sale assets	d	-	527,831	527,831	-	-	-
Investment securities	d	779,926	(779,926)	-	-	-	-
Loans and advances	d, l	3,631,662	(71,021)	3,560,641	-	-	-
Deferred arrangement fees	c	1,939	(1,939)	-	-	-	-
Derivative financial instruments	g	-	76,031	76,031	-	-	-
Total specific banking assets		4,703,017	(3,904)	4,699,113	-	-	-
Non-current assets							
Deferred tax asset	f	6,789	(7,209)	(420)	6,467	(6,437)	30
Investment properties	a	15,278	42,926	58,204	15,278	42,926	58,204
Property, plant and equipment	note G	412,845	(105,086)	307,759	354,759	(78,029)	276,730
Intangible assets	note H	37,642	82,076	119,718	54	35,576	35,630
Investments accounted for using the equity method	m	22,223	999	23,222	62,848	-	62,848
Investments in subsidiaries		-	-	-	339,240	-	339,240
Total non-current assets		494,777	13,706	508,483	778,646	(5,964)	772,682
Total assets		5,503,360	8,361	5,511,721	1,009,567	(2,107)	1,007,460

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31. EXPLANATION OF THE TRANSITION TO NZ IFRS continued

	Note	Previous NZ FRS $'000	Effect of Transition to NZ IFRS $'000	NZ IFRS $'000	Previous NZ FRS $'000	Effect of Transition to NZ IFRS $'000	NZ IFRS $'000
Reconciliation of equity as at 30 June 2007 continued			**GROUP**			**PARENT**	
LIABILITIES							
Current liabilities							
Trade and other payables	note I	247,930	536	248,466	180,831	5,798	186,629
Provisions	n	3,363	4,256	7,619	3,363	3,449	6,812
Other current liabilities	g	3,700	6,425	10,125	3,700	4,730	8,430
Total current liabilities		254,993	11,217	266,210	187,894	13,977	201,871
Specific banking liabilities							
Due to other financial institutions	d	73,869	(7,074)	66,795	-	-	-
Deposits		3,903,882	-	3,903,882	-	-	-
Debt securities issued	d	420,058	(104)	419,954	-	-	-
Derivative financial instruments	d	-	7,565	7,565	-	-	-
Total specific banking liabilities		4,397,809	387	4,398,196	-	-	-
Non-current liabilities							
Employee benefit liabilities		3,619	-	3,619	3,473	-	3,473
Deferred settlement liabilities	e	-	12,366	12,366	-	-	-
Borrowings	g	251,173	(4,952)	246,221	174,930	(4,952)	169,978
Total non-current liabilities		254,792	7,414	262,206	178,403	(4,952)	173,451
Total liabilities		4,907,594	19,018	4,926,612	366,297	9,025	375,322
EQUITY							
Parent shareholders' equity							
Share capital		192,200	-	192,200	192,200	-	192,200
Retained earnings	note K	298,034	15,336	313,370	348,439	7,747	356,186
Other reserves	note L	105,532	(25,993)	79,539	102,631	(18,879)	83,752
Total equity		595,766	(10,657)	585,109	643,270	(11,132)	632,138
Total equity and liabilities		5,503,360	8,361	5,511,721	1,009,567	(2,107)	1,007,460

