

Supporting Information to
Australia Post's Price
Notification
November 2015

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Context

In August 2015 Australia Post provided the Australian Competition and Consumer Commission (ACCC) with a draft notification proposing changes to the Ordinary letter service, effective 4 January 2015. Information in the draft notification was based on Australia Post's 2014 Corporate Plan, which at the time was the most recent approved corporate plan.

To ensure the ACCC had the most recent and relevant information to use as the basis for its assessment of the draft notification, in October 2015, Australia Post provided a Supplementary Information document containing additional and updated information including:

- Updated financial information based on Australia Post's 2015 Corporate Plan, which included an additional year of forecast data (to 2017/18) with costs allocated on a fully absorbed basis;
- The increased benefit from the execution of the Reform our Letter Service Program (RoLS) major business transformation program; and
- Financial modelling to recognise the proposed increased discount for Promo Post (25% off the equivalent PreSort Regular barcoded price).

The Supplementary Information document also provided a short overview of Australia Post's regulatory obligations following the release of a Price Notification Declaration (Australia Post's Letter Services (No2) 2015), in September 2015.

In response to Australia Post's draft notification, the ACCC released its View in November 2015 which did not object to the proposed Ordinary letter service prices (including an increase in the basic postage rate (BPR) from 70c to \$1).

This Supporting Information document is provided in support of Australia Post's formal notification; which proposes the same Ordinary letter service prices as those that the ACCC did not object to in its View of November 2015. Furthermore, Australia Post reaffirms that:

- The concession stamp will continue to be offered to eligible (circa 5.7 million) Australians at 60 cents for a small letter; and
- The seasonal greeting card rate will continue to be offered at 65 cents for a small letter.

This Supporting Information document is largely based on the Supplementary Information document updated to include final 2014/15 financial results and detail on other proposed domestic letter prices including Priority letter prices (Appendix 1).

In assessing Australia Post's draft notification, the ACCC made certain adjustments to Australia Post's volume forecasts and WACC. Australia Post does not necessarily agree with these adjustments however, it will not contest them at this point.

Australia Post also acknowledges the comments by the ACCC and WIK Consult and commits to working with the ACCC in the lead up to any future price notification. Specific areas of focus would include:

- Cost allocation model – accurate reflection of regular and priority cost differences
- Letter volume forecasts – baseline forecasts and augmentation; and
- RoLS Program – demonstrated progress in achieving operational efficiencies and cost reductions.

For completeness, this document should be read in conjunction with Australia Post's draft notification of August 2015 and Australia Post's Supplementary Information document of October 2015.

1. Regulatory reform

Introducing the regulatory reform detailed in the 3 March 2015 Federal Government announcement required the Australian Postal Corporation (Performance Standards) Regulations 1998 and the Price Notification Declaration (Australia Post Letter Services) (No.2) 2011 to be amended.

On 10 August 2015, the Australian Postal Corporation (Performance Standards) Amendment (Speed of Mail Delivery) Regulation 2015, was tabled. The purpose of the amending Regulation is to enable Australia Post to introduce a two-speed letter service for all consumers, comprising letters delivered according to either a regular or priority timetable, as selected by the sender.

On 10 September 2015, Minister Billson made Price Notification Declaration (Australia Post Letter Services) (No.2) 2015.

The combined effect of these two documents is that once Australia Post introduces a two speed stamped offer:

- The Ordinary letter service will be delivered to the Regular delivery timetable and subject to ACCC prices surveillance; and
- Stamped letters delivered to the Priority delivery timetable will not subject to ACCC prices surveillance unless Australia Post proposes to offer the service at a rate exceeding 150 percent of the ordinary rate.

The changes proposed by Australia Post are consistent with the intent of the regulatory reform detailed in the 3 March 2015 announcement.

2. Stakeholder engagement – ongoing commitment

Australia Post has been extensively engaging stakeholders about business changes, new developments and initiatives that may impact the community. This has included:

- More than 143,000 conversations through the National Conversation Portal;
- More than 250 local community events and listening posts;
- Regular engagement with industry representative groups including mail-houses, ADMA, PIAA, and FIA; and
- Regular engagement with unions.

On 7 October 2015, representatives from the printing industry, mail houses, direct marketing industry, metering vendors, the licenced post office network and employee unions attended the first meeting of a newly formed industry consultative forum chaired by former Federal Victorian Senator Helen Kroger.

This new forum is not a substitute or replacement of any of Australia Post's existing stakeholder engagement activities. Rather, its purpose is to provide a way for all stakeholders with interests in the postal sector to share their issues and ideas with one-another in an open and transparent way.

