

Contents

Corporate governance	52	18 Current liabilities – trade and other payables	89
Statements by directors, chief executive officer and executive general manager finance and business services	56	19 Interest-bearing liabilities	90
Financial statements audit report	57	20 Provisions	90
Statement of comprehensive income	59	21 Other non-current liabilities	91
Balance sheet	60	22 Movements in retained profits	91
Cashflow statement	61	23 Analysis of reserves	92
Statement of changes in equity	62	24 Information relating to Australian Postal Corporation	92
Schedule of commitments	63	25 Dividends paid	93
Schedule of contingencies	64	26 Auditor’s remuneration	93
Notes to and forming part of the financial report	65	27 Operating segments	93
1 Summary of significant accounting policies	65	28 Key management personnel remuneration and retirement benefits	97
2 Revenues and other income	76	29 Related parties	101
3 Expenses	77	30 Financial and capital risk management	102
4 Finance costs	78	31 Leases	111
5 Income tax	78	32 Notes to the cashflow statement	112
6 Current assets – trade and other receivables	80	33 Corporate information	114
7 Current assets – inventories (held for sale)	81	34 Events after balance date	114
8 Other current assets	81	Community service obligations	115
9 Non-current assets – trade and other receivables	81	Auditor-General’s report – performance standards	116
10 Investments in controlled entities	82	Statutory reporting requirements	123
11 Investments in jointly controlled entities	83	Australia Post – the statistics	130
12 Superannuation	84	Index and glossary	132
13 Analysis of property, plant and equipment	87	About this report	135
14 Analysis of intangibles	88	Assurance statement	135
15 Investment property	88	GRI index	136
16 Impairment testing of goodwill	89	Contact details	IBC
17 Other non-current assets	89		

Understanding our reports

Australia Post’s 2010–11 financial report enables readers to assess the corporation’s results for the year – its present financial position, its future outlook and the value of its assets. To gain a complete understanding, the financial report should be read in conjunction with the accompanying explanatory notes.

The report includes consolidated reports only which reflect transactions between Australia Post or its subsidiary companies and third parties.

The statements by directors, chief executive officer, executive general manager finance and business services and the Auditor-General’s Report are standard legal declarations that are required in all annual financial reports.

Comparative measures are provided for the previous year and all figures are rounded to the nearest \$100,000 (unless otherwise stated).

Financial and statutory reports



Corporate governance

General

Australia Post maintains a comprehensive system of corporate governance practices designed to provide appropriate levels of disclosure and accountability.

These practices derive principally from the provisions of the *Australian Postal Corporation (APC) Act 1989*, the *Commonwealth Authorities and Companies (CAC) Act 1997* and the *Governance Arrangements for Commonwealth Government Business Enterprises (1997)*. They are also guided by the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

A dedicated corporate governance section on the Australia Post website (www.auspost.com.au) provides a detailed description of the corporation's governance framework and associated practices, with links to key documents.

Shareholder ministers

As Minister for Broadband, Communications and the Digital Economy Senator the Hon Stephen Conroy has portfolio responsibility for Australia Post. Under a dual shareholder model, overall responsibility for the enterprise is exercised jointly with the Minister for Finance and Deregulation, Senator the Hon Penny Wong.

The board

The board of Australia Post comprises up to nine directors. With the exception of the managing director, all serve in a non-executive capacity.

Non-executive directors are appointed by the Governor-General on the nomination of the portfolio minister. Appointments can be for up to five years, with reappointment permissible. In practice, terms of appointment are generally three years.

Before nominating a person for appointment, the minister is required to consider the balance of expertise on the board and also to consult with the chairman.

The managing director is appointed by the board.

Board membership during 2010–11 was:

David Mortimer (Chairman)
Mark Darras (Deputy Chairman)
Ahmed Fahour (Managing Director and CEO)
Penelope Bingham-Hall (appointed 12 May 2011)
Peter Carne
Margaret Gibson (retired 1 September 2010)
William Mansfield (deceased 3 February 2011)
Jennifer Seabrook (appointed 8 July 2010 – retired 20 June 2011)
Ian Warner
The Hon Trish White (appointed 8 July 2010).

Profiles of each director and details of their relevant skills, experience and expertise are provided on pages 14 to 15.

Role of the board

Under s23 of the APC Act, the role of the board is to:

- decide the objectives, strategies and policies to be followed by Australia Post
- ensure that Australia Post performs its functions in a manner that is proper, efficient and, as far as practicable, consistent with sound commercial practice.

Directors set the corporation's key objectives and strategies through a rolling three-year corporate plan which is submitted annually to shareholder ministers. Progress against the plan is reported quarterly. Ministers and their departments are also kept informed on a regular basis about developments of significance.

Board committees

Two permanent committees assist the board in the discharge of its responsibilities.

The committee's charters, which are reviewed annually by the board, can be accessed in the corporate governance section of the Australia Post website.

Both committees meet five times a year. Meeting attendance details for 2010–11 are provided in the table on page 55.

Audit and Risk Committee

Consisting entirely of non-executive directors, the Audit and Risk Committee provides a forum for regular communication between the board and the corporation's external and internal auditors.

Membership during 2010–11 was:

Margaret Gibson (Chairman – retired 1 September 2010)
Peter Carne (Chairman – appointed 27 October 2010)
David Mortimer
Ian Warner
Jennifer Seabrook (appointed 15 February 2011 – retired 20 June 2011).

The committee focuses in particular on the areas of financial reporting, risk management and internal controls. Among other things it reviews:

- the annual financial statements before their consideration and adoption by the board
- the clarity and quality of the corporation's financial policies, practices and disclosures
- internal and external auditor plans, reports and performance
- significant existing and emerging risks and mitigation activities
- the adequacy and effectiveness of internal controls
- compliance with laws and regulations.

Committee meetings are attended by the external and internal auditors as well as by the managing director, executive general manager finance and business services, and chief finance officer.

Prior to each meeting, the committee holds separate private discussions with the external auditors, the internal auditor and chief finance officer. Similar discussions are held annually with both internal legal counsel and the group manager of security.

Human Resources Committee

The Human Resources Committee provides a governance framework for the consideration of strategic matters relating to Australia Post's staff and culture. Matters that the committee particularly address and make recommendations to the board about, as appropriate, are:

- recruitment, selection and succession planning
- remuneration
- occupational health and safety
- culture and ethics
- learning and development
- terms and conditions of employment
- organisational structure.

Membership during 2010–11 was:

Mark Darras (Chairman)
Ahmed Fahour
William Mansfield (deceased 3 February 2011)
The Hon Trish White (appointed 24 March 2011).

Superannuation Committee

The Superannuation Committee has been temporarily established to review Australia Post's strategy regarding superannuation programs and associated obligations. It is anticipated that this responsibility will revert to the board Human Resources Committee once the review is complete.

Membership during 2010–11 was:

David Mortimer (Chairman)
 Ahmed Fahour
 Mark Darras
 Peter Carne.

The committee meets at least quarterly or more frequently as required.

Board performance

An externally facilitated board performance appraisal is undertaken biennially focusing on board, board committee and individual director effectiveness. The next review will occur towards the end of 2011.

Director induction and education

A comprehensive induction program provides newly appointed directors with an understanding of their role and responsibilities and exposes them to key features of the corporation including operations, policies and strategies. Additional supplements are tailored to meet particular needs or interests.

Ongoing director education is provided through facility visits and presentations on matters of interest.

Independent professional advice

Directors have the right (with the prior agreement of the chairman) to obtain at the corporation's expense relevant independent professional advice in connection with the discharge of their responsibilities.

Conflict of interest

Directors who may have a material personal interest in a matter to be considered by the board or a board committee are required to make the nature of that interest known, and must not be present while the matter is being considered. Details of such disclosures are recorded in the minutes of the meeting.

Where an issue to be considered by the board or a board committee is thought to present a director with a potential conflict of interest, the director in question will not be provided with the associated background material.

Ethical standards

Australia Post seeks to conduct its business with integrity, honesty, fairness and in compliance with all relevant laws, regulations, codes and corporate policies and procedures.

The *Our Ethics* guide, which was launched in 2009 and has been promulgated through every level of the business, makes it clear that directors, employees, licensees and contractors of Australia Post are responsible for leading by example, upholding the corporation's values and always acting consistently with the ethical standards in their dealings with customers, suppliers, the corporation and each other.

Managers and supervisors have a special responsibility to encourage and foster a culture in which ethical conduct is valued, recognised, demonstrated and expected.

Under Australia Post's whistleblower policy, an independently operated contact service is in place to facilitate the confidential disclosure of serious breaches of ethical standards.

Director remuneration

Remuneration for Australia Post's non-executive directors is determined by the Commonwealth Remuneration Tribunal. For 2010–11 this was:

Chairman	\$164,550
Deputy chairman	\$91,800
Directors	\$82,280
Audit and Risk Committee chairman	\$19,020
Audit and Risk Committee member	\$9,515

In addition, fees will now be paid to the Human Resources and Superannuation subcommittees. Annual amounts for committee members are expected to be \$12,000 and for the chairman \$18,000. Amounts shown in the disclosures above reflect these subcommittee entitlements from 1 January 2011. Total amounts received or receivable in 2010–11 by each non-executive director are provided in Note 28 to the financial statements (see page 99).

Details of amounts received in 2010–11 by each non-executive director are provided in Note 28.

Executive remuneration

The board is responsible for setting the remuneration arrangements for the managing director. In doing so it follows a set of principles approved by the Remuneration Tribunal which are designed to link the level of remuneration with the financial and operational performance of the corporation.

Remuneration arrangements for other senior executives are reviewed and determined by the managing director within parameters set by the Human Resources Committee.

Advice is sought annually from independent specialised remuneration consultants on the:

- structure of remuneration packages applying in the external market
- quantum of increases that have occurred in comparable Australian corporations over the previous 12 months.

On the basis of this advice, the managing director ensures that payments to senior executives are in line with market practice and are competitively placed to attract and retain the necessary talent for the work required by these roles.

Incentive rewards payable to the managing director and other senior executives for meeting or exceeding specific key annual business objectives are linked to the annual business planning process at a corporate and individual level. Measures and targeted achievement levels are reviewed annually to reflect changes in the business priorities for the forthcoming year. The measures include financial, customer satisfaction, employee engagement and other individual measures that support the key business objectives.

Before a reward is payable, a threshold must be reached according to predefined measures. In the case of the managing director and some senior executives, part of their incentive payment is deferred and expensed over the deferral period.

Corporate governance

The managing director and other senior executives are employed under individual contracts of employment that are not limited to a specific duration. Continuation of employment is subject to ongoing satisfactory performance. Where Australia Post terminates the managing director's or other senior executive's employment for reasons other than performance or misconduct, they are entitled, in the case of the managing director, to:

- a payment of 12 months fixed annual remuneration in lieu of notice and a termination payment of 12 months fixed annual remuneration less any payments in lieu of notice and, for other senior executives, to:
- 90 days payment in lieu of notice and a termination payment calculated based on length of service and capped at 12 months fixed annual remuneration including the payment in lieu of notice.

All of the above payments are based on the total fixed annual remuneration.

Remuneration details for the managing director and other key executives are provided in Note 28 to the financial statements (see page 99).

External audit

Under Section 8 of the CAC Act, the Auditor-General is responsible for auditing the financial statements of Australia Post and its subsidiaries. The Auditor-General is also responsible for auditing compliance with the performance standards prescribed for Australia Post under Section 28C of the APC Act. Ernst & Young has been retained by the Australian National Audit Office to assist in both of these assignments.

The board has in place a comprehensive set of audit independence principles in relation to the external auditors. Among other things, these principles exclude the engagement of the external auditors for the provision of certain non-statutory audit-related services, such as internal auditing, taxation planning, treasury policy and operations, and business and strategic planning. In addition, the senior audit partner on the corporation's account must be rotated at least every five years.

Internal audit

Australia Post's internal audit service brings a systematic and disciplined approach to risk management, control and governance processes. Empowered by the board to direct a wide-ranging program of internal auditing, it has full and unrestricted access to all functions, property, personnel, records, accounts, files and other documentation.

The internal audit work program is endorsed annually by the Audit and Risk Committee, with results, progress and performance regularly reviewed by both the committee and the external auditors.

The internal auditor also meets privately with the committee before each meeting, without other management present.

Risk management

The board has established a comprehensive risk management and compliance policy framework covering significant operational, strategic and compliance-related business risks. The framework and underpinning processes are consistent with the principles of the relevant standards (ISO31000 and AS3806).

As part of the risk management and compliance framework all business units maintain a risk profile detailing their material business risks, associated mitigation strategies and progress against their implementation. The status of higher rated risks is reported to the executive committee and the board Audit and Risk Committee each quarter. In addition, each year the status of each major compliance program is provided to the board's Audit and Risk Committee.

Risk identification, measurement and mitigation strategies are included in all business-related proposals considered by the board. There are also a number of programs in place to manage risk and compliance in specific areas such as fraud, the environment, injury prevention and management, competition and consumer law, information security and privacy, IT, emergency procedures and business continuity planning.

The potentially adverse financial impacts associated with catastrophic risk exposures are limited by the purchase of appropriate insurance cover.

The effectiveness of the corporation's risk management and compliance framework is reviewed annually by the board. To ensure the maintenance of better practice, independent external reviews of risk management and compliance processes across the corporation are undertaken every four years. The most recent review was undertaken by Deloitte in late 2008.

Internal control framework

Australia Post's internal control includes strategic, financial, operational and compliance elements established across multiple internal control layers. Controls include financial planning and reporting, commitment and expenditure delegations, due diligence, procurement contract tendering, expenditure gating, external performance reporting and corporation-wide risk management and internal audit practices. Financial reporting and business system integrity are assured through the maintenance of extensive operating procedure policies and practices.

Before adopting the annual financial statements, the board receives written confirmation from the managing director and the chief finance officer that the integrity of the statements is founded on a sound system of risk management and internal compliance and control, and that all material risks have been managed effectively.

Treasury

A comprehensive and prudent treasury policy exists to manage cash and liquidity, interest rate, foreign exchange, fuel price, counterparty and operational risks. Reviewed by the board at least annually, the policy provides for the use of hedging instruments to protect the corporation against adverse movements in interest rates and minimise the impact of volatility in foreign exchange rate and oil price movements. The aim is to ensure reasonable certainty against budget estimates and in the cost of imported capital equipment and other supplies.

Established treasury procedures incorporate risk control principles of segregation of duties, dual control access and independent reconciliations. An internal Treasury Risk Management Committee meets monthly and reviews/recommends appropriate hedging strategies to the chief finance officer within policy parameters. Treasury activities are reported quarterly to the board and are subject to review by auditors as part of the annual external audit process.

Corporate security

Corporate security is an internal service group that provides consultancy and investigation services for Australia Post. It is chartered to maintain the integrity of the mail, ensure staff safety and protect the assets of the corporation. The group has a 24-hours-a-day, seven-days-a-week response capability. The specialist group maintains close internal working relationships with legal, risk and audit, as well as externally with international, national, state and territory law enforcement services and agencies.

Competition and consumer law

To facilitate compliance with relevant legislation, Australia Post has a national competition and consumer law compliance program which is maintained by legal. In addition to undertaking comprehensive biennial competition and consumer law training, the corporation has in place a detailed formal clearance process for all promotional and advertising material.

Privacy

The corporation has a privacy contact officer who is accountable for the maintenance of the corporation's privacy compliance program. Under this program, policies, processes and procedures are in place to facilitate compliance with privacy law, to safeguard customers' personal information and to foster a corporate culture that values privacy.

Corporate responsibility

Australia Post's corporate responsibility (CR) program is an important element of the corporation's strategy. The policy that underpins this provides for clear accountability in meeting the program's goals and objectives. Performance is continually monitored.

As part of the Future Ready business renewal program, the CR strategy and governance framework are currently being reviewed with a view to implementing a new approach next year.

Directors' attendance at meetings – 2010–11

	Board		Audit and Risk Committee		Human Resources Committee		Superannuation Committee	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
David Mortimer	8	8	5	5	–	–	2	2
Ahmed Fahour	8	8	–	–	5	5	2	2
Penelope Bingham-Hall	1	1	–	–	–	–	–	–
Peter Carne	8	8	4	4	–	–	2	2
Mark Darras	8	8	–	–	5	5	2	2
Margaret Gibson	2	2	1	1	–	–	–	–
William Mansfield	4	2	–	–	1	1	–	–
Jennifer Seabrook	8	8	2	2	–	–	–	–
Ian Warner	8	8	5	5	–	–	–	–
The Hon Trish White	8	7	–	–	1	1	–	–

(a) Number of meetings held while a director/committee member.

(b) Number of meetings attended.

Statements by directors, chief executive officer and executive general manager finance and business services

2010–11 Financial report

In our opinion:

- (a) the accompanying financial report for the year ended 30 June 2011:
- (i) gives a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, as amended
 - (ii) has been prepared based on properly maintained financial records
- (b) at the date of this report, there are reasonable grounds to believe that the corporation will be able to pay its debts as and when they fall due.

This statement is made in accordance with a resolution of the directors.



D A Mortimer AO
Chairman
Melbourne
25 August 2011



A Fahour
Managing Director and Chief Executive Officer
Melbourne
25 August 2011

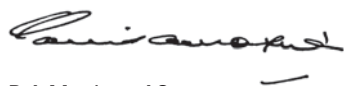


E K Stafford
EGM Finance and Business Services
Melbourne
25 August 2011

2010–11 Financial report certification

Prior to the adoption of the 2010–11 financial report, the board received and considered a written statement from the managing director and chief executive officer and executive general manager finance and business services to the effect that the:

- report presented a true and fair view, in all material respects, of the corporation and the consolidated entity's financial position and performance and were in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia as required by the Finance Minister's Orders under the *Commonwealth Authorities and Companies Act 1997*
- integrity of the financial report is founded on a sound system of risk management, internal compliance and control that operated effectively and efficiently in all material respects, consistent with the Australian Standard on Risk Management (AS/NZS 31006:2009) and policies adopted by the board of directors.

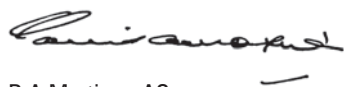


D A Mortimer AO
Chairman
Melbourne
25 August 2011

2010–11 Report of operations

In the opinion of the directors, the requirements under section 9 of the *Commonwealth Authorities and Companies Act 1997* for the preparation and content of the "report of operations" as specified in orders issued by the Minister for Finance and Deregulation are met in the general body of this report (pages 2 to 49) and in the statutory report (pages 123 to 129).

This statement is made in accordance with a resolution of the directors.



D A Mortimer AO
Chairman
Melbourne
25 August 2011

Finance statements audit report



Auditor-General for Australia



INDEPENDENT AUDITOR'S REPORT

To the Minister for Broadband, Communications and the Digital Economy

Report on the Financial Report

I have audited the accompanying financial report of the Australian Postal Corporation (the Corporation) for the year ended 30 June 2011, which comprises: the Statement by Directors, Chief Executive Officer and EGM Finance and Business Services; Statement of Comprehensive Income; Balance Sheet; Cash Flow Statement; Statement of Changes in Equity; Schedule of Commitments; Schedule of Contingencies; and Notes to and forming part of the financial report comprising a Summary of Significant Accounting Policies and other explanatory information of the consolidated entity comprising the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Australian Postal Corporation are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including Australian Accounting Standards, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1(b) to the financial report, the directors also state that the financial report complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes

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Year in review

About
Australia Post

Core businesses

Corporate
responsibility

Financial and
statutory reports

Finance statements audit report

evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion:

1. the financial report of the Australian Postal Corporation:
 - (a) has been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including Australian Accounting Standards; and
 - (b) gives a true and fair view of the matters required by the Finance Minister's Orders including the Australian Postal Corporation's financial position as at 30 June 2011 and its financial performance and cash flows for the year then ended.
2. the financial report also complies with *International Financial Reporting Standards* as issued by the International Accounting Standards Board as disclosed in note 1(b) to the financial report.

Report on Other Legal and Regulatory Requirements

I have not acted as auditor of, or audited, the financial statements of subsidiaries so identified in note 10 to the financial report.

Australian National Audit Office



Ian McPhee
Auditor-General

Canberra

25 August 2011

Statement of comprehensive income

for the year ended 30 June 2011

	Note	Consolidated	
		2011 \$m	2010 \$m
Revenue	2,27		
Goods and services		4,864.8	4,753.4
Interest		31.8	25.7
		4,896.6	4,779.1
Other income			
Rents		38.2	32.6
Other income and gains		51.6	44.5
		89.8	77.1
Total income		4,986.4	4,856.2
Expenses (excluding finance costs)	3		
Employees		2,254.0	2,225.3
Suppliers		2,054.1	2,054.6
Depreciation and amortisation		198.4	213.5
Net loss on disposal of property, plant and equipment		1.0	4.6
Net foreign exchange losses		13.0	4.1
Write-down and impairment of assets		35.8	52.4
Restructuring		42.0	150.2
Other expenses		42.3	34.4
Total expenses (excluding finance costs)		4,640.6	4,739.1
Profit before income tax, finance costs and share of net profits of jointly controlled entities		345.8	117.1
Finance costs	4	33.7	28.5
Share of net profits of jointly controlled entities	11	20.2	14.4
Profit before income tax		332.3	103.0
Income tax expense	5(c)	91.1	13.5
Net profit for period		241.2	89.5
Other comprehensive income			
Exchange differences on translation of foreign operations	23	0.7	(0.7)
Actuarial gain/(loss) on defined benefit plans	12	114.8	(291.5)
Fair value revaluation of land and buildings	23	–	2.7
Movement in hedging reserve	23	0.5	0.9
Income tax on items of other comprehensive income	5(b)	(34.5)	86.4
Movements in jointly controlled entity reserves and actuarial losses		0.9	(2.0)
Income tax on jointly controlled entity reserves and actuarial losses		(0.3)	0.6
Other comprehensive income for the period, net of tax		82.1	(203.6)
Total comprehensive income for the period		323.3	(114.1)
Net profit for the period is attributable to:			
Equity holders of the parent		240.8	89.8
Non-controlling interest		0.4	(0.3)
		241.2	89.5
Total comprehensive income for the period is attributable to:			
Equity holders of the parent		323.0	(113.8)
Non-controlling interest		0.3	(0.3)
		323.3	(114.1)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet

as at 30 June 2011

	Note	Consolidated	
		2011 \$m	2010 \$m
Assets			
Current assets			
Cash and cash equivalents	32(a)	602.2	500.7
Trade and other receivables	6	465.3	369.2
Inventories	7	49.7	44.1
Accrued revenues		126.1	137.4
Other current assets	8	83.2	78.1
Total current assets		1,326.5	1,129.5
Non-current assets			
Trade and other receivables	9	226.8	227.1
Investments in jointly controlled entities	11	292.1	295.6
Superannuation asset	12	287.4	172.6
Land and buildings	13	742.4	795.4
Plant and equipment	13	474.7	509.6
Intangible assets	14	317.2	234.8
Investment property	15	183.3	224.9
Deferred tax assets	5(d)	279.1	315.0
Other non-current assets	17	5.6	10.7
Total non-current assets		2,808.6	2,785.7
Total assets		4,135.1	3,915.2
Liabilities			
Current liabilities			
Trade and other payables	18	726.3	726.7
Interest-bearing liabilities	19	232.5	0.6
Provisions	20	636.4	711.8
Total current liabilities		1,595.2	1,439.1
Non-current liabilities			
Interest-bearing liabilities	19	323.6	558.4
Provisions	20	164.8	167.6
Deferred tax liabilities	5(d)	224.5	171.1
Other non-current liabilities	21	23.1	19.9
Total non-current liabilities		736.0	917.0
Total liabilities		2,331.2	2,356.1
Net assets		1,803.9	1,559.1
Equity			
Contributed equity		400.0	400.0
Reserves	23	6.8	6.2
Retained profits	22	1,397.1	1,153.2
Parent interest		1,803.9	1,559.4
Non-controlling interest		–	(0.3)
Total equity		1,803.9	1,559.1

The above balance sheet should be read in conjunction with the accompanying notes.

Cashflow statement

for the year ended 30 June 2011

	Note	Consolidated	
		2011 \$m	2010 \$m
Operating activities			
Cash received			
Goods and services		5,329.5	5,264.3
Interest		31.2	26.0
Dividends		18.2	14.0
Total cash received		5,378.9	5,304.3
Cash used			
Employees		2,315.3	2,248.9
Suppliers		2,343.9	2,364.4
Financing costs		32.5	24.9
Income tax		54.1	77.5
GST paid		225.7	217.7
Total cash used		4,971.5	4,933.4
Net cash from operating activities	32(b)	407.4	370.9
Investing activities			
Cash received			
Proceeds from sales of property, plant and equipment		47.2	53.1
Total cash received		47.2	53.1
Cash used			
Payments for investments in controlled entities (net of cash acquired)	32(c)	43.3	–
Payments for investment property		0.7	1.7
Purchase of property, plant and equipment		107.0	127.2
Purchase of intangibles		117.9	129.5
Total cash used		269.3	258.4
Net cash used by investing activities		(222.1)	(205.3)
Financing activities			
Cash used			
Repayment of borrowings	32(c)	5.3	–
Dividends paid	25	78.5	171.9
Total cash used		83.8	171.9
Net cash used by financing activities		(83.8)	(171.9)
Net decrease in cash and cash equivalents		101.5	(6.3)
Cash and cash equivalents at beginning of the reporting period		500.7	507.0
Cash and cash equivalents at end of the reporting period	32(a)	602.2	500.7

The above cashflow statement should be read in conjunction with the accompanying notes.