31. EXPLANATION OF THE TRANSITION TO NZ IFRS continued

	Note	Previous NZ FRS $'000	Effect of Transition to NZ IFRS $'000	NZ IFRS $'000	Previous NZ FRS $'000	Effect of Transition to NZ IFRS $'000	NZ IFRS $'000
Reconciliation of cash flows for the year ended 30 June 2007			**GROUP**			**PARENT**	
Cash flows from operating activities							
Receipts from customers		1,104,244	-	1,104,244	758,885	-	758,885
Kiwibank interest received		309,887	-	309,887	-	-	-
Other interest received		5,552	-	5,552	6,755	-	6,755
Dividends received		3,805	-	3,805	3,804	-	3,804
Payments to suppliers and employees		(1,003,441)	2,558	(1,000,441)	(617,743)	-	(617,743)
Net payments to agencies		(23,205)	-	(23,205)	(23,205)	-	(23,205)
Kiwibank interest paid		(225,111)	-	(225,111)	-	-	-
Other interest paid		(11,763)	-	(11,763)	(10,945)	-	(10,945)
Income tax paid		(28,189)	(2,558)	(30,747)	(26,487)	-	(26,487)
Kiwibank increase in loans and advances	p	-	(1,021,947)	(1,021,947)	-	-	-
Kiwibank increase in deposits	p	-	1,515,899	1,515,899	-	-	-
Kiwibank increase in due to other financial institutions	p	-	8,373	8,373	-	-	-
Kiwibank increase in financial assets held for trading	p	-	(119,000)	(119,000)	-	-	-
Kiwibank increase in available for sale assets	p	-	(279,778)	(279,778)	-	-	-
Net cash flows from operating activities		131,779	103,547	235,326	91,064	-	91,064
Cash flows from investing activities							
Sale of property, plant and equipment		5,902	-	5,902	5,235	-	5,235
Sale of investments		6,186	-	6,186	1,350	-	1,350
Repayment of loans from subsidiaries and associates	p	40,000	(40,000)	-	65,000	(65,000)	-
Repayment of loans from associates	p	-	40,000	40,000	-	40,000	40,000
Repayment of loans from subsidiaries		-	-	-	-	25,000	25,000
Purchase of property, plant and equipment	j	(81,931)	18,105	(63,826)	(49,559)	3,582	(45,977)
Kiwibank lending to customers	p	(1,021,947)	1,021,947	-	-	-	-
Kiwibank net purchase of investment securities	p	(398,778)	398,778	-	-	-	-
Advances to subsidiaries and associates		-	-	-	(10,304)	10,304	-
Advances to subsidiaries		-	-	-	-	(10,304)	(10,304)
Investments in associates and other companies		(6,240)	-	(6,240)	(6,240)	-	(6,240)
Investments in subsidiaries	p	(9,334)	480	(8,854)	(55,000)	-	(55,000)
Purchase of intangible software assets	j	-	(18,105)	(18,105)	-	(3,582)	(3,582)
Net cash flows from investing activities		(1,466,142)	1,421,205	(44,937)	(49,518)	-	(49,518)
Cash flows from financing activities							
Kiwibank deposits, debt securities, due to other banks	p	1,535,366	(1,535,366)	-	-	-	-
Issue of bonds	p	175,000	(175,000)	-	100,000	(100,000)	-
Issue of borrowings	p	-	323,028	323,028	-	248,028	248,028
Repayment of bonds	p	(50,000)	50,000	-	(50,000)	50,000	-
Repayment of commercial paper (net)	p	(16,972)	16,972	-	(16,972)	16,972	-
Repayment of borrowings	p	-	(215,000)	(215,000)	-	(215,000)	(215,000)
Dividends paid to shareholders	p	(32,794)	32,794	-	(31,295)	31,295	-
Dividends paid to parent shareholders	p	-	(31,295)	(31,295)	-	(31,295)	(31,295)
Dividends paid to minority shareholders	p	-	(1,499)	(1,499)	-	-	-
Kiwibank increase in debt securities issued	p	-	11,094	11,094	-	-	-
Net cash flows from financing activities		1,610,600	(1,524,272)	86,328	1,733	-	1,733
Net increase in cash held		276,237	480	276,717	43,279	-	43,279
Cash balances acquired	p	480	(480)	-	-	-	-
Cash at the beginning of the period		101,513	-	101,513	22,975	-	22,975
Cash at the end of the period		378,230	-	378,230	66,254	-	66,254