At the meeting Australia Post provided an overview of the letters reform program and its status then invited each industry representative to share their organisations top two or three issues or ideas for the postal sector, letters reform or Australia Post as an organisation.

The forum also provided attendees with the opportunity to gain a broader perspective of the many factors influencing the postal sector, the reform program and discuss the nature and timing of future engagement.

As part of the ongoing commitment to the broader Australian community, Australia Post will mail a brochure to all residential and business addresses. The brochure will describe the changes to the letters service including the Regular and Priority speeds and envelope preparation for each speed.

3. Proposed changes

From 4 January 2016, Australia Post is proposing to provide all Australians with access to a Priority and Regular (Priority plus two days) delivery timetable. As part of these changes Australia Post is proposing the following price changes to its Ordinary letter service. The proposed Ordinary letter service prices are the same as those that the ACCC did not object to in its View of November 2015.

The financial impact of the proposed prices is at Appendix 2.

Table 1 – Proposed reserved ordinary letter prices

	Current Price	Proposed Price	Increase %
Ordinary small letter	\$0.70	\$1.00	42.86
Ordinary large letter			
Up to 125g	\$1.40	\$2.00	42.86
Over 125g up to 250g	\$2.10	\$3.00	42.86

In setting these prices Australia Post applied a number of principles including:

- The Regular letter service is a ‘safety net’ service priced to recover the efficient cost of providing the service;
- The Priority letter service is a commercial product but is priced to incentivise migration to the Regular service;
- The concession stamp will continue to be offered to eligible Australians at 60 cents for a small letter; and
- The seasonal greeting card rate¹ will continue to be offered at 65 cents for a small letter.

As part of the overall pricing package, Australia Post has committed to a 25% discount for Promo Post (off the equivalent PreSort Regular barcoded price).

As noted earlier stamped letters delivered to the Priority delivery timetable will not subject to ACCC prices surveillance unless Australia Post proposes to offer the service at a rate exceeding 150 percent of the ordinary rate.

Australia Post is not proposing the rate (the fee for a Priority label plus Regular postage) for stamped priority letters to exceed 150% of the ordinary rate.

Detail on proposed Ordinary /Other and PreSort letter price changes is at Appendix 1

¹ Available November and December only

4. Letter volumes

This document provides volume forecasts for a three year period (2015/16 – 2017/18). Consistent with previous notifications and the current draft notification the forecasting methodology is consistent with that accepted by the ACCC previously – baseline forecasts developed from an econometric model which are then augmented with market intelligence and market insight to ensure optimal levels of relevance.

The econometric forecasts as derived by Diversified Specifics suggest declining letter volumes in every year for every letter segment irrespective of price changes.

These results emphasize the significant role wide ranging threats to Australia Post’s core letters business are likely to have over the short run time horizon.

In the years following 2007/08 and in contrast to any period previous, each letter volume segment has been characterised by an increasing number of price changes as Australia Post responds to the very real threats to its core letters business.

In acknowledgment of the differing substitutive landscape Australia Post now operates in, it is important to estimate any letter volume effects associated with this overt change in pricing policy.

For each letter volume segment the econometric modelling process estimates a price elasticity that is relevant to the current postal environment and provides a guide as to how volumes might respond to any future changes in postage rates

Diversified Specifics most recent econometric analysis highlighted the impact of real price changes as statistically significant at conventional levels for three of the four key letter volume segments.

The results of the Diversified Specifics study suggest the resultant volume response has remained largely inelastic. Previous studies have also indicated that price is either inelastic or not statistically significant. In developing volume forecasts Australia Post has elected to use a conservative estimate of price elasticity of 0.25 for all categories.

4.1. Letter volumes

Australian domestic addressed letter volumes reached a peak in 2007/08 (4.6 billion letters). Australia Post’s latest forecast is that in 2017/18 the domestic addressed letter volume will be 2.1 billion letters.

As shown in Table 2, domestic reserved letter volume decline is forecast to increase resulting in an average annual volume decline of 10.8% per annum over the four years to 2017/18.

An explanation of volume forecasts, illustrating the augmentation of the econometric baseline estimates is provided at Appendix 3.

Table 2 – domestic reserved letter volumes

	2014/15 Final	2015/16	2016/17	2017/18	CAGR
Total	(7.4%)	(12.2%)	(12.2%)	(7.8%)	(10.8%)

Reserved Ordinary / Other letter volume also continues to decline. Since the 2007/08 peak, Australia Post forecasts that by 2017/18 Ordinary / Other letter volumes will decline by over 58%.

