

# Our year

**\$116.2 million**

Profit after tax

**34.5%** decrease in profit

**36,944**

employees nationwide, reflecting Australia Post and StarTrack's combined strength

**-\$328.4 million**

Operating EBIT in mail services

**15.2%** increase in loss

**8.0**

Lost Time Injury Frequency Rate

**2.4%** reduction in LTIFR

**\$337.5 million**

Operating EBIT in parcel services

**20.8%** increase in profit

**2<sup>nd</sup>**

Most reputable brand (position held)

2014 AMR Corporate Reputation Index



**Declared a \$78.8 million dividend to our shareholder**

(More information on page 12)

**Exceeded all regulated delivery performance standards**

(More information on page 14)

**Established Australia's largest parcels and logistics network**

(More information on page 28)

**Preserved our reputation as a trusted service provider**

(More information on page 9)

**Launched Post People 1st to protect, prioritise and support our employees**

(More information on page 11)

**Recorded fewer workplace injuries and championed safe road use**

(More information on pages 32–33)

**Built better neighbourhoods across Australia**

(More information on page 37)

**Reduced carbon emissions to deliver better environmental outcomes**

(More information on page 39)





This is the fourth year Australia Post has produced an integrated annual report. It discusses our overall sustainability performance including our financial, social and environmental achievements for the 2014 financial year.

The report provides information for our four primary stakeholders – our shareholder (the Australian Government), our people, our customers and the broader community. The material issues we cover in this report, and our process for identifying these topics this year, are discussed on page 19.

Our integrated report is prepared according to legislative requirements, the Global Reporting Initiative (GRI) G3.1 Guidelines and the GRI Transport and Logistics Sector Supplement, and the principles of the United Nations Global Compact.

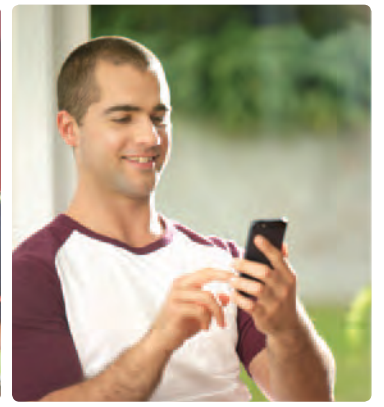
**Front cover images:**

(Top) Australia Post Bourke Street Superstore Postal Manager, Anthony Allwood, explains the benefits of the new MyPost Concession Account to customer Vally Crowe.

(Bottom) Dick Smith Camberwell Store Manager, Geoff Mortimer, accepts a delivery from StarTrack driver, Van Nguyen.

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# Changing with you

For over 200 years we have been serving Australians. We have always sought to help citizens, businesses and government. Not just some, but everyone, everywhere, every day so that communities work better, and can prosper.

However, the needs of communities are changing as a result of the digital age. Therefore so must our services if we are to continue to fulfil our purpose. Your Post is evolving by:

- Building world-class delivery, supply chain and ecommerce solutions for businesses
- Developing the post office and our digital services to support the everyday essentials of citizens and small business owners, including a special focus on rural and regional communities
- Enabling governments and corporations to connect with their customers online as well as through our postal network
- Helping our people and partners be safe and supported so that they can have fulfilling jobs and businesses that serve our customers well.

In a rapidly changing world, the needs of our people, customers and communities, and the trust they place in us, remain at the core of every decision and action we take.

**Ahmed Fahour**  
Managing Director & Group CEO



# Chairman's message

Australia Post again delivered on its core obligations of providing reliable community service and sound commercial performance – while investing in new services that are vital to serving Australians in the digital world.



I am very pleased to report that we met all of our community service obligation (CSO) performance standards and managed to earn a modest profit in the 2013–14 financial year. That is a significant achievement, in itself, given the ongoing digital disruption to many of our core products and services.

## Our strategy

We remain focused on running Australia Post efficiently and productively, while simultaneously working on a range of strategic initiatives that all relate to changing, growing and reforming the business – in the long-term interests of the Australian community.

Our primary strategic goal is to run the business in a way that captures our immediate growth opportunities. This year we made significant headway with the construction of our future parcels network; the integration of StarTrack; the expansion of our trusted services offering; and by building the functionality and scale of the MyPost Digital Mailbox.

Strategically, we also remain focused on growing in new areas that are aligned to both our customers' needs and our existing strengths across communications, ecommerce and trusted services.