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31. EXPLANATION OF THE TRANSITION TO NZ IFRS continued

		GROUP		PARENT	
Notes on the transition to NZ IFRS	**Note**	**Year ended 30 June 2007 $'000**	**As at 1 July 2006 $'000**	**Year ended 30 June 2007 $'000**	**As at 1 July 2006 $'000**
A. Revenue from Operations					
Reclassified as other income:					
- dividends from associates		-		(3,802)	
- other dividends received		(2)		(2)	
- revaluation of investment properties		(1,645)		(1,645)	
- gain on sale of investments		-		(1,470)	
Reclassified as finance costs (net):					
- other interest revenue		(5,543)		(7,047)	
- discount unwind on asset sales		(1,953)		(1,953)	
Reclassifed as share of net profit of associates and jointly controlled entities:					
- share of net surplus of associates		(15,862)		-	
Reclassifed as expenditure:					
- gain on asset sales		(361)		(297)	
Reclassified from expenditure:					
- commissions, discounts, rebates		(1,611)		(1,462)	
Kiwibank loan origination costs	c	1,193		-	
Discount deferred receivables	k	(1,157)		(1,157)	
		(26,941)		(18,835)	
B. Expenditure					
Reclassified from revenue:					
- gain on asset sales		(361)		(297)	
Reclassified as revenue:					
- commissions, discounts, rebates		(1,611)		(1,462)	
Reclassified as finance costs (net):					
- interest expense		(13,778)		(14,081)	
Reverse depreciation on plant and equipment		(20)		-	
Kiwibank expense adjustments		1,917		-	
Reverse goodwill amortisation	h	(7,966)		-	
Goodwill impairment	h	444		-	
Amortisation on new intangible assets	o	1,262		-	
Recognition of new provisions	n	677		253	
Recognition of employee entitlements	i	211		211	
Discount deferred payables	k	(1,167)		(1,167)	
		(20,392)		(16,543)	

31. EXPLANATION OF THE TRANSITION TO NZ IFRS continued

		GROUP		PARENT	
Notes on the transition to NZ IFRS	**Note**	**Year ended 30 June 2007 $'000**	**As at 1 July 2006 $'000**	**Year ended 30 June 2007 $'000**	**As at 1 July 2006 $'000**
C. Other Income					
Reclassified from revenue:					
- dividends from associates		-		3,802	
- other dividends received		2		2	
- revaluation of investment properties		1,645		1,645	
- gain on sale of investments		-		1,470	
Gain on revaluation of investment properties	a	3,519		3,519	
Gain on revaluation of other properties	b	869		869	
Gain on fair value hedge	g	451		451	
Gains on financial instruments at fair value	d, g	6,744		-	
		13,230		11,758	
D. Finance Costs (net)					
Reclassified from revenue:					
- other interest revenue		5,543		7,047	
- discount unwind on asset sales		1,953		1,953	
Reclassified from expenditure:					
- interest expense		(13,778)		(14,081)	
Discount unwind on net settlements	k	538		538	
		(5,744)		(4,543)	
E. Share of Net Profit of Associates and Jointly Controlled Entities					
Reclassified from revenue:					
- share of net surplus of associates		15,862		-	
Jointly controlled entity IFRS impact	m	358		-	
Reverse goodwill amortisation	h	521		-	
		16,741		-	
F. Trade and Other Receivables					
Reclassify property receivable		-	20,158	-	20,158
Reclassify related party balances		-	-	5,352	-
Deferred settlement	k	(1,223)	(1,111)	(1,157)	(1,045)
		(1,223)	19,047	4,195	19,113
G. Property, Plant and Equipment					
Classification investment property	a	(42,453)	(38,985)	(42,453)	(38,985)
Classification software assets	j	(62,738)	(50,306)	(35,576)	(33,679)
Impact of make good provisions	n	105	85	-	-
		(105,086)	(89,206)	(78,029)	(72,664)