Table 3 – Ordinary / Other letter volume (reserved)

Financial Year	Volume (b)	Year-on-year decline
2007/08	1.9 billion	(1.7%)
2008/09	1.8 billion	(4.8%)
2009/10	1.7 billion	(6.5%)
2010/11	1.6 billion	(5.8%)
2011/12	1.5 billion	(5.7%)
2012/13	1.4 billion	(9.9%)
2013/14	1.3 billion	(5.8%)
2014/15 (Final)	1.2 billion	(9.9%)
2015/16	1.0 billion	(12.8%)
2016/17	0.9 billion	(13.9%)
2017/18	0.8 billion	(7.7%)

5. Reform our Letter Service

The following table details the benefits of the RoLS Program as per the 2015 Corporate Plan.

Table 4 – RoLS benefits

Project	2014/15 \$m	2015/16 \$m	2016/17 \$m	2017/18 \$m	2018/19 \$m
Total RoLS Benefits (cumulative)	27.2	83.3	158.2	319.0	323.8

Compared to the 2014 Corporate Plan, projected benefits from the RoLS Program have increased by \$61.8m. Furthermore, the timing of benefit realisation is ahead of the 2014 Corporate Plan.

Each of the key drivers is discussed in turn:

- **Delivery Centre Optimisation** – as part of reviewing the high level detailed design, the initial cost benefit associated with this project has been increased. Introduction of a National Delivery Model, enables Australia Post to identify opportunities to consolidate the number of delivery centres. As consolidation is subject to availability / suitability of sites, all savings within the project are labour savings;
- **Volume Mix** – driven by a higher than originally expected level of migration from Priority to Regular;
- **Automation** – to ensure an appropriate risk management position, Australia Post developed a conservative integrated implementation schedule for the rollout of small and large letter processing equipment (incorporating additional testing time and not executing the rollout over the Christmas period).

In developing the integrated implementation schedule, the decision was made to anchor the rollout around the introduction of the large letter processing equipment as it delivers the greater benefit.

While this decision impacted the timing of the rollout of the small letter processing equipment and as such the timing of associated benefits, the integrated schedule delivers a higher benefit overall; and

- **National Delivery Model (expanded scope)** – includes benefits from projects not included in the 2014 Corporate Plan.

The ACCC View acknowledges that the RoLS Program is an important modernisation program for Australia Post. Australia Post is committed to ensuring that the RoLS Program delivers the planned benefits and to continuing to identify and pursue operational efficiencies

6. Costs

Updated and additional information on Australia Post's cost forecasts by major category. The total costs are as per the 2015 Corporate Plan adjusted to recognise changes detailed on page 4.

Table 5 – Financial overview

	Final	Forecast	Forecast	Forecast
\$million	2014/15	2015/16	2016/17	2016/17
Trading Revenue				
Postal Services	3,087	3,258	3,362	3,275
Parcel Services	3,207	3,348	3,521	3,710
Other	(14)	(21)	(23)	(28)
Total trading Revenue	6,281	6,586	6,859	6,957
Trading Expenses (Cost)				
Labour & Oncosts / Contract Services	3,203	3,334	3,370	3,373
Goods/Services for Sale	238	242	278	320
Accommodation	317	331	372	382
Depreciation	295	343	379	417
Other	2,168	2,321	2,418	2,475
Total trading expenses	6,221	6,570	6,818	6,967
Trading profit	60	15	42	(10)

6.1. FTE usage

As shown in Table 6, the number of FTEs is forecast to decline.

Table 6 – Total FTEs by function

Activity / Area	Final	Forecast	Forecast	Forecast
	2014/15	2015/16	2016/17	2017/18
Sales / Acceptance	✗	✗	✗	✗
Processing	✗	✗	✗	✗
Transport	✗	✗	✗	✗
Delivery	✗	✗	✗	✗
Other areas	✗	✗	✗	✗
Total	31,018	31,103	29,681	28,629

6.2. Domestic reserved letter service – Ordinary / Other letter service

Table 7 details domestic reserved letter service Ordinary / Other forecast data to 2017/18.

Table 7 – Domestic reserved letter service

	Final	Forecast	Forecast	Forecast
	2014/15	2015/16	2016/17	2017/18
Volume (m)	1,159	1,011	871	804
Revenue (\$m)	777	839	863	792
Cost (\$m)	950	904	928	882
Profit (\$m)	(173)	(65)	(65)	(90)

6.3. Domestic reserved letter service FTE usage

As detailed in Table 8, there is a reduction in FTEs within the domestic reserved letter service.

