

# Our business

## Financial report

The Australia Post Group has achieved significant milestones in realising our growth and performance opportunities in the final year of our Future Ready business renewal program. However, this year was a turning point for our overall profitability as the effects of digital disruption on our letters and retail businesses significantly impacted the positive results achieved in our parcels business.

### Performance

This year the Group's profit after tax was \$116.2 million. This includes \$63.0 million of costs associated with our corporate restructuring program, which will reduce overheads in our corporate centre so we can direct valuable resources into frontline services for our customers. Our underlying profit after tax (excluding restructuring costs) was \$179.2 million, which is in line with last year's result (up 1.0 per cent).

This marginal profit growth reflects the challenges we face in our mail services business, which is under considerable pressure due to the continued take-up of digital methods for communicating and transacting. We expect that letter volumes will continue to decline at an accelerated rate as a result of this shift in customer behaviour. The full impact of this decline has been partially offset by robust yield management due to the increase to the Basic Postage Rate in March, price increases for our PreSort products and volume growth resulting from the Federal Election in September.

The shift towards electronic payment substitutes along with declining customer visits to our post offices has impacted our retail trading. This is being countered by the continued investment in trusted services, which has resulted in revenue growth in our financial, identity and commercial services portfolio.

We have declared a dividend to our shareholder, the Australian Government, of \$78.8 million (down 59.1 per cent year-on-year due to our lower profit result). Our return on equity was 6.7 per cent.

### Investment

Our total cash investment this year across strategic projects and asset replacement was \$523.1 million. This program focused on new infrastructure to boost capacity in our parcel network by expanding the footprint of our major parcel processing facilities and investing in cutting-edge automation technology. We continued to strengthen our digital infrastructure, predominantly MyPost Digital Mailbox (formerly known as Australia Post Digital Mailbox) which gives businesses and consumers a digital alternative for sending and receiving mail.

This was the largest capital expenditure program in the history of the Australia Post Group and reflects the major transformation our business is undergoing to adapt to changing customer preferences. These investments will strengthen our position as a world-class parcels business and help build a sustainable communications business across both physical and digital platforms.

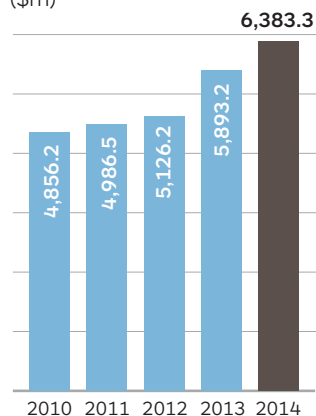
### Taxes

The Group made a significant contribution to the Australian economy through our total tax contribution of \$494.2 million. This comprised \$243.4 million in income and property taxes and, indirectly, \$250.8 million in GST and withholding taxes.

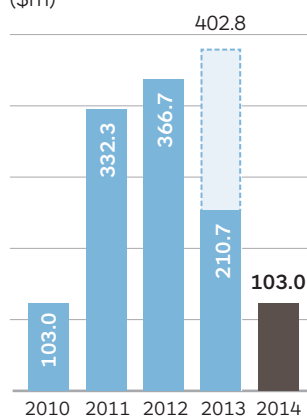
### Segment performance

Our Parcel Services business again delivered a strong performance this year, returning an operating EBIT of \$337.5 million (up 20.8 per cent) and revenue growth of 16.4 per cent. Underpinning this result was domestic parcel volume growth of 12.8 per cent which included a full year of StarTrack trading (compared to eight months last year). Revenue for this portfolio increased, despite the increasingly competitive landscape and economic uncertainty that is impacting consumer confidence. We again achieved an outstanding parcels service delivery result of 97.8 per cent.

