STANDARD & POOR'S
RATINGS SERVICES

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Summary:

New Zealand Post Ltd.

Primary Credit Analyst:
Paul Draffin, Melbourne (61) 3-9631-2122; paul.draffin@standardandpoors.com

Secondary Contact:
Richard Creed, Melbourne (61) 3-9631-2045; richard.creed@standardandpoors.com

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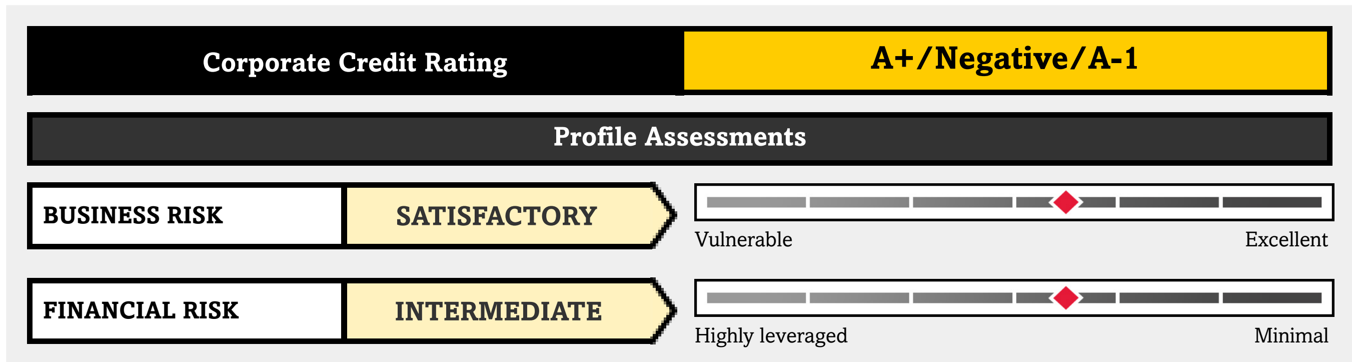

Likelihood of Extraordinary Government Support

Standard & Poor's Ratings Services assesses New Zealand Post Ltd.'s (NZ Post) standard-alone credit profile (SACP) as 'bbb' and consider that there is a "very high" likelihood that that the New Zealand government would provide timely and sufficient extraordinary support to NZ Post, if necessary. In accordance with our criteria for government-related entities (GREs), our view of a "very high" likelihood of extraordinary support is based on our assessment of New Zealand Post's:

- "Very important" role in the national economy as New Zealand's public postal operator. The company provides collection, processing, distribution of letters and associated services, parcels, logistics, and express mail, as well as retail and agency services through an extensive network in metropolitan, regional, and remote areas of New Zealand; and
- "Very strong" link with the New Zealand government, which owns NZ Post and which maintains a governance framework that allows for extensive influence over the postal authority. The New Zealand government has also provided a contingent capital facility to the group to support the potential capital demands of NZ Post's full owned banking subsidiary, Kiwibank Ltd.

Rationale

The ratings on NZ Post are based on the group's SACP of 'bbb' and a "very high" likelihood that the New Zealand government would provide timely and sufficient extraordinary support to New Zealand Post, if necessary.

We view New Zealand Post's banking subsidiary, Kiwibank, as materially insulated from the rest of the group, given we expect the banking regulator, the Reserve Bank of New Zealand, to prevent NZ Post's unfettered access to the cash flows and capital of Kiwibank. Accordingly, we assess NZ Post's SACP excluding Kiwibank, but factor in the financial flexibility provided by the group's ownership stake in the bank. Conversely, Kiwibank's significantly larger size relative to NZ Post, and that NZ Post guarantees almost all of Kiwibank's obligations, mean we consider that the SACP on Kiwibank effectively caps the SACP of NZ Post in most foreseeable circumstances.

Business Risk: Satisfactory	Financial Risk: Intermediate
• Satisfactory market position as New Zealand's designated postal operator, • Exposure to ongoing structural erosion of standard-letter volumes, • Extensive social service obligations under the postal services Deed of Understanding, and • Significant market position in the competitive and cyclical parcel and express-courier industry.	• Material debt reduction during the past 12 months from the proceeds of asset sales, • Weak expected near-term profitability and cash flow generation from the core postal operations, and • Financial flexibility provided by NZ Post's 100% ownership stake in Kiwibank and other investments.

Outlook: Negative

The negative outlook reflects 1) rising economic risks in New Zealand that could affect the credit-standing of NZ Post's subsidiary, Kiwibank, and 2) weak profitability of the postal operations that is highly reliant on effective cost restructuring to offset structurally declining revenue trends.

Downside scenario

We could lower the ratings on NZ Post if:

- Heightened economic risks in New Zealand erode the credit standing of Kiwibank;
- The letter-delivery business experiences material losses; or
- Fund from operations (FFO)-to-debt (excluding the banking operations) is sustained at less than 20%, due to persisting weak operating performance, debt-funded acquisitions, or debt-funded distributions.

Although unlikely in the next two years, downward pressure on the ratings could also arise if we considered there would be a reduced likelihood of the New Zealand government providing extraordinary support to NZ Post.