Table 8 – Domestic reserved letter service costs by function

\$million	Final	Forecast	Forecast	Forecast
	2014/15	2015/16	2016/17	2017/18
Sales / Acceptance	✂	✂	✂	✂
Processing	✂	✂	✂	✂
Transport	✂	✂	✂	✂
Delivery	✂	✂	✂	✂
Other	✂	✂	✂	✂
Total	2,021	1,947	1,929	1,802

6.4. Superannuation – change in Accounting Standards

A further change in accounting standards was made at the end of 2014/15, with the replacement of the government bond rate with the G100 (9-year duration) rate. This is a newly calculated rate and financial modelling to date shows that it is expected the G100 rate to trade approximately 100bps – 130bps higher than the 10-year government bond rate.

6.5. Depreciation

As shown in Table 9, the continued capital investment across the Enterprise over the past four years has resulted in a higher depreciation expense for the domestic reserved letter service.

Table 9 – Depreciation expense, domestic reserved letter service

\$million	Final	Forecast	Forecast	Forecast
	2014/15	2015/16	2016/17	2017/18
Buildings and Fitout	18	22	21	22
Plant and equipment	21	24	23	27
Computer software	38	47	47	49
Motor vehicles	16	20	20	23
Total	94	112	110	121

7. Asset base

Updated information on Australia Post's fixed asset base Australia Post's capital investment plans out to 2017/18.

7.1. Australia Post's balance sheet

As at 30 June 2015² Australia Post's balance sheet comprised \$5,093m in total assets, \$3,181m in liabilities, and \$1,912m in equity, or net assets. Table 10 shows the current and non-current (fixed) assets as per the balance sheet (Appendix 4).

Table 10 – Australia Post total assets

Assets	Value (\$million)
Current assets	
- Cash and cash equivalents	415
- Trade and other receivables (including accrued revenues)	642
- Inventories	48
- Other current assets	99
Total current assets	1,204
Non-current assets	
- Finance lease receivable	97
- Superannuation asset	613
- Land and buildings	834
- Plant and equipment (including motor vehicles)	761
- Intangible assets (including software)	939
- Investment property	200
- Deferred income tax assets	413
- Other non-current assets	32
Total non-current assets	3,889
Total assets	5,093

7.2. Asset accounting policies and practices

As show in Table 10, at 30 June 2015 Australia Post had \$3,889m of non-current assets recognised in the balance sheet.

Fixed assets are grouped into approximately 500 asset classes. Depreciation rates are set asset by asset within each asset class level, and are reviewed annually. Asset stocktakes are also conducted annually where assets and their location are confirmed, transferred to a new work centre, or removed from the asset register if they cannot be located or are no longer used. These practices support the annual report preparation process to ensure that asset balances are not being reported above their appropriate values.

Appendix 5 provides further detail on Australia Post's fixed assets.

² Australia Post Annual Report 2014/15, Financial and Statutory Reports, page 65

7.3. Capital investment plan

Australia Post prepares a capital investment plan each year as part of the annual planning process. Table 11 details forecast capital investment out to 2017/18 and is consistent with the 2015 Corporate Plan.

Table 11 – Capital investment outlays by category

\$million	Final	Forecast	Forecast	Forecast
	2014/15	2015/16	2016/17	2017/18
Strategic Initiatives	243	270	250	270
Asset Replacement	114	130	100	80
Total	357	400	350	350

7.4. Forecast asset base

Table 12 details Australia Post’s total fixed assets out to 2017/18. Data is consistent with the Record Keeping Rules schedules (the allocation of costs), asset values are allocated to products according to procedures specified in the Regulatory Accounts Procedures Manual, which has been provided to the ACCC in accordance with section 23 (6) of the Record Keeping Rules (**RKR**).

Investment Property and Land and Buildings are measured at Fair Value, whereas Plant and Equipment and Intangible Assets are measured at cost, net of any accumulated depreciation/amortisation and/or impairment losses. Fixed asset opening and closing balances include assets under construction and agree to the RKR schedules.

Table 12 – Australia Post total fixed assets and intangibles

\$million	Final	Forecast		
	2014/15	2015/16	2016/17	2017/18
Opening balance	3,676	3,456	3,485	3,160
Net Additions ³	111	383	63	347
Depreciation	(330)	(354)	(387)	(425)
Closing balance	3,456	3,485	3,160	3,083

Table 13 details the domestic reserved letter service total fixed assets which consistent with RKR practice, excludes assets under construction until the assets are in service and transferred out.

Appendix 6 provides a breakdown of Table 13 by each letter category

³ Net Additions is presented as capital investment additions less forecast disposals.