## Reforming our letters service

The Australian community's reducing reliance on our letters service remains a significant and ongoing challenge. In the six years since our mail peak, the volume of domestic addressed letters sent in Australia has fallen 25.3 per cent. So, this year, our posties delivered 1.2 billion fewer letters than they did in 2007–08.

We're also delivering this dwindling volume to an ever-expanding network. So, in real terms, letters delivered per letterbox has actually fallen 30.6 per cent over the past six years.

In this year alone, we incurred a loss of \$328.4 million in our highly regulated mail services business (up from last year's loss of \$285.1 million). Under the existing regulatory settings for the letters service (the CSO standards and price constraints), we know that these losses will inevitably grow in future years as volumes continue to decline. In fact, without regulatory reform, our losses in letters will soon overwhelm the profits that we earn from our parcels and retail businesses, combined.

Therefore, we have been actively engaging in the recent community discussion about the future of our letter services – pointing out that regulatory reform is fundamental to securing a viable, self-funding future for Australia Post. We will continue to work closely with our Shareholder and engage with the community as we develop a new model that ensures we maintain accessible, reliable and sustainable letter services for all Australians.

## Looking ahead

Australia Post is a much-loved brand with unrivalled community-based post office and delivery networks that underpin connection and commerce, for all Australians. By managing the reform of our letters business now, I am confident that we will be in a strong position to maintain those networks – and invest in new services that will serve Australians well into the future.

I'd like to thank my fellow directors, the management team and our outstanding CEO, Ahmed Fahour – as well as the thousands of employees, licensees, agents and contractors who work so hard to deliver a tremendous community service across Australia.

A handwritten signature in black ink, which appears to read 'John Stanhope'. The signature is fluid and cursive, written on a light-colored background.

**John Stanhope**  
Chairman

# Managing Director & Group CEO's message

This was a year of significant challenge and change at Australia Post, as we continued to adapt in order to stay relevant to our customers.



For the 14th consecutive year, we met all of our CSO service performance targets. In 2013–14 we delivered 94.5 per cent of letters on time or early (ahead of our 94 per cent target) and maintained 4,417 post offices nationwide (well above the target of 4,000 access points).

In terms of commercial performance, our revenue increased to \$6.4 billion (up 8.3 per cent on last year), but after-tax profit was down 34.5 per cent to \$116.2 million.

In addition, we continue to make significant improvements in our safety performance.

On a portfolio basis, the operating EBIT loss in our highly regulated mail services business (predominantly our reserved and non-reserved letters services), increased by 15.2 per cent to \$328.4 million – due to falling volumes and the fixed-cost nature of this business. Retail Services earned \$175.6 million, which is in line with last year's result. Parcel and Express Services earned operational EBIT of \$337.5 million, which is up 20.8 per cent on last year. This is the fourth consecutive year of profit growth in our parcels business – and it was achieved despite a slowdown in ecommerce activity and intensifying competition across the parcels market.

## Turning point

As was anticipated and communicated, the corporation made an overall loss in the second half of the financial year. It is the first time that our business has made a loss in any six-month period, since being corporatised in 1989.

This indicates that we have now reached a turning point where we can no longer expect profits from our competitive parcels business to offset the growing losses that we are

incurring in the highly regulated mail services business. We believe this is a permanent structural issue and, as a result, we are now actively seeking to change our letters services, prices and operations.

## Looking after our stakeholders

As we adapt to the ongoing shift in the community's use of our services, we are very conscious of minimising the impact of service changes for our stakeholders. I am particularly proud of the initiatives we developed this year for our employees (such as Post People 1st), for our licensees (new LPO payment streams and the Rural Sustainability Package) and for disadvantaged and senior Australians (by introducing concession-rate postage).

## Investing in tomorrow

I am optimistic about our ability to sustain Australia Post's role as the trusted organisation that connects Australian consumers, business and government agencies. This year, we invested heavily in expanding our parcel facilities, which will, ultimately, double our processing capacity. We also added a broad range of new trusted services that are available in our post offices and online. And we continued to develop the services that are available via the MyPost Digital Mailbox.

We are also integrating our parcel operations and services – and have elevated StarTrack as one of our two core brands, with the responsibility of providing ecommerce-driven logistics and delivery solutions for Australian businesses.

## Thank you

It is my great privilege to work with the board, the management team, our employees and business partners. I want to sincerely thank everyone for their contribution to our great business – and for their daily commitment to serving our customers and the Australian community.

A handwritten signature in black ink that reads "Ahmed Fahour". The signature is fluid and cursive, written on a light-colored background.

