

NETWORKS

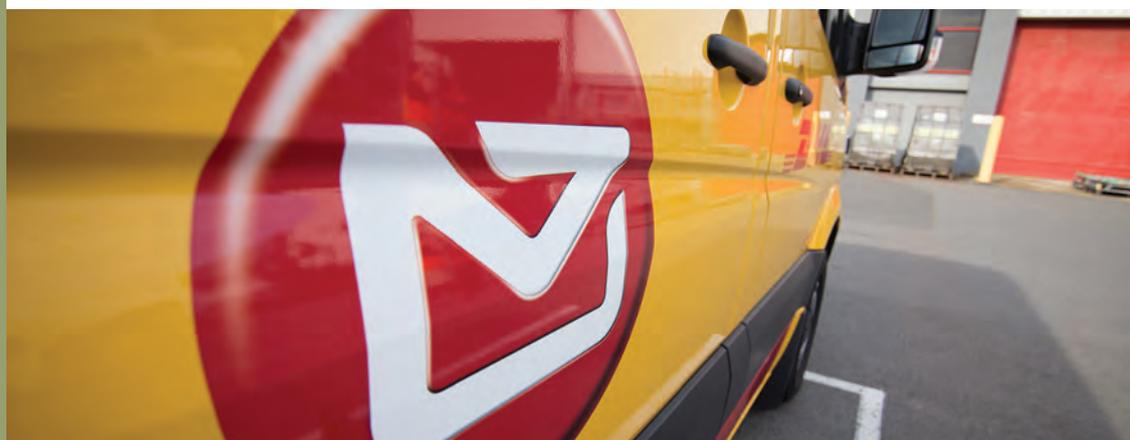
THE GROUP'S 'NETWORKS' CAPITAL IS OUR BRICKS AND MORTAR – THE BUILDINGS AND INFRASTRUCTURE THAT WE USE TO SERVE OUR CUSTOMERS AND FROM WHICH WE DELIVER MAIL AND PARCELS TO MORE THAN 1.94 MILLION POINTS NATIONWIDE. THE GROUP HAS THREE MAIN NETWORKS THAT SUPPORT THIS: RETAIL, PROCESSING (FOR THE LODGEMENT, SORTING AND TRANSPORT OF ITEMS), AND DELIVERY.

The value of this capital is being affected by local and international trends and developments, particularly the worldwide decline in letter mail. Here in New Zealand, the amount of mail processed by New Zealand Post dropped by 6.5% (48.5 million items) in 2013/14 to 697.5 compared to a decline of 7.5% (63 million items) in the previous year – down from 1.1 billion items in 2002.

Accompanying this change, the number of delivery points is increasing, with more homes being built on the urban fringe, more apartment blocks appearing in central cities, and a general growth in rural properties. This development, combined with inflationary pressures on the costs of servicing this network, result in high operating costs and decreasing revenue – a situation exacerbated by the rising costs of managing, maintaining and operating our nationwide store network.

Scale of the network *(as of June 2014)*

| | | |
|-------------------------|---|--|
| 1,730 Posties | 884 retail points of presence | 414 properties forming the network |
| 542 Couriers | 697.5M letter items through the network | 1.93M delivery points |



Preserving the value of our networks capital

While the number of parcels the Group delivers is expected to increase in the next five years, this will not make up for the revenue lost through the decline in mail. The reality is that the Group must reduce its network costs and increase its operational efficiency if it's to continue providing New Zealanders with a parcel and mail service that meets their needs and expectations.

New Zealand Post has undertaken a number of measures to confront this challenge in recent years, including rationalising its street receiver and transport networks, and increasing prices. However, until recently the Deed of Understanding with the Government prevented a redesign of the mail processing and delivery networks as a whole. With the Deed now amended, New Zealand Post plans to begin to implement alternate-day delivery for standard mail in urban areas from July 2015.

Other initiatives designed to enable the Group to focus on core business have included the sale of Wellington's New Zealand Post House and Auckland's CourierPost House (now Kiwibank House). We've also sold our mail centres in Wellington and Dunedin and started marketing the Palmerston North sites for sale, which will release the capital locked up in these buildings and enable us to reinvest the money into the business. Overall, the Group's property footprint has decreased by 26,000sqm over the year.

The Group continues to explore other ways to simplify and streamline the mail processing and distribution operations. We have reduced the number of locations where mail is sorted to leverage our investment in automation. For example, we're considering investments in new sorting technology that will help to reduce, and potentially eliminate, currently manual processing practices.

Access

We run a network that allows for the competitive nature of mail and parcel deliveries. The Group's network handles both its own product and that of some of its competitors, and allows competitors to leverage our processing and delivery capabilities. This presents a challenge as we continue to optimise our network, as we cannot optimise for just one purpose, but need to design an overall network that supports competition as well as the Group's objectives.