Statement of changes in equity

for the year ended 30 June 2011

	Consolidated							
	Contributed equity \$m	Asset revaluation reserve \$m	Foreign currency translation reserve \$m	Hedging reserve \$m	Retained profits \$m	Owners of the parent \$m	Non-controlling Interest \$m	Total equity \$m
Balance at 1 July 2009	400.0	4.8	0.2	(1.2)	1,441.3	1,845.1	–	1,845.1
Comprehensive income								
Profit for the period	–	–	–	–	89.8	89.8	(0.3)	89.5
Other comprehensive income	–	2.7	(0.7)	0.9	(291.5)	(288.6)	–	(288.6)
Tax on other comprehensive income	–	(0.8)	–	(0.3)	87.5	86.4	–	86.4
Jointly controlled entity items	–	–	(0.1)	1.0	(2.9)	(2.0)	–	(2.0)
Tax on jointly controlled entity items	–	–	–	(0.3)	0.9	0.6	–	0.6
Total comprehensive income for the period	–	1.9	(0.8)	1.3	(116.2)	(113.8)	(0.3)	(114.1)
Transactions with owners								
Distributions to owners								
Dividends (refer note 25)	–	–	–	–	(171.9)	(171.9)	–	(171.9)
Balance at 30 June 2010	400.0	6.7	(0.6)	0.1	1,153.2	1,559.4	(0.3)	1,559.1
Comprehensive income								
Profit for the period	–	–	–	–	240.8	240.8	0.4	241.2
Other comprehensive income	–	–	0.7	0.5	114.8	116.0	–	116.0
Tax on other comprehensive income	–	–	–	(0.1)	(34.4)	(34.5)	–	(34.5)
Transfer net of tax	–	–	(0.1)	–	0.2	0.1	(0.1)	–
Jointly controlled entity items	–	–	(0.1)	(0.4)	1.4	0.9	–	0.9
Tax on jointly controlled entity items	–	–	–	0.1	(0.4)	(0.3)	–	(0.3)
Total comprehensive income for the period	–	–	0.5	0.1	322.4	323.0	0.3	323.3
Transactions with owners								
Distributions to owners								
Dividends (refer note 25)	–	–	–	–	(78.5)	(78.5)	–	(78.5)
Balance at 30 June 2011	400.0	6.7	(0.1)	0.2	1,397.1	1,803.9	–	1,803.9

Schedule of commitments

as at 30 June 2011

	Consolidated	
	2011 \$m	2010 \$m
By type		
Commitments receivable:		
Lease rental receivables ⁽¹⁾	210.3	131.9
GST recoverable on commitments ⁽²⁾	210.7	223.7
Total commitments receivable	421.0	355.6
Commitments payable:		
Capital commitments:		
Land and buildings	3.9	10.3
Plant and equipment	40.9	75.4
Other	34.6	0.1
Total capital commitments	79.4	85.8
Other commitments:		
Operating leases ⁽³⁾	1,265.8	1,059.9
Other commitments ⁽⁴⁾	1,590.6	1,526.1
Total other commitments	2,856.4	2,586.0
Total commitments payable	2,935.8	2,671.8
Net commitments	2,514.8	2,316.2
By maturity		
Commitments receivable: ⁽¹⁾		
Within one year	116.4	105.0
From one to five years	237.5	182.5
Over five years	67.1	68.1
Total commitments receivable by maturity	421.0	355.6
Commitments payable:		
Capital commitments due:		
Within one year	79.4	85.8
Total capital commitments	79.4	85.8
Operating lease commitments due:		
Within one year	226.4	173.1
From one to five years	709.2	476.3
Over five years	330.2	410.5
Total operating lease commitments	1,265.8	1,059.9
Other commitments due:		
Within one year	576.9	650.2
From one to five years	1,013.3	875.8
Over five years	0.4	0.1
Total other commitments	1,590.6	1,526.1
Total commitments payable by maturity	2,935.8	2,671.8
Net commitments	2,514.8	2,316.2

(1) This relates to \$50.2 million (2010: \$14.0 million) of sub-lease rent receivables and operating lease receivables.

(2) Of these commitments, \$45.9 million (2010: \$38.5 million) relates to jointly controlled entities.

(3) Of these commitments, \$539.2 million (2010: \$419.9 million) relates to jointly controlled entities.

(4) The majority of these commitments relate to carriage and delivery of letters and parcels by contractors. \$11.9 million (2010: \$4.0 million) relates to jointly controlled entities.

This schedule is prepared in accordance with the requirements of the Finance Minister's Orders published by the Department of Finance and Deregulation.

Year in review

About
Australia Post

Core businesses

Corporate
responsibility

Financial and
statutory reports

Schedule of contingencies

as at 30 June 2011

	Consolidated					
	Guarantees ⁽¹⁾		Claims for damages or other costs ⁽²⁾		Total	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Balance from previous period	182.7	191.1	2.5	24.4	185.2	215.5
New	1.2	4.1	2.4	0.4	3.6	4.5
Re-measurement	(2.9)	(6.6)	0.5	0.8	(2.4)	(5.8)
Liabilities recognised	–	–	(2.7)	(3.1)	(2.7)	(3.1)
Obligations expired	(1.0)	(5.9)	–	(20.0)	(1.0)	(25.9)
Total contingent liabilities	180.0	182.7	2.7	2.5	182.7	185.2
Balance from previous period	7.7	7.7	1.1	55.4	8.8	63.1
New	–	–	0.7	0.1	0.7	0.1
Assets recognised	–	–	–	(3.8)	–	(3.8)
Obligations expired	(0.1)	–	(0.8)	(50.6)	(0.9)	(50.6)
Total contingent assets	7.6	7.7	1.0	1.1	8.6	8.8
Net contingent liabilities	172.4	175.0	1.7	1.4	174.1	176.4

(1) Relates to non-financial guarantees, including bank guarantees over projected workers' compensation claims liabilities and other guarantees provided by jointly controlled entities.

(2) Relates to legal liability claims that have been lodged against the corporation and subsidiaries, including motor vehicle accident and personal injury claims.

This schedule is prepared in accordance with the requirements of the Finance Minister's Orders published by the Department of Finance and Deregulation.

Notes to and forming part of the financial report

for the year ended 30 June 2011

1 Summary of significant accounting policies

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with:

- Finance Minister's Orders (being the Commonwealth Authorities and Companies (Financial Statement) Orders) for reporting periods ending on or after 1 July 2010; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis, except for investment properties and derivative financial instruments, which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The financial report is presented in Australian dollars and all values are rounded to the nearest one hundred thousand dollars (\$0.1 million) unless otherwise stated.

(b) Statement of compliance

The Australian Postal Corporation (the corporation) is incorporated under the provisions of the *Australian Postal Corporation Act 1989* as amended. Financial statements are required by clause 1 (b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997*. The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2011. The standards are as follows:

Reference	Title	Nature of change to accounting policy	Application date of standard	Application date for group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These amendments are not expected to have any impact on the group's financial report.	1 January 2013	1 July 2013
AASB 2009–11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	These amendments are not expected to have any impact on the group's financial report.	1 January 2013	1 July 2013
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. These amendments are not expected to have any impact on the group's financial report.	1 January 2011	1 July 2011
AASB 2009–12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	These amendments are not expected to have any impact on the group's financial report.	1 January 2011	1 July 2011
AASB 2009–14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	These amendments are not expected to have any impact on the group's financial report.	1 January 2011	1 July 2011
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: <ul style="list-style-type: none"> • Tier 1: Australian Accounting Standards • Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements The new framework is not expected to have any impact on the group's financial report.	1 July 2013	1 July 2013

Notes to and forming part of the financial report

for the year ended 30 June 2011

Reference	Title	Nature of change to accounting policy	Application date of standard	Application date for group
AASB 1054	Australian Additional Disclosures	This standard is as a consequence of Phase 1 of the joint Trans–Tasman Convergence project of the AASB and FRSB and is not expected to have any impact on the group's financial report.	1 July 2011	1 July 2011
AASB 2010–4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	These amendments are not expected to have any material impact on the group's financial report.	1 January 2011	1 July 2011
AASB 2010–5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	These amendments are not expected to have any material impact on the group's financial report.	1 January 2011	1 July 2011
AASB 2010–6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	These amendments are not expected to have any material impact on the group's financial report.	1 July 2011	1 July 2011
AASB 2010–7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	These amendments are not expected to have any material impact on the group's financial report.	1 January 2013	1 July 2013
AASB 2010–8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	These amendments are not expected to have any material impact on the group's financial report.	1 January 2012	1 July 2012
AASB 2011–1	Amendments to Australian Accounting Standards arising from the Trans–Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]	These amendments are not expected to have any material impact on the group's financial report.	1 July 2011	1 July 2011
IFRS 10	Consolidated Financial Statements	IFRS 10 establishes a new control model that applies to all entities. These amendments are not expected to have any material impact on the group's financial report.	1 January 2013	1 July 2013
IFRS 11	Joint Arrangements	IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Ventures. These amendments are not expected to have any material impact on the group's financial report.	1 January 2013	1 July 2013
IFRS 12	Disclosure of Interests in Other Entities	New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements. These amendments are not expected to have any material impact on the group's financial report.	1 January 2013	1 July 2013
IFRS 13	Fair Value Measurement	IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. These amendments are not expected to have any material impact on the group's financial report.	1 January 2013	1 July 2013

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the corporation and its subsidiaries (the group) as at and for the period ended 30 June each year. Interests in jointly controlled entities are equity accounted and are not part of the consolidated group.

Subsidiaries are all those entities over which the group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is obtained by the group and cease to be consolidated from the date on which control is transferred out of the group.

Investments in subsidiaries held by the corporation are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the parent entity, and do not impact the recorded cost of the investment. Receipt of dividend payments from subsidiaries are one of the factors considered by the parent entity when assessing whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree and any contingent consideration) is goodwill or a discount on acquisition. A change in ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

(d) Significant accounting judgements, estimates and assumptions

(i) Significant accounting estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, contingent assets, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Investment property

The group obtains independent third party valuations of its investment property portfolio annually. The basis of these valuations are outlined in note 15 and include certain significant assumptions.

Impairment of jointly controlled entities, goodwill and intangibles with indefinite useful lives

The group determines whether jointly controlled entities, goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of jointly controlled entities and cash-generating units, to which the goodwill and intangibles with indefinite useful lives are allocated. Recoverable amount is assessed using a value in use discounted cashflow methodology. The assumptions used in the estimation of recoverable amount of goodwill and intangibles with indefinite useful lives are discussed in note 16.

Make good provisions

Management have made assumptions in arriving at their best estimate of the likely costs to "make good" premises which are currently occupied under operating lease. Such estimates involve management forecasting the average restoration cost per square metre and is dependent on the nature of the premises occupied. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the balance sheet by adjusting both the expense or asset (if applicable) and provision. The related carrying amounts are disclosed in note 20.

Employee benefits

Various assumptions are required when determining the group's superannuation, separation and redundancy, long-service leave, annual leave and workers' compensation obligations. Note 12 describes the key assumptions used in calculating the group's superannuation obligation, whilst note 1 (ee) details the basis and certain significant assumptions for the other employee benefits.

Unearned postage revenue

The group makes allowance for the assessed amount of revenue from postage sales as at balance date in respect of which service has not yet been provided. Actuarial valuations are obtained every three years and the provision is reassessed every six months based on factors provided by the group's external actuaries.

Notes to and forming part of the financial report

for the year ended 30 June 2011

(ii) Significant accounting judgements

Investment property classification

The group has determined that those properties classified as investment properties are primarily held to earn rentals or for capital appreciation. Where a property is also used for internal use, the group has determined whether this is an insignificant portion of total floor space and if so, classified the property as investment property.

Operating lease commitments – group as lessor

The group has commercial property leases on its investment property portfolio. The group has determined that it retains all the significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases.

(e) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in other expenses.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is measured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 Financial Instruments: Recognition and Measurement either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

(f) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods and services

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer. Recognition is at point of sale in the case of postage items and provision of agency services, point of lodgement in the case of bulk mail and when control of goods has passed to the buyer in the case of retail products. Allowance is made for the assessed amount of revenue from postage sales as at balance date in respect of which service had not yet been provided.

The group recognises an accrual for the amount of revenue earned from delivery of international mail in respect of which statements have not been received. Revenue is determined based on a number of factors including the volume of articles delivered, the international postal organisation for which we are delivering mail and with reference to the International Postal Union guidelines.

(ii) Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(iii) Dividends

Revenue is recognised when the group's right to receive the payment is established.

(iv) Rental income

Rental income from investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

(g) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decisionmaker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments, such as the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decisionmakers – being the executive management team.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 *Operating Segments* are reported separately. Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category as an "Unallocated" segment.

(h) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

(i) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date. It also requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(i) Group as a lessee

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expenditure and reduction of the liability.

(ii) Group as a lessor

Leases in which the group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(j) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the cashflow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts. Bank overdrafts are included within interest-bearing liabilities in current liabilities on the balance sheet.

(k) Trade and other receivables

Trade receivables, which generally have 30–90-day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. Other receivables are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or outstanding debts more than 60 days overdue may be considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cashflows, discounted at the original effective interest rate.

(l) Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price including the transfer from equity of gains and losses on qualifying cashflow hedges of purchases of raw materials, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition or raw materials. Volume discounts and rebates are included in determining the cost of purchase; and
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(m) Derivative financial instruments and hedging

The group uses derivative financial instruments (including forward currency contracts, oil swap contracts and interest rate swaps) to hedge its risks associated with interest rate, foreign currency and oil/diesel price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cashflow hedges, are taken directly to net profit or loss for the year.

Derivative assets and liabilities are classified as non-current when the remaining maturity is more than 12 months, or current when the remaining maturity is less than 12 months.

The fair value of non-optional derivatives is determined based on discounted cashflow analysis using the applicable yield curve or forward curve (currency or commodity) for the duration of the instrument.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability or unrecognised firm commitments;
- cashflow hedges when they hedge exposure to variability in cashflows that is attributable either to a particular risk associated with a recognised asset or liability or to a highly probable forecast transaction; or
- hedges of a net investment in a foreign operation (the group does not currently have such hedges in place).

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

(i) Fair value hedges

Fair value hedges are hedges of the group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured to fair value and gains and losses from both are taken to profit or loss.

Notes to and forming part of the financial report

for the year ended 30 June 2011

The group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

(ii) Cashflow hedges

Cashflow hedges are hedges of the group's exposure to variability in cashflows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss.

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

For cashflow hedges if the risk is over-hedged, the ineffective portion is taken immediately to other income/expense in the statement of comprehensive income.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the statement of comprehensive income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

(n) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of the corporation and its Australian subsidiaries is Australian dollars (\$). Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Translation of group companies functional currency to presentation currency

The results of the overseas subsidiaries are translated into Australian dollars as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at balance date.

On consolidation, exchange differences arising from the translation of the net investment in overseas subsidiaries are taken to the foreign currency translation reserve. If an overseas subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the statement of comprehensive income.

(o) Investment in jointly controlled entities

The group's investments in jointly controlled entities are accounted for using the equity method of accounting in the consolidated financial statements and at cost less any impairment loss in the corporation's financial statements. Jointly controlled entities are entities where decisions regarding the financial and operating policies essential to the activities, economic performance and financial position of that venture require the consent of each of the venturers that together jointly control the entity.

Under the equity method, the investment in the jointly controlled entity is carried in the consolidated balance sheet at cost plus post-acquisition changes in the group's share of net assets of the jointly controlled entities. Goodwill relating to a jointly controlled entity is included in the carrying amount of the investment and is not amortised. After application of the equity method, the group determines whether it is necessary to recognise any additional impairment loss with respect to the group's net investment in the jointly controlled entities. Goodwill included in the carrying amount in the investment in jointly controlled entities is not tested separately, rather the entire carrying amount of the investment is tested for impairment as a single asset. If impairment is recognised, the amount is not allocated to the goodwill of the jointly controlled entity.

The consolidated statement of comprehensive income reflects the group's share of the results of operations of the jointly controlled entity and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from jointly controlled entities are recognised in the parent entity's statement of comprehensive income as a component of other income.

After application of the equity method, the group determines whether it is necessary to recognise an additional impairment loss on the group's investment in its jointly controlled entities. The group determines at each reporting date whether there is any objective evidence that the investment in the jointly controlled entity is impaired. If this is the case the group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entity and its carrying value and recognises the amount in the "share of net profits of jointly controlled entities" in the Statement of comprehensive income.

Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the corporation. Where reporting dates of jointly controlled entities differ to the corporation, necessary adjustments have also been made.

(p) Income tax

Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised directly in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries or jointly controlled entities, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries or jointly controlled entities in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Australian Postal Corporation and its wholly-owned Australian resident subsidiaries have implemented the tax consolidation legislation as of 1 July 2004. The head entity, Australian Postal Corporation and the Australian resident subsidiaries in the tax consolidated group continue to account for their own current and deferred tax amounts. The members of the tax consolidated group have entered into a tax sharing agreement in order to allocate income tax expense across the group on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. Refer to note 5 for further tax consolidation disclosures.

(q) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cashflows are included in the cashflow statement on a gross basis and the GST component of cashflows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as part of operating cashflows.

Commitments and contingencies are disclosed inclusive of GST recoverable from, or payable to, the taxation authority.

(r) Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor authority's accounts immediately prior to the restructuring.

(s) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in the profit or loss as incurred.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in statement of comprehensive income in the year the asset is derecognised.

Depreciable property, plant and equipment assets are written off to their estimated residual values over their estimated useful lives using the straight-line method of depreciation.

Depreciation rates (useful lives) and methods are reviewed annually and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to items in each class of depreciable asset are based on the following useful lives:

	2011	2010
Buildings – GPOs	70 years	70 years
Buildings – other facilities	40–50 years	40–50 years
Leasehold improvements	Lower of lease term and 10 years	Lower of lease term and 10 years
Motor vehicles	3–10 years	3–10 years
Specialised plant and equipment	10–20 years	10–20 years
Other plant and equipment	3–10 years	3–10 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in note 3.

Notes to and forming part of the financial report

for the year ended 30 June 2011

(t) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured at fair value, which is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset at the reporting date. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party. Transfers are made from investment property when and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the group as an owner-occupied property becomes an investment property, the group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

(u) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories. When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transactions costs.

Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace. Financial assets are derecognised when the right to receive cashflows from the financial assets have expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the asset.

Subsequent measurement

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. These are included in current assets, except those with maturities greater than 12 months after balance date, which are classified as non-current.

(iv) Available-for-sale securities

Available-for-sale securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

(v) Impairment of financial assets

An assessment is made at each reporting date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cashflows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The criteria used to determine that there is objective evidence that an impairment loss has occurred include whether the financial asset is past due and whether there is any other information regarding increased credit risk associated with the financial asset. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the statement of comprehensive income. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(w) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cashflows from the asset have expired;
- the group retains the right to receive cashflows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the group has transferred its rights to receive cashflows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(x) Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with AASB 8 *Operating Segments*, and includes:

- Messenger Post
- SecurePay
- Other

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. The corporation performs its impairment testing annually or more frequently when events or changes in circumstances indicate that the balance may be impaired. The corporation uses a value in use, discounted cashflow methodology for the above listed cash-generating units to which goodwill and indefinite life intangibles have been allocated. Further details on the methodology and assumptions used are outlined in note 16.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(y) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit and loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Notes to and forming part of the financial report

for the year ended 30 June 2011

Computer software is carried at cost and is amortised on a straight-line basis over its anticipated useful life, being four to eight years.

Customer contracts are carried at cost and amortised on a straight-line basis over the contract terms, being an average of seven years.

Trademarks and trade names are carried at cost and amortised on a straight-line basis over its anticipated useful life, not exceeding ten years.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(z) Impairment of non-financial assets (other than goodwill and indefinite life intangibles)

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset

is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(aa) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the group prior to the end of the financial year that are unpaid and arise when the group becomes obliged to make future payments in respect of the purchase of these goods and services.

(bb) Interest-bearing liabilities

All borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of borrowings.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(cc) Finance costs

Finance costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. The group does not currently hold qualifying assets.

All other borrowing costs are expensed in the period they occur. Finance costs consist of interest and other costs that an entity incurs in connection with the borrowings of funds.

(dd) Provisions (excluding employee benefits)

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting 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. When discounting is used, the increase in the provision due to the passage of time is recognised as a financing cost.

(ee) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries (including non-monetary benefits), expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date.

Liabilities for annual leave where the corporation does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date are recognised in current provisions at the amounts expected to be paid when the liabilities are settled.

No liability is recognised for sick leave as benefits lapse with termination of employment and experience indicates that the pattern of sick leave taken is less than the entitlement accumulating.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Workers' compensation

The corporation is a licence holder under the *Safety, Rehabilitation and Compensation Act 1988* (SRC Act). The corporation self-insures its liability for workers' compensation. Claims are recognised in the financial statements and measured by the discounted value of an annuity. The adequacy of the provision is established by reference to the work of an actuary as at balance date, with the estimate of present value taking into account pay increases, attrition rates, interest rates and the time over which settlement is made.

In accordance with its SRC Act licensing conditions, the corporation has a bank guarantee to cover its outstanding actuarial established claims liability (refer schedule of contingencies). The corporation also complies with a requirement to maintain reinsurance to limit its workers' compensation liabilities.

The corporation has recognised a liability for workers' compensation of \$103.3 million at balance date (refer note 20) of which \$9.6 million relates to claims made in the 2010–11 financial year (2009–10: \$8.7 million).

(iv) Separation and redundancy

Restructuring provisions are only recognised when general recognition criteria provisions are fulfilled. Additionally, the group needs to follow a detailed formal plan about the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and appropriate timeline. The employees affected have a valid expectation that the restructuring is being carried out or the implementation has been initiated already. Refer note 20.

(ff) Pensions and other post-employment benefits

The defined benefit plan requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in retained earnings.

Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The defined benefit asset or liability recognised in the balance sheet represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

(gg) Financial guarantees

Financial guarantees are initially measured at fair value. At each subsequent reporting date, they are carried at the higher of the initial fair value amount less cumulative amortisation or the amount determined under AASB 137 *Provisions, Contingent Assets and Contingent Liabilities*. The fair value of financial guarantee contracts discussed in note 18 has been assessed using a probability weighted discounted cashflow approach. In order to estimate the initial fair value under this approach, the following assumptions are made:

- Probability of Default (PD): represents the likelihood of the guaranteed party defaulting over the terms of relevant agreements and is assessed based on historical default rates of companies rated by Standard & Poor's. The range used in the model is between 0 per cent and 5 per cent.
- Loss Given Default (LGD): represents the proportion of the exposure that is not expected to be recovered in the event of a default by the guaranteed party and is based on the result of studies into the recovery rate for unsecured debt obligations. The range used in the model is between 0 per cent and 50 per cent.
- Exposure at Default (EAD): represents the maximum loss that the corporation is exposed to if the guaranteed party was to default and is the maximum possible exposure at the time of default and hence, equates to the values disclosed in note 18.
- The discount rate adopted was based on the Commonwealth Government bond yield.

When the uncertainty associated with an assumption was sufficient to warrant consideration of a range of possible assumptions, the maximum in the range was used for valuation purposes.

(hh) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Insurance

Generally, the corporation self-insures its own risks. However, with respect to catastrophic losses, appropriate insurance coverage for both the corporation and its controlled entities has been arranged with general insurers. Payments on account of losses and insurance premiums paid in any year are charged against revenue for the year. Where appropriate, the controlled entities insure their other risks with general insurers.

(jj) Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the balance sheet but are reported in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which settlement is not probable or the amount cannot be reliably measured. Contingent assets are reported when settlement is probable, and contingent liabilities are recognised when settlement is not considered remote.

(kk) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

Notes to and forming part of the financial report

for the year ended 30 June 2011

	Consolidated	
	2011 \$m	2010 \$m
2 Revenues and other income		
Revenue:		
Rendering of services to:		
Related entities ⁽¹⁾	185.8	184.6
External entities ⁽²⁾	4,349.6	4,224.8
	4,535.4	4,409.4
Sale of goods to external entities ⁽²⁾	329.4	344.0
	4,864.8	4,753.4
Interest income calculated using the effective interest method from:		
Cash on hand and promissory notes	21.5	15.4
Loans and receivables	10.3	10.3
	31.8	25.7
Total revenue	4,896.6	4,779.1
Other income and gains:		
Rents from operating leases	28.1	26.8
Income from investment properties	10.1	5.8
	38.2	32.6
Other revenues and gains		
Other services:		
Related entities (government grants) ⁽¹⁾	1.8	3.0
External entities ⁽²⁾	20.7	19.0
	22.5	22.0
Net gain on disposal of assets:		
Land and buildings	6.5	22.5
Investment property	16.5	–
	23.0	22.5
Change in fair value of investment properties	6.1	–
Total other revenues and gains	51.6	44.5
Total other income and gains	89.8	77.1
Total income	4,986.4	4,856.2

(1) Related entities – related to the Commonwealth Government.

(2) External entities – not related to the Commonwealth Government.