**Ahmed Fahour**  
Managing Director & Group CEO

# Meeting the needs of our customers

## Our customers' behaviour and expectations continue to evolve in this digital age.

Consumers are shopping online, and demanding easier and more convenient delivery services. Businesses are seeking easy ecommerce solutions as they reinvent their customer service model for a digital, mobile economy. Meanwhile, governments and corporations are seeking help to digitise their services while ensuring over-the-counter help is available in all communities.

Consequently we have been investing to change and improve our services.

## Delivery solutions for today's ecommerce market

Over the past 12 months, we've been combining the trust, reach and convenience of Australia Post with the premium service standards, express freight capability and business-to-business strength of StarTrack. Our parcel services business, under the StarTrack banner, draws on the strengths and interoperability of our vast network to deliver ecommerce-driven logistics, supply chain and parcel delivery solutions.

Improvements to our product and service offering this year provided online buyers and sellers with greater choice to select the parcel, freight, express, courier and international service that best suits them – based on cost, speed, visibility and security. And, working even more closely with major ecommerce marketplaces like eBay, Amazon and Google, we've simplified packaging and postage processes to offer customers more convenience and price certainty.

## Digitising traditional postal services

We've digitised many of our traditional post office services so that customers can interact with us anywhere, anytime. No matter what device our customers use, our digital service improvements are empowering them to more easily manage their deliveries and transactions with a greater sense of security, choice and control.

During the year we made significant enhancements to our suite of iOS and Android apps. The popularity of these digital services was highlighted by a 23 per cent rise in digital product revenue from last year, driven by a 38 per cent increase in online mail redirection and mail hold services, and 39 per cent growth in our Online Shop.

## Helping Australians through MyPost Digital Mailbox

Another way we've made it easier for businesses and their customers to connect simply and securely online is through our MyPost Digital Mailbox, which continues to build momentum. There are now 30 providers on-board including Telstra and AMP, as well as several utility providers and local governments. Our newest partners, Westpac and Velocity, also signed on during the year and will go live in 2014–15.

## Modernising post offices across Australia

We are committed to keeping our post offices open and vital to the businesses and consumers they serve, and growing the everyday essential service that they offer.

Superstores are our modern post office solution, providing access to our full suite of postal products and services along



## The modern mailroom to suit Telstra's online shoppers

With less people at home during the day, more online shoppers are diverting their parcels from their home to their business address.

Following a steady rise in parcels for employees at Telstra's Melbourne headquarters, Telstra was keen to improve the ways it manages mailroom traffic for its business and employees. By installing our parcel lockers at their Melbourne headquarters in November 2013, Telstra has reduced the burden of delivering increasing parcel volumes for its mailroom.

The location recorded 480 registrations – the highest number ever received for a locker in its first week of installation. By June 2014, more than 1,000 customers had registered to use the parcel lockers, making it our third most utilised parcel locker site in Victoria, and fifteenth in Australia. Employee feedback has been positive, with users describing the parcel lockers as “a very good initiative” and “a great gift to employees”.

with 24/7 access to postage vending machines and parcel lockers. These services are also available at many of our 56 Business Hubs, which are dedicated to local small and medium businesses. In 2013–14 we opened another 15 superstore outlets to bring our national network to 48 – including 11 in rural and regional areas. We will invest in another 50 rural and regional superstores over the next five years.

#### **Extending post office trading hours**

Our customers have also told us that they'd like easier, more convenient access to our services, and the extension of weekend trading is the next step in meeting those expectations.

We will expand to Saturday trading in November 2014. When you include licensed post offices, there will be around 2,300 post offices that are open six days a week.

#### **Delivering parcels on Saturdays**

This year we announced plans to deliver parcels on Saturdays and extend our next-day Express Post delivery service to households six days a week.

Customers already enjoy the convenience of six-day parcel deliveries during the Christmas period, but these changes mean that a six-day-a-week delivery service will be available permanently from November 2014.



### **Supply chain solutions, sorted for Dick Smith**

StarTrack provides iconic Australian electronics retailer Dick Smith with end-to-end logistics and product distribution to its 377 retail stores in Australia and New Zealand.

We offer a unique supply chain solution where orders are consolidated, packed according to store and state, then shipped into sea freight containers from China to Australia, before being delivered to stores or direct to online shoppers. Stock is also stored at our StarTrack warehouses in Australia and sent to New Zealand Post's warehouse in Auckland as part of a partnership that was facilitated by our StarTrack team.