Table 13 – Domestic reserved letter service fixed assets

\$million	Final	Forecast		
	2014/15	2015/16	2016/17	2017/18
Opening balance	809	677	693	575
Net Additions	(38)	128.4	(7)	114
Depreciation	(94)	(112)	(110)	(121)
Closing balance	677	693	575	569

Additions in 2014/15 comprise primarily the annual motor vehicle asset replacement program, mail handling equipment, delivery centre building and system upgrades and replacement. Out-year forecasts are also primarily for asset replacement and purchase of automation equipment for mail processing.

8. Rate of return

Australia Post's 2015 Corporate Plan sets out the most recent expectations for the business. In that Plan, profit targets and pricing expectations for the domestic reserved letter service were formed on the assumption that the ACCC's pricing model continued to apply to reserved services. That is:

- The efficiency of the asset and cost base would be assessed by the ACCC;
- A reasonable economic return equal to the weighted average cost of capital (WACC) multiplied by the asset base would form part of the allowed revenue by the ACCC; and
- Allowable revenue for the reserved letters service is determined at a total package level, rather than on individual product category.

8.1. Australia Post Corporation (reserved letters business) WACC

As noted in the draft notification, Australia Post engaged Value Adviser Associates to undertake an independent assessment and provide estimates of certain parameters used to derive Australia Post's (reserved letters business) WACC. Table 14 details those parameters.

In its View of November 2015, the ACCC derived an alternative WACC of 6.53%.

While Australia Post does not accept all of the parameters applied by the ACCC, for the purposes of this notification Australia Post will not contest them.

Table 14 – Australia Post (reserved letters business) WACC

WACC Parameter	Based on latest advice
rf nominal risk-free rate-of-return	2.96%
$rm-rf$ market risk premium	7.0%
Tc corporate tax rate	30%
γ imputation factor	0.0
Cost of debt	4.35%
D/V Australia Post's gearing ratio	30%
βa asset beta	0.60
βd debt beta	0.15
βe equity beta	0.80
Nominal post tax vanilla WACC	7.29%

9. Post Tax Revenue Model Summary

Australia Post is proposing that the price changes take effect from 4 January 2016. A comparison of the proposed and allowable revenues over the 2015/16 to 2017/18 financial years is at

Table 15.

Table 15 – Post Tax Revenue Model summary

	2015/16 \$m	2016/17 \$m	2017/18 \$m
Nominal Vanilla WACC			
	7.29%		
A: Ordinary/Other reserved letters			
Required Revenue	\$ 930	\$ 953	\$ 908
Present Value of Required Revenue	\$ 907	\$ 907	\$ 843
Sum of PV over 3 years	\$ 2,658		
Letters Revenue at proposed prices	\$ 839	\$ 863	\$ 792
Present Value of Proposed Letters Revenue	\$ 818	\$ 821	\$ 735
Sum of PV over 3 years	\$ 2,375		
Deficiency of Letters Revenue to Required Revenue	\$ 89	\$ 86	\$ 108
Sum of PV over 3 years	\$ 283		
B: Domestic reserved letters			
Required Revenue	\$ 2,000	\$ 1,982	\$ 1,854
Present Value of Required Revenue	\$ 1,951	\$ 1,886	\$ 1,722
Sum of PV over 3 years	\$ 5,559		
Letters Revenue at proposed prices	\$ 1,872	\$ 1,911	\$ 1,750
Present Value of Proposed Letters Revenue	\$ 1,827	\$ 1,819	\$ 1,625
Sum of PV over 3 years	\$ 5,271		
Deficiency of Letters Revenue to Required Revenue	\$ 124	\$ 67	\$ 97
Sum of PV over 3 years	\$ 289		
C: Domestic letters			
Required Revenue	\$ 2,461	\$ 2,468	\$ 2,339
Present Value of Required Revenue	\$ 2,401	\$ 2,349	\$ 2,172
Sum of PV over 3 years	\$ 6,922		
Letters Revenue at proposed prices	\$ 2,233	\$ 2,277	\$ 2,110
Present Value of Proposed Letters Revenue	\$ 2,178	\$ 2,167	\$ 1,960
Sum of PV over 3 years	\$ 6,305		
Deficiency of Letters Revenue to Required Revenue	\$ 222	\$ 182	\$ 212
Sum of PV over 3 years	\$ 617		

Appendix 1 – Price changes

While only Ordinary letter services are notified services, Australia Post is providing, for information only, detail on other domestic letter service price changes. All prices are proposed to take effect from 4 January 2016.