	Consolidated	
	2011 \$m	2010 \$m
3 Expenses (excluding finance costs)		
Employees:		
Salaries and wages	1,851.1	1,820.9
Defined benefit superannuation expense	135.3	129.3
Leave and other entitlements	187.0	216.7
Separation and redundancy	30.6	8.6
Workers' compensation	24.6	24.5
Other employee expenses	25.4	25.3
	2,254.0	2,225.3
Suppliers:		
Purchase of services from:		
External entities ⁽¹⁾	1,733.6	1,698.4
	1,733.6	1,698.4
Cost of sales – goods purchased from external entities ⁽¹⁾	179.1	212.8
Investment property expenditure	8.4	6.3
Operating lease rentals (refer note 31 (i))	133.0	137.1
	2,054.1	2,054.6
Depreciation and amortisation:		
Depreciation:		
Buildings	50.9	52.3
Plant and equipment	87.4	92.0
Plant and equipment under finance lease	4.3	9.2
Amortisation:		
Computer software	54.2	57.6
Other intangibles	1.6	2.4
	198.4	213.5
Net loss on disposal of assets:		
Plant and equipment	1.0	4.3
Intangibles	–	0.3
	1.0	4.6
Net foreign exchange losses – non-speculative	13.0	4.1
Write-down and impairment of assets:		
Inventory	0.2	3.3
Land and buildings	14.9	–
Plant and equipment	–	2.2
Intangibles	13.6	24.6
Financial:		
Receivables	2.6	0.2
Related party loan	(0.3)	1.3
Investments	4.5	1.7
Goodwill	0.3	19.1
	35.8	52.4
Restructuring costs ⁽²⁾	42.0	150.2
Other expenses	42.3	34.4
Total expenses	4,640.6	4,739.1

(1) External entities – not related to the Commonwealth Government.

(2) Costs related to impairment of property, plant and equipment, redundancy and other restructuring costs. (2010: costs related to separation and redundancy costs attributable to the business renewal program to streamline the Australia Post structure.)

Notes to and forming part of the financial report

for the year ended 30 June 2011

	Consolidated	
	2011 \$m	2010 \$m
4 Finance costs		
Bonds ⁽¹⁾	31.8	31.7
Interest rate swaps ⁽¹⁾	0.4	(6.3)
Loss/(Gain) arising on interest rate swaps in a designated fair value hedge relationship	0.8	(3.3)
Loss on adjustment to hedged item in a designated fair value hedge relationship	–	5.3
Unwinding of discount (refer note 20)	0.7	1.1
Total finance costs	33.7	28.5

(1) Interest expense calculated using the effective interest method.

	Consolidated	
	2011 \$m	2010 \$m
5 Income tax		
Major components of income tax expense for the years ended 30 June are:		
(a) Statement of comprehensive income		
Current income tax		
Current income tax charge	53.5	60.5
Adjustments in respect of current income tax of previous years	(5.9)	(4.3)
Deferred income tax benefit		
Relating to origination and reversal of temporary differences	54.6	(42.7)
Adjustments in respect of deferred income tax of previous years	(11.1)	–
Income tax expense reported in the statement of comprehensive income	91.1	13.5
(b) Amounts charged directly to equity		
Deferred income tax related to items charged or credited directly to equity		
Net gain on revaluation of cashflow hedges	0.1	0.3
Net gain on revaluation of land and buildings	–	0.8
Net actuarial gains/(losses)	34.4	(87.5)
Income tax expense reported in equity	34.5	(86.4)
(c) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate		
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the group's applicable income tax rate is as follows:		
Accounting profit before income tax	332.3	103.0
At the group's statutory income tax rate of 30% (2010: 30%)	99.7	30.9
Adjustments in respect of current income tax of previous years	(5.9)	(4.3)
Investment property	0.8	0.4
Unrecognised tax losses	0.2	1.5
Tax incentives	(4.5)	(8.8)
Income not assessable for income tax purposes	(3.0)	(8.1)
Write-down and impairment not allowable for income tax purposes	5.8	6.6
Share of net profits of jointly controlled entities	(6.1)	(4.3)
Sundry items	4.1	(0.4)
At effective income tax rate of 27.4% (2010: 13.1%)	91.1	13.5
Income tax expense reported in the statement of comprehensive income	91.1	13.5

	Balance Sheet		Statement of Comprehensive Income	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
5 Income tax (continued)				
(d) Recognised deferred income tax				
Deferred income tax at 30 June relates to the following:				
Consolidated				
(i) Deferred income tax liabilities				
Accelerated depreciation for tax purposes	(43.9)	(39.5)	4.4	(10.4)
Superannuation asset	(86.2)	(51.8)	–	(1.1)
Sydney GPO lease receivable	(31.0)	(31.0)	–	–
International income	(50.9)	(43.4)	7.5	(10.5)
Net gain on revaluation of cashflow hedges	(0.3)	0.1	–	(0.1)
Sundry	(12.2)	(5.5)	6.7	2.4
Gross deferred income tax liabilities	(224.5)	(171.1)	18.6	(19.7)
(ii) Deferred income tax assets				
Provisions	227.7	256.5	28.8	(37.4)
Capital losses available for offset against future taxable income	2.4	6.0	3.6	2.0
Sydney GPO refurbishment	5.3	5.3	–	0.2
International expenditure	21.1	21.1	–	13.3
Government grant	0.9	1.5	0.6	0.9
Make good	13.8	14.0	0.2	(0.4)
Net loss on revaluation of cashflow hedges	–	(0.1)	–	0.3
Sundry	7.9	10.7	2.8	(1.9)
Gross deferred income tax assets	279.1	315.0	36.0	(23.0)
Deferred income tax expense/(benefit)			54.6	(42.7)

(e) Unrecognised temporary differences

At 30 June 2011, there were no unrecognised temporary differences (2010: \$nil) associated with the group's investments in controlled entities or jointly controlled entities, as the group has no liability for additional taxation should unremitted earnings be remitted.

(f) Tax consolidation

Australian Postal Corporation and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2004. Australian Postal Corporation is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group in accordance with their contribution to the actual tax payable by the head entity for the period, while deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 *Income Taxes and UIG 1052 Tax Consolidation Accounting*. Allocations under the tax funding agreement are made on an annual basis.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, Australian Postal Corporation. Because under UIG 1052 Tax Consolidation Accounting the allocation of current taxes to tax consolidated group members on the basis of accounting profits is not an acceptable method of allocation given the group's circumstances, the difference between the current tax amount that is allocated under the tax funding agreement and the amount that is allocated under an acceptable method is recognised as a contribution/distribution of the subsidiaries' equity accounts. The group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

All tax related contingencies are included in the schedule of contingencies.

Notes to and forming part of the financial report

for the year ended 30 June 2011

	Consolidated	
	2011 \$m	2010 \$m
6 Current assets – trade and other receivables		
Goods and services receivable ⁽¹⁾	383.4	351.4
Allowance for doubtful debts	(5.9)	(4.2)
	377.5	347.2
Proceeds receivable	43.8	–
Finance lease receivable (refer note 31 (ii))	6.5	6.5
Interest receivable	1.5	0.9
Trade receivables from jointly controlled entities (refer note 29)	1.4	1.4
Income tax receivable	18.6	5.5
Other receivables ⁽²⁾	16.0	7.7
Total current assets	465.3	369.2
Receivables not impaired are aged as follows:		
Not past due	430.4	337.8
Past due less than 30 days	12.2	11.5
Past due 30–60 days	10.8	8.8
Past due 61–90 days	2.1	0.8
Past due more than 90 days	9.8	10.3
	465.3	369.2
Receivables individually determined to be impaired are aged as follows:		
Not past due	0.5	0.4
Past due less than 30 days	0.2	–
Past due 30–60 days	0.2	–
Past due 61–90 days	0.5	0.2
Past due more than 90 days	4.5	3.6
	5.9	4.2
Movements in the allowance for doubtful debts during the financial year, are set out below:		
Balance at 1 July	4.2	5.0
Charge for the year	2.6	0.2
Acquisition of subsidiary	0.1	–
Disposal of subsidiary	(0.4)	–
Amounts written off	(0.6)	(1.0)
Balance at 30 June	5.9	4.2

(1) Goods and services receivable are interest-free and are normally on settlement terms of between 10 and 30 days. Included within goods and services receivable are international debtors which are settled in accordance with Universal Postal Union (UPU) arrangements which may be longer than 30 days.

(2) Receivables are interest-free with various maturities.

	Consolidated	
	2011 \$m	2010 \$m
7 Current assets – inventories (held for sale)		
Raw materials (at net realisable value)	0.6	1.1
Work in progress (at cost)	1.0	1.1
Finished goods (at net realisable value)	48.1	41.9
Total current inventories at lower of cost and net realisable value	49.7	44.1

Inventory write-down expense recognised totalled \$0.2 million (2010: \$3.3 million) for the group. This expense is included in the write-down of inventory. Refer to note 3.

	Consolidated	
	2011 \$m	2010 \$m
8 Other current assets		
Prepayments	79.9	77.7
Foreign currency exchange contracts	–	0.4
Oil commodity swaps	1.0	–
Interest rate swap contracts	2.3	–
Total other current assets	83.2	78.1

	Consolidated	
	2011 \$m	2010 \$m
9 Non-current assets – trade and other receivables⁽¹⁾		
Loans to jointly controlled entities (refer note 29)	130.5	130.7
Provision for impairment of loans to jointly controlled entities	(1.0)	(1.3)
	129.5	129.4
Finance lease receivable (refer note 31 (ii))	97.0	97.0
Other receivables	0.3	0.7
Total non-current assets	226.8	227.1

(1) There are no non-current trade and other receivables that are past due (2010: \$nil). There are no non-current trade and other receivables whose terms have been renegotiated that would otherwise be past due (2010: \$nil). The terms of loans agreements with jointly controlled entities are reviewed and updated prior to expiry or on an as needs basis to ensure they are appropriate in light of the current financial position of the jointly controlled entity.

Notes to and forming part of the financial report

for the year ended 30 June 2011

	Note	Country of Incorporation	% of equity held by immediate parent	
			2011 %	2010 %
10 Investments in controlled entities				
Sprintpak Pty Ltd	(1)	Australia	100.0	100.0
Postcorp Developments Pty Ltd	(1)	Australia	100.0	100.0
Geospend Pty Ltd	(1)	Australia	100.0	100.0
corProcure Pty Ltd	(1)	Australia	100.0	100.0
Post Fulfilment Online Pty Ltd	(1)	Australia	100.0	100.0
SnapX Pty Ltd	(1)	Australia	100.0	100.0
Decipha Pty Ltd	(2)	Australia	100.0	100.0
AP International Holdings Pty Ltd	(1)	Australia	100.0	100.0
PostLogistics Pte Ltd	(3)	Hong Kong	100.0	100.0
Australia Post Transaction Services Pty Ltd	(2)	Australia	100.0	100.0
SecurePay Holdings Pty Ltd	(1)	Australia	100.0	–
SecurePay Pty Ltd	(1)	Australia	100.0	–
Post Logistics Australasia Pty Ltd	(2)	Australia	100.0	100.0
Lakewood Logistics Pty Ltd	(1)	Australia	100.0	100.0
PrintSoft Holdings Pty Ltd	(4)	Australia	–	100.0
PrintSoft Development Pty Ltd	(4)	Australia	–	100.0
PrintSoft Products Pty Ltd	(4)	Australia	–	100.0
PrintSoft Americas, Inc	(4)	USA	–	100.0
PrintSoft Systems Ltd	(4)	UK	–	100.0
PrintSoft Solutions Ltd	(4)	UK	–	100.0
Program Products Services Ltd	(4)	UK	–	100.0
PrintSoft SAS	(4)	France	–	100.0
PrintSoft Systems GmbH	(4)	Germany	–	100.0
PrintSoft Slovenska Republika S.R.O	(4)	Slovak Republic	–	68.0
PrintSoft Ceska Republika S.R.O	(4)	Czech Republic	–	72.0
PrintSoft Italia SRL	(4)	Italy	–	100.0

(1) These entities are incorporated in Australia and are small proprietary companies. As such, they are not required to prepare and lodge audited financial statements with the Australian Securities and Investments Commission (ASIC).

(2) These entities are incorporated in Australia and are large proprietary companies required to lodge audited financial statements with ASIC.

(3) These entities are not audited by the Australian National Audit Office.

(4) On 30 June 2011, Australia Post disposed of its investment in the PrintSoft group.

	Consolidated	
	2011 \$m	2010 \$m
11 Investments in jointly controlled entities		
Carrying amounts of investments		
Balance at the beginning of the financial year	295.6	298.3
Share of profits for the year	20.2	14.4
Net actuarial gain/(loss)	0.8	(2.0)
Impairment of investment	(4.5)	(1.7)
Disposal of investments	(0.7)	–
Share of reserves	(0.3)	0.8
Dividends received/receivable	(19.0)	(14.2)
Balance at the end of the financial year	292.1	295.6

	Principal activity	Country of incorporation	Balance date	Ownership interest	
				2011 %	2010 %
AUX Investments ⁽¹⁾	Express air freight	Australia	30 June	50.0	–
Australian air Express Pty Ltd – ordinary shares ⁽¹⁾	Express air freight	Australia	30 June	–	50.0
Star Track Express Holdings Pty Ltd – ordinary shares ⁽¹⁾	Express freight	Australia	30 June	–	50.0
Wetherill Park Partnership	Warehousing facilities	Australia	30 June	50.0	50.0
Sai Cheng Logistics International Company Limited – ordinary shares ⁽²⁾	International 4PL logistics services	China	31 Dec	49.0	49.0
iPrint Corporate Pty Ltd – ordinary shares ⁽³⁾	Printing services	Australia	30 June	–	50.0
Multi Media Logistics Pty Ltd – ordinary shares ⁽⁴⁾	Logistics services	Australia	30 June	–	50.0

(1) Australia Post holds a 50% investment in AUX Investments, which holds the 100% investment in Star Track Express Holdings Pty Ltd and Australian air Express Pty Ltd.

(2) This investment is held by the corporation's 100% owned subsidiary AP International Holdings Pty Ltd.

(3) This investment was sold on 30 June 2011.

(4) This investment was held by the corporation's 100% owned subsidiary Post Logistics Australasia Pty Ltd and was sold on 1 July 2010.

Notes to and forming part of the financial report

for the year ended 30 June 2011

	Consolidated	
	2011 \$m	2010 \$m
11 Investments in jointly controlled entities (continued)		
Share of jointly controlled entities' profits		
Revenues	664.7	614.1
Expenses	(645.4)	(593.5)
Net profits before income tax	19.3	20.6
Income tax expense	0.9	(6.2)
Net profits after income tax	20.2	14.4
Share of assets and liabilities		
Current assets	98.3	90.8
Non-current assets	420.8	436.1
Total assets	519.1	526.9
Current liabilities	(75.8)	(73.4)
Non-current liabilities	(151.2)	(157.9)
Total liabilities	(227.0)	(231.3)
Net assets	292.1	295.6
Retained profits of the consolidated entity attributable to jointly controlled entities		
Balance at the beginning of the financial year	29.6	31.4
Share of profits for the year	20.2	14.4
Net actuarial gain/(loss)	0.8	(2.0)
Dividends received/receivable	(19.0)	(14.2)
Balance at the end of the financial year	31.6	29.6

The group's investment in the Wetherill Park Partnership was impaired during the year by \$4.5 million (2010: \$1.7 million impairment of Multi Media Logistics Pty Ltd).

The consolidated entity's share of the jointly controlled entities' net commitment payable is \$501.8 million (2010: \$385.5 million) and is included in the schedule of commitments. The consolidated entity's share of the jointly controlled entities' contingent liabilities is \$32.0 million (2010: \$31.1 million) and is included in the schedule of contingencies.

12 Superannuation

(i) Superannuation plan

The corporation is an employer sponsor of the Australia Post Superannuation Scheme (APSS) of which almost all of its employees are members. The APSS provides employer-financed defined benefits to all employees who are members and member-financed accumulation benefits to those who elect. Some of the corporation's current and past employees are also entitled to benefits under the *Superannuation Act 1976*, but the corporation has no contribution obligation in respect of these benefits. A small percentage of Australia Post employees have elected not to be members of the APSS and are not entitled to benefits under the *Superannuation Act 1976*. Australia Post pays the Superannuation Guarantee contribution to the nominated superannuation funds of these employees. The consolidated amounts shown below are materially consistent with the corporation.

	Consolidated	
	2011 \$m	2010 \$m
(ii) Amount recognised in the statement of comprehensive income		
Current service cost	199.0	200.9
Interest cost on benefit obligation	353.3	363.5
Expected return on plan assets	(447.8)	(465.0)
Plan expenses	12.3	12.3
Contributions tax reserve	18.5	17.6
Defined benefit superannuation expense	135.3	129.3

12 Superannuation (continued)

	Consolidated				
	2011 \$m	2010 \$m	2009 \$m	2008 \$m	2007 \$m
(iii) Amount recognised in the balance sheet					
Present value of benefit obligation (wholly funded)	(5,584.7)	(5,347.2)	(5,298.0)	(5,333.3)	(5,003.4)
Fair value of plan assets	5,829.0	5,493.9	5,695.8	6,688.8	6,514.5
Contributions tax reserve	43.1	25.9	70.2	239.2	266.7
Net superannuation asset – non-current ⁽¹⁾	287.4	172.6	468.0	1,594.7	1,777.8

(1) Australia Post's entitlement to any surplus in the Fund is limited by the terms of the relevant Trust Deed and applicable superannuation laws. On termination, any money and other assets remaining in the fund after the payment of benefits and expenses of the fund would ultimately be realised and the proceeds distributed to the employers (including Australia Post) in such shares as determined by Australia Post. Outside termination, there is scope for Australia Post to request a return of surplus, which may be no more than the amount (as determined by the fund's actuary) by which the total fund value exceeds the total accrued benefit value. In addition, Australia Post benefits from the surplus through reduction in future superannuation expense and contributions.

	Consolidated	
	2011 \$m	2010 \$m
(iv) Reconciliations		
Changes in the present value of the defined benefit obligation is as follows:		
Opening defined benefit obligation at 1 July	5,347.2	5,298.0
Interest cost	353.3	363.5
Current service cost	199.0	200.9
Benefits paid and payable	(282.5)	(617.4)
Curtailed costs (net of tax)	–	3.3
Member contributions	60.1	67.9
Actuarial (gain)/loss	(92.4)	31.0
Closing defined benefit obligation at 30 June ⁽²⁾	5,584.7	5,347.2
Changes in the fair value of the plan assets is as follows:		
Opening fair value of plan assets at 1 July	5,493.9	5,695.8
Expected return on plan assets	447.8	465.0
Contributions by employer	135.3	129.3
Member contributions	60.1	67.9
Benefits paid and payable	(282.5)	(617.4)
Actuarial gain/(loss)	5.2	(216.8)
Plan expenses	(12.3)	(12.3)
Contributions tax reserve	(18.5)	(17.6)
Fair value of plan assets at 30 June ⁽²⁾	5,829.0	5,493.9

The group expects to contribute approximately \$129.3 million to its defined benefit pension plan in 2011–12.

(2) Included in the obligation and plan assets above is \$2,702.8 million (2010: \$2,467.2 million) relating to member financed accumulation benefits.

Notes to and forming part of the financial report

for the year ended 30 June 2011

12 Superannuation (continued)

	Consolidated	
	2011 ⁽³⁾ %	2010 %
(v) Categories of plan assets		
The major categories of plan assets as a percentage of the fair value of total plan assets is as follows:		
Public Market Equities	5	3
Public Market Debt	10	6
Cash	20	20
Private Market Real Estate	28	29
Private Market Equities and Debt	37	42

The expected rate of return on assets is determined based on the valuation of assets prevailing on that date, applicable to the period over which the obligation is to be settled. There are no in-house assets included in the fair value of the APSS assets, however there may be an immaterial amount of indirect investments in shopping centres where the corporation has leased certain areas for retail outlets.

(3) Within the Private Market Real Estate and Private Market Equities and Debt category included in the 2011 year above, approximately 1% of the assets were valued at or prior to 31 December 2010, 82% were valued between 31 March and 31 May 2011, 17% were valued at 30 June 2011 and 0% were valued at cost. All Public Market Equities and Debt were valued at 30 June 2011.

	Consolidated	
	2011 \$m	2010 \$m
(vi) Actual return on plan assets		
Actual return on plan assets	429.9	248.2
(vii) Cumulative actuarial (gains) and losses		
Actuarial (gains)/loss recognised in the year in the statement of comprehensive income	(97.6)	247.8
Contributions tax	(17.2)	43.7
	(114.8)	291.5
Cumulative actuarial losses recognised in the statement of comprehensive income	582.4	697.2

	Consolidated				
	2011 \$m	2010 \$m	2009 \$m	2008 \$m	2007 \$m
(viii) Experience adjustments					
Experience adjustments on plan liabilities	(21.5)	58.9	377.6	(68.7)	(308.8)
Experience adjustments on plan assets	5.2	(216.8)	(1,343.3)	(118.0)	547.1

(ix) Actuarial assumptions

The principal actuarial assumptions used in determining superannuation obligations for the group's plan are shown below (expressed as weighted averages):

	Consolidated	
	2011 %	2010 %
Discount rate	5.2	5.1
Expected after tax rate of return on assets	8.3	8.3
Future salary increases (for 3 years to 30 June 2014)	3.5	5.0
Future salary increases (the period thereafter)	5.0	5.0

(x) Superannuation Act 1976

The superannuation asset or liability under the *Superannuation Act 1976* is recognised in the financial statements of the Commonwealth and is settled by the Commonwealth in due course. The Commonwealth takes full responsibility for the Commonwealth Superannuation Scheme (CSS) liabilities for any Australia Post employees (past and present) remaining in the CSS.

Disclosures regarding the CSS Scheme are located in the Department of Finance and Deregulation (Finance) Annual Financial Report.

Consolidated

	Land \$m	Buildings \$m	Total land & buildings \$m	Plant & equipment \$m	Total \$m
13 Analysis of property, plant and equipment					
Reconciliation of the opening and closing balances of property, plant and equipment					
Gross book value	217.8	1,061.5	1,279.3	1,367.4	2,646.7
Accumulated depreciation	–	(463.8)	(463.8)	(826.4)	(1,290.2)
Net book value at 30 June 2009	217.8	597.7	815.5	541.0	1,356.5
Additions	2.6	33.0	35.6	80.3	115.9
Depreciation	–	(52.3)	(52.3)	(101.2)	(153.5)
Disposals	(1.6)	(0.8)	(2.4)	(8.3)	(10.7)
Impairment loss	–	–	–	(2.2)	(2.2)
Transfers to investment properties	(0.1)	(0.9)	(1.0)	–	(1.0)
Gross book value	218.7	1,069.2	1,287.9	1,338.5	2,626.4
Accumulated depreciation	–	(492.5)	(492.5)	(828.9)	(1,321.4)
Net book value at 30 June 2010⁽¹⁾	218.7	576.7	795.4	509.6	1,305.0
Additions	1.1	26.2	27.3	83.0	110.3
Acquisition of subsidiary	–	–	–	1.7	1.7
Depreciation	–	(50.9)	(50.9)	(91.7)	(142.6)
Disposals	(0.8)	(5.2)	(6.0)	(14.3)	(20.3)
Impairment loss	(14.9)	(8.5)	(23.4)	(13.1)	(36.5)
Disposal of subsidiary	–	–	–	(0.4)	(0.4)
Gross book value	204.1	1,070.1	1,274.2	1,346.4	2,620.6
Accumulated depreciation	–	(531.8)	(531.8)	(871.7)	(1,403.5)
Net book value at 30 June 2011⁽¹⁾	204.1	538.3	742.4	474.7	1,217.1

(1) Were the entity to apply the fair value methodology, the net book value of land and buildings would be \$1,422.4 million (2010: \$1,430.2 million).

Reconciliation of the opening and closing balances of plant and equipment assets held under finance lease included in the net book value of assets

As at 30 June 2009	–	–	–	50.1	50.1
Depreciation	–	–	–	(9.2)	(9.2)
As at 30 June 2010	–	–	–	40.9	40.9
Depreciation	–	–	–	(4.3)	(4.3)
As at 30 June 2011	–	–	–	36.6	36.6

Notes to and forming part of the financial report

for the year ended 30 June 2011

	Consolidated			
	Computer software \$m	Goodwill \$m	Other intangibles \$m	Total intangibles \$m
14 Analysis of intangibles				
Reconciliation of the opening and closing balances of intangibles				
Gross book value	716.1	30.4	16.3	762.8
Accumulated amortisation	(524.5)	–	(14.5)	(539.0)
Net book value as at 30 June 2009	191.6	30.4	1.8	223.8
Additions by purchase	113.2	–	1.8	115.0
Amortisation expense	(57.6)	–	(2.4)	(60.0)
Impairment loss	(24.6)	(19.1)	–	(43.7)
Disposals	(0.3)	–	–	(0.3)
Gross book value	804.4	11.3	18.1	833.8
Accumulated amortisation	(582.1)	–	(16.9)	(599.0)
Net book value as at 30 June 2010	222.3	11.3	1.2	234.8
Additions by purchase	109.2	–	2.0	111.2
Acquisition of subsidiary	0.9	32.2	10.8	43.9
Amortisation expense	(54.2)	–	(1.6)	(55.8)
Impairment loss	(13.6)	(0.3)	–	(13.9)
Disposals	(0.3)	–	–	(0.3)
Disposal of subsidiary	(0.2)	–	(2.5)	(2.7)
Gross book value	886.7	43.2	28.4	958.3
Accumulated amortisation	(622.6)	–	(18.5)	(641.1)
Net book value as at 30 June 2011	264.1	43.2	9.9	317.2

Goodwill is not amortised but is subject to annual impairment testing (refer note 16).