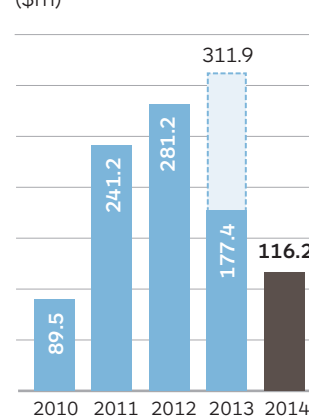
**Revenue**  
(\$m)



**Profit before tax<sup>(3)</sup>**  
(\$m)



**Profit after tax<sup>(3)</sup>**  
(\$m)



The structural challenges facing our mail services business resulted in an operating EBIT loss of \$328.4 million (up 15.2 per cent). This loss was driven by the continued decline in addressed letter volumes, which were down 4.0 per cent (or 5.0 per cent excluding Federal Election volumes). Once again, the fixed-cost nature of our letters network meant that the loss could not be offset by cost savings.

Operating EBIT for our retail business remained relatively flat (down 1.3 per cent). This was impacted by declining customer visits to our post offices (down 9.7 million or 5.0 per cent), which resulted in lower merchandise sales and payment revenue. Growth in our financial, commercial and trusted services portfolio was not enough to offset the revenue implications of declining customer visits.

## Outlook

Over the past four years, Australia Post's Future Ready program has delivered strong results by embedding a change culture and execution discipline to transition the business from a postal to a parcels-dominant business. However, the continued migration of businesses and consumers to digital methods for communicating and transacting remains the greatest challenge for our letters and retail businesses, and the Group as a whole.

While our Parcel Services business is expected to continue to deliver volume and revenue growth, aggressive competition from other parcel and logistics providers remains our biggest threat. Our focus is to invest and innovate to ensure we can compete on price and offer our customers exceptional levels of service.

## Five-year trends

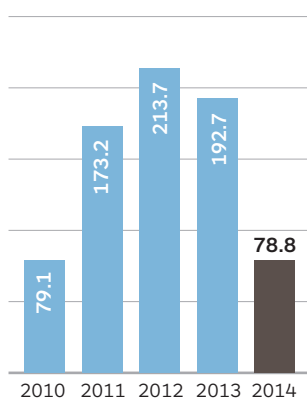
	2010	2011	2012	2013	2014
Revenue (\$m)	4,856.2	4,986.5	5,126.2	5,893.2	<b>6,383.3</b>
Profit before tax (\$m) <sup>(3)</sup>	103.0	332.3	366.7	210.7	<b>103.0</b>
Profit after tax (\$m) <sup>(3)</sup>	89.5	241.2	281.2	177.4	<b>116.2</b>
Profit/(loss) from reserved services (\$m) <sup>(1)(3)</sup>	(250.1)	(66.5)	(114.4)	(198.0)	<b>(242.6)</b>
Return on equity (%) <sup>(2)(3)</sup>	6.2	15.0	16.8	10.5	<b>6.7</b>
Return on average operating assets (%) <sup>(3)</sup>	3.8	10.9	11.5	6.2	<b>3.4</b>
Debt to debt plus equity	26.4	23.6	29.1	27.3	<b>28.8</b>
Dividends declared (\$m)	79.1	173.2	213.7	192.7	<b>78.8</b>
Interest cover (times) <sup>(3)</sup>	4.6	10.9	10.8	7.7	<b>3.6</b>
Reserved services letter volumes (m)	3,876.6	3,738.8	3,545.3	3,305.7	<b>3,173.5</b>

<sup>(1)</sup> The 2014 balance includes the impact of organisational restructuring.

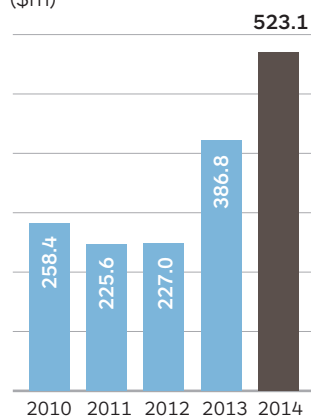
<sup>(2)</sup> Return on equity is calculated as profit after tax as a percentage of equity. Equity has been adjusted to remove the impact of the Group's net superannuation liability/asset.

<sup>(3)</sup> Changes to AASB 119 *Employee Benefits* took effect on 1 July 2014. 2013 has been restated for like-for-like comparison. Years prior to 2013 have not been adjusted to reflect this change in accounting standard.