Stamped

Size / Weight	Regular		
	Current	Proposed	Increase
Small			
Stamped	\$0.70	\$1.00	42.9%
Seasonal Greeting *	\$0.65	\$0.65	0%
Concession ^	1 stamp	1 stamp	0%
Large			
Stamped			
Up to 125g	\$1.40	\$2.00	42.9%
Over 125 up to 250g	\$2.10	\$3.00	42.9%
Over 250 up to 500g	\$3.50	\$5.00	42.9%
<u>Seasonal Greeting *</u>			
Up to 125g	\$1.30	\$1.30	0%
Concession stamp ^			
Up to 125g	2 stamps	2 stamps	0%
Over 125 up to 250g	3 stamps	3 stamps	0%
Over 250 up to 500g	5 stamps	5 stamps	0%

To send by Priority, purchase a Priority label 50c and place to the left of the stamp(s).

Notes:

* Seasonal Greeting card price available during November and December

^ Concession stamps available in packs of five for \$3.00. For small letters use one stamp, for large use number stated.

Prepaid Envelopes / Postcards

Size / Weight	Regular		
	Per item	Pack of 10	
		Single	5+ packs
<u>Envelope</u>			
DL Plain	\$1.20	\$11.40	\$10.80
C6 Plain	\$1.20	\$11.40	\$10.80
C5	\$2.45	\$23.30	\$22.05
C4	\$4.35	\$41.35	\$39.15
B4	\$5.25	\$49.90	\$47.25
	Per item	Pack of 50	Box of 500
<u>Window face</u>			
DL	-	\$57.00	\$540.00
C6	-	\$57.00	\$540.00
Postcard	\$2.20	-	-

To send by Priority, purchase a Priority label 50c and place to the left of the postage paid mark.

Metered / Imprint

Size / Weight	Regular	Priority
Small		
Up to 250g	\$0.95	\$1.45
Large		
Up to 250g	\$1.90	\$2.40
Over 125 up to 250g	\$2.85	\$3.35
Over 250 up to 500g	\$4.75	\$5.25

Local Country and Clean Mail

Size / Weight	Regular	Priority
<u>Local (Country)</u>		
Small	\$0.92	\$0.95
Large		
Up to 125g	\$1.65	\$1.90
Over 125 up to 250g	\$2.20	\$2.50
Over 250 up to 500g	\$2.45	\$2.90
<u>Clean Mail</u>		
Small	\$0.90	\$1.125
Small Plus up to 125g	\$1.42	\$1.734

Reply Paid

Size / Weight	Regular	Priority
Small		
Barcoded	\$0.65	\$0.80
Unbarcoded	\$1.20	
Large - Barcoded		
Up to 125g	\$2.00	\$2.20
Over 125 up to 250g	\$3.00	\$3.20
Over 250 up to 500g	\$5.00	\$5.20
Large - Unbarcoded		
Up to 125g	\$2.20	
Over 125 up to 250g	\$3.20	
Over 250 up to 500g	\$5.20	
Annual Fee	\$100.00	

Notes: All prices are GST inclusive except for External Territories where they are as stated but GST free.

Proposed Letter Prices - 4 Jan 2016 - PreSort / Other Pre Sort Letters

PreSort

Size / Weight	Regular				Priority			
	Barcode Direct Tray		Barcode	U/Barcode	Barcode Direct Tray		Barcode	U/Barcode
	Same State	Other State	Residue	Residue	Same State	Other State	Residue	Residue
Small Letters								
Up to 125g	\$0.795	\$0.820	\$0.855	\$0.900	\$0.960	\$0.995	\$1.080	\$1.125
Charity Mail	\$0.495	\$0.515	\$0.546	\$0.900	\$0.600	\$0.635	\$0.700	\$1.125
PromoPost *	\$0.596	\$0.615	\$0.641	\$0.900				
Small Plus								
Up to 125g	\$1.000	\$1.048	\$1.300	\$1.420	\$1.275	\$1.330	\$1.473	\$1.734
Large								
Up to 125g	\$1.390	\$1.470	\$1.730	\$1.880	\$1.740	\$1.845	\$2.125	\$2.244
Up to 125g - Charity Mail	\$1.030	\$1.088	\$1.292	\$1.880				
Over 125 up to 250g	\$1.850	\$2.010	\$2.280	\$2.420	\$2.350	\$2.505	\$2.700	\$2.850
Over 250 up to 500g	\$2.380	\$2.580	\$2.900	\$3.200	\$2.880	\$3.080	\$3.390	\$3.700

* Promo Post prices dependent on \$1 BPR

Acquisition Mail

Size / Weight	Regular			
	Barcode Direct Tray		Barcode	U/Barcode
	Same State	Other State	Residue	Residue
Small - up to 125g	\$0.585	\$0.610	\$0.855	\$0.900
Small Plus - up to 125g	\$0.815	\$0.858	\$1.300	\$1.420