	Consolidated	
	2011 \$m	2010 \$m
15 Investment property		
Opening balance as at 1 July	224.9	219.5
Additions	0.7	1.7
Net transfer to investment property	–	3.7
Disposals	(48.4)	–
Net gain from fair value adjustments	6.1	–
Closing balance as at 30 June	183.3	224.9

Investment properties are stated at fair value, which has been determined based on valuations performed by Savills Pty Ltd for all property as at 30 June 2011 and 30 June 2010. Savills is an industry specialist in valuing these types of investment property. The fair value considers the capitalised rental streams where the property is leased to a third party and the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation, in accordance with Australian Valuation Standards.

In determining fair value, the expected net cashflows applicable to each property have been discounted to their present value using a market determined, risk-adjusted, discount rate applicable to the respective asset.

	Consolidated	
	2011 \$m	2010 \$m
16 Impairment testing of goodwill		
Goodwill acquired through business combinations has been allocated to individual cash-generating units as follows:		
Messenger Post	9.9	9.9
SecurePay	32.2	–
Other	1.1	1.4
	43.2	11.3

The recoverable amount of all cash-generating units (CGUs) has been determined based on a value in use calculation using cashflow forecasts extracted from three year corporate plans approved by senior management and the board. The forecasts are extrapolated for a further two years and a terminal value applied. These forecasts use management estimates to determine income, expenses, capital expenditure and cashflows for each CGU. Revenue growth rates applied by all CGUs to the two year period outside the corporate plan is 3.5% (2010: 4.0%). After this period a 2.5% (2010: 1.5% to 2.5%) revenue growth rate is applied. A pre-tax discount rate applicable to the specific CGU has been applied. This rate is 12.5% (2010: between 11.8% and 12.5%).

Management believes that any reasonably possible change in the key assumptions would not cause the carrying amount of any cash-generating units containing goodwill, to exceed their recoverable amount.

	Consolidated	
	2011 \$m	2010 \$m
17 Other non-current assets		
Interest rate swap contracts	–	5.5
Prepayments	5.6	5.2
Total other non-current assets	5.6	10.7

	Consolidated	
	2011 \$m	2010 \$m
18 Current liabilities – trade and other payables		
Trade creditors ⁽¹⁾	224.3	244.4
Other:		
Agency creditors ⁽¹⁾	162.9	145.1
Salaries and wages	61.9	53.9
Borrowing costs ⁽²⁾	8.6	8.1
Unearned postage revenue	62.5	68.0
Other advance receipts	101.4	91.5
Deferred government grant income	3.1	4.9
Payables to jointly controlled entities (refer note 29)	5.0	8.7
Goods and services tax payable	19.7	20.7
Financial guarantees ⁽³⁾	0.0	0.0
Forward exchange contracts	0.3	–
Other payables	76.6	81.4
	502.0	482.3
Total current payables	726.3	726.7

(1) Trade creditors and agency creditors are non-interest bearing and normally settled on 30-day and next business day terms respectively. Included within trade creditors are international creditors which are settled in accordance with Universal Postal Union (UPU) arrangements, which may be longer than 30 days.

(2) Borrowing costs are normally settled on a half-yearly basis throughout the year.

(3) As described in note 1(gg), the group has provided financial guarantees to third parties, which commit the group to make payments on behalf of these parties upon their failure to perform under the terms of the relevant contracts. The account estimates and/or assumptions used in determining the fair value of the guarantees has been disclosed in note 1(gg). The maximum credit risk associated with these contracts is \$52.0 million (2010: \$64.3 million) and is included within the disclosures of note 30(i).

Notes to and forming part of the financial report

for the year ended 30 June 2011

	Consolidated	
	2011 \$m	2010 \$m
19 Interest-bearing liabilities		
Current		
Fixed-rate unsecured bonds payable – within one year	232.5	–
Oil commodity swaps – within one year	–	0.5
Finance lease and hire purchase liabilities payable – within one year	–	0.1
Total current interest-bearing liabilities	232.5	0.6
Non-current		
Fixed-rate unsecured bonds payable – in one to five years	314.6	547.0
Interest rate swaps – in one to five years	9.0	11.4
Total non-current interest-bearing liabilities	323.6	558.4

\$555 million bonds

These bonds are unsecured and repayable in full, with \$230 million maturing on 23 March 2012 and the remaining \$325 million due on 25 March 2014.

	Consolidated	
	2011 \$m	2010 \$m
20 Provisions		
Current provisions		
Annual leave	168.6	174.8
Long service leave	314.9	338.8
Workers' compensation	24.3	23.7
Separations and redundancies ⁽¹⁾	65.4	141.9
Other employee	46.3	32.6
Restructuring ⁽²⁾	16.9	–
Balance at 30 June	636.4	711.8
Non-current provisions		
Long service leave	39.9	38.0
Workers' compensation	79.0	83.0
Property make good ⁽³⁾	45.9	46.6
Balance at 30 June	164.8	167.6
Total provisions	801.2	879.4

(1) The provision recognised comprises the expected severance payments, employee entitlements (including notice period), outplacement costs and payroll tax based on the location of the employee, staff level affected by the restructuring and their anticipated years of service. In estimating the expected severance payments, historical severance payments have also been considered.

(2) Provision is made for the restructuring of non-core operations and primarily consists of redundancies and surplus lease costs.

(3) Provision is made for the estimated cost to make good operating leases entered into by the group. The estimated cost is based on management's best estimate of the cost to restore a square metre of floor space and is dependant on the nature of the building being leased. The expected timing of the make good cost is based on the expiry of each underlying individual lease agreement.

	Consolidated	
	2011 \$m	2010 \$m
20 Provisions (continued)		
Movements in provisions		
Movements in the property make good and restructuring provisions during the year, are set out below:		
Property make good provision		
Balance at 1 July	46.6	45.4
Reassessments and additions	2.5	3.4
Unused amount reversed	(1.4)	(1.9)
Payments made	(2.5)	(1.4)
Unwinding and discount rate adjustment	0.7	1.1
Balance at 30 June	45.9	46.6
Restructuring provision		
Balance at 1 July	–	–
Additions	42.0	–
Amounts utilised/transferred ⁽¹⁾	(21.6)	–
Payments made	(3.5)	–
Balance at 30 June	16.9	–

(1) These relate to \$8.5 million of property impairment and \$13.1 million of fixed asset write downs which are included in note 13.

	Consolidated	
	2011 \$m	2010 \$m
21 Other non-current liabilities		
Other payables	23.1	19.9
Total other non-current liabilities	23.1	19.9

	Consolidated	
	2011 \$m	2010 \$m
22 Movements in retained profits		
Balance at 1 July	1,153.2	1,441.3
Net profit	240.8	89.8
Dividends paid	(78.5)	(171.9)
Net actuarial gain/(loss) on superannuation asset	80.4	(204.0)
Other movements in retained profits	1.2	(2.0)
Balance at 30 June	1,397.1	1,153.2

Notes to and forming part of the financial report

for the year ended 30 June 2011

	Consolidated			
	Asset revaluation reserve ⁽¹⁾ \$m	Foreign currency translation reserve ⁽²⁾ \$m	Hedging reserve ⁽³⁾ \$m	Total reserves \$m
23 Analysis of reserves				
Balance at 1 July 2009	4.8	0.2	(1.2)	3.8
Translation differences on group operations	–	(0.7)	–	(0.7)
Movement in jointly controlled entities' reserves	–	(0.1)	0.7	0.6
Revaluation – land and buildings	2.7	–	–	2.7
Deferred tax	(0.8)	–	–	(0.8)
Revaluation of fuel cashflow hedge – gross	–	–	(0.3)	(0.3)
Deferred tax	–	–	0.1	0.1
Revaluation of foreign exchange cashflow hedge – gross	–	–	1.2	1.2
Deferred tax	–	–	(0.4)	(0.4)
Balance at 30 June 2010	6.7	(0.6)	0.1	6.2
Translation differences on group operations	–	0.7	–	0.7
Disposal of group operations	–	(0.1)	–	(0.1)
Movement in jointly controlled entities' reserves	–	(0.1)	(0.3)	(0.4)
Revaluation of fuel cashflow hedge – gross	–	–	1.0	1.0
Deferred tax	–	–	(0.3)	(0.3)
Revaluation of foreign exchange cashflow hedge – gross	–	–	(0.5)	(0.5)
Deferred tax	–	–	0.2	0.2
Balance at 30 June 2011	6.7	(0.1)	0.2	6.8

(1) The asset revaluation reserve relates to the revaluation of land and buildings prior to its reclassification as investment property.

(2) The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(3) This hedging reserve records the portion of the gain or loss on a hedging instrument in a cashflow hedge that is determined to be an effective hedge.

	2011 \$m	2010 \$m
24 Information relating to Australian Postal Corporation ("the parent entity")		
Current assets	1,298.8	1,100.3
Total assets	4,069.4	3,848.4
Current liabilities	1,574.7	1,406.0
Total liabilities	2,308.9	2,321.0
Issued capital	400.0	400.0
Retained earnings	1,353.4	1,120.7
Asset revaluation reserve	6.7	6.7
Hedging reserve	0.5	–
Net equity	1,760.6	1,527.4
Net profit of the parent entity	230.9	81.6
Total comprehensive income of the parent entity	311.8	(119.9)

The parent has contingent liabilities which relate to legal liability claims that have been lodged against the corporation, including motor vehicle accident and personal injury claims in the amount of \$2.7 million (2010: \$2.3 million).

The parent has contractual obligations which relate to sub-lease rent receivables and operating lease receivables in the amount of \$210.0 million (2010: \$131.5 million). Capital commitments of the parent entity in relation to land and buildings and plant and equipment amount to \$78.4 million (2010: \$85.2 million). The parent has operating lease commitments of \$617.5 million (2010: \$552.1 million) and other commitments relating to carriage and delivery of letters and parcels by contractors of \$1,578.6 million (2010: \$1,522.0 million).

	Consolidated	
	2011 \$m	2010 \$m
25 Dividends paid		
Final ordinary dividend (from prior year results)	–	92.8
Interim ordinary dividend	78.5	79.1
Total dividends paid	78.5	171.9
Dividend not recognised as a liability	94.7	–

	Consolidated	
	2011 \$	2010 \$
26 Auditor's remuneration ⁽¹⁾		
Amounts received or due and receivable by the corporation's auditors for:		
An audit or review of the financial report of the entity and any other entity in the consolidated entity	1,468,800	1,467,900
Other services in relation to the entity and any other entity in the consolidated entity		
– assurance related	174,200	165,700
– special audits required by regulators ⁽²⁾	95,000	100,000
– other non-audit related ⁽²⁾	726,000	–
Total auditor's remuneration	2,464,000	1,733,600

(1) The corporation's auditor is the Australian National Audit Office who has retained Ernst & Young (Australia) to assist with the assignment.

(2) These services are performed by Ernst & Young (Australia) directly and include due diligence, governance, compliance and research services.

27 Operating segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision-makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the product is sold and the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the products sold and/or the services provided, as these are the sources of the group's major risks and have the most effect on the rates of return.

The following represent the segments the group operates in:

Letters

The collection, processing and distribution of letters and associated services.

Parcels

The processing and distribution of parcels, and the provision of associated logistical services.

Retail, agency and merchandise services

Provision of postal products and services, agency services and other retail merchandise, principally stationery, telephony, greeting cards, gifts and souvenirs.

Unallocated

It is the corporation's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

The following are not allocated to operating segments as they are not considered part of the core operations of any segments:

- Revenues include miscellaneous revenue, rent received, revaluation of investment properties, licence fees received and net gains on disposal of available-for-sale investments;
- Expenses represent costs that are attributable to unallocated revenues;
- Assets include investment properties, assets under construction and cash investments;
- Liabilities include interest-bearing liabilities and deferred tax.

Notes to and forming part of the financial report

for the year ended 30 June 2011

27 Operating segments (continued)

Operating segments

The following tables present revenue and profit information and certain asset and liability information regarding operating segments for the years ended 30 June 2011 and 30 June 2010.

	Letters \$m	Parcels \$m	Retail, agency and merchandise services \$m	Unallocated \$m	Total \$m
2011					
Revenue					
Revenue and other income – Reserved Letter Services	1,887.5	–	–	–	1,887.5
Revenue and other income – Non-Reserved Services	840.6	1,434.0	708.5	84.0	3,067.1
Total segment revenue	2,728.1	1,434.0	708.5	84.0	4,954.6
Interest revenue					31.8
Consolidated revenue					4,986.4
Result					
Segment result – Reserved Letter Services	(91.3)	–	–	–	(91.3)
Segment result – Non-Reserved Services	116.8	212.1	80.1	(3.7)	405.3
Share of net profits of equity accounted jointly controlled entities	–	20.2	–	–	20.2
Profit before interest and income tax expense	25.5	232.3	80.1	(3.7)	334.2
Income tax expense					(91.1)
Net interest					(1.9)
Net profit for period					241.2
Assets					
Segment assets	1,208.7	834.3	422.0	1,090.6	3,555.6
Superannuation asset	–	–	–	287.4	287.4
Investments in jointly controlled entities	–	292.1	–	–	292.1
Total assets	1,208.7	1,126.4	422.0	1,378.0	4,135.1
Liabilities					
Segment liabilities	892.3	363.3	271.2	804.4	2,331.2
Other segment information					
Capital expenditure	122.2	66.7	31.1	2.2	222.2
Depreciation and amortisation expense	131.8	50.0	14.1	2.5	198.4
Other non-cash expenses	131.8	50.0	14.1	2.5	198.4

27 Operating segments (continued)

	Letters \$m	Parcels \$m	Retail, agency and merchandise services \$m	Unallocated \$m	Total \$m
2010					
Revenue					
Revenue and other income – Reserved Letter Services	1,829.3	–	–	–	1,829.3
Revenue and other income – Non-Reserved Services	828.8	1,361.7	712.0	98.7	3,001.2
Total segment revenue	2,658.1	1,361.7	712.0	98.7	4,830.5
Interest revenue					25.7
Consolidated revenue					4,856.2
Result					
Segment result – Reserved Letter Services	(250.1)	–	–	–	(250.1)
Segment result – Non-Reserved Services	74.0	156.4	78.9	32.2	341.5
Share of net profits of equity accounted jointly controlled entities	–	14.4	–	–	14.4
Profit before interest and income tax expense	(176.1)	170.8	78.9	32.2	105.8
Income tax expense					(13.5)
Net interest					(2.8)
Net profit for period					89.5
Assets					
Segment assets	1,231.2	745.6	395.2	1,075.0	3,447.0
Superannuation asset	–	–	–	172.6	172.6
Investments in jointly controlled entities	–	295.3	–	0.3	295.6
Total assets	1,231.2	1,040.9	395.2	1,247.9	3,915.2
Liabilities					
Segment liabilities	948.0	360.2	260.9	787.0	2,356.1
Other segment information					
Capital expenditure	130.8	53.0	43.1	5.7	232.6
Depreciation and amortisation expense	133.4	56.1	21.0	3.0	213.5
Impairment loss on goodwill	9.1	10.0	–	–	19.1
Other non-cash expenses	142.5	66.1	21.0	3.0	232.6

Notes to and forming part of the financial report

for the year ended 30 June 2011

27 Operating segments (continued)

Geographical segments

The group primarily operates in Australia with no significant portion of assets or operations located outside of Australia.

Accounting policies

The accounting policies used by the group in reporting the segments internally are the same as those contained in note 1(g) to the accounts.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment, computer software and goodwill, net of related provisions. Segment liabilities consist primarily of trade and other creditors, employee entitlements and advance receipts.

Corporate charges comprise of support costs that are allocated to each business segment using an activity based costing methodology.

Inter-segment sales and transfers

Segment revenue, expenses and results include sales and transfers between segments. Such transactions generally are priced on an arm's-length basis and are eliminated on consolidation.

Use of fair value accounting

As outlined in note 1(s) to these accounts, the group uses cost as the basis for valuing land and buildings for its statutory accounts. Were fair values applied to land and buildings, the total segment assets would be as follows:

	Consolidated	
	2011 \$m	2010 \$m
Letters	1,604.8	1,592.8
Parcels	1,226.2	1,140.4
Retail, agency and merchandise services	505.0	472.4
Unallocated	1,479.1	1,344.4
Total	4,815.1	4,550.0

28 Key management personnel remuneration and retirement benefits

(a) Details of key management personnel

(i) Directors

David Mortimer	Chairman (non-executive)
Ahmed Fahour	Managing Director and Chief Executive Officer
Penelope Bingham-Hall	Appointed as director (non-executive) 12 May 2011
Peter Carne	Director (non-executive)
Mark Darras	Deputy Chairman (non-executive)
Margaret Gibson	Retired as director (non-executive) 1 September 2010
William Mansfield	Director (non-executive) – deceased 3 February 2011
Jennifer Seabrook	Appointed as director (non-executive) 8 July 2010 and retired 20 June 2011
Ian Warner	Director (non-executive)
The Hon Trish White	Appointed as director (non-executive) 8 July 2010

(ii) Executives

Chris Blake	Appointed Executive General Manager People and Community 5 July 2010
Christine Corbett	Appointed Executive General Manager Retail Services 1 July 2010
James Marshall	Executive General Manager Postal and Distribution & Express Services
Peter Meehan	Resigned as Chief Finance Officer 8 October 2010
Terry Sinclair	Resigned as Executive General Manager Distribution & Express Services 28 January 2011
Ewen Stafford	Appointed Executive General Manager Corporate Services 23 August 2010 and Executive General Manager Finance and Corporate Services 9 October 2010
Richard Umbers	Appointed Executive General Manager eServices and Strategy & Marketing 5 October 2010

(b) Compensation policies for key management personnel

The performance of the group depends upon the quality of its directors and executives. To achieve its financial and operational objectives, the group must attract, motivate and retain highly skilled directors and executives. In accordance with best practice corporate governance, the structure of non-executive director and executive compensation is separate and distinct.

Director compensation

The compensation of the corporation's non-executive directors is determined independently by the Commonwealth Remuneration Tribunal. Refer to the executive compensation section below for details of the managing director and chief executive officer's compensation arrangements.

Remuneration levels for Australia Post's non-executive directors for 2010–11 were as follows (rates were effective 1 August 2010):

	\$
Chairman	164,550
Deputy Chairman	91,800
Directors	82,280
Audit Committee Chairman	19,020
Audit Committee Member	9,515

In addition the board has a Human Resources subcommittee and a Superannuation subcommittee for which fees will now be paid. Annual amounts for committee members are expected to be \$12,000 and for the Chairman \$18,000. Amounts shown in the disclosures above reflect these subcommittee entitlements from 1 January 2011. Total amounts received or receivable in 2010–11 by each non-executive director are provided in part (e) of this note.

Notes to and forming part of the financial report

for the year ended 30 June 2011

28 Key management personnel remuneration and retirement benefits (continued)

(b) Compensation policies for key management personnel (continued)

Executive compensation

Executive officers are those who are concerned with, or take part in, the management of entities in the consolidated group (excluding the managing director and chief executive officer). Compensation arrangements for senior executives are reviewed and determined by the managing director and chief executive officer, within parameters set by the Human Resources Committee. Advice is sought from independent specialised compensation consultants to ensure that payments to executives are in line with market practice and are competitively placed to attract and retain necessary talent for the work required by these roles.

The board is responsible for the remuneration arrangements for the managing director and chief executive officer and senior executives. In doing so it has adopted a set of principles approved by the Remuneration Tribunal designed to link the level of remuneration with the financial and operational performance of the corporation.

On a periodic basis advice is sought from independent specialised remuneration consultants on the structure of remuneration packages and the quantum of increases that apply in other comparable Australian corporations. On the basis of this advice, the managing director and chief executive officer ensures that payments to other senior executives are in line with market practice and are competitively placed to attract and retain the necessary talent for the work required by these roles. Incentive rewards for the managing director and chief executive officer and other senior executives for meeting or exceeding specific key annual business objectives are linked to the annual business plan at a corporate and individual level.

Measures and targeted achievement levels are reviewed each year to reflect changes in the business priorities for the forthcoming year. The measures include financial, customer satisfaction, employee engagement and other individual measures that support the key business objectives. Before a reward is payable, a threshold must be reached, according to predefined measures. Both the managing director and chief executive officer and other senior executives are employed under individual contracts of employment that are not limited to a specific duration. Continuation of employment is subject to ongoing satisfactory performance.

Where Australia Post terminates the managing director and chief executive officer's or other senior executive's employment for reasons other than performance or misconduct, they are entitled to: in the case of the managing director and chief executive officer, 12 months' notice or payment in lieu of notice and a termination payment which, including any payment in lieu of notice, cannot exceed 12 months' fixed annual remuneration; and for other senior executives, generally 90 days' notice or payment in lieu of notice and a termination payment based on years of employment but not exceeding 52 weeks fixed annual remuneration, including the payment in lieu of notice.

(c) Other transaction and balances with key management personnel

There were no significant transactions between the corporation and key management personnel. Any transactions were of a trivial nature.

	Consolidated	
	2011	2010
	\$	\$
(d) Compensation of key management personnel by category		
Short-term benefits	9,896,431	8,308,193
Post-employment benefits	758,419	1,567,138
Other long-term benefits	691,966	143,448
Termination benefits	978,982	–
Total compensation	12,325,798	10,018,779
Less: Executives retiring in 2010–11	(1,638,861)	–
Adjusted total compensation	10,686,937	10,018,779

28 Key management personnel remuneration and retirement benefits (continued)

(e) Compensation of key management personnel

The remuneration received or due and receivable directly or indirectly by the corporation's directors and executives is as follows:

Year ended 30 June 2011 (\$)	Short-term benefits				Post employment benefits		Other long-term benefits		Termination/retirement benefits	Total
	Cash salary ⁽¹⁾	Committee fees ⁽²⁾	Annual leave ⁽³⁾	At risk component ⁽⁴⁾	Non-monetary benefits ⁽⁵⁾	Super-annuation benefits ⁽⁶⁾	Long service leave ⁽³⁾	At risk component ⁽⁷⁾	Termination/retirement	
Directors										
David Mortimer	164,012	18,484	–	–	5,799	26,097	–	–	–	214,392
Ahmed Fahour ⁽⁸⁾	1,390,508	–	118,192	874,200	35,406	192,622	36,416	242,833	–	2,890,177
Penelope Bingham-Hall ⁽⁹⁾	11,271	–	–	–	–	1,014	–	–	–	12,285
Peter Carne	82,012	18,871	–	–	–	14,426	–	–	–	115,309
Mark Darras	91,500	15,000	–	–	–	15,230	–	–	–	121,730
Margaret Gibson ⁽¹⁰⁾	13,933	3,221	–	–	–	2,453	–	–	–	19,607
William Mansfield ⁽¹¹⁾	48,423	1,118	–	–	–	7,084	–	–	–	56,625
Jennifer Seabrook ⁽⁹⁾⁽¹²⁾	78,691	3,702	–	–	–	7,415	–	–	–	89,808
Ian Warner	82,012	9,484	–	–	–	13,084	–	–	–	104,580
Patricia White ⁽⁹⁾	80,494	3,255	–	–	–	11,976	–	–	–	95,725
	2,042,856	73,135	118,192	874,200	41,205	291,401	36,416	242,833	–	3,720,238
Executives										
Chris Blake ⁽⁹⁾	605,712	–	10,443	533,750	9,273	86,617	11,680	21,875	–	1,279,350
Christine Corbett	486,320	–	18,097	419,375	129,790	63,681	63,482	17,187	–	1,197,932
James Marshall	792,531	–	98,279	711,000	9,375	107,469	128,583	40,500	–	1,887,737
Peter Meehan ⁽¹³⁾	139,681	–	9,849	–	12,626	18,368	4,335	–	426,121	610,980
Terry Sinclair ⁽¹⁴⁾	356,479	–	5,105	–	24,961	47,571	40,904	–	552,861	1,027,881
Ewen Stafford ⁽⁹⁾	550,833	–	10,422	510,938	8,014	78,769	11,654	36,718	–	1,207,348
Richard Umbers ⁽⁹⁾	551,347	–	24,901	460,833	256,909	64,543	9,549	26,250	–	1,394,332
	3,482,903	–	177,096	2,635,896	450,948	467,018	270,187	142,530	978,982	8,605,560
Total key management personnel										
	5,525,759	73,135	295,288	3,510,096	492,153	758,419	306,603	385,363	978,982	12,325,798

(1) Included in cash salary are allowances paid in cash.

(2) Consists of fees paid to directors who were members of additional committees.

(3) Represents movements in executives' annual leave and long service leave entitlements.

(4) Represents a cash incentive reward that is payable subject to the employee meeting or exceeding specific key annual business objectives linked to the annual business plan at a corporate and individual level.

(5) Non-monetary benefits include relocation, car parking, spouse travel and other expenses paid on behalf of the directors and executives. Amount also includes fringe benefits tax paid by the corporation on these benefits.