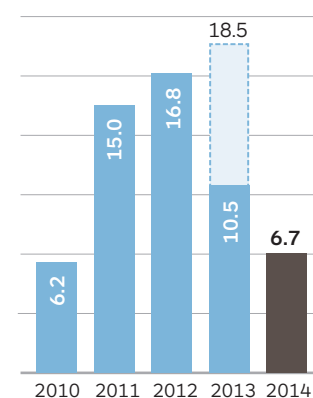
### Dividends declared (\$m)



### Capital expenditure (cash) (\$m)



### Shareholder return on equity<sup>(2)(3)</sup> (%)



# Our business

## About Australia Post

**At Australia Post, we provide trusted and reliable services to help people and communities throughout Australia.**

We've done this by delivering letters, helping businesses and consumers with parcels, simplifying everyday tasks through digital channels and providing a national post office network that supports local communities and organisations.

### Our business model

Australia Post is the oldest continually operating organisation in Australia. We are committed to meeting the evolving needs of the community and our customers. From humble beginnings delivering the nation's physical mail, we've recognised the need to adapt our services in line with the community's shift to online channels. To stay true to our community-based brand and our original purpose, we're expanding access to trusted services – physically through our post offices and by offering secure and convenient digital formats – while reforming our letters service and investing in our parcels network.

Australia Post is a self-funded government business enterprise with the Australian Government as the sole shareholder. As required under the *Australian Postal Corporation Act 1989*, we continue to balance our commercial objectives with the need to meet our community service obligations (CSOs).

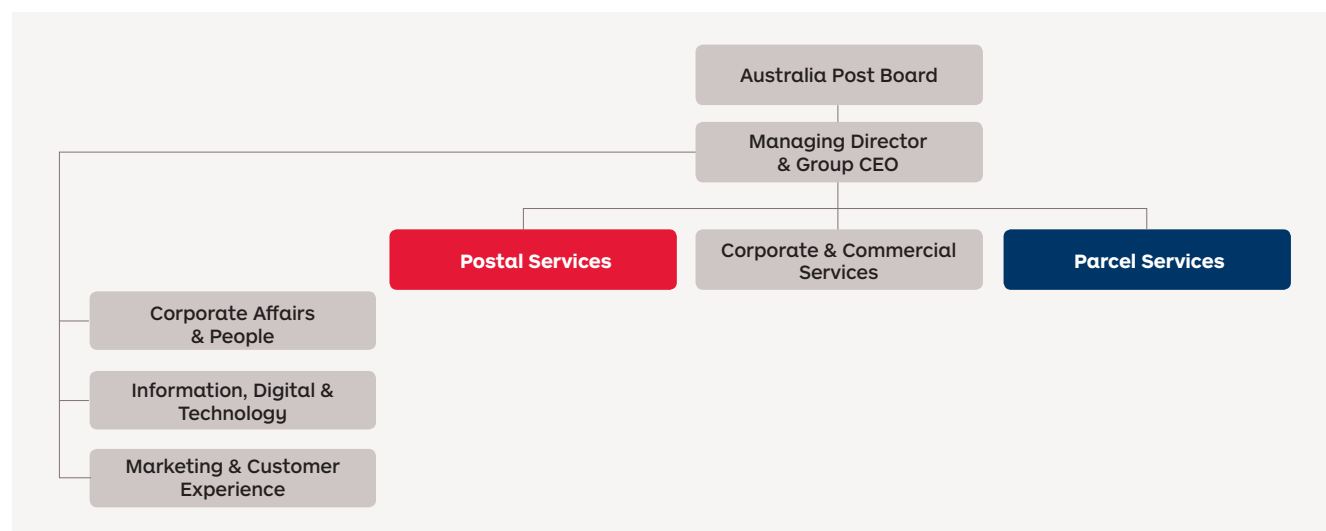
The profit we earn is used to pay a dividend to our shareholder, and to reinvest in our assets and services so that we are equipped to meet the changing needs of our customers. Our commercial success therefore ensures we can positively impact the communities we serve, and continue to improve the products and services we provide.

### Delivering a reliable and accessible service

This year we again met all the performance standards associated with our CSOs, including delivering 94.5 per cent of letters on time or early, against our 94 per cent target (see page 123 for more).