Upside scenario

We could revise our outlook back to stable if:

- We formed a view that uncertainties around New Zealand's economic risks affecting Kiwibank have abated; and
- NZ Post maintains profitability of its letter delivery business, underpinned by effective execution of its cost reduction strategies; and
- NZ Post maintains FFO-to-debt (excluding banking operations) of more than 20%.

Standard & Poor's Base-Case Scenario

Our base-case scenario is focused on the financial performance of the NZ Post Group, excluding Kiwibank. Under our base case, we expect moderate growth from the group's parcel and courier businesses, and other investments, to offset continued weak profitability of the postal operations and maintain credit protection measures within tolerances for the current rating. That said, downside risks to postal earnings remain in the near term, as meaningful improvement in postal profitability is not expected until fiscal 2016, due to the timing of initiatives under the revised Deed of

Understanding.

Assumptions	Key Metrics
• Group EBITDA (excluding Kiwibank) in the NZ$45 million to NZ$55 million range in fiscal 2014, • Capital expenditure in the NZ$40 million to NZ$60 million range in fiscal 2014, and • Surplus cash above NZ$30 million is netted against debt.	See table below

	2013A	2014F	2015F
FFO to debt	30.5%	20%-25%	20%-30%
Debt/EBITDA	4.3x	4.5x-5.5x	4x-5x

A--Actual. F—Forecast.

Business Risk: Satisfactory

Underpinning New Zealand Post's "satisfactory" business risk profile is its significant market position as New Zealand's designated postal operator and its strong market shares in parcel and courier delivery. Tempering these strengths are the group's exposure to structurally declining letter volumes, a high fixed cost base, and execution risks associated with the proposed restructuring under the group's recently revised Deed of Understanding (DoU).

NZ Post's core postal operations continue to face significant ongoing structural declines in traditional mail volumes, against a large and predominantly fixed cost base. Accordingly, the proposed cost restructuring initiatives under the revised DoU are considered essential to supporting the profitability of the postal operations. Key elements of the restructuring include a reduction in delivery days and an extensive rationalization of the retail postal network. If well executed, these initiatives should, together with other initiatives already underway, help to both reduce costs and make more of the group's costs variable to better accommodate declining revenue trends. Nonetheless, these initiatives incorporate material execution risk and will be implemented over the next two years, with the full benefit not expected until at least fiscal 2016. Accordingly, we expect the near-term profitability of the postal operations to remain weak.

Despite the structural challenges in the mail business, we consider NZ Post to be well positioned in the New Zealand courier and parcel delivery market. Although the parcel and courier sector is competitive and cyclical, we consider the NZ market to benefit from its relatively concentrated market structure, with NZ Post being one of two similarly sized operators that account for more than three quarters of market volumes. Furthermore, the scale economics and relatively small size of the NZ market should limit the amount of competition compared with larger offshore markets. Nevertheless, market competition and cyclical demand will constrain margins and contribute to moderate earnings volatility from this business through the economic cycle.

NZ Post also has a number of investments in new business streams, including wealth management and insurance; data management services; online directories; and catalogue delivery. These businesses offer growth opportunities for the group (particularly nonbank financial services and data management services), provide some moderate earnings diversity, and are a source of financial flexibility to the group. Nevertheless, our business risk profile assessment is driven primarily by the mail and courier businesses given the relatively size of their revenue and cost bases.

Given we view Kiwibank as materially insulated from the NZ Post group, the group's investment in Kiwibank is

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assessed primarily as a source of financial flexibility under our financial risk profile assessment.

Financial Risk: Intermediate

Proceeds from previous asset sales have been used to reduce debt, which materially supported NZ Post's financial risk in the past 12 months. As a result, funds from operations (FFO) to debt (excluding the banking operations) improved to about 30% in fiscal 2013 despite weaker postal earnings. Under our base-case forecasts, we expect key credit measures to weaken moderately during fiscal 2014 due to continuing structural revenue pressures in the core postal business. Furthermore, we expect the profitability of the core postal operations to remain weak in the next 1-2 years due to the timing of proposed restructuring initiatives under the DoU that will not be fully realized until at least fiscal 2016. Accordingly, NZ Post will be reliant on effective execution of restructuring initiatives already underway, and continued satisfactory earnings growth from its nonmail businesses to support credit metrics consistent with the current rating in the next two years.

Liquidity: Adequate

We consider New Zealand Post's liquidity to be "adequate" as we expect the group's sources of liquidity to cover its uses by more than 1.2x in the next 12 months. We also expect net sources and uses of liquidity to remain positive even if EBITDA falls by 15%. Our expectations for the group's key sources and uses of liquidity in the next 12 months are summarized as follows:

Principal Liquidity Sources	Principal Liquidity Uses
• Funds from operations of NZ$35 million-NZ$45 million; and • NZ$50 million in undrawn bank facilities (excluding an additional NZ$50 million bank facility that matures in December 2013 but is likely to be extended).	• Capital expenditure of NZ$40 million –NZ$60 million; • Commercial paper maturities of NZ$30 million; and • Dividends of NZ$5 million-NZ$10 million.

Related Criteria And Research

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, Oct. 28, 2004

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Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

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