(6) The above amount for superannuation approximates the benefit to be received by the directors and executives (calculated at 14.3% of the directors' and executives' salary for superannuation purposes) and cannot decrease from previous years. If a director is not a member of APSS, this benefit is calculated at 9%.

(7) The at risk component of other long-term benefits relates to deferred bonus payments which are recognised for reporting purposes proportionally over the deferral period and paid at the end of the relevant period. In the case of the managing director, the total deferred amount represents 40% of his eligible bonus.

(8) The Fixed Annual Remuneration of the managing director increased from \$1,575,000 to \$1,900,000, effective 22 June 2011.

(9) Remuneration disclosed from date of commencement in the role.

(10) Retired as director 1 September 2010.

(11) Deceased 3 February 2011.

(12) Retired as director 20 June 2011.

(13) While Peter Meehan ceased to be Chief Finance Officer on 8 October 2010, he continued to be employed by the corporation until 6 January 2011. The total remuneration disclosed includes salary up to the date he ceased to be Chief Finance Officer.

(14) Compensation reflects the period of the year during which the executive occupied a key management position.

Notes to and forming part of the financial report

for the year ended 30 June 2011

28 Key management personnel remuneration and retirement benefits (continued)

(e) Compensation of key management personnel (continued)

Year ended 30 June 2010 (\$)	Short-term benefits					Post employment benefits	Other long-term benefits	Termination benefits	Total
	Cash salary ⁽¹⁾	Committee fees ⁽²⁾	Annual leave ⁽³⁾	At risk component ⁽⁴⁾	Non- monetary benefits ⁽⁵⁾	Super- annuation benefits ⁽⁶⁾	Long service leave ⁽³⁾	Termination	
Directors									
David Mortimer	158,210	9,150	–	–	9,224	23,932	–	–	200,516
Mark Birrell	58,766	–	–	–	–	8,404	–	–	67,170
Ahmed Fahour ⁽⁷⁾	568,562	–	42,182	656,250	7,425	172,592	17,238	–	1,464,249
Graeme John ⁽⁸⁾	1,366,998	–	(390,949)	420,000	37,790	600,762	59,942	–	2,094,543
Margaret Gibson	79,120	18,290	–	–	–	13,930	–	–	111,340
Ian Warner	79,120	9,150	–	–	4,555	12,623	–	–	105,448
Mark Darras	79,496	–	–	–	–	11,368	–	–	90,864
William Mansfield	79,120	–	–	–	–	11,314	–	–	90,434
Peter Carne ⁽⁹⁾	43,137	–	–	–	–	6,169	–	–	49,306
	2,512,529	36,590	(348,767)	1,076,250	58,994	861,094	77,180	–	4,273,870
Executives									
Mark Howard ⁽¹⁰⁾	512,759	–	5,427	165,337	11,781	126,723	16,824	–	838,851
James Marshall	633,800	–	(43,138)	616,400	7,833	172,916	9,308	–	1,397,119
Rodney McDonald	391,300	–	9,670	179,400	15,276	79,304	8,990	–	683,940
Peter Meehan	509,834	–	(8,894)	215,664	23,202	103,694	9,065	–	852,565
Bill Mitchell	529,800	–	(20,583)	371,488	99,287	123,021	7,032	–	1,110,045
Terry Sinclair	509,000	–	(23,252)	234,000	27,206	100,386	15,049	–	862,389
	3,086,493	–	(80,770)	1,782,289	184,585	706,044	66,268	–	5,744,909
Total key management personnel	5,599,022	36,590	(429,537)	2,858,539	243,579	1,567,138	143,448	–	10,018,779

(1) Included in cash salary are movements in the executives' annual leave entitlement and allowances paid in cash.

(2) Consists of additional fees paid to directors who are also members of the audit committee.

(3) Represents movements in executives' annual leave and long service leave entitlements.

(4) Represents a cash incentive reward that is payable subject to the employee meeting or exceeding specific key annual business objectives linked to the annual business plan at a corporate and individual level.

(5) Non-monetary benefits include relocation, car parking, spouse travel, motor vehicles and other expenses paid on behalf of the directors and executives. Amount also includes fringe benefits tax paid by the corporation on these benefits.

(6) The above amount for superannuation approximates the benefit to be received by the directors and executives (calculated at 14.3% of the directors' and executives' salary for superannuation purposes) and cannot decrease from previous years.

(7) Commenced the role of Managing Director and Chief Executive Officer on 1 February 2010.

(8) While Graeme John ceased to be the Managing Director on 31 January 2010, he continued to be employed by the corporation, utilising accrued leave benefits. The total remuneration disclosed relates to the benefits received or receivable to the planned exit date.

(9) Commenced the role of a director on 14 December 2009.

(10) While Mark Howard ceased to be the General Manager, Corporate Infrastructure Services Division, on 30 April 2010, he continued to be employed by the corporation, utilising accrued leave benefits. The total remuneration disclosed relates to the benefits received or receivable to the planned exit date.

29 Related parties

The consolidated financial statements consist of Australian Postal Corporation and the subsidiaries listed in note 10.

Remuneration and retirement benefits

Information on remuneration of directors and amounts paid in connection with the retirement of directors is disclosed in note 28.

The following table provides the total amount of transactions that were entered into with jointly controlled entities for the relevant financial year (for information regarding outstanding balances at year-end, refer to notes 6, 9 and 18).

	Consolidated	
	2011 \$m	2010 \$m
Other transactions with jointly controlled entities		
Payments for collection and delivery services	66.1	58.3
Payments for management and administrative services	36.1	49.0
Payments for accommodation	2.1	1.9
Revenue from collection and delivery services	18.1	17.4
Revenue from administrative services	12.4	9.4
Interest received	10.3	10.3
Aggregate amounts receivable from and payable to jointly controlled entities at balance date were as follows:		
Current receivables	1.4	1.4
Current payables	5.0	8.7
Loans receivable ⁽¹⁾	130.5	130.7

(1) Refer Note 30(i) for details of credit risk on loans to jointly controlled entities.

Australia Post performs administrative services on behalf of its superannuation fund, APSS. These services are provided on normal commercial terms. Payment received by Australia Post for these services for year ended 30 June 2011 is \$15.5 million (2010: \$16.5 million).

Transactions entered into directly by directors or director-related entities with the Australian Postal Corporation have been either domestic or trivial in nature.

For the year ended 30 June 2011, the group has expensed \$29.3 million with respect to amounts owed by related parties (2010: \$14.5 million).

An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the group recognises an allowance for the impairment loss.

Transactions with directors

A number of directors of the Australian Postal Corporation are also directors of or have interests in other entities which have transacted with the Australian Postal Corporation Group. One of these entities, Gresham Partners Limited is considered to be a director-related entity of Jennifer Seabrook. Gresham Partners Limited was entitled to fees of \$0.2 million for services performed to 30 June 2011. These transactions have occurred on terms and conditions no more favourable than those which it is reasonable to expect the group would have adopted if dealing with any third party on normal commercial terms.

Ultimate controlling entity

The Commonwealth is the ultimate parent and controlling entity of the Australian Postal Corporation Group. The Australian Postal Corporation is the parent entity in the group comprising Australia Post and its controlled entities.

Notes to and forming part of the financial report

for the year ended 30 June 2011

30 Financial and capital risk management

(a) Financial risk management objectives

The corporation's risk management policy is to identify, assess, and manage risks, which are likely to adversely impact on the financial performance, continued growth and its survival. In terms of financial and commodity risk management, the corporation will take a risk averse approach to financial risk management in that it will seek to minimise risk, provided it is cost effective to do so.

The group's principal financial instruments, other than derivatives, comprise of bonds, finance leases and hire purchase contracts, cash and short-term deposits. The main purpose of these financial instruments is to provide finance for the group's operations. The group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The group also enters into derivative transactions, including interest rate swaps, forward currency contracts and commodity swap contracts. The purpose is to manage the interest rate, currency and commodity risks arising from the group's operations and its sources of finance. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the group's financial instruments are interest rate risk, liquidity risk, commodity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial report.

(b) Capital risk management

The group's objectives when managing capital are to safeguard the ability to continue as a going concern while maximising the return to the Commonwealth Government. The group recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with some leverage. A further consideration when managing capital is maintenance of an investment grade rating. The group holds a AA+ rating (2010: AA+) from the independent ratings agency Standard & Poor's.

The capital structure of the group consists of debt, which includes the bonds payable disclosed in note 19, cash and cash equivalents disclosed in note 32(a) and equity attributable to equity holders of the corporation, comprising contributed equity, reserves and retained profits disclosed in notes 22 and 23.

The capital structure is reviewed annually as part of the corporate plan, which includes analysis of the return on equity, return on average operating assets and debt to debt plus equity ratios implicit in the corporate plan.

	Consolidated	
	2011 \$m	2010 \$m
(c) Categories of financial instruments		
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,420.1	1,233.7
Derivative instruments in designated hedge accounting relationships	3.3	5.9
Financial liabilities		
Other financial liabilities at amortised cost	726.0	726.8
Other financial liabilities designated in fair value hedge relationships at amortised cost and adjusted by the gain/loss attributable to interest rate risk	547.1	547.0
Derivative instruments in designated hedge accounting relationships	9.3	11.9

30 Financial and capital risk management (continued)

(d) Net gain or loss on loans and receivables and financial liabilities measured at amortised cost and held-to-maturity investments

The net gain or net loss on the loans and receivables category of financial instruments (including cash and cash equivalents) is determined as interest revenue, plus or minus foreign exchange gains or losses arising from the revaluation of the financial asset and minus any impairment recognised in profit or loss as shown below.

	Consolidated	
	2011 \$m	2010 \$m
Interest revenue (refer note 2)	31.8	25.7
Foreign exchange loss	(19.9)	(13.6)
Impairment loss (refer note 3)	(2.3)	(1.5)
Net gain on loans and receivables	9.6	10.6

The net gain or net loss on financial liabilities measured at amortised cost is determined as interest expense, plus or minus foreign exchange gains or losses arising from the revaluation of financial liabilities measured at amortised cost as shown below.

	Consolidated	
	2011 \$m	2010 \$m
Interest expense (refer note 4)	31.8	31.7
Foreign exchange gain	(6.9)	(9.5)
Net loss on financial liabilities measured at amortised cost	24.9	22.2

(e) Market risk

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 30(f)), commodity prices (refer note 30(g)) and interest rates (refer note 30(h)). The group is a party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates, commodity prices and interest rates. Reference should also be made to note 1(m) relating to derivative financial instruments. At a group level, market risk exposures are managed through sensitivity analysis and stress scenario analysis.

Notes to and forming part of the financial report

for the year ended 30 June 2011

30 Financial and capital risk management (continued)

(f) Foreign currency risk management

Foreign currency risk refers to the risk that the fair value or future cashflows of a financial instrument will fluctuate due to changes in foreign exchange rates. The group is exposed to foreign currency risk primarily through undertaking certain transactions denominated in foreign currency. A major source of foreign exchange transaction risk is as a result of obligations with overseas postal administrations which are invoiced in Special Drawing Rights (SDR) and settled in Euros (EUR) and United States dollars (USD). The SDR is a basket currency composed of fixed quantities of the four major traded currencies (USD, Japanese Yen, EUR and Pound Sterling). The composition of the basket is set by the International Monetary Fund. International mail receipts and payments are highly variable in amount and timing as well as being ongoing in nature.

The group operates foreign currency denominated bank accounts. Immaterial bank account balances are not included.

The carrying amount of monetary assets and monetary liabilities as at balance date is as follows:

	Consolidated	
	2011 (AUD) \$m	2010 (AUD) \$m
Trade and other receivables	187.8	161.5
Trade and other payables	(57.9)	(82.7)
Cash on hand	1.5	5.5
Net exposure	131.4	84.3

Other major sources of foreign exchange transaction risk are as a result of foreign sourced and priced capital equipment, purchases or sales in foreign currencies (including fuel purchases), commitments in respect to overseas jointly controlled entities and foreign currency bank accounts. Each foreign currency exposure, other than SDR, is measured and managed on an item by item basis and individual exposures over \$500,000 are hedged through the use of forward currency contracts.

Forward currency contracts

The following table details the forward currency contracts outstanding as at balance date.

	Consolidated			
	2011		2010	
	Average exchange rate	Notional amount (USD) \$m	Average exchange rate	Notional amount (USD) \$m
BUY USD				
0–6 months	1.050	12.0	0.880	8.4
7–12 months	0.936	0.9	0.780	0.3
		12.9		8.7
BUY EUR				
0–6 months	0.685	0.4	–	–
		0.4		–

All forward currency contracts are entered into on the basis of known or projected exposures. The group has elected to adopt cashflow hedge accounting in respect of some of its foreign currency hedging activities. The fair value of forward currency contracts designated as hedging instruments is a liability of \$0.3 million (2010: asset of \$0.4 million) for the group. The portion of the gain or loss on the designated forward currency contracts that are determined to be effective hedges are deferred and will be recognised in the measurement of the underlying transaction.

As at balance date, the aggregate amount of unrealised gains/losses under forward currency contracts deferred in the hedging reserve related to contracted future payments for inventory, computer software and computer equipment. It is anticipated that the payments will take place in the 12 months (2010: 12 months) after reporting date at which stage the amount deferred in equity will be included in the initial cost of the inventory, computer software and equipment. It is anticipated that the amounts in relation to inventory will impact profit or loss over the next one year and amounts in relation to computer software and equipment will impact profit or loss over the next 5 to 20 years after the assets are available for use.

Foreign exchange translation exposures for jointly controlled entities are currently immaterial and therefore not hedged.

30 Financial and capital risk management (continued)

(f) Foreign currency risk management (continued)

Foreign currency sensitivity

The following table details the effect on profit after tax as at 30 June from a 15 per cent (2010: 14 per cent) favourable/unfavourable change in the Australian dollar with all other variables held constant. The sensitivity analyses below have been determined based on the exposure to foreign currencies from financial instruments at the reporting date.

The possible risk of 15 per cent is based on Australian Government Department of Finance and Deregulation guidance.

A positive number indicates an increase in profit after tax, while a negative number indicates a reduction in profit after tax.

	Consolidated	
	2011 \$m	2010 \$m
Impact on profit after tax at reporting date, with all other variables held constant of a:		
Strengthening of the Australian dollar from:		
Financial assets	(17.3)	(14.6)
Financial liabilities	5.3	7.1
	(12.0)	(7.5)
Weakening of the Australian dollar from:		
Financial assets	23.3	16.6
Financial liabilities	(7.2)	(8.1)
	16.1	8.5
Impact on equity after tax at reporting date, with all other variables held constant of a:		
Strengthening of the Australian dollar from:		
Financial assets	–	(0.6)
Financial liabilities	(1.2)	–
	(1.2)	(0.6)
Weakening of the Australian dollar from:		
Financial assets	–	0.7
Financial liabilities	1.1	0.1
	1.1	0.8

The receivables and payables denominated in SDR, on which the sensitivity is shown in the table above, are not necessarily representative of the group's exposure to currency risk for the years ended 30 June 2010 and 30 June 2011. The receivables and payables denominated in SDR are highly variable in amount and timing, in particular due to the timing of receipts and settlements with overseas postal administrations.

Notes to and forming part of the financial report

for the year ended 30 June 2011

30 Financial and capital risk management (continued)

(g) Commodity price risk management

Commodity price risk refers to the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in commodity prices. The group's objective on commodity price risk management is to ensure that movements in commodity prices do not adversely affect operating costs. The group is exposed to commodity prices through the use of fuel. The risk is measured by reviewing forecast commodity exposures monthly and managed by entering into long-term supply contracts and through the use of commodity swap contracts. The hedging strategy is set annually as part of the planning process and the hedging activities are evaluated monthly.

Commodity price sensitivity

There were fuel swap contracts in place during the years ended 30 June 2010 and 30 June 2011, which matured prior to reporting date and as such the sensitivity analysis on profit after tax and equity as at 30 June 2010 and 30 June 2011 is not representative of the commodity price risk inherent in the use of fuel swap contracts during the current and prior year.

The following table details the commodity contracts outstanding as at balance date.

	Consolidated	
	2011 Exposure amount (AUD) \$m	2010 Exposure amount (AUD) \$m
BUY BARRELS		
0–6 months	5.5	9.8
7–12 months	5.5	10.3
	11.0	20.1

All commodity swap contracts are entered into on the basis of known or projected exposures. The group has elected to adopt cashflow hedge accounting in respect of some of its commodity hedging activities. The fair value of commodity swap contracts designated as hedging instruments is an asset of \$1.0 million (2010: liability of \$0.5m) for the group. The portion of the gain or loss on the designated commodity swap contracts that are determined to be effective hedges are deferred and will be recognised in the measurement of the underlying transaction.

As at balance date, the aggregate amount of unrealised gains/losses under commodity swap contracts deferred in the hedging reserve related to contracted future payments for fuel expenses. It is anticipated that the payments will take place within 12 months after reporting date at which stage the amount deferred in equity will be reclassified as an expense.

The following table details the effect on profit and equity after tax as at 30 June from a 15 per cent (2010: 14%) favourable/unfavourable change in the fuel price with all other variables held constant. The sensitivity analysis below have been determined based on the exposure to fuel from financial instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and being held constant throughout the reporting period.

A positive number indicates an increase in profit or equity after tax, while a negative number indicates a reduction in profit or equity after tax.

	Consolidated	
	2011 \$m	2010 \$m
Impact on profit after tax at reporting date, with all other variables held constant of a:		
Increase in fuel prices	–	0.8
Decrease in fuel prices	–	(0.8)
Impact on equity after tax at reporting date, with all other variables held constant of a:		
Increase in fuel prices	1.2	1.2
Decrease in fuel prices	(1.2)	(1.2)

30 Financial and capital risk management (continued)

(h) Interest rate risk management

Interest rate risk refers to the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates. The group is exposed to interest rate risk from interest-bearing cash and cash equivalent balances, receivables and payables, with the main exposure from bonds payable. The group's objective in managing interest rate risk is to minimise interest rate exposure by matching, as far as practical, the interest rate profile or re-pricing of investments (financial) and borrowings to achieve a natural hedge whilst ensuring that an appropriate level of flexibility exists to accommodate potential changes in funding requirements. Interest rate risk is measured by regularly reviewing the net exposure from interest-bearing assets and liabilities. The risk is managed by the use of interest rate swap contracts on the basis of known borrowing obligations.

The group's exposure to interest rate risks and the effective interest rates of interest-bearing financial assets and financial liabilities are set out below. Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

	Note	Consolidated			
		2011		2010	
		Carrying amount \$m	Weighted average effective interest rate %	Carrying amount \$m	Weighted average effective interest rate %
Financial assets					
Fixed rate					
Loans to jointly controlled entities	9	130.5	8.0	130.7	8.0
Floating rate					
Cash and cash equivalents	32(a)	602.2	5.1	500.7	4.2
Financial liabilities					
Fixed rate					
Bonds payable	19	547.1	5.7	547.0	5.7
Interest rate swaps		(547.1)	5.7	(547.0)	5.7
Floating rate					
Interest rate swaps		553.8	5.7	552.9	4.5

Interest rate swap contracts

Under interest rate swap contracts the group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts as at balance date.

	Consolidated			
	2011		2010	
	Fixed interest rate %	Notional principal amount \$m	Fixed interest rate %	Notional principal amount \$m
Fixed for floating interest				
1–2 years	6.25	230.0	6.25	230.0
2–5 years	5.25	325.0	5.25	325.0
		555.0		555.0

The interest rate swap contracts settle on a six-monthly basis. The floating rate on the \$230 million tranche is six-monthly BBSW minus 6.75 basis points, and the floating rate on the \$325 million tranche is six-monthly BBSW plus 118.125 basis points.

Interest rate swap contracts are designated as fair value hedges in respect of interest rates. The gain or loss from remeasuring the hedging instrument at fair value is recorded in profit or loss and to the extent that the hedge is effective, the carrying amount of the borrowing is adjusted by the gain or loss attributable to the hedged risk through profit or loss.

Notes to and forming part of the financial report

for the year ended 30 June 2011

30 Financial and capital risk management (continued)

(h) Interest rate risk management (continued)

Interest rate sensitivity

The table below details the interest rate sensitivity analysis of the group at the reporting date, holding all other variables constant. A 175 basis point (2010: 150) change is used to quantify the possible risk based on Australian Government Department of Finance and Deregulation guidance. The sensitivity analysis below have been determined based on the exposure to interest rates from financial instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and being held constant throughout the reporting period.

A positive number indicates an increase in profit after tax, whilst a negative number indicates a reduction in profit after tax. There is no sensitivity on equity.

	Consolidated	
	2011 \$m	2010 \$m
Impact on profit after tax at reporting date, with all other variables held constant of a:		
175 (2010: 150) basis point increase in interest rates	3.1	4.7
175 (2010: 150) basis point decrease in interest rates	(3.1)	(4.7)

The interest-bearing assets and liabilities on which the sensitivity is shown in the table above, are considered representative of the group's average interest rate exposure for the years ended 30 June 2010 and 30 June 2011.

(i) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. Counterparty exposure is measured as the total value of the exposures to all obligations of any single legal or economic entity (eg. a group of companies). It is the group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The carrying amount of trade and other receivables reflects the maximum credit exposure when collateral held and other credit enhancements are not considered. Bank guarantees, parent company guarantees, directors personal guarantees, deposits, property mortgages and fixed or floating charges over assets are held in respect of receivable balances from some customers. In addition, receivable balances are monitored on an ongoing basis with the result that the exposure to bad debts is not significant.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are high investment grade as rated by Standard & Poor's, bank counterparties are all rated A- or better (2010: A- or better) by Standard and Poor's and counterparty limits have been established and are endorsed annually by the board and reviewed regularly by the Treasury Group.

The credit risk on derivative financial instruments is managed using the principle of the APRA 'Current Exposure Method' as described in its guidance note AGN 112.2 which takes into account both the current credit exposure and the potential future credit exposure from derivative financial instruments.

The group has a significant credit risk exposure from the long-term loan advanced to Star Track Express, a jointly controlled entity, of \$128.2 million (2010: \$128.2 million). There are no other significant credit risk exposures to any single counterparty or any group of counterparties having similar characteristics.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements as summarised in Note 30 (c), net of any allowances for losses, represents the group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements.

	Consolidated	
	2011 \$m	2010 \$m
Maximum credit risk from financial assets and other credit exposures		
Drawn loans to jointly controlled entities ⁽¹⁾	130.5	130.5
Undrawn loan commitments to jointly controlled entities	4.3	4.3
Guarantees provided ⁽²⁾	232.0	247.0

(1) The carrying amount of loans to jointly controlled entities differs from the maximum exposure to credit risk as a loan advanced to a jointly controlled entity is non-interest bearing and the loan carrying amount has been discounted under the effective interest method.

(2) Relate to bank guarantees over projected workers' compensation claims liabilities, financial guarantee contracts and other guarantees provided by jointly controlled entities.

30 Financial and capital risk management (continued)

(j) Liquidity risk management

Liquidity risk refers to the risk of encountering difficulties in meeting obligations associated with financial liabilities. Liquidity risk management is associated with ensuring that there are sufficient funds available to meet financial commitments in a timely manner and planning for unforeseen events which may curtail cashflows and cause pressure on liquidity. The group measures and manages liquidity risk by forecasting liquidity and funding requirements for the next three years as a minimum, which is reviewed annually by the board as part of the Treasury Strategy Paper. In addition, the group prepares and reviews a rolling daily cash forecast for the quarter, on a daily basis.

Liquidity risk tables

The following tables detail the group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cashflows based on the earliest date on which the group can be required to pay. The tables include both interest and principal cashflows. Where interest flows are floating rate, the undiscounted amount is derived from the interest rate curves at the end of the reporting period. For financial guarantee contracts and undrawn loan commitments, the maximum amount of the guarantee and undrawn loan commitment is allocated to the earliest period in which the guarantee or loan commitment can be called.

The tables also include cash outflows arising from derivative financial instruments. The tables have been drawn up based on the undiscounted net cash outflows on derivative instruments that settle on a net basis and the undiscounted gross cash outflows on those derivatives that require gross settlement. The amount disclosed has been determined by reference to the projected cash outflows illustrated by the yield or forward curves existing at reporting date.

	Consolidated							
	As at 30 June 2011				As at 30 June 2010			
	Contractual maturity (nominal cashflows)				Contractual maturity (nominal cashflows)			
On demand	Less than 1 year	1 to 2 years	2 to 5 years	On demand	Less than 1 year	1 to 2 years	2 to 5 years	
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Trade and other payables	–	726.3	–	–	–	726.7	–	–
Finance lease and hire purchase liabilities payable	–	–	–	–	–	0.1	–	–
Forward exchange contracts	–	0.3	–	–	–	10.1	–	–
Bonds payable	–	261.4	17.1	342.1	–	23.0	261.5	359.1
Interest rate swaps	–	(0.2)	3.1	4.6	–	(1.0)	(0.1)	8.0
Financial guarantee contracts ⁽¹⁾	–	52.0	–	–	–	64.3	–	–
Undrawn loan commitments to jointly controlled entities	4.3	–	–	–	4.3	–	–	–
	4.3	1,039.8	20.2	346.7	4.3	823.2	261.4	367.1

(1) This represents the maximum amount that could be called on by the group.