CSO performance standards	Target	Actual
		2013–14
Retail outlets		
Total	4,000	4,417
Rural and remote areas	2,500	2,560
Street posting boxes	10,000	15,805
On-time delivery (domestic letters)	94.0%	94.5%
Addresses receiving deliveries:		
Five days a week	98.0%	98.8%
At least twice a week	99.7%	99.9%

### Our organisational structure



**11.3 million**  
delivery points



**1,857** metropolitan  
post offices



**2,560** post offices in  
rural and remote Australia



**15,805** street  
posting boxes



**56** Business Hubs



**12,400** trucks, vans,  
motorcycles and bikes

### Our strategy

As we plan for Australia Post's future, we are focused on offering vital and relevant services that meet the contemporary needs of our customers so that we can be part of tomorrow. Given that the community is shifting away from using our letters service at an accelerating rate, we are now at a critical turning point.

Over the past four years our business renewal strategy, Future Ready, has set the foundations for growth, and helped us to remain strong, sustainable and customer focused.

Our investments during the Future Ready period have allowed us to:

- adapt our products and services for both the physical and digital worlds
- alter our investment profile with a strong focus on growth opportunities in trusted services, ecommerce and digital services
- streamline our operations
- build better connections with our people, our customers and the community.

In the next phase of our transformation, we will have an ongoing focus on customer-centricity, operational excellence, reform and business efficiency. This will be essential to ensuring we continue to be relevant to the Australian community for years to come.



### Australia Post culture pillars



### StarTrack code of success



202 million+ post office customer visits

181 24/7 Parcel Lockers

395+ mail and parcel processing facilities

4 gateway facilities

# Our business

## Board and leadership team



**From left:** Peter Carne, Talal Yassine OAM, Susan Bitter, Michael D'Ascenzo AO, Brendan Fleiter, Ahmed Fahour, John Stanhope, The Hon. Trish White. Pictured at the Sprintpak facility, Rowville.

### **John Stanhope**

BCom (Economics and Accounting), FCPA, FCA, FAICD, FAIM, FAHRI

Chairman (non-executive)

John Stanhope was appointed chairman of Australia Post in November 2012 (current term expires in November 2016), and has extensive experience in finance, treasury, risk management and assurance, investor relations and corporate security and investigations. Mr Stanhope is currently chairman of the Melbourne International Jazz Festival, a director of AGL Energy Limited, the Bionics Institute and Our Neighbourhood and council member of Deakin University. He was previously chief financial officer and group managing director, finance of Telstra and an executive director of Telstra.

### **Brendan Fleiter**

LLB, B.Juris. MAICD

Deputy Chairman (non-executive)

Brendan Fleiter has been a member of the Australia Post board since October 2011, and was appointed deputy chairman in May 2013 (current term expires May 2017). Mr Fleiter is a former CEO of Crazy John's Group and is a qualified lawyer with extensive retail and telecommunications business experience. Mr Fleiter is currently the deputy chair of Methodist Ladies' College and Chair of its Foundation and is a non-executive director of Volleyball Victoria, Our Neighbourhood, The Ilhan Food Allergy Foundation and Kennards Hire.

### **Ahmed Fahour**

BEcon (Hons), MBA, FAICD

Managing Director & Group CEO

Ahmed Fahour was appointed managing director & group CEO of Australia Post in February 2010. He has held a number of senior executive positions within the finance and banking industries in Australia and overseas and was previously CEO of Citigroup (Australia and New Zealand) and National Australia Bank (Australia) and is the former chairman of Rip Curl Group. Mr Fahour is currently a director of Methodist Ladies' College, Our Neighbourhood, Carlton Football Club and Pro-Pac Packaging.

### **Susan Bitter**

BEC (Hons), Dip App Fin&Inv, FICA, MAICD

Director (non-executive)

Susan Bitter was appointed to the Australia Post board in August 2012 (current term expires in August 2015), and has extensive commercial experience, including in the areas of finance, corporate governance and risk management. Ms Bitter is currently a director of Our Neighbourhood and The Industry Superannuation Property Trust. Formerly she was a director of Worksafe Victoria and is the former chief operating officer of Corrs Chambers Westgarth, chief executive of Slater & Gordon and partner of Arthur Andersen.