NEW ZEALAND POST LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

31. EXPLANATION OF THE TRANSITION TO NZ IFRS continued

		GROUP		PARENT	
Notes on the transition to NZ IFRS	**Note**	**Year ended 30 June 2007 $'000**	**As at 1 July 2006 $'000**	**Year ended 30 June 2007 $'000**	**As at 1 July 2006 $'000**
H. Intangible Assets					
Classification software assets	j	62,738	50,306	35,576	33,679
Deferred settlement options	e	13,488	6,695	-	-
Translation goodwill at balance date rate	h	(1,605)	1,435	-	-
Reverse goodwill amortisation	h	7,966	-	-	-
Goodwill impairment	h	(511)	(67)	-	-
		82,076	58,369	35,576	33,679
I. Trade and Other Payables					
Employee entitlements	i	1,284	1,073	1,194	983
Reclassify related party balances		-	-	5,352	-
Deferred settlement	k	(1,167)	(507)	(1,167)	(507)
Property lease incentives		419	485	419	485
		536	1,051	5,798	961
J. Other Current Liabilities					
Derivative financial liabilities	g	4,730	1,374	4,730	1,374
Kiwibank liabilities		1,695	-	-	-
		6,425	1,374	4,730	1,374
K. Retained Earnings					
Additions to existing provisions		-	(1,628)	-	(1,628)
Recognition of new provisions	n	-	(1,801)	-	(1,502)
Employee entitlements	i	-	(1,073)	-	(983)
Restatement investment properties	a	-	23,966	-	23,966
Deferred tax	f	-	1,014	-	(1,619)
Asset revaluations by individual asset	b	-	(12,676)	-	(12,676)
Fair value hedge accounting	g	-	(229)	-	(229)
Deferred settlement on net trade receivables	k	-	(604)	-	(538)
Lease incentive liability		-	(485)	-	(485)
Impairment goodwill	h	-	(67)	-	-
Equity accounted investments	m	-	120	-	-
Kiwibank financial assets and financial liabilities	c, d, l, g	-	(7,951)	-	-
Prior year NZ IFRS adjustments		(1,414)	-	4,306	-
Negative revaluation on sold assets		177	-	177	-
Current year net profit NZ IFRS adjustments		16,573	-	3,264	-
		15,336	(1,414)	7,747	4,306
L. Other Reserves					
Restatement investment properties	a	(27,012)	(23,544)	(27,012)	(23,544)
Derecognise minority interests	e	(1,935)	(1,453)	-	-
Asset revaluations by individual asset	b	11,631	12,676	11,631	12,676
Deferred tax on asset revaluation reserve	f	(3,498)	(3,718)	(3,498)	(3,718)
Translation goodwill at balance date rate	h	(1,605)	1,435	-	-
Available for sale reserve	d	(1,450)	-	-	-
Cash flow hedge reserve	g	(2,124)	-	-	-
		(25,993)	(14,604)	(18,879)	(14,586)

31. EXPLANATION OF THE TRANSITION TO NZ IFRS continued

a. Investment Property

Under NZ FRS properties were classified as investment properties where less than 20% of the entire property is occupied by the Group. Under NZ IFRS properties have been split into separately saleable portions to determine classification as investment property based on current and intended Group occupancy of each portion. Under NZ FRS investment properties were valued at market value less estimated costs of disposal. Under NZ IFRS investment properties are valued at market value.

b. Asset Revaluation Reserve

Under NZ FRS revaluation gains and losses were cumulated and accounted for by class of asset. Under NZ IFRS asset revaluation reserves have been accounted for by individual asset within each class.

c. Deferred Arrangement Fees

Under NZ FRS loan origination costs were capitalised and written off over the average life of the loan to net interest income. Under NZ IFRS loan origination costs have been expensed immediately in the income statement as part of operating expenses where they relate to financial assets held at fair value through the profit and loss account.