Notes to and forming part of the financial report

for the year ended 30 June 2011

30 Financial and capital risk management (continued)

(k) Fair value of financial assets and liabilities

The fair value of financial assets and financial liabilities is based on market prices (where a market exists) or by discounting back the expected future cashflows using the applicable yield curve for assets and liabilities with similar risk profiles.

Fair value of financial instruments not measured at fair value in the balance sheet

Except as detailed in the following table, the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the balance sheet approximates their fair value.

	Consolidated			
	2011		2010	
	Carrying amount \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
Financial assets				
Finance lease receivable	103.5	73.9	103.5	83.5
Loans to jointly controlled entities	129.5	132.2	129.4	133.5
Financial liabilities				
Bonds payable	547.1	548.2	547.0	550.1

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable from the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Consolidated					
	2011			2010		
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Level 1 \$m	Level 2 \$m	Level 3 \$m
Financial assets at fair value through profit or loss						
Foreign currency exchange contracts	–	–	–	–	0.4	–
Interest rate swaps	–	2.3	–	–	5.5	–
Commodity swaps		1.0				
Financial liabilities at fair value through profit or loss						
Foreign currency exchange contracts	–	0.3	–	–	–	–
Interest rate swaps	–	9.0	–	–	11.4	–
Commodity swaps	–	–	–	–	0.5	–

There were no transfers between level 1, 2 and 3 during the year.

31 Leases

(i) Operating leases

The group leases a total of 787 properties. These are under operating leases with various occupancy terms that are due to expire in the next one to ten years. The leased property portfolio comprises 17 commercial, 226 industrial, 8 residential, 527 retail and 9 general sites. Leases generally provide the group with a right of renewal, at which time the commercial terms are renegotiated. Lease payments generally comprise a base amount plus an incremental contingent rental based on movements in the Consumer Price Index and reviews to market-based levels.

	Consolidated	
	2011 \$m	2010 \$m
Minimum lease payments	131.7	135.6
Contingent rentals	1.3	1.5
Operating lease rentals (refer note 3)	133.0	137.1

Full details of the ageing of the group's operating lease commitments is contained in the schedule of commitments.

(ii) Finance lease receivable

The group has a finance lease receivable relating to the disposal in 1996–97 of the Sydney GPO heritage site under a 99-year lease. The agreement includes a seven-year rent-free period to the lessee, followed by a guaranteed minimum rental.

	Consolidated	
	2011 \$m	2010 \$m
Reconciliation of minimum lease payments to lease receivable:		
Gross minimum finance lease rentals receivable	549.3	555.7
Finance lease revenue not yet recognised	(445.8)	(452.2)
Finance lease receivable (notes 6 and 9)	103.5	103.5
Minimum finance lease rentals receivable:		
(a) within one year	6.4	6.5
(b) from one year to five years	25.5	26.0
(c) over five years	517.4	523.2
Total	549.3	555.7

The lease commitments receivable at year-end equal the minimum lease payments, as there are no material contingent payments or unguaranteed residual value relating to this lease agreement.

(iii) Finance lease payable

The group has certain hire purchase and finance lease agreements. The present value of these minimum lease payments is \$nil (2010: \$0.1 million) which will be made within a year.

Notes to and forming part of the financial report

for the year ended 30 June 2011

32 Notes to the cashflow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cashflow statement, cash and cash equivalents includes cash on hand and in banks, promissory notes and floating rate notes. Cash and cash equivalents on hand at the end of the period as shown in the cashflow statement are reconciled to the related items in the balance sheet as follows:

	Consolidated	
	2011 \$m	2010 \$m
Cash on hand	556.5	447.1
Promissory notes ⁽¹⁾	45.7	53.6
Total cash and cash equivalents	602.2	500.7

(1) There are \$nil (2010: \$nil) promissory notes that are past due or impaired.

(b) Reconciliation of net profit after tax to net cash provided by operating activities

	Consolidated	
	2011 \$m	2010 \$m
Net profit for the period	241.2	89.5
Depreciation and amortisation	198.4	213.5
Changes in jointly controlled entities not received as dividends	(1.2)	(0.4)
Net revaluation gain on investment property	(6.1)	–
Write-down of investments	4.5	1.7
Write-down of property, plant and equipment	36.5	2.2
Write-down of intangibles (including goodwill)	13.9	43.7
Write-down of receivables and inventory	2.2	1.5
Net gain from sales of property, plant and equipment	(22.0)	(17.9)
	226.2	244.3
Changes in assets and liabilities adjusted for the acquisition and disposal of businesses		
(Increase)/decrease in debtors	(28.2)	25.6
(Increase)/decrease in inventories	(5.6)	6.0
(Increase)/decrease in interest receivable	(0.6)	0.3
(Increase)/decrease in other current assets	(3.5)	(15.0)
(Increase)/decrease in deferred income tax asset	34.2	(21.9)
Increase/(decrease) in creditors and other payables	4.0	(54.8)
Increase/(decrease) in accrued interest expenditure	0.5	2.5
Increase/(decrease) in advance receipts	2.6	12.6
Increase/(decrease) in employee entitlements	(69.3)	121.7
Increase/(decrease) in income tax payable	(13.1)	(21.0)
Increase/(decrease) in deferred income tax liability	19.0	(18.9)
	166.2	281.4
Net cash from operating activities	407.4	370.9

Loan facilities

Fully drawn loan facilities of \$555 million (2010: \$555.0 million) and \$nil (2010: \$0.1 million) hire purchase and finance leases were held at 30 June 2011 (refer note 19).

32 Notes to the cashflow statement (continued)

(c) Details of the acquisition of controlled entities

On 23 December 2010, the corporation acquired 100% of the issued share capital of SecurePay Holdings Pty Ltd. SecurePay operated as an independent provider of electronic business-to-business (B2B) and business-to-consumer (B2C) payment gateway services at the date of acquisition.

Details of the acquisition are as follows:

The fair value of identifiable assets and liabilities of SecurePay Holdings Pty Ltd as at the date of acquisition were:

	Consolidated fair value at acquisition date \$m
Cash	0.3
Receivables and accrued income	1.4
Property, plant and equipment	1.7
Intangible assets	11.7
	15.1
Payables	1.1
Loans	5.3
Deferred tax liability	0.4
	6.8
Provisional fair value of identifiable net assets	8.3
Goodwill arising on acquisition (note 16)	32.2
Consideration transferred	40.5
The cash outflow on acquisition is as follows:	
Net cash acquired with the subsidiary	(0.3)
Cash paid	44.0
Payments for investments for controlled entities (net of cash acquired)	43.7
Repayment of debt	5.3
Total consolidated cash outflow	49.0

The consolidated statement of comprehensive income includes sales revenue and net profit for the year ended 30 June 2011 of \$6.3 million and \$1.4 million respectively, relating to SecurePay Holdings Pty Ltd. Had the acquisition of SecurePay Holdings Pty Ltd occurred at the beginning of the reporting period, the consolidated statement of comprehensive income would have included revenue and profit of \$12.1 million and \$3.1 million respectively. Direct costs of \$2.1 million relating to the acquisition and integration of SecurePay Holdings Pty Ltd were incurred and are disclosed as part of supplier expenses.

Key factors contributing to the \$32.2 million of goodwill are the synergies existing within the acquired business, and synergies expected to be achieved as a result of combining SecurePay Holdings Pty Ltd with the rest of the group.

Included in the business acquired were receivables with a gross contractual and fair value of \$1.2 million resulting from trade sales with customers. Management expects these amounts to be collected in full and converted to cash consistent with customer terms.

Notes to and forming part of the financial report

for the year ended 30 June 2011

33 Corporate information

The financial report of Australian Postal Corporation for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 25 August 2011.

Australian Postal Corporation is a for-profit entity and a government business enterprise (GBE) established pursuant to the *Postal Services Act 1975*, the existence of which is continued by section 12 of the *Australian Postal Corporation Act 1989*. The nature of the operations and principal activities of the group are outlined in the corporation's annual report.

National head office:
111 Bourke Street
Melbourne VIC 3000
Australia

34 Events after balance date

There are no matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the result of those operations, or the state affairs of the group in future financial years.

Community service obligations

for the year ended 30 June 2011

Australia Post's community service obligations (CSOs) are set out in s27 of the *Australian Postal Corporation Act 1989* (the Act), which requires that:

- the corporation provide a letter service for both domestic and international letter traffic
- the service be available at a single uniform rate within Australia for standard letters
- the service be reasonably accessible to all Australians wherever they reside
- the performance standards for the service reasonably meet the social, industrial and commercial needs of the community.

Performance standards

Regulations made under s28C of the Act detail the particular standards required to meet these obligations. Performance against these standards is subject to independent audit by the Australian National Audit Office (ANAO).

All of the prescribed standards were met or exceeded in 2010–11. The actual result for each standard is outlined in the table below. The associated ANAO Audit Report is reproduced on pages 116 to 117.

Organisational arrangements

To maintain an appropriate ongoing focus on CSO compliance, Australia Post has a national CSO manager at its headquarters and nominated CSO representatives nationally.

CSO costs

There is a financial cost associated with meeting CSOs. That cost arises when the charge made for any mandated service does not recover the cost of its delivery. The cost is measured on a net basis (that is, after reduction of related revenue) and is funded by internal cross-subsidy within the letters service.

For 2010–11 (calculated on the avoidable cost methodology), CSO costs are estimated to be \$142.1 million.

Performance standards

Standard	2010–11 performance
Lodgement	
10,000 street posting boxes	16,036 [^]
Delivery timetables	
Same state	
Metro – next business day	Maintained
Metro to country – second business day	Maintained
Between country areas – second business day	Maintained
Interstate	
Metro to metro – second business day	Maintained
Between metro and country – third business day	Maintained
Between country areas – fourth business day	Maintained
On-time delivery	
94.0% of non-bulk letters	96.0% [^]
Access	
4,000 retail outlets (2,500 in rural and remote areas)	4,419 [^] (2,552 [^] in rural and remote areas)
Retail outlets located so that:	
• in metropolitan areas at least 90.0% of residences are within 2.5km of an outlet	93.7% [^]
• in non-metropolitan areas at least 85.0% of residences are within 7.5km of an outlet	87.9% [^]
Delivery frequency	
98.0% of delivery points to receive deliveries five days a week	98.8% [^]
99.7% of delivery points to receive deliveries no less than twice a week	99.9% [^]

[^] Results as at 30 June 2011.

Auditor-general's report – performance standards

for the year ended 30 June 2011



Auditor-General for Australia



Independent Audit Report on the Extent to which the Australian Postal Corporation has complied with the *Australian Postal Corporation (Performance Standards) Regulations 1998* for the year ended 30 June 2011

To the Minister for Broadband, Communications and the Digital Economy

Scope

I have audited the Australian Postal Corporation's (the Corporation) compliance with the performance standards prescribed in the *Australian Postal Corporation (Performance Standards) Regulations 1998*, as amended (the Regulations), for the year ended 30 June 2011.

The performance standards require the Corporation to:

- (a) service 98% of all postal delivery points at least five days per week and 99.7% of all postal delivery points at least two days per week (Regulation 5);
- (b) deliver at least 94% of reserved services letters to the indicated or appropriate address according to the prescribed timetable (Regulation 6);
- (c) maintain mail lodgement points for postal articles (other than bulk mail) at each of its 4,419 retail outlets and maintain at least 10,000 street posting boxes (Regulation 8); and
- (d) make a selection of its products or services available for purchase at each of the retail outlets. At least half of the retail outlets must be in zones classified as rural or remote, and in any event, not fewer than 2,500. At least 90% of residences within metropolitan areas must be within 2.5 kilometres of a retail outlet and an average of at least 85% of residences in rural or remote zones must be within 7.5 kilometres of a retail outlet (Regulation 9).

The directors of the Corporation are responsible for ensuring that adequate systems are in place to monitor compliance with the performance standards. I have conducted an independent audit of compliance with the performance standards in order to express a conclusion to you.

The audit has been conducted in accordance with ASAE 3100 Compliance Engagement, which incorporate the standards on assurance engagements and relevant ethical requirements relating to audit engagements and accordingly included such tests and other procedures considered necessary.

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Audit procedures included:

- (a) examination and assessment of the key mail management systems;
- (b) examination, on a test basis, of supporting evidence; and
- (c) examination of the work performed by the independent reviewer contracted by the Corporation.

As part of the audit, I have considered, solely for the purpose of determining the nature, timing and extent of my audit procedures, the Corporation's system of internal controls. This consideration has not entailed a detailed study and evaluation of any of the elements of the system for the purpose of providing the assurances thereon.

These procedures have been undertaken to form an opinion whether, in all material respects, the Corporation has complied with the prescribed performance standards.

Because of the inherent limitations of any audit, including limitations in evidence gathering procedures and limitations in the internal control framework, it is possible that fraud, error or non-compliance may occur and not be detected. An audit is not designed to detect all instances of non compliance with the Regulations, as an audit is not performed continuously throughout the year ended 30 June 2011 and the audit procedures performed in respect of compliance with the Regulations are undertaken on a test basis.

The audit conclusion expressed in this report has been formed on the above basis.

Conclusion

In my opinion, the Australian Postal Corporation was, in all material respects, in compliance with the performance standards prescribed in the *Australian Postal Corporation (Performance Standards) Regulations 1998* during the year ended 30 June 2011.

Australian National Audit Office



Ian McPhee
Auditor-General

Canberra
25 August 2011

Domestic letter service monitor

for the year ended 30 June 2011



RESEARCH INTERNATIONAL

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July 21, 2011

To The Board of the Australian Postal Corporation

Re: Yearly Basic Monitor Result Certification

We have undertaken an independent monitor of Australia Post's domestic letter service against its delivery undertakings for the year ended June 2011 in accordance with the requirements of the Australian Postal Corporations Act 1989.

Our monitor was based on a properly prepared, statistically valid sample of approximately 314,804 test letters. The sample size was determined with regard to information that Australia Post supplied about the postal network design parameters.

Our testing involves comparing the delivery time taken for each test letter with Australia Post's delivery undertaking for the mail path concerned.

Test letters represented the full range of letter sizes and types recognised as ordinary mail, posted in locations having a daily clearance to locations having a daily delivery, from small to large and including window-faced envelopes. They were addressed by hand and machine fonts, reflecting the varied mailing practices of postal users.

All addressing was in accordance with Australia Post's specifications for the proper preparation of letter mail. The letters, as specified under the terms of our contract, were indistinguishable from other mail flowing through the Australia Post network.

Our process for calculating the delivery performance was independently audited by Deloitte.

For the year ending June 2011 the sample used by Research International was consistent with the sample frame provided by Australia Post. The attached certification from Deloitte states that "nothing has come to our attention that would suggest that the results reported by Research International for the year ended 30/06/2011 have not been calculated in accordance with the agreed business rules or do not fairly represent the performance of Australia Post's basic letter service for that period."

Results

For the year ended June 2011, the monitor showed that Australia Post delivered 96.0 per cent of all letters early or on time, and 99.0 per cent of letters were delivered on time or not more than one working day after your delivery undertakings.



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Opinion

In our opinion based upon the audit procedures conducted, at a 95 per cent confidence level and with a maximum weighted actual precision limit of 0.1 per cent, these results present fairly the performance of Australia Post's domestic letter service for the year ended June 2011 against the scope provided.

Yours faithfully,

Jacqui Von Hirschberg
Managing Director
Research International Ltd

Tina Katsinikas
Service Measurement Manager
Research International Ltd

Survey certification

for the year ended 30 June 2011

Deloitte.

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Jacqueline Von Hirschberg
Executive Director
TNS Australia Pty Ltd
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21 July 2011

Independent Assurance Report on Research International calculation of Australia Post Performance Metric for Basic Letters for the period 01/07/2010 to 30/06/2011

Research International perform an external mail monitoring service covering basic (domestic) letters carried across the Australia Post Network for Australia Post within a defined set of parameters that have been agreed between Australia Post and Research International.

Research International's Responsibilities

The management of Research International is responsible for the calculation and delivery of the performance metrics to Australia Post in accordance with the agreed business rules. This responsibility includes the design and operation of controls intended to monitor the accuracy of the calculation of the performance metrics.

Deloitte's Responsibilities

At the request of Research International, Deloitte has re-performed the calculation of the delivery performance metric using the data output from the Computer Information System (CIS) system in order to express a conclusion on whether, based on the work we have performed, anything comes to our attention to indicate that the calculations performed by Research International have not, in all material respects, been calculated in accordance with the business rules set out in the agreement between Research International and Australia Post dated 03/07/2006 and do not fairly represent the performance of Australia Post's basic letter service.

Our procedures were performed in accordance with Australian Standard on Assurance Engagements ASAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" in order to provide limited assurance as defined by that standard. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with ASAE 3000 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Considering the risk of material error, we planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusion. Key procedures included:

- Interviewing the process owners for the preparation of the Australia Post Performance Metrics
- An evaluation of the implementation of key controls used by management in the preparation of the Australia Post Performance Metrics
- Independent re-performance of the calculation of the delivery performance metric using data extracted from the CIS system

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- Choosing a random sample of invalidated ('dudged') transactions, and obtaining supporting evidence to identify for those transactions in the sample, whether the process (as agreed to between Research International and Australia Post) for 'dudging' transactions was adhered to.

Inherent Limitations

Because of the inherent limitations of any internal control structure it is possible that fraud, error, or non-compliance with the agreed business rules may occur and not be detected. Further, the internal control structure, within which the processes that we have reviewed operate, has not been reviewed and no opinion is expressed as to its effectiveness.

A review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis.

Any projection of the operation of the monitoring processes to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The conclusion expressed in this report has been formed on the above basis.

Independence

In conducting our engagement, we have complied with the independence requirements of APES 110 Code of Ethics for Professional Accountants, issued by the Accounting Professional and Ethical Standards Board.

Use of report

This report has been prepared for distribution to Research International in terms of our engagement letter dated 01/08/2006, updated on 25/08/2010. We understand that a copy of this report will be provided to Australia Post by Research International. We disclaim any assumption of responsibility for any reliance on this report to Australia Post or to any other persons or users, other than Research International, or for any purpose other than that for which it was prepared.

Findings

The table below compares the national average of the delivery performance metric as calculated by Research International and by Deloitte.

Type of Letter	Research International figure	Deloitte figure
Basic	96.0% (± 0.1)	96.0%

Conclusion

Based on the work performed, nothing has come to our attention that would suggest that the results reported by Research International for the year ended 30/06/2011 have not been calculated in accordance with the agreed business rules or do not fairly represent the performance of Australia Post's basic letter service for that period.

Yours sincerely



Alastair Banks
Partner
DELOITTE TOUCHE TOHMATSU

Reserved/non-reserved services

for the year ended 30 June 2011

Results of product dissection between reserved and non-reserved services

	Reserved		Non-reserved		Total	
	\$m	%	\$m	%	\$m	%
Consolidated results						
Revenue	1,887.5	38.1	3,067.1	61.9	4,954.6	100.0
Expense	1,978.8	42.6	2,661.8	57.4	4,640.6	100.0
Profit from ordinary activities before net interest and income tax	(91.3)	(29.1)	405.3	129.1	314.0	100.0
Interest and net profits related to jointly controlled entities					30.5	100.0
Profit before third party interest and tax					344.5	
Return on revenue ⁽¹⁾		(4.8)		13.2		6.3
Average operating assets ⁽²⁾	953.5	30.3	2,196.3	69.7	3,149.8	100.0
Return on average operating assets ⁽³⁾		(9.6)		18.5		10.9

(1) Excludes interest and share of net profits of jointly controlled entities.

(2) Assets reflect average operating assets for 2009–10 and 2010–11.

(3) Total return on average operating assets includes interest and share of net profits relating to jointly controlled entities. Reserved and non-reserved return on average operating assets excludes all interest and share of net profits of jointly controlled entities.

Statutory reporting requirements index

for the year ended 30 June 2011

Australia Post has reported in accordance with the requirements of the *Commonwealth Authorities and Companies Act 1997*, the *Australian Postal Corporation Act 1989*, the *Freedom of Information Act 1982*, the *Occupational Health and Safety (Commonwealth Employment) Act 1991*, the *Superannuation Benefits (Supervisory Mechanisms) Act 1990*, and the *Environment Protection and Biodiversity Conservation Act 1999*. This index shows where the relevant information can be found in the 2010–11 Annual Report.

Commonwealth Authorities and Companies Act 1997 – Schedule 1 reporting requirements

Section	Subject	Location	Pages
s.1(a)	Report of operations	Report of operations	1–49
		Financial statements	56
		Statutory report	126–129
s.1(b)	Financial statements	Financial statements	59–114
s.1(c)	Financial statements	Financial statements audit report	57–58
s.2(3)	Directors' statement	Financial statements	56

Australian Postal Corporation Act 1989 – general reporting requirements

s.43(a)	Statement of corporate objectives under the corporate plan	Statutory report	126
s.43(b)(i)	Overall strategies and policies under the corporate plan	Chairman's report	6
		Statutory report	126
s.43(b)(ii)	Performance indicators and targets under the corporate plan	Statutory report	126
s.43(c)	Assessment of extent to which objectives under s.43(a) have been achieved	Chairman's report	6
		Managing director's report	7
		Financial report	8–9
		Community service obligations	115
		Statutory report	126
s.43(d)	Strategies and policies relating to Community Service Obligations (CSOs)	Letters	20
		Community service obligations	115
s.43(e)	Directions by the Minister under s.40(1)(CSOs)	N/A	
s.43(f)	Assessment of appropriateness and adequacy of strategies and policies for CSOs	Letters	20
		Community service obligations	115
s.43(fa)	Performance standards relating to CSOs	Letters	20
		Community service obligations	115
		Statistical summary	130–131
s.43(g)(i)	Notifications by the Minister under s.28 of the CAC Act (general policies of the Commonwealth)	Statutory report	126
s.43(g)(ii)	Directions by the Minister under s.49 of the APC Act (public interest)	N/A	
s.43(h)(i)	Impact of Ministerial notifications under s.28 of the CAC Act and directions under s.49 of the APC Act	Statutory report	126
s.43(h)(ii)	Impact of other Government obligations	Statutory report	126
s.43(j)	Ministerial power under s.33(3) to disapprove postage determinations	N/A	
s.43(k)	Companies and other associations established or sold	N/A	
s.43(m)(i)&(ii)	Shares purchased and disposed of	Financial statements	82, 113
s.43(m)(iii)	Subsidiaries	Our business partners	13
		Letters	22–23
		Financial statements	82
s.43(n)	Authority to open or examine the contents of postal articles	Statutory report	128
s.43(o)	Disclosure of information	Statutory report	128–129
s.44(a)	Financial targets	Statutory report	126

Statutory reporting requirements index

for the year ended 30 June 2011

Australian Postal Corporation Act 1989 – general reporting requirements (continued)

Section	Subject	Location	Pages
s.44(b)	Ministerial direction under s.40(i) to vary the financial targets	N/A	
s.44(c)	Progress in achieving the financial targets	Statutory report	126
s.44(d)	Dividend payable to the Commonwealth	Financial report	8–9
		Statutory report	126
s.44(e)	Ministerial direction under s.54(3) as to dividend	N/A	
s.44(f)	Capital repaid to the Commonwealth	N/A	
s.44(g)(i)	Cost impact of CSOs	Community service obligations	115
s.44(g)(ii)	Cost impact of Ministerial notifications under s.28 of CAC Act	N/A	
s.44(g)(iii)	Cost impact of Ministerial directions under s.49 of APC Act	N/A	
s.44(g)(iv)	Cost impact of other Government obligations	Statutory report	126
s.44(h)(i)&(ii)	Financial information requested by the Minister in relation to the reserved services and other activities	N/A	

Freedom of Information Act 1982 – reporting requirements

s.8(1)(a)(i)	Information on organisation and functions	About Australia Post	13
		Statutory report	127
s.8(1)(a)(ii)	Consultative arrangements	Statutory report	127
s.8(1)(a)(iii)	Categories of documents	Statutory report	128
s.8(1)(a)(iv)&(v)	Access to documents and initial inquiries	Statutory report	128

Occupational Health and Safety (Commonwealth Employment) Act 1991 – reporting requirements

s.74(1)(c)	Occupational health and safety policies, including agreement with employees, establishment of committees and selection of health and safety representatives	Statutory report	127
s.74(1)(d)	Measures taken to ensure health, safety and welfare of employees and contractors	Statutory report	127
s.74(1)(e)	Statistics requiring the giving of notice under s.68	Statutory report	127
s.74(1)(f)&(g)	Details of investigations and other matters as prescribed	Statutory report	127

Superannuation Benefits (Supervisory Mechanisms) Act 1990

s.6(1)(b)	Report on operation of superannuation arrangement	Statutory report	126
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Environment Protection and Biodiversity Conservation Act 1999

s.516A(3)(6)	Report on the implementation of the Ecologically Sustainable Development program within Australia Post, including social, economic, cultural and environmental performance	Corporate responsibility	32–49
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Commonwealth Authorities and Companies (Report of Operations) Orders 2008

Division 2 – General information about operations and activities

s.8(a)	Enabling legislation	Statutory report	126
s.8(b)	Ministers responsible	Corporate governance	52
s.9	Organisational structure	Corporate governance	52
		Board of directors	14–15
		About Australia Post	13
		Statutory report	127
s.10(1)(a)(i)	Performance measured against statutory objectives	Community service obligations	115
s.10(1)(a)(ii)	Corporate plan	Statutory report	126

Division 2 – General information about operations and activities (continued)

Section	Subject	Location	Pages
s.10(1)(a)(iii)	Principal outputs and contributions	Chairman's report	6
		Managing director's report	7
		Financial report	8–9
		Year in review, Performance summary at a glance	5,11
s.10(1)(b)	Current and future events and trends, including risks and opportunities	Future ready	2–3
		Chairman's report	6
		Managing director's report	7
		Financial report	8–9
s.10(1)(c)	Significant events under s.15 of CAC Act	Managing director's report	7
		Financial report	8–9
s.10(1)(d)(i)	Operational and financial results – principal outputs	Managing director's report	7
		Financial report	8–9
s.10(1)(d)(ii)	Major investing and financial activities	Chairman's report	6
		Managing director's report	7
		Financial report	8–9
s.10(1)(d)(iii)	Financial and non-financial performance indicators	Financial report	8–9
		Community service obligations	115
		Statutory report	126
s.10(1)(e)	Significant changes in affairs or principal activities during the year	N/A	
s.10(1)(f)	Significant developments since end of financial year	N/A	
s.11(a)	Judicial tribunal decisions that have had a significant impact	N/A	
s.11(b)	Reports by the Auditor-General, a Parliamentary Committee or Commonwealth Ombudsman	Financial statements audit report	57–58
		Performance standards audit	116–117
s.12(1)(a)(i)	Any directions by responsible ministers during the financial year	N/A	
s.12(1)(a)(ii)	Since the end of the financial year	N/A	
s.12(1)(a)(iii)	Continuing from previous financial years	N/A	
s.12(1)(b)(i)	Government policies under s.28 of the CAC Act during the financial year	N/A	
s.12(1)(b)(ii)	Since the end of the financial year	N/A	
s.12(1)(b)(iii)	Continuing from previous financial years	Statutory report	126
s.13(1)(a)(i)	Significant changes in financial structure	N/A	
s.13(1)(a)(ii)	Events that may affect future operating results	N/A	
s.13(1)(b)	Dividends paid or recommended	Financial statements	93
s.13(1)(c)	Community service obligations	Community service obligations	115

Division 3 – Specific information

s.14(1)(a)	Directors' details	Board of directors	14–15
s.14(1)(b)	Directors' meetings	Corporate governance	55
s.15(1)	Main governance practices	Corporate governance	52–55
s.15(2)	Board committee details (including Audit and Risk Committee)	Corporate governance	52–53
s.16(1)(a)	Indemnity for officers	Statutory report	126
s.16(1)(b)	Premium paid	Statutory report	126

Statutory reporting requirements

for the year ended 30 June 2011

Introduction

Australia Post is subject to various statutory reporting requirements under the *Australian Postal Corporation Act 1989*, the *Commonwealth Authorities and Companies Act 1997*, the *Freedom of Information Act 1982*, the *Occupational Health and Safety (Commonwealth Employment) Act 1991*, the *Superannuation Benefits (Supervisory Mechanisms) Act 1990*, and the *Environment Protection and Biodiversity Act 1999*.