Impact Mail

Size / Weight	Regular		
	Postcode	Area	Residue
	Direct Tray	Tray	
Small - up to 125g			
Same State	\$1.050	\$1.110	\$1.190
Other State	\$1.080	\$1.140	\$1.220
Small Plus - up to 125g			
Same State	\$1.522	\$1.603	\$1.690
Other State	\$1.560	\$1.650	\$1.740

Registered Post

Size / Weight	Per envelope	Pack of 10	
		Single	5+ packs
Prepaid envelopes			
DL	\$4.80	\$45.60	\$43.20
B4	\$6.50	\$61.75	\$58.50
	Per item	Per box of 50	
Labels and Imprints			
Label on lodgement	\$3.80		
Prepaid label	\$3.80	\$160.00	
Imprint	\$3.20		
Extra Cover	\$1.50		
Delivery Confirmation	\$2.70		
Person-to-person	\$6.25		

Notes:

All prices are GST Inclusive, except for External Territories where they are as stated but GST free.

Appendix 2 – Financial Overview

Table 16 shows the revenue impact of the 4 January 2016 price changes.

Table 16 – Domestic letter service

	Domestic Reserved				Total Non Reserved	Grand Total Domestic Mail
	Ordinary (stamped)	Other	Sub Total	Presort		
2014/15 Final						
Volume	392	767	1,159	1,783	920	3,863
Revenue (\$m)	266	511	777	961	338	2,075
Total costs (\$m)	353	597	950	✂	✂	2,450
Contribution* (\$m)	(87)	(86)	(173)	✂	✂	(375)
ROR %	(32.8%)	(16.9%)	(22.3%)	✂	✂	(18.1%)
2015/16						
Volume	335	676	1,011	1,573	925	3,509
Revenue (\$m)	272	567	839	1,034	360	2,233
Total costs (\$m)	337	567	904	✂	✂	2,395
Contribution* (\$m)	(65)	0	(65)	✂	✂	(162)
ROR %	(24.0%)	0.1%	(7.7%)	✂	✂	(7.3%)
2016/17						
Volume	287	584	871	1,397	922	3,190
Revenue (\$m)	280	583	863	1,048	366	2,277
Total costs (\$m)	346	581	928	✂	✂	2,403
Contribution* (\$m)	(66)	1	(65)	✂	✂	(126)
ROR %	(23.7%)	0.2%	(7.5%)	✂	✂	(5.5%)
2017/18						
Volume	270	534	804	1,286	915	3,005
Revenue (\$m)	264	527	792	958	360	2,110
Total costs (\$m)	334	548	882	✂	✂	2,273
Contribution* (\$m)	(70)	(20)	(90)	✂	✂	(163)
ROR %	(26.5%)	(3.9%)	(11.4%)	✂	✂	(7.7%)

* Gross contribution before cost of capital

Appendix 3 – Detail on Augmentation

As noted in section 4, the econometric forecasts are intended to represent a baseline upon which further intelligence may be overlaid to counter a lack of tractable empirical data on emerging threats to letter volumes.

As such, to derive the final volume forecasts, Australia Post augments the baseline forecasts with management and market insight. Management and market insights are derived from:

- Input from the salesforce, account managers regarding customer behaviour;
- Market intelligence from participants in the mail value chain;
- Information in the public domain; and
- Interpretation of qualitative and quantitative reports commissioned by Australia Post and external sources.

The following pages show the augmentation from baseline forecast to final volume forecast for 2015/16 to 2017/18.

Table 17 – 2015/16 volume forecast

	2014/15 Est Volumes (m)	Baseline Volume Est (from Eco Model)		Transactional		Promotional		Total Market Adjust (m)	2015/16 Est Volumes (m)
		Raw Growth	Raw Volume	Underlying Market Changes	Changes in use of Comm	Underlying Market Changes	Changes in use of Comm		
Ordinary / Other									
Small	1,045	-8.9%	952	(37)	(7)	0	0	(44)	908
Large	135	-4.4%	129	(2)	(13)	0	0	(15)	114
Total Ordinary / Other	1,180	-8.4%	1,081	(39)	(20)	0	0	(59)	1,022
PreSort									
Small	1,672	-9.3%	1,518	(25)	(6)	(12)	(5)	(49)	1,469
Large	123	-3.9%	118	(5)	(1)	0	(3)	(9)	110
Total PreSort	1,795	-8.9%	1,636	(30)	(7)	(12)	(8)	(57)	1,578
Total Addressed Mail (Excluding Print Post)	2,975	-8.7%	2,717	(69)	(27)	(12)	(8)	(116)	2,601