Nick Abboud, Dick Smith's Managing Director and CEO said, "As Dick Smith extends its retail offering into new market spaces, we expect that further enhancements to the store fulfilment model will provide our customers with the flexibility of quicker and cheaper local delivery or click and collect in each of our stores".

Image: Dick Smith Camberwell Store Manager, Geoff Mortimer



# Staying true to our purpose in the community

Right now, we face the significant challenge of managing a letters service in decline.

At the same time, we are transforming our network to provide improved communications support, new parcel delivery capabilities and access to more everyday essential services.

As we implement these changes, we remain true to our purpose to help citizens, businesses and government – not just some, but everyone, everywhere, every day; so that communities work better, and can prosper.

This has us keeping the contemporary needs of our people, customers and communities at the centre of every decision.



## Australia Post is essential to **87% of regional and rural customers**

Australia Post plays a pivotal role in smaller and more isolated communities where advocacy and use of our services are highest.

In a January 2014 survey commissioned by Australia Post, 87 per cent of respondents stated that our network of 2,560 rural and remote post offices is essential to meeting the needs of their community.

To support customers when and where they need us the most, in June 2014 we announced a package of

initiatives to strengthen the viability of rural and regional post offices. This means working with our licensees to introduce a range of financial and technology measures – such as increased payments to post office operators and new point-of-sale technology – so that smaller and more isolated communities can enjoy access to more important services including banking and card payments.

Image: James Kerin (Licensee) and Chris Brown (Manager) operate the Clunes Licensed Post Office in Victoria.

### Reforming Australia's letters service

We're committed to maintaining a reliable, accessible postal service for all Australians. Under Section 27 of the *Australian Postal Corporation Act 1989* we have a set of Community Service Obligations (CSOs) that require us to provide a service that is "reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business".

In 2013–14 we again met or exceeded all of the prescribed targets that underpin our CSOs, but this is being achieved at an ever-increasing cost. The community's shift to online channels has led to a dramatic and irreversible decline in letter volumes. This year we expanded our delivery network to 11.3 million delivery points, contributing to a 4.8 per cent year-on-year decline in letter volumes delivered per letterbox. The financial cost associated with meeting our community service standards this year is estimated to be \$203.5 million, up 17.0 per cent on last year.

Based on the experiences of our international counterparts the community's declining reliance on letters will continue to accelerate. With the current momentum of the business, the losses we incur in our letters division will soon overwhelm the profits we make from other sectors.

This involves making changes to our letters services, pricing and operations. In particular it means transitioning to a two-speed letters service – Priority and Regular – that is priced to recover the cost of delivering the service.

### Supporting neighbourhoods in need

As we face the challenges and opportunities of the future we will continue to keep the community at the heart of our decision making. We believe that a thriving, vibrant community – connected physically and digitally – will drive our business to be sustainable and ensure that we continue to deliver essential services to all Australians.

It is with this philosophy in mind that the Our Neighbourhood program comes to life. It represents Australia Post's commitment to the community beyond its business operations and role as a large employer of people. It guides our community approach and the investments we make.

Our programs and partners represent a diverse group of dynamic activities and organisations who all share the common goal of creating a stronger sense of community. Collectively, they help us connect to all corners of the community and build better neighbourhoods. Individually, they focus our attention on specific community members and organisations that need help to participate in the communities in which they live and operate.



### Capturing Australians' confidence

We have one of the strongest reputations of any company in Australia, according to the 2014 AMR Corporate Reputation Index.

The annual corporate reputational study is based on surveys of around 7,800 Australian adults aged 18–64, who were asked to rank 60 companies across seven areas: products and services, innovation, workplace, citizenship, governance, leadership and performance.

Our second place ranking (the same as last year), shows that Australians continue to identify with our brand after more than 200 years of delivering trusted services to the community.

### Reducing our environmental impact

This year a number of our operational decisions and initiatives directly contributed to better efficiency and productivity outcomes for us, as well as delivering real value for the community and for the environment. Fleet and energy management initiatives continued to reduce costs and emissions, contributing to a further 6.9 per cent decrease in our Scope 1 and 2 carbon footprint.

We're also extending our environmental and social commitments beyond our business and throughout our supply chain by helping our customers deliver better environmental outcomes. In November 2013 we introduced our new Environmental Sustainability Strategy to guide internal improvements, product development, and sourcing decisions. These actions support our "shared value" approach to delivering tangible, economic and social benefits for us, and the communities we serve.

### Providing for all Australians

We're committed to maintaining our essential services for all Australians by ensuring they remain affordable for low-income groups and customers who depend on us to stay connected.