### **Peter Carne**

BA, LLB, FAICD, FAIM

Director (non-executive)

Peter Carne was appointed to the Australia Post board in December 2009 (current term expires December 2015). Mr Carne has served in both the public and private sectors, and until most recently held the position of Public Trustee of Queensland. He is also a former CEO of the Queensland Law Society and a former director of Lexon Insurance Pte Limited and Tarong Energy Corporation.



**Michael D'Ascenzo AO**

BEc, LLB, CA, FAICD, Hon. Life Member of CPA, Hon. FATMA  
Director (non-executive)

Michael D'Ascenzo was appointed to the Australia Post board in May 2013 (current term expires in May 2016), and is recognised internationally for his leadership, expertise and innovation in administration, risk management and governance, as well as his technical design skills in tax law and superannuation. Mr D'Ascenzo is currently a member of the Clean Energy Regulator and the Foreign Investment Review Board. He was previously Commissioner of Taxation and a member of a range of public sector boards.

**Talal Yassine OAM**

BA, LLB, LLM, MBA, Hon. Professorial Fellow. (ANU), FAICD, FAIM, Fellow (Fin)

Director (non-executive)

Talal Yassine was appointed to the Australia Post board in August 2012 (current term expires in August 2015). Mr Yassine is currently the Managing Director of Crescent Wealth and also serves on the Board of the Whitlam Institute, the Australia Malaysia Institute and is the chairman of the Council of Australia-Arab Relations. He has previously served on the Board of Macquarie University, Sydney Ports Corporation and as the Deputy Chairman of a government regulator.

**Retirements****Penny Bingham-Hall**

BA (Ind Des), FAICD, SA (Fin)

Director (non-executive)

Penny Bingham-Hall was appointed to the Australia Post board in May 2011, and has experience across business, government, the investment community and the media. Ms Bingham-Hall retired from the Australia Post board in May 2014.

**The Hon. Trish White**

BE, BA, FAICD, FIEAust

Director (non-executive)

Trish White was appointed to the Australia Post board in July 2010 and has experience in the public and private sectors across a number of industries, including resources and energy, defence, transport, and communications. A former executive strategic advisor with WorleyParsons and former cabinet minister, she is currently a director of the Lifetime Support Authority and of university advisory boards in the areas of engineering and business, and deputy chairman of the Motor Accident Commission. Ms White resigned from the Australia Post board in August 2014.

**Executive Committee**

Pictured left to right

**Chris Blake**

Executive General Manager Corporate Affairs & People

**Catherine Walsh**

General Manager Human Resources, Group & Postal Services

**Janelle Hopkins**

Group Chief Financial Officer

**Ewen Stafford**

Group Chief Operating Officer

**Ahmed Fahour**

Managing Director & Group CEO

**Christine Corbett**

Executive General Manager Postal Services

**Paul Burke**

Corporate Secretary & General Manager Government Affairs

**Andrew Walduck**

Executive General Manager Information, Digital & Technology

**Greg Sutherland**

Executive General Manager Marketing & Customer Experience

# Our business

## Stakeholder engagement

Australia Post is transforming. The changes we have introduced over the past four years under our Future Ready program have been vital to protecting our brand, preserving our community services and maintaining profitability. But we have to keep adapting to manage the challenges and capture the opportunities resulting from the community's behavioural shift to digital communication and transaction channels.

Our primary stakeholder groups include our workforce, our customers, government and the broader community. Other important stakeholders include regulatory bodies, suppliers, industry organisations and peak bodies, environmental groups and the media.

As our business success is largely dependent on the support of these key stakeholders, we undertake a number of activities to engage with them. This year our efforts were focused on engaging the community in discussion and debate about the declining use of letters and the best way to adapt our business to make it more sustainable.

### Understanding our stakeholders

Every year we conduct surveys, interviews and focus groups to understand the needs of our stakeholders and the way our business impacts them. We discuss our postal and logistics services with consumers, small business and corporations. We also conduct staff attitude surveys and focus groups to understand what our employees think about our business. The data and research we collect enable us to draw better insights and improve our stakeholders' experience.

### An integrated stakeholder engagement approach

We are working in a coordinated way to manage the stakeholder impacts of our business transformation program. In 2013–14 we continued to drive an integrated approach to stakeholder engagement through cross-functional collaboration forums and integrated management.

During the year we developed and tested stakeholder assessment tools for our business leaders to empower them to identify how certain business decisions or service changes will affect our stakeholders. This helped us to determine the individuals and groups who have a stake in their project, and the engagement activities required to build support for change.

### National and local community engagement

This year we entered into a more active phase of stakeholder engagement to publicly make the case for reforming our letters service. This involved engaging the government and media on the issues surrounding the sustainability of our letters business.

We also started to engage the broader Australian community in the need for change – and invite Australians to participate in a conversation about what they want. Our community engagement campaign aims to shift community perception on the need to reform our letters services, as well as encourage understanding and acceptance of change. The various elements of this community engagement campaign include:

- **Community Discussion Groups:** The first phase of the campaign launched in April 2014 with a pilot series of local community discussion groups in nine locations across the country. These periodic face-to-face community discussion groups enabled us to engage in topics of interest to the local community and give us insights into how different communities view their relationship with Australia Post.
- **National Conversation Platform:** We launched an online “national conversation” platform ([auspost.com.au/conversation](http://auspost.com.au/conversation)) in June 2014. This platform enables the entire community to participate in a conversation about the “Post of Tomorrow” and allows us to engage with a large number of Australians simultaneously across a range of topics. Australians can use this platform to view information, videos and fact sheets about Australia Post, participate in a discussion forum, ask a question, or complete a survey.

Our community engagement campaign will expand over 2014–15 and will include activities such as briefings with the leaders of key community representative groups, a social media influencers program, and local activities such as “town hall” meetings.

### Australia Post Stakeholder Council

Our Stakeholder Council is an external advisory group of 10 individuals whose role is to help us improve our communication and engagement with stakeholders.

The council typically meets three times a year and is chaired by an Australia Post board member. Council members offer a range of views, representative of their roles and experience in small and medium business, industrial relations, direct marketing and corporate responsibility.

For more information about our Stakeholder Council, visit [auspost.com.au/annualreport2014](http://auspost.com.au/annualreport2014).

### Stakeholder Council statement

For several years the Stakeholder Council has had the opportunity to guide and review Australia Post's approach to best practice integrated annual and corporate responsibility (CR) reporting.

In reviewing the corporation's fourth integrated annual report this year, we believe that Australia Post has continued to advance its commitment to CR and sustainability. Efforts to evolve the coverage of the corporation's material issues and further integrate its social and environmental performance within the 2014 report reflect a strategic, whole-of-business and supply chain focus on delivering improved social and environmental outcomes for the Australian community.

The report again provides a transparent representation and clearly integrated material in relation to Australia Post's performance that is accessible to all stakeholders.

**Australia Post Stakeholder Council  
August 2014**

### Identifying the issues that matter

Producing an integrated annual report, which incorporates our corporate responsibility and financial information, demonstrates our proactive approach to reporting.

A key element of best practice reporting involves a comprehensive materiality process to determine the societal and environmental issues that present risks or opportunities to our business, and issues of greatest concern to our stakeholders.

We aim to provide a balanced representation of those issues identified as “material” by covering them in depth in this report.

Having undertaken a rigorous materiality assessment in 2012, this year we further refined our process and focused

our efforts on reviewing the previously identified issues and their ranking to ensure they remained relevant to our business and stakeholders.

An assessment of these was conducted with internal stakeholders – including representatives of our Risk and Compliance, Stakeholder Relations, Workplace Relations, Sustainability and Community Relations areas. We also drew on a number of source materials such as recent customer research and media coverage. The final rankings were then tested with Australia Post’s Stakeholder Council.

The diagram below highlights those issues that ranked highest on our materiality matrix, which maps both business impact and stakeholder concern.

### The issues that matter

★ Major issue