Enhancing the value of our networks capital

Reshaping the mail network

In June 2013 the Group announced a major restructure of the New Zealand Post mail network, which will enable us to achieve meaningful savings while continuing to maintain a high-quality service. The restructure included:

- shifting mail processing from the Waikato, Wellington and Dunedin mail centres to three metro mail centres in Auckland, Palmerston North and Christchurch
- removing standard-mail processing activities from 30 smaller (heartland and satellite) sites.

The changes in our heartland and satellite sites are complete, while the move to the metro mail centres should be complete by May 2015. Throughout the process we're supporting all affected staff, especially those whose jobs are changing or will cease to exist, with information, updates and access to a range of services at the Future Zone hub (see page 27 for more).

We are also looking at further investment in automation to speed up processing and reduce the number of errors and rework.

Integrating delivery teams

The Group is working to reduce costs and increase efficiency and effectiveness in the way we deliver mail and parcels, by blending the mail and courier functions in some provincial sites at leadership, support and operational levels.

This 'one team' approach has already been implemented in Tauranga, providing some valuable lessons in what's required in planning for and implementing it elsewhere. The experience has confirmed that it's the right thing to do, as the local teams are already identifying ways to work more closely together for the benefit of our customers. See page 21 for more.

To add even greater value to the new approach, we've recently trialled an 'integrated delivery agent' model in Lower Hutt. The project is about offering a single agent to deliver a range of Group products, and involves testing alternatives to bicycles and vans as delivery vehicles. The trial will provide important information on the appropriateness, economics and logistics of using the vehicles and deploying the integrated model nationwide. See page 21 for more.

Changing store operations

The Group is changing the way it delivers postal and banking services through the retail network as customers change the way they use those services. Instead of owning and running stores itself, it plans to deliver services through other businesses in local communities, creating a store-in-store experience. This helps keep the services in the local community, provides a convenient place to access services and increases the foot traffic in the business. This will reduce the number of 'corporate owned' stores – also reducing the New Zealand Post property portfolio and operational costs, while still locating outlets where our customers need them.

We continue to work with third parties, including existing franchisees, to offer postal and banking services as part of their retail offering.

Changing store management

On 1 July 2014 Kiwibank took over the management accountabilities and responsibilities for the 139 Group-owned corporate stores. This enables Kiwibank to be in places where it needs to be, and New Zealand Post to remain in its communities without the overhead costs of bricks and mortar.

The move provides Kiwibank with greater control of its physical and digital distribution channels and makes it easier for customers to access Kiwibank products and services via their channels of choice. It also provides Kiwibank with an anchor point from which to provide high-value advisory services and drive product sales, and a stronger regional focus in its links with agencies, mobile mortgage managers and brokers. Meanwhile, the Group's banking and bill payment systems are protected for Kiwibank and New Zealand Post customers.

Store composition

| | |
|------------------------------------|------------------------------------|
| 884 total retail outlets | 608 stores-within-stores |
| PostShop stores franchised | PostShop stores corporate |
| 137 | 139 |





CASE STUDIES



TRIALLING 'INTEGRATED DELIVERY AGENTS'

In March 2014 New Zealand Post began trialling a new mode of transport for letters and parcels: battery-powered, mid-range vehicles that are already being used successfully by postal operators in Europe.

The trial vehicles – a three-wheel Kyburz, which can carry a load of up to 120 kilograms, and a four-wheel Paxster (carrying over 200 kilograms) – offer the twin benefits of being nimble enough to reach people's letterboxes while robust enough to carry bulky parcels.

Conducted in all sorts of driving, terrain and weather conditions in Lower Hutt, the trial vehicles delivered the full range of mail, from letters to parcels and community and subscription newspapers. The results of the trial are still being analysed, but feedback from drivers, the trial team and the public has been positive.

INTEGRATING LEADERSHIP AND SUPPORT STRUCTURES

As part of our effort to achieve 'network integration', the Group's mail and courier leadership and support functions are being brought together at 14 provincial sites. In this 'one team' environment, a single leader, supported by an integrated leadership and administration/support team, is responsible for ensuring all mail and parcels services in the area meet local customers' needs. Frontline roles are not affected.

The integrated network offers a number of benefits, including:

- combining the strengths of both networks to provide the best service for customers and at the lowest possible cost
- enabling us to move items based on the service levels customers have paid for
- empowering the consolidated teams to deliver a better customer experience and get the most from our operational networks
- supporting leaders and teams to develop new skills
- removing the duplication in the present traditional approach.

Launched in March, the programme will be fully implemented in all 14 provincial sites by September 2014.