This year, we created the MyPost Concession Account for Australia's 5.7 million federal government concession cardholders. The MyPost Concession Account provides access to concession stamps, effectively freezing the cost of basic postage at 60 cents for account holders for the next three years. It also provides our customers with access to other concessional benefits as well as our MyPost Digital Mailbox.

# Supporting our people through change

**As our business evolves, we are engaging our entire workforce in the need for change – and supporting them as we transform our services and operations.**

We are committed to communicating openly and providing the support our people need to adapt to operational and service changes, while never compromising on safety.

## **Strengthening our safety culture**

Ensuring a safe working environment is Australia Post's highest priority. We believe that everyone deserves to go home at the end of their day as healthy as they were when they came to work, so our safety program supports our ongoing vision for zero injuries and zero tolerance of unsafe acts in our workplaces.

Recently our safety strategy has matured from one of compliance to a focus on leadership commitment, and an increased level of personal accountability. This is promoting a culture where everyone takes ownership of safety in their workplace by making positive changes that reduce risks to themselves and their colleagues.

We saw a continued decline in workplace injuries, demonstrating the sustained benefits of our safety strategy. Our All Occupational Injury Frequency Rate decreased to 22.8 from 25.6 (down 10.9 per cent from last year), while our Lost Time Injury Frequency Rate reduced to 8.0 (down from 8.2 last year), a 2.4 per cent reduction.

## **Engaging our workforce**

During the year we continued the journey of engaging with our employees on the current state of our business and future direction.

Between March and April 2014, our Managing Director & Group CEO and members of the Executive Committee travelled to all major capital cities where they held briefing sessions with managers and supervisors and visited employees at more than 30 mail facilities and post offices.

These events were an opportunity to celebrate the successes we've achieved through our Future Ready strategy over the past four years, while importantly encouraging some 2,000 attendees from across our business to speak frankly with senior leaders about the challenges and opportunities that lie ahead.

We recognise the need to foster ongoing discussions about our business transformation. To support this approach, this year we introduced the Workforce Conversation portal, a secure website providing employees with access to important business information.

## **Prioritising our people**

Australia Post is committed to managing change in a way that is fair and reasonable for our people.

As we implement more efficient ways to run our business, it's vital that we provide our employees with access to career development opportunities and support, so that they can make an informed choice about their future. Central to the way we implement change is the notion of a well-planned and respectfully implemented career transition.

We have launched a number of initiatives to help our people transition into growth areas of our business, which includes providing training and re-skilling through our Post People 1st program (see page 11). Career development programs such as these will be integral in developing and preparing our people for future roles, ensuring that they have the skills, experience and confidence they need to have a successful and fulfilling career.

## **Supporting licensees and Community Postal Agencies**

In recognition of the shared challenges Licensed Post Office (LPOs) and Community Postal Agencies (CPAs) face, this year we made a commitment to strengthen the viability of these business partners with a \$40 million package of initiatives.



## **Record 80% response for our employee engagement survey**

Our annual say2action employee engagement survey, conducted in April and May 2014, achieved a response rate of 80 per cent, representing the views of nearly 30,000 of our people – a record number for Australia Post.

Through the survey, many of our people demonstrated their understanding and willingness to accept change as we transform our business to deliver on our customer commitments (see page 33 for more).

This rural sustainability package, which will increase the minimum guaranteed annual payment for LPOs and introduce a minimum payment for CPAs, is the latest in a series of initiatives that will contribute \$40 million on top of around \$338 million already paid annually. The announcement followed other measures introduced earlier in the year such as additional scanning payments for trackable articles, a \$25 million (16.7 per cent) growth in payments related to the basic postage rate increase (see page 23) and new services and payments for the MyPost Account.

## More than 25% of parcels delivered by posties

We're implementing wide-ranging operational changes to build flexibility in our delivery network as we make the shift from delivering small, thin letters to handling parcels.

As just one example of this shift, three years ago our posties did not deliver many parcels at all. Today, more than a quarter of our regular parcels are delivered by posties.

### Post People 1st

In September 2013 we launched our Post People 1st initiative, to develop the skills and experience of our employees and give them the confidence to have successful and fulfilling careers. The program ensures that available positions are first advertised internally, guaranteeing priority consideration for our people before we seek external candidates. Since launching our Post People 1st initiative, 2,705 jobs have been filled by internal applicants.

**"For my new job, I was provided with extensive training, including how to handle parcels safely. I really enjoy this position."**

Sandra Bambery used Post People 1st to find a job closer to home as a mail officer at the Underwood Parcel Facility in Queensland.