The index on pages 123 to 125 shows where the relevant information can be found in this annual report.

A number of matters are dealt with in the main body of the report. Others are covered below.

Legislation

The powers and functions of Australia Post are set out in Sections 14–19 of the *Australian Postal Corporation Act 1989* (the Act).

Indemnities and insurance premiums for directors and officers

Australia Post has in place a directors' and officers' liability insurance policy. The policy, which expires on 31 August 2011, provides cover in respect of any person who is or was a director or officer of Australia Post, when acting in these capacities. Australia Post also maintains a separate insurance policy, which provides cover to all former directors or officers of the corporation. This policy, which expires on 31 August 2020, provides cover in respect of any matters arising from the time such persons were a director or officer of Australia Post. Confidentiality requirements within the insurance contracts prohibit any additional disclosures.

Directors of Australia Post are also indemnified by the corporation to the extent permitted by law against any liability incurred in their capacity as a director.

Corporate plan

Each year, Australia Post provides a rolling three-year corporate plan. The 2010–11 plan and associated Statement of Corporate Intent were submitted to the shareholder ministers in June 2010. As pre-agreed with the shareholder ministers, a revised 2010–11 corporate plan was submitted in December 2010, detailing Australia Post's strategic direction under the Future Ready program.

Objective

Our primary objective is to provide high-quality, efficient services to the community. As much as possible, we will grow dividends and enhance shareholder value.

Strategies

The corporation has developed three enterprise strategies, aimed at achieving volume growth and positioning us to win in a highly competitive environment. The strategies and their main programs of work are as follows.

- 1 Restore a self-sustaining letters business:
 - Reduce letter costs through our Future Delivery Design program, realigning our delivery services to our CSO performance standards and reducing overhead costs. Generate letters revenue growth through price movements, volume and new product development.
- 2 Grow across the full value chain in parcels and win in e-commerce:
 - Increase market share in our business-to-consumer and consumer-to-consumer parcel offer. Restore value in our business-to-business offer, predominantly through our joint venture businesses.
- 3 Build a trusted services offer with multi-channel delivery:
 - Build a more convenient and efficient retail network. Grow the identity and financial services businesses. Grow our digital and telecommunications offer.

Targets

Key financial and non-financial performance measures set out in the plan were:

- profit before tax of \$303.8 million in the first year of the plan
- dividends paid of \$85 million in the first year of the plan, based on the existing dividend policy.

Specific targets for 2010–11 and performance against these targets were as follows:

Performance indicator	Target	Performance
On-time letter delivery	94%	96%
Profit before tax	\$303.8 million	\$332.3 million
Shareholder return on equity	11.8%	13.4%
Ordinary dividend declared for 2010–11	\$169.8 million	\$173.2 million

Government policies

In February 2004, the Minister of Communications, Information Technology and the Arts provided formal notification under section 28 of the *Commonwealth Authorities and Companies Act 1997* that the Government's National Code for the Construction Industry and associated implementation guidelines were to apply to all construction-related activity undertaken by and on behalf of Australia Post. The notification has had no major impact on the corporation as Australia Post had, since their introduction in 1997, made compliance with the code and guidelines a condition of all of its construction related tenders.

Section 49 of the *Australian Postal Corporation Act 1989* empowers the Minister to give the board written directions in relation to the performance of Australia Post's functions as appear to be necessary in the public interest. No notification or direction has been issued under this provision.

Other government obligations

Administrative law

The cost of meeting Commonwealth administrative requirements in 2010–11 is estimated at approximately \$1.5 million.

Postal Industry Ombudsman

During 2010–11, the PIO has estimated the costs of investigating complaints relating to Australia Post to be \$270,000.

ACCC record keeping

The cost of the regulatory audit and compliance with the ACCC's record keeping rules in 2010–11 is estimated at \$500,000.

Maintaining heritage properties

The costs of repairing and maintaining heritage listed properties in 2010–11 was \$2.5 million.

Medical/Educational Remote Area Parcel service

The Medical/Educational Remote Area Parcel service provides reduced postage rates for parcels containing health and educational material that are sent to and from people living in remote communities. In the 2010–11 reporting period, revenue foregone is estimated at \$149,500.

Superannuation

All Australia Post employees are covered by superannuation. During 2010–11, Australia Post complied with all relevant guidelines and made no significant changes to superannuation arrangements for employees.

Occupational health and safety (OH&S) report

The following information is presented in accordance with the requirements of s74 of the *Occupational Health and Safety Act 1991* (OH&S Act 1991).

A number of measures were taken during the year to assist in providing for the health, safety and welfare at work of employees and contractors of the Corporation.

These included:

- directing OH&S improvements through OH&S plans at national, state and workplace facility levels. These plans provide for OH&S management systems and supervisory accountability; auditing the effectiveness of the OH&S management system; induction and skills training; compliance with corporate and statutory OH&S requirements; workplace safety audits for hazard identification and control; accident prevention initiatives targeted at priority accident types; and OH&S communication and consultation with employees and contractors
- auditing OH&S legislative and Corporation OH&S policy compliance through the Australia Post Occupational Health and Safety Management System Quality Assurance Program. The Corporation recorded an overall high level of conformance with the OH&S audit criteria
- maintaining OH&S committees throughout the corporation
- providing OH&S related training for Health and Safety Representatives, managers, supervisors and staff throughout Australia Post to develop a greater understanding of corporate and statutory requirements
- implementation of high-visibility clothing and coloured panniers for motorcycles to improve the visibility of Postal Delivery Officers to other road users
- training motorcyclists in safe riding behaviour, undertaking risk reviews of motorcycle rounds; reinforcing existing safe work practices, including regular motorcycle maintenance inspections and auditing compliance with procedures
- launch of the I Am for Zero safety campaign led by the managing director and CEO
- implementation of safety cultural transformation program through the I Am for Zero initiatives
- introduction of a new IT system to replace the ageing Incident Management and Workers Compensation/Rehabilitation systems
- introduction of new capability for OH&S governance and OH&S risk management on the new IT system
- enhanced "Safety Observation and Feedback Program" training to managers and supervisors encouraging a two way interaction
- implementation of sequence machinery to improve safety in mail processing, in addition with separate mail bundling processes and bags
- development of electric bicycles and tricycles to improve safety
- continuing raising awareness through the "Safe Postie Campaign" and understanding about common hazards
- continuing to implement "Our Ethics" policies and procedures to assist managers and employees understand these issues and provide for diagnostic tools to determine if a situation might be bullying and a guide for managers to assist in preventing and managing bullying
- finalisation of obligations under an enforceable undertaking entered into with Comcare in relation to an alleged failure by Australia Post to observe its duties under the OH&S Act
- advising contractors on safe work practices
- continuing implementation of the corporation's Employee Health and Wellbeing strategy, including confidential staff counselling services for our employees.

As a result of these and other initiatives, the corporation met the injury prevention performance targets of the Safety, Rehabilitation and Compensation Commission.

During the year:

- 552 incidents were notified to Comcare in accordance with s68 of the *OH&S Act 1991*.
- 18 Provisional Improvement Notices (s29) given.
- No Prohibition Notices (s46) given.
- No Improvement Notices (s47) given.
- 8 investigations were conducted relating to:
 - plant and machinery safety (5)
 - emergency and fire procedures (1)
 - mail delivery including motorcycle operations (1)
 - incidents involving contractors (1).

Freedom of information report

In the year to 30 June 2011, Australia Post received 46 applications under the *Freedom of Information Act 1982* (Cth).

These were handled as follows:

Granted in full	26
Granted in part	2
Access refused	12
Withdrawn	3
On hand at 30 June 2011	3

There were two applications for internal review during the year – both applications resulted in the decision of the Freedom of Information Officer being substantially affirmed.

No additional costs were incurred in the handling of Freedom of Information requests and related responsibilities in 2010–11.

Freedom of Information Act, Section 8

The following information is presented in accordance with section 8 of the *Freedom of Information Act 1982*.

Organisation and functions

Australia Post has a Melbourne based headquarters, which is currently made up of strategic business units supported by a number of functional business units. There are also two joint ventures.

Consultative arrangements

Australia Post consults directly with major mail users, customers and various bodies to respond to customers needs.

A joint Mailing Industry Advisory Committee operates with the Major Mail Users Association for the purpose of enhancing relationships between Australia Post and its major customers.

The Stakeholder Council provides a further external forum for discussing Australia Post's services and performance. The council's charter also includes a corporate responsibility role.

Australia Post also consults extensively with private mail users through local managers and customer contact services.

Market research is undertaken regularly to monitor how well Australia Post is satisfying customer needs and how the postal system is regarded by the public.

Australia Post's letter delivery performance is independently audited. Formal reports are published on a quarterly basis.

Statutory reporting requirements

for the year ended 30 June 2011

Categories of documents

The categories of documents maintained by Australia Post include those relating to:

- corporate organisation and administration
- Australia Post's financial management
- management of assets
- internal administration, including policy development and program administration, reports, briefings, correspondence, minutes, submissions, statistics and other documents
- Board submissions relating to the business of Australia Post
- reference material used by staff, including guidelines and manuals
- working files
- legal advice.

The categories of documents listed above are maintained by Australia Post in a variety of formats. Some of these documents, along with information on Australia Post's organisation, structure and activities, can be obtained free of charge by accessing Australia Post's website at www.auspost.com.au.

Access to documents

Access to documents under the Freedom of Information Act can be obtained by forwarding a written request together with the prescribed fee to:

Freedom of Information Officer
Legal Services
Governance and Assurance
Australia Post Headquarters
GPO Box 1777
MELBOURNE VIC 3001

Privacy and access to personal information

Under the *Commonwealth Privacy Act 1988* individuals have, subject to certain exceptions permitted by law, a right to request access to their personal information that is held by Commonwealth agencies and private-sector organisations.

Individuals may apply for access to their personal information held by Australia Post by writing to:

Privacy Contact Officer
Legal Services
Governance and Assurance
Australia Post Headquarters
GPO Box 1777
MELBOURNE VIC 3001

Fraud control

Australia Post has in place an internal control framework, which includes strategic, financial, operational and compliance elements designed to deter and detect instances of fraud. This framework is supported by a national fraud control policy and the corporation's *Our Ethics* policy.

The corporation's Governance and Assurance Group comprises a number of specialist groups responsible for providing risk and compliance, audit, assurance, legal, and security and investigation services to Australia Post.

The Corporate Risk Management Group is responsible for an enterprise-wide approach to risk management, including identification, measurement and mitigation of business risks across all areas of the business. The framework and underpinning processes are consistent with the principles of the relevant standards.

The Corporate Audit Services Group applies a systematic risk-based, control and governance methodology to review business operations and related systems, including policies and procedures, which make up the control environment.

The Corporate Security Group is a specialised internal group that provides security consultancy, crime analysis and investigative services to Australia Post. The Corporate Security Group works closely with law enforcement agencies both within Australia and internationally. There are a number of programs in place to manage risk and compliance in specific areas, including fraud.

Examination of mail

International mail

Australia Post is authorised under the *Australia Postal Corporation Act* to open mail, as required by the Australian Customs Service, in the following circumstances:

- when it is suspected that articles may contain prohibited substances; or
- to determine that appropriate duties/taxes are met.

Australian Customs Service personnel have also been authorised under section 90T of the Act to remove and open articles in excess of a particular weight that Customs reasonably believes may contain certain drugs or other chemical compounds being carried in contravention of a law of the Commonwealth. Customs has also been authorised under section 90FB (3) of the Act to act as an authorised examiner for the purpose of examining mail without opening (ie by X-ray or with drug detection dogs).

Domestic mail

Quarantine inspection officers from a prescribed state or territory (ie Western Australia, Tasmania or Northern Territory) are authorised under section 90U of the Act to request Australia Post to open, for inspection, any article for delivery in that prescribed state or territory; where the inspection officer has reasonable grounds to believe the item consists of, or contains, quarantine material.

Section 90UA authorises Australia Post to remove articles from the mail stream where it is suspected that the article consist of, or contain scam mail. Suspected scam mail may also be withdrawn from the mail upon receipt of a written request from a consumer protection agency.

In accordance with Section 90FB, Australia Post has appointed authorised examiners at designated locations where mail can be opened for inspection.

Authorised Australia Post staff may open undeliverable articles at approved locations for the purpose of identifying intended or return addresses. They may also open mail to repair an article or its contents so that the article can be made safe for carriage by post.

Disclosure of information

The corporation is authorised to disclose information to agencies that have the legislative power to obtain such information. This includes instances relating to enforcement of the criminal law, the protection of the public revenue, the reduction of threats to life and notification of next of kin.

As required under s.43 (o) (i) (ii) of the *Australian Postal Corporation Act 1989*, Tables 1 and 2 overleaf, detail the number of times that such information was disclosed during the year and the authorities or bodies to which it was disclosed.

Table 1: Disclosure of Information/documents (Section 90J "Authority")*

(Applies to all information or documents)

Authority for disclosure	Number of disclosures	Disclosures made to
Disclosure under warrants [s. 90J(3)]	40	Australian Customs Service, State Police (QLD), State Police (VIC)
Disclosure under a law of the Commonwealth [s. 90J(5)]	2,724	Australian Crime Commission (Federal), Australian Competition & Consumer Commission (Federal), Australian Customs Service (Federal), Australian Taxation Office (Federal), Civil Aviation Authority (Federal), Child Support Agency (Federal), Centrelink (Federal), Medicare Australia (Federal), Department of Immigration and Citizenship (Federal), Insolvency & Trustee Services Australia (Federal), Department of Veterans Affairs (Federal)
Disclosures under certain laws establishing commissions [s. 90J(6)]	18	Crime Commission (NSW), Corruption & Crime Commission (WA), Independent Commission Against Corruption (NSW)

* There were no disclosures made under s. 90J (7) (8) or (9).

Table 2: Disclosure of information/documents (Section 90K "Authority")*

(Applies to information or documents not specially protected)

Authority for disclosure	Number of disclosures	Disclosures made to
Disclosure to authorised ASIO officer [s. 90K(4)]	27	Australian Security Intelligence Organisation
Disclosure for the enforcement of laws or protection of public revenue [s. 90K(5)]	4,706	Australian Communications Authority (Federal), Australian Fisheries Management Authority (Federal), Police (Australian Federal), Attorney General's Department (Federal), Australian Quarantine Inspection Service (Federal), Australian Securities & Investments Commission (Federal), Office of Fair Trading (QLD), Office of Consumer Affairs (TAS), Office of Consumer & Business Affairs (SA), Comcare Australia (Federal), Crime & Misconduct Commission (QLD), Victorian Casino and Gaming Authority (VIC), Crown Law Division (QLD), Department of Corrective Service (NSW), Crown Solicitor's Office (SA), Department of Environment & Conservation WA, Department of Education, Training & Youth Affairs (Federal), Department of Environment & Heritage (Federal) (Incorp. EPA), Department of Employment and Workplace Relations and Small Business (Federal), Police (Defence Force – Including Military, RAAF) (Federal), Department of Fisheries (WA), Department of Justice (QLD), Department of Agriculture, Fisheries & Forestry (Federal), Department of Fair Trading (NSW), Consumer Affairs Victoria (VIC), Department of Consumer & Employment Protect. (WA), Department of Gaming and Racing (NSW), Office of Gaming Regulation (QLD), Queensland Health (QLD), Department of Health & Aged Care (Federal), Inspector General Division (Federal), Liquor Licensing Division (QLD), Department of Justice (WA), NSW National Parks and Wildlife Services (NSW), National Parks & Wildlife (Federal), Department of Primary Industries (VIC), Police (New South Wales), Police (Northern Territory), Corrections Victoria, Passport Fraud Section (DFAT), Police Integrity Commission (NSW), Department of Primary Industries (Qld), Department of Primary Industries (SA), Office of Police Integrity (VIC), Police (Queensland), RSPCA (Federal), Residential Tenancies Authority (QLD), Police (South Australia), Department of Sustainability and Environment (VIC), Fisheries Compliance Unit (SA), Sheriff's Office (VIC), Sheriff's Office (WA), Office of State Revenue (NSW), Office of State Revenue (QLD), State Revenue Office (VIC), Revenue SA (SA) formerly State Taxation Office SA, Police (Tasmanian), Police (Victoria), Police (Western Australia), WorkCover New South Wales (NSW), WorkCover Queensland (QLD), Workcover Corporation (SA), WorkCover Authority (VIC)

* There were no disclosures made under s. 90K (2) or (3).
Note: Commonwealth agencies, unless otherwise indicated.

Australia Post – the statistics

for the year ended 30 June 2011

1 Five-year statistical summary

	2006–07	2007–08	2008–09	2009–10	2010–11
Consolidated					
Revenue (\$m)	4,711.1	4,959.2	4,985.3	4,870.6	5,006.6
Expenditure (\$m)	4,149.4	4,367.0	4,604.4	4,767.6	4,674.3
Profit before income tax (\$m)	561.7	592.2	380.9	103.0	332.3
Total assets (\$m)	5,490.0	5,477.0	4,270.2	3,915.2	4,135.1
Return on average operating assets (%)	19.6%	19.4%	12.2%	3.8%	10.9%
Unprofitable cost of community service obligations (\$m)	97.3	108.5	113.8	147.7	142.1
Total taxes and government charges (\$m)	474.9	548.1	499.5	448.6	436.2
Ordinary and special dividends (\$m)	296.9	446.2	222.4	79.1	173.2
Corporation					
Total mail articles (m)	5,515.8	5,609.4	5,323.4	5,145.0	5,034.5
Full-time employees (excluding casuals)	25,027	25,042	25,107	24,172	23,369*
Part-time employees (excluding casuals)	9,497	9,936	10,196	10,086	10,103*
Labour productivity improvement (%)	1.40	2.60	(3.10)	0.0	1.70
Number of corporate outlets	846	831	827	810	786
Number of licensed post offices ⁽¹⁾	2,969	2,977	2,969	2,963	2,948
Number of community postal agencies	634	645	637	642	685
Delivery points (m)	10.3	10.5	10.6	10.7	10.9

(1) Includes 29 franchised post offices.

* Excludes fixed-term employees.

2 Basic postage rate⁽¹⁾ (BPR) and the consumer price index (CPI)

	2007	2008	2009	2010	2011
BPR cents	50	50	55	60	60
Year on year change in CPI all groups	157.5	164.6	167.0	172.1	178.3
BPR index (base 1989–90 = 100)	122.0	122.0	134.1	146.3	146.3
Year on year change in BPR	0.0%	0.0%	10.0%	9.1%	0.0%
Year on year change in CPI	2.1%	4.5%	1.5%	3.1%	3.6%
Change in real postage	(2.0)%	(4.3)%	8.5%	6.0%	(3.6)%

(1) Postage rates applicable to standard letters carried within Australia by ordinary post.

3 Australia Post outlets at 30 June 2011

	NSW/ACT	VIC/TAS	QLD	WA	SA/NT	Total
Corporate offices						
1 July 2010	268	221	160	87	74	810
30 June 2011	263	213	151	86	73	786
Licensed post offices/franchises						
1 July 2010	904	976	467	297	319	2,963
30 June 2011	903	964	466	297	318	2,948
Community postal agencies						
1 July 2010	107	73	188	82	192	642
30 June 2011	112	79	192	95	207	685
Total outlets						
1 July 2010	1,279	1,270	815	466	585	4,415
30 June 2011	1,278	1,256	809	478	598	4,419

4 Australia Post outlets by state and geographic classification

Geographic ⁽¹⁾ classification	NSW	ACT	VIC	QLD	SA	WA	TAS	NT	Oth Terr	Australia
Metro	610	55	518	266	178	187	43	10	0	1,867
Rural	563	1	515	374	271	157	145	8	0	2,034
Remote	54	0	19	168	53	137	6	73	8	518
	1,227	56	1,052	808	502	481	194	91	8	4,419

(1) Geographic Classifications use DPIE/HSH November 1994 Metropolitan, Rural Remote Areas Classifications by 1991 Census SLA.
Note: This table uses Geographic States, not Australia Post Administrative States.

5 Frequency of service to delivery points (% of total points as at 30 June 2011)

Frequency per week	Metro areas	Rural areas	Remote areas	Total
One	0	0.1	0.3	0
Two to four	0.1	3.9	4.7	1.2
Five or more	99.9	96.0	95.0	98.8
Total	100.0	100.0	100.0	100.0

6 Overall letter service performance in 2010–11

	Full year 2010–2011	Quarter ended 30/6/11	Quarter ended 31/3/11	Quarter ended 31/12/10	Quarter ended 30/9/10
Per cent on time					
NSW	96.4	96.4	97.4	96.0	96.0
Vic	96.0	95.9	96.7	95.3	96.3
Qld	94.9	95.1	95.5	93.5	95.3
SA	95.5	96.3	95.9	94.2	95.6
WA	96.1	96.4	96.6	94.9	96.4
Tas	97.7	97.9	98.3	97.2	97.5
NT	95.6	94.1	96.9	94.9	96.0
ACT	96.3	96.8	96.5	94.5	96.7
National averages	96.0	96.1	96.7	95.2	96.0
Per cent + One day					
NSW	98.9	98.7	99.5	98.7	98.8
Vic	99.1	99.0	99.4	98.8	99.3
Qld	98.9	99.0	99.2	98.7	98.6
SA	98.7	99.0	98.8	98.4	98.7
WA	99.1	99.0	99.1	99.0	99.4
Tas	99.5	99.4	99.7	99.4	99.4
NT	99.2	99.2	99.6	99.2	99.0
ACT	99.2	98.9	99.6	98.3	99.7
National averages	99.0	98.9	99.3	98.7	99.0

7 Total articles through Australia Post's network (millions) ⁽¹⁾

	2006–7	2007–8	2008–9	2009–10	2010–11
Posted in Australia for delivery in Australia	5,224.1	5,330.6	5,074.9	4,867.2	4,780.3
Posted in Australia for delivery overseas	141.6	115.9	103.4	91.7	81.7
Total posted	5,365.7	5,446.5	5,178.3	4,958.9	4,862.0
Posted overseas for delivery in Australia	150.1	162.8	145.1	186.1	172.5
Total articles through network	5,515.8	5,609.3	5,323.4	5,145.0	5,034.5

(1) Mail volume statistics exclude articles that do not generate revenue, eg official mail, redirected mail and international mail (eg Singapore to New Zealand via Australia).

Index

Information that satisfies a statutory reporting requirement is indexed separately (see pages 123 to 125).