d. Valuation of Financial Instruments

Under NZ FRS not all financial assets and financial liabilities were accounted for. Under NZ IFRS all financial assets are required to be designated into one of the following four categories: Fair Value through Profit or Loss (FVTPL), Available for Sale, Held to Maturity or Loans and Receivables. Financial liabilities are required to be designated at either FVTPL or at amortised cost. Kiwibank has elected to adopt FVTPL for the retail fixed rate loan portfolio originated prior to 1 January 2008. Under NZ FRS these loans were being measured at amortised cost. Certain investment securities have been designated as available for sale assets and are recognised at fair value. Under NZ FRS these loans were being measured at amortised cost.

e. Deferred Settlement Liabilities

Under NZ FRS options were only recorded when exercised. Under NZ IFRS all financial instruments, including options, have been recognised in the balance sheet at fair value. The Group has elected to derecognise previously recognised minority interest and establish a liability for the settlement of the related options.

f. Deferred Taxation

Under NZ FRS deferred taxation was recognised on a comprehensive basis on all timing differences. Under NZ IFRS deferred taxation has been recognised on all temporary differences, and has been calculated using a balance sheet approach.

g. Derivative Financial Instruments and Hedging

Under NZ FRS derivatives were recorded off balance sheet. Under NZ IFRS all derivative financial instruments, whether designated as hedging instruments or otherwise, are to be carried at fair value on the balance sheet. The Group has elected to apply fair value hedge accounting for its interest rate swaps held to hedge the value of the NZ Post Bond Programme. Kiwibank elected to apply hedge accounting to the cash flow interest rate swaps used to hedge the variable rate loan portfolio.

h. Goodwill

Under NZ FRS goodwill was recorded at historic cost and amortised over its useful life (3 to 10 years). Under NZ IFRS foreign denominated goodwill has been translated at the balance date rate. Goodwill has not been amortised, and has been subject to impairment testing at each balance sheet date.

i. Employee Entitlements

Under NZ FRS employee benefits were only accrued where the benefit was accumulating and vesting. Under NZ IFRS all accumulating employee benefits have been recorded regardless of their vesting status.

j. Software Assets

Under NZ FRS software assets were classified as property, plant and equipment and were depreciated over their estimated useful life (being 3 to 5 years). Under NZ IFRS software assets (that are not integral to hardware) have been classified as intangible assets and are amortised over their estimated useful life (being 3 to 5 years).

k. Deferred Settlement Terms

Under NZ FRS all trade receivables and trade payables were recorded at cost. Under NZ IFRS trade receivables and trade payables where there is a significant delay between recognition and expected settlement, have been recorded at present value.

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31. EXPLANATION OF THE TRANSITION TO NZ IFRS continued

l. Loan Impairment (specific to Kiwibank)

Under NZ FRS loans not found to be individually impaired were collectively assessed for impairment in pools of similar assets with similar risk characteristics, estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. Under NZ IFRS the FVTPL designation has been applied to the retail fixed rate loan portfolio originated prior to 1 January 2008. Any impairment provisioning will be included in the carrying value of these loans, hence removing the need for a separate provision.

m. Equity Accounted Investments

Investments accounted for using the equity method have been amended to reflect the NZ IFRS adjusted balances in the investments' individual financial statements.

n. Provisions

Additional provisions in respect of telephone rental commitments and make good provisions have been recognised under NZ IFRS. The measurement of certain provisions has been amended to reflect the requirements of NZ IFRS.

o. Business Combinations

As part of the transition to NZ IFRS the accounting treatment for the acquisition of The New Zealand Home Loan Company was reassessed, resulting in customer relationships being identified and accounted for as an identifiable intangible asset. This reduced the goodwill previously recognised under NZ FRS.

p. Classification and Disclosure

Under NZ IFRS some assets, liabilities, revenues, expenses and cash flows are required to be classified or disclosed differently than they were under NZ FRS.