Table 18 – 2016/17 volume forecast

	2015/16 Est Volumes (m)	Baseline Volume Est		Transactional Changes in		Promotional Changes in		Total Market Adjust (m)	2016/17 Est Volumes (m)
		Raw Growth	Raw Volume	Underlying Market Changes	use of Comm Medium	Underlying Market Changes	use of Comm Medium		
Ordinary / Other									
Small	908	-17.2%	752	33	0	0	0	33	785
Large	114	-21.2%	90	6	0	0	0	6	96
Total Ordinary / Other	1,022	-17.7%	841	39	0	0	0	39	880
PreSort									
Small	1,469	-8.3%	1,346	(17)	(29)	15	(8)	(39)	1,308
Large	110	-9.3%	99	(2)	(2)	(1)	(0)	(5)	94
Total PreSort	1,578	-8.4%	1,446	(19)	(31)	14	(8)	(44)	1,402
Total Addressed Mail (Excluding Print Post)	2,601	-12.0%	2,287	20	(31)	14	(8)	(5)	2,282

Table 19 – 2017/18 volume forecast

	2016/17 Est Volumes (m)	Baseline Volume Est		Transactional Changes in		Promotional Changes in		Total Market Adjust (m)	2017/18 Est Volumes (m)
		Raw Growth	Raw Volume	Underlying Market Changes	use of Comm Medium	Underlying Market Changes	use of Comm Medium		
Ordinary / Other									
Small	785	-6.9%	731	(3)	(2)	0	0	(5)	726
Large	96	-15.4%	81	6	0	0	0	6	87
Total Ordinary / Other	880	-7.8%	812	3	(2)	0	0	1	813
PreSort									
Small	1,308	-2.6%	1,274	(21)	(27)	(20)	0	(68)	1,205
Large	94	-12.4%	82	1	0	2	0	3	86
Total PreSort	1,402	-3.3%	1,356	(20)	(27)	(18)	0	(65)	1,291
Total Addressed Mail (Excluding Print Post)	2,282	-5.0%	2,168	(17)	(29)	(18)	0	(64)	2,104

Appendix 4 – Australia Post Consolidated Group Balance Sheet at 30 June 2015

	2014	2015
ASSETS	\$million	\$million
Current assets		
- Cash and cash equivalents	419	415
- Trade and other receivables	513	483
- Inventories	48	48
- Accrued revenues	141	158
- Other current assets	116	100
Total current assets	1,237	1,204
Non-current assets		
- Finance lease receivable	97	97
- Net superannuation asset	48	613
- Land and buildings	879	834
- Plant and equipment	728	761
- Intangible assets	1,113	939
- Investment property	192	200
- Deferred tax assets	333	413
- Other non-current assets	24	32
Total non-current assets	3,414	3,889
Total assets	4,651	5,093
LIABILITIES		
Current liabilities		
- Trade and other payables	883	947
- Employee provisions	707	653
- Other provisions	60	59
- Other current liabilities	20	19
Total current liabilities	1,670	1,678
Non-current liabilities		
- Interest bearing liabilities	714	714
- Employee provisions	161	353
- Other provisions	70	54
- Deferred tax liabilities	225	321
- Other non-current liabilities	48	61
Total non-current liabilities	1,218	1,503
Total liabilities	2,888	3,181
Net assets	1,763	1,912
EQUITY		
- Contributed equity	400	400
- Reserves	8	7
- Retained profits	1355	1505
Parent interest	1763	1912
Total equity	1,763	1,912

Appendix 5 – Fixed assets

Asset Register structure – Australia Post’s fixed assets are grouped into approximately 500 asset classes, each of which is broadly descriptive of the nature of the assets contained within that class rather than by each asset’s accounting treatment. For example, the buildings asset class (asset class no. ZB00) comprises administrative buildings, post offices, depots, mail centres etc.

Assets within a class do not necessarily have the same accounting treatment. Within class ZB00, for example, there are three different service lives – 40 years, 50 years, and 70 years – depending on the type of building. Other asset classes similarly can have a range of service lives and/or residual values.

Land, Buildings and Fitout – at 30 June 2015 asset values provided in this notification include land and building assets measured at market value. The market value of land and buildings at 30 June 2015 was \$1,556.1m compared with a historical cost book value of \$833.9m

Market value has been determined through valuations performed by Savills Pty Ltd with each property valued once over a 3 year period, on a rolling basis. Savills is