IFC = inside front cover

A	Pages
About this report	135
access to mail services	42, 115
accountability	7, 11
accounting policies, estimates and assumptions	65, 67
assets	8, 9, 50, 54, 59, 60, 64–130 passim
assurance	135
audit (see also committees)	54, 57, 58
Auditor-General's Report on performance standards	116–22
Australian Accounting Standards and Interpretations	65
Australian air Express	13, 25, 27, 83
Australian Competition and Consumer Commission (ACCC)	17, 22, 126
Australian dollar	7, 8, 22, 25, 26, 105
B	
balance sheet	60
banking services	7, 11, 28, 29, 31
Banksia Environmental Foundation	17, 41
basic postage rate	7, 8, 20, 21
benefits paid/payable	67, 75, 77, 84–5, 97, 98, 99–100, 101
bill payment	6, 7, 11, 28, 29, 30, 31
board of directors	3, 6, 7, 11, 14–15, 16, 46, 52
bonds	72, 75, 90, 102, 107
borrowings	61, 74, 107
brand, the Australia Post	2, 3, 13, 16, 19, 24, 28
Brisbane GPO	29, 30
bulk mail	20, 21
business combinations	68
business plan	17
business-to-business (B2B) and business-to-customer (B2C) transactions	13, 19, 26, 27, 113, 126
C	
capital expenditure	8, 9
carbon emissions	11, 17, 33, 46, 47, 48
cashflow hedges	69–70, 79, 92, 104, 106
cashflow statement	61, 112
cashflows	8, 69, 70, 71, 72, 73, 74, 88, 89, 104, 106, 107, 109, 110
Channel Enablement – Point of Sale upgrade	19, 30, 31
charities: see donations	
Commitments, Schedule of	63
committees, board	15, 33, 37, 46, 52, 53, 54, 55, 139
community consultation, investment and engagement	6, 10, 11, 17, 33, 38, 39, 40, 42
community postal agencies/agents	130, 131, 135, 139
community service and CSOs	2, 5, 6, 7, 13, 20, 33, 42, 115
complaint handling	42, 43
compliance	44, 65
conflict of interest	53
Contingencies, Schedule of	64
corporate governance	52–5
corporate information	114
corporate plan	52, 126
corporate responsibility (CR) performance and strategy	10, 16, 33, 42, 55
corporate responsibility (CR) report, Australia Post's	IFC, 10, 16, 32–49
counselling, staff	37
courier services (see also Express Courier International, Messenger Post Couriers)	13
culture pillars	3, 7, 11, 34, 35
customer contact centres	43, 44
customer service and satisfaction	11, 42, 43, 44
customers, focus on and response to	3, 7, 8, 11, 18, 20, 24, 28, 42, 43, 44
D	
Decipha	13, 21, 22, 82
delivery, mail	
addresses for	11, 20, 21
domestic and international	13, 22, 26
frequency and timeliness of	2, 5, 7, 13, 20, 21, 22, 25, 126
processes	23

depreciation and amortisation	59, 71, 74, 77, 79, 87, 94, 95, 112
digital communications and economy	IFC, 2, 3, 6, 7, 8, 18, 19, 20, 21, 22, 28
disability, people with a	36
disaster relief (see also Queensland floods)	10, 38, 39, 40, 41
disclosure of information	128, 129
diversity, workforce	35, 36, 37
dividends	6, 8, 9, 13, 68, 93, 126
donations, public and charity	5, 39, 41
Driving Business Online initiative	17, 24

E	
eBay	7, 19, 24, 25, 26
e-commerce	2, 3, 6, 19, 24, 25, 126
election mailings	8, 20, 21
electronic substitution/alternatives: see digital communications/economy	
eLetter mail house	23
employees/employment: see workforce	
energy consumption and efficiency	17, 33, 46, 47, 48
Energy Efficiencies Opportunities	17, 46, 47, 48
Enterprise Event Management project	25
environmental imperatives, standards and performance	IFC, 5, 6, 10, 46–9
ePacket	27
eParcel	27
eParcel Post Returns	25
ethical standards	53
examination of mail	128
Express Courier International	26
Express Post	20, 25, 26, 29, 30

F	
Fair Work Agreement (FWA)	2, 3, 5, 7, 17, 35, 36, 37
feedback	139, 141
females employed	5, 34, 36
finance costs	59, 74, 78
financial guarantees	75, 89, 108, 109
financial services	7, 8, 13
Financial Statements Audit Report	57
financing activities	61, 71
fleet, transport	16, 46, 48
foot traffic, retail	2, 6, 7, 11, 28, 29, 30, 31
foreign currency/exchange	28, 30, 31, 54, 59, 62, 70, 77, 81, 92, 102, 103, 104–5, 110
franchisees and franchises	6, 13, 36, 46, 130, 131, 135, 139
fraud control	43, 54, 128, 129
freedom of information	126
fuel, production, purchase, consumption and efficiency of	11, 33, 47, 48, 49, 54, 92, 104, 106
Future Delivery Design program	11, 19, 20, 21, 23
Future Leaders initiative	35
Future Ready business renewal program	passim
Future Skills initiative	2, 3, 5, 10, 17, 35

GH	
gift/greeting cards and gifts	11, 28, 29, 30
GRI (Global Reporting Initiative)	16, 33, 139, 140
goodwill	67, 70, 71, 73, 74, 77, 88, 89, 95, 96, 112, 113
government services	13, 29
greenhouse gas emissions	2, 5, 10, 11, 33, 46, 47, 48, 49
harassment and discrimination	36
health: see occupational health and safety	
heritage properties	126

I	
I Am for Zero: see Safety program	
identity services	7, 8, 13, 28, 29, 30
image capture service	29, 30
impairment	59, 67, 69, 70, 71, 72, 73, 74, 77, 78, 81, 83, 84, 87
income tax	9, 59, 61, 70, 71, 78, 79, 80, 84, 94, 95, 112, 130
Indigenous Australians, employment of	6, 36
injuries/injury prevention	7, 34
instruments, debt, equity, hedging and financial	54, 65, 68, 69, 72, 73, 102–110 passim
insurance	54, 74, 75, 126
intangibles	61, 67, 73, 74, 77, 88, 112

interest	59, 68, 69, 70, 74–112 passim
interest cover	8, 9
interest rates/rate swaps	54, 69, 72, 78, 102, 103, 107, 108, 109
International Financial Reporting Standards (IFRS)	65–6
international mail	7, 8
International Women's Day	17
inventories	60, 69, 81, 96
investing activities	61
investment property	67, 68, 88
investments in controlled and jointly controlled entities	82–3
IPC Sustainability Report	17
iPrint	7

JK

joint ventures/jointly controlled entities	13, 25, 27, 59–95 passim, 101–13 passim
Kahala Postal Group	27
key performance indicators	10, 22
Kids Teaching Kids	39

L

land and buildings	59, 77, 78, 87, 92, 96
leases	63, 111
leave entitlements	37, 99, 100
letters: <i>see</i> delivery; volumes	
letters business	2, 3, 6, 7, 8, 19, 20–23, 27, 126
liabilities	60, 64, 89, 90, 91
licensed post offices (LPOs)	17, 130, 131, 135
licensees	6, 13, 17, 36, 46, 53, 139
liquidity risk	102, 109
loans and loan commitments	72, 74, 76, 77, 81, 101–13 passim
lost time injury frequency rate/LTIFR (<i>see also</i> injuries)	34, 35

M

mail	11, 21, 22, 23
Mail Redirection and Mail Holding services	23, 31, 40, 135
materiality	IFC, 16, 22
Medical/Educational Remote Area Parcel service	126
merchandise	8, 28, 30, 41, 43, 93
Messenger Post Couriers	13, 27
minister responsible	52
money orders and transfer services	7, 28
morale, staff	10, 11, 35
multi-channel services (<i>see also</i> SecurePay)	3, 6, 11, 19, 22, 25, 26, 28, 29, 30, 31, 126
My Mentor program	36

NO

National Energy Management program	47
National Environmental Protection Measures (NEPM)	46
national greenhouse and energy reporting	17, 46
National Literacy and Numeracy Week	40
network	
mail delivery	2, 3, 7, 20, 21, 25
retail	2, 3, 5, 8, 11, 13, 28, 31
non-English speaking backgrounds, employees from	36
non-reserved services	7, 94, 95, 122
occupational health and safety	34, 35, 37, 127
office supplies, online	28, 30
Off-Peak service	22
ombudsman, postal industry	126
online trading and services	8, 11, 19, 21, 23, 24, 25, 26, 27, 28, 29, 30, 31
operating segments and activities	61, 93–6
outlets, retail	2, 5, 7, 8, 12, 13, 19, 27, 28, 29, 30, 33, 41, 44, 45, 115, 130, 131, 132, 135
Oz Opera	40

P

packaging and product packaging	13, 30, 33, 45
Parcel Post	25, 29
parcels	7, 11, 13, 19, 24, 25, 26, 27, 30, 43, 63, 126
parcels business	3, 6, 7, 8, 11, 23, 24–7, 93, 126
partners and partnerships (<i>see also</i> eBay)	7, 17, 22, 24, 26, 27, 29
passport services	29, 31
PayPal	7, 24

people, Australia Post's (<i>see also</i> workforce)	2, 34
performance against targets	2, 126
Performance Ready program	3, 10, 11, 33, 34, 35
philatelic products and services	29, 30
Post Logistics Hong Kong	13
postage rate: <i>see</i> basic postage rate	
Postal Industry Ombudsman	43
Postbillpay	22, 29
PreSort	21, 22
Print Post	21
PrintSoft	7, 23
privacy	16, 43, 54, 55, 128
procurement, sustainable	43, 44
productivity	9, 23, 26, 27, 37, 130
profit	2, 3, 5, 7, 8, 9, 59, 112, 126
profit and loss	3, 23, 27, 67, 73
property, plant and equipment	59, 61, 71, 72, 77, 87, 92, 96, 112, 113
protected species	49

QR

Queensland floods	8, 10, 38, 40
receivables, trade and other	60, 63, 69, 71, 72, 76, 77, 80, 81, 92, 96, 101–13 passim
Recognition Improvement project	23
Reconciliation Action Plan	6, 17, 33, 35, 36
recruitment	37, 52
recycling	5, 17, 33, 41
redundancy	35, 37, 67, 75, 77, 90
Registered Post	26, 31
reliability of service	42, 115
remuneration	53, 93, 97
reporting requirements, statutory	123–9
reserved letters/services	7, 9, 22, 94, 95, 122
reserves	60, 70, 83, 92, 102
restructuring, costs of	8, 59
retail, agency and merchandise services portfolio	8, 28, 93, 94, 96
retail model, next-generation	2, 29
retail business	3, 6, 7, 8, 28–31
retail outlets: <i>see</i> network	
return on equity	9, 126
revenue(s)	2, 3, 6, 7, 9, 24, 25, 27, 28, 29, 59, 67, 76
risks and risk management	33, 46, 54, 102–10
rural and remote areas/communities	13, 16, 28, 29, 115

S

safety	3, 7, 11, 16, 35, 37
Safety strategy	3, 7, 10, 11, 17, 32, 33, 34, 35, 37
Sai Cheng Logistics International	13, 14, 27, 83
Sales Capability initiative	35
sales force	11, 23, 42, 43
Sample Post	22
SecurePay	7, 13, 19, 24, 25, 26, 89, 113
security	
aviation	25, 26
corporate	43, 44, 54, 128
segments, operating	68, 73, 93–6
self-service	11, 27, 28, 29, 30, 43
Send Me service	3, 22
service quality	3, 19
shareholder and shareholder ministers	7, 16, 17, 52
shareholder return on equity	9, 102
significant accounting policies, summary of	65
smartphone app	7, 19, 25, 29
social cohesion	10, 38, 40–41
social imperatives and performance	IFC, 5, 6, 10, 33, 44, 139
social media	43
sourcing: <i>see</i> procurement	
speed of action	3, 7, 11, 34
stabilisation, business	2, 3, 5, 6, 8, 19
staff: <i>see</i> workforce	
Stakeholder Council	10, 16, 139
stakeholders, engagement with	3, 10, 16–17, 33
stamps (<i>see also</i> philatelic products and services)	13, 29, 30, 31, 40, 132
standards, financial reporting and accounting	67, 68

Index

Star Track Express	13, 25, 27
Statement of Changes in Equity	62
Statement of Comprehensive Income	59
Statements by directors, CEO and EGM finance & business services	56
statistics, Australia Post	130–35
stores-in-store	19, 28, 30
strategies, enterprise	2, 3, 8, 10, 11, 126
street posting boxes	13, 115, 132
superannuation	53, 60, 67, 77, 79, 84–6, 91, 95, 99, 100, 101, 126
supplier code of conduct	17, 33, 43, 44
survey, workforce	35–6
sustainability	10, 11, 33, 38

T

track and trace capability	25, 43
trade payables and receivables	69, 80, 102
travel-related products	28, 31
treasury	54, 108, 109
turnover, staff	37

UV

UCan2 program	10, 36, 38, 40
Universal Postal Union (UPU)	7, 22, 24, 26
Voice of Our Customer program	43
volumes	
domestic letter	2, 7, 8, 20
domestic parcel	25
international mail	22, 25, 26
overall mail	3, 9

W

waste management	49
whistleblower policy	37, 53
women employed: see females employed	
workers' compensation	64
workforce, Australia Post	13, 17, 28, 29, 33, 35, 37
workforce diversity	36, 40
Workplace Giving program	5, 10, 33, 38, 39
workplace flexibility	37

Glossary

balance sheet A statement of Australia Post's assets and liabilities and the amount of the Commonwealth Government's investment at the end of the financial year.

cashflow statement Shows the derivation of the corporation's cash resources during the financial year and its cash outlays.

CO₂-e There are six greenhouse gases that are converted to units of carbon dioxide to provide a more simplified measure. Collectively these are called carbon dioxide equivalents or CO₂-e.

community service obligations A set of legal obligations imposed on an enterprise to provide additional services to the community in which it operates. These are usually loss-making services based on human need or quality of life.

current assets Assets that are likely to be converted to cash within the next 12 months.

current liabilities Liabilities that are due and payable within the next 12 months.

digital economy The economy that derives from global economic and social connection and collaboration between individuals and businesses. This activity is made possible by the Internet as well as mobile and sensor networks. A successful digital economy is essential for Australia's economic growth and our ability to maintain our international standing.

digital substitution The replacement of traditional forms of communication with those generated electronically – for example, replacing letters with email.

e-commerce Business activity based on electronic forms of communication such as online transactions.

equity The corporation's total capital and reserves plus profits that have been reinvested over the years.

hedging A risk-management strategy used to limit or offset a likely loss from fluctuations in the prices of currencies, commodities or securities.

multi-channel services Services whereby a customer uses a combination of means (or "channels") to complete a transaction – for example, government application forms accessed and completed online then printed and lodged in person at an Australia Post retail outlet.

non-current assets Assets that will be held for a long-term period.

non-current liabilities Liabilities that that will be owed for a long period.

reserved services Letter services that Australia Post is required to perform as part of its community service obligations and that may not be offered by any other business. These services are subject to price constraints and operate at a loss. (Conversely, non-reserved services are offered in a competitive environment and are profitable for Australia Post.)

Scope 1 emissions Direct emissions generated by Australia Post through its use of gas or diesel and petrol.

Scope 2 emissions Direct emissions generated by Australia Post through its use of electricity.

Scope 3 emissions Indirect emissions generated by other organisations on Australia Post's behalf, eg outsourced transport.

statement of comprehensive income The revenue and running costs of the corporation for the financial year.

store-in-store A third-party retail "shop" within an Australia Post retail outlet, offering customers the convenience of purchasing related products and services at the one location.

two-speed economy An economy such as Australia's in which one sector (such as mining) is booming and others are suffering a downturn said to be exacerbated by higher interest and exchange rates associated with the boom.

Abbreviations

24/7	24 hours a day, seven days a week
ACCC	Australian Competition and Consumer Commission
APRA	Australian Prudential Regulation Authority
ATM	automated teller machine
B2B	business-to-business
B2C	business-to-customer
BPR	basic postage rate
CBD	central business district
CEO	chief executive officer
CE-POS	Channel Enablement – Point of Sale
CGUs	cash-generating units
CPI	consumer price index
CR	corporate responsibility
CSO	community service obligation
EMS	environmental management system
FDS	First Direct Solutions
FWA	Fair Work Agreement
GRI	Global Reporting Initiative
IPC	International Postal Corporation
LTIFR	lost time injury frequency rate
MOU	memorandum of understanding
MPC	Messenger Post Couriers
NGA	National Greenhouse Accounts
NEPM	National Environmental Protection Measures
NGERS	National Greenhouse Energy Rating Scheme
OH&S	occupational health and safety
PIO	Postal Industry Ombudsman
SCLI	Sai Cheng Logistics International
UPU	Universal Postal Union

About this report

Reporting aims and rationale

Our first integrated annual report provides a detailed account of our financial, social and environmental performance. The purpose of the report is to communicate to our stakeholders our overall performance, and how we address and manage our social, environmental and economic issues.

To produce a report that is in line with best-practice, information is prepared according to legislative requirements, GRI G3.1 Guidelines and the GRI Transport and Logistics Sector Supplement, and the principles of the UN Global Compact Initiative.

Target audience

Our integrated annual report is targeted at key stakeholders, including our people, our customers, the Australian community and our shareholder, the federal government. However, the content in this report would also be of interest to a broader range of stakeholders, including regulators, suppliers, industry bodies, community and non-government organisations, the media and opinion leaders.

More information on our stakeholders, including our materiality process and the engagement activities we undertook this year, are provided on pages 16 to 17.

Reporting period

The information contained in this annual report covers the 2010–11 financial year.

In previous years, environmental data has been reported in calendar years. This year, due to improved data collection processes, our environment data has been reported for the financial year. Unless otherwise stated, figures from previous years have been adjusted to a financial year basis to allow for year-on-year comparison.

Report scope and boundary

This report covers the activities of the Australian Postal Corporation and its associated companies. Our licensees, franchisees, community postal agents and mail contractors fall outside the parameters of this report. However, there are some references to them in the people section (see page 36), the environment section (see pages 46 to 49) and in Australia Post – the statistics (see page 130).

Assurance

We undertake a thorough assurance process for our integrated annual report, which includes the following:

- The board Audit and Risk Committee checks the financials statements to ensure that they are accurate and complete.
- Our financial statements and our performance against our prescribed performance standards are independently audited by the Australian National Audit Office.
- Research International verifies the delivery performance of our domestic letters service and Deloitte Touche Tohmatsu independently assures Research International's report.
- Our internal audit group checks the accuracy of most of the data reported in the sections on people, community and customer, and some data in the environment section.
- Most of our environmental data is independently verified by Genesis Now to ensure that it is complete and correct.
- Halcrow Pacific Pty Ltd provides independent quality assurance of our application level and our report against the GRI framework.

GRI application level

Our integrated annual report has been self-declared and third party checked as a B application level. A summary GRI table is provided on the following page. Our full GRI table, UN Global Compact table and our disclosure to management approach is available on our website at www.auspost.com.au/2011annualreport.

Stakeholder Council review

Our Stakeholder Council conducted a review of our integrated report and our corporate responsibility performance. Their statement is provided on page 10 of this report.

Assurance statement



Quality assurance

Australia Post commissioned Halcrow Pacific Pty Ltd (Halcrow) to provide it with external quality assurance on its *Integrated Annual Report 2010–11*. This is Australia Post's first integrated report covering its financial, social and environmental performance.

Halcrow based this quality assurance assignment on the Global Reporting Initiative (GRI) sustainability reporting guidelines and best practice corporate responsibility reporting. Halcrow has not assured underlying data or systems that supported the preparation of the *Integrated Annual Report 2010–11*, or the accompanying financial statements or statutory reporting.

Key conclusions

Halcrow considers that Australia Post is actively demonstrating leadership on integrated annual and corporate responsibility reporting through preparation of its first *Integrated Annual Report 2010–11*. Australia Post can build off this process, and further integrate and embed corporate responsibility within its corporate strategy, systems, processes and operations. Australia Post is setting a leading example for other corporations to follow in terms of integrated reporting.

Halcrow considers that Australia Post has reported against key corporate responsibility impacts, risks and opportunities. Halcrow recommends that Australia Post further refine its materiality assessment process to continue to report against material corporate responsibility topics of interest to stakeholders. Over time, Australia Post will also be able to develop and report against a broad suite of measures and targets for all material corporate responsibility topics.

Halcrow has also performed a "Third Party Check" of the GRI Application Level and confirms that Australia Post has achieved a GRI "B Application Level" through this Integrated Annual Report.

Our opinion

Halcrow considers that Australia Post's *Integrated Annual Report 2010–11* provides an appropriate and balanced representation of its response to, and performance on, corporate responsibility. Halcrow has also prepared a detailed quality assurance statement and commentary for Australia Post.

Halcrow Pacific Pty Ltd

Phil Hughes
Principal Consultant: Sustainability & Water Management
12 August 2011

GRI index

GRI Standard Disclosures	Number	Page(s)	Report sections
Strategy and analysis	1.1, 1.2	6–7	Chairman’s report; and Managing Director and CEO’s report
Organisational profile	2.1–2.10	2–3 12–13 Inside back cover	Future Ready About Australia Post Awards and acknowledgements
Report profile	3.1–3.4	135 16–17	About this report Stakeholder engagement
Report scope and boundary	3.5–3.11	135	About this report
GRI index	3.12	136	GRI index – full GRI index on website
Assurance	3.13	135	Quality assurance
Governance	4.1–4.10	52	Corporate governance
Commitments to external initiatives	4.11–4.13	54 Inside back cover	Risk management Global sustainability initiatives
Stakeholder engagement	4.14–4.17	16–17	Stakeholder engagement
Disclosure on management approach		33	Managing our impacts – full disclosure on website

GRI Performance Indicators		Page(s)	Report section	Coverage
Environmental	EN1	45	Connecting with our customers	Partial
	EN2	45	Connecting with our customers	Full
	EN3	46–48	Managing our environmental impact	Full
	EN4	46–48	Managing our environmental impact	Full
	EN5	47–48	Managing our environmental impact	Full
	EN8	49	Managing our environmental impact	Full
	EN11	49	Managing our environmental impact	Full
	EN12	49	Managing our environmental impact	Full
	EN16	46–47	Managing our environmental impact	Full
	EN18	46–47	Managing our environmental impact	Full
	EN22	49	Managing our environmental impact	Full
	EN23	46	Managing our environmental impact	Full
	EN26	45	Managing our environmental impact	Full
	EN27	45	Managing our environmental impact	Full
EN28	46	Managing our environmental impact	Full	
Human rights	HR3	36	Supporting our people	Partial
	HR4	36	Supporting our people	Partial
	HR5	36	Supporting our people	Full
Labor practices and decent work	LA1	36–37	Supporting our people	Full
	LA2	37	Supporting our people	Full
	LA4	36	Supporting our people	Full
	LA7	35	Supporting our people	Partial
	LA13	36–37	Supporting our people	Partial
	LA15	37	Supporting our people	Partial
Society	SO1	16–17	Stakeholder engagement	Full
		42	Connecting with our customers	
		48	Managing our environmental impact	
	SO2	43	Connecting with our customers	Partial
SO8	44	Connecting with our customers	Partial	
Product responsibility	PR5	44	Connecting with our customers	Full
	PR6	43–44	Connecting with our customers	Full
	PR7	44	Connecting with our customers	Full
	PR8	43	Connecting with our customers	Partial
	PR9	44	Connecting with our customers	Full
Economic	EC1	51	Financial report	Full
	EC2	33	Managing our environmental impact	Partial
	EC3	84, 126	Financial and statutory reports	Full
Transport and Logistics Sector Supplement (Pilot, 2006)	LT2	48	Managing our environmental impact	Full
	LT9	37	Supporting our people	Partial
	LT12	35	Supporting our people	Partial
	LT14	28–31 115	Retail: Providing trusted services Community service obligations	Full

GRI indicator EC9: Indirect economic impacts has not been reported in 2010–11.

Copies of the report

This report can be viewed online as an interactive PDF at www.auspost.com.au/2011annualreport. If you'd like to receive a printed copy, please email annualreport@auspost.com.au

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Feedback

We would like to hear your feedback so that we can continue to improve our business, including how we report on our performance. Feedback can be provided online at www.auspost.com.au/2011annualreport.

Credits

Editor/project manager

Mary Gillman

Design

Amanda Roach Design

Photography

Jamie MacFadyen

Print

Gunn & Taylor Printers:
ISO14001 compliant and FSC-certified

Ink

Vegetable-based

Paper

Front section: ENVI super smooth
Financial statements: ENVI 50/50



australian
made



carbon
neutral



elemental
chlorine
free



ISO
14001



processed
chlorine
free



recycled



sustainable
forest



Awards



Established in 1950

Australia Post received a gold award for its 2009–10 annual report at the 2011 Australasian Reporting Awards. www.arawards.com.au

Commitment to external initiatives

Australia Post is an active supporter of leading international initiatives in sustainability and community investment.



This integrated annual report is based on the GRI G3.1 Guidelines. www.globalreporting.org



WE SUPPORT

A signatory since 2010.
www.unglobalcompact.org
www.thehub.ethics.org.au/ungc



A supporter since 2007.
www.earthhour.org



A member since 2009.
www.lbg-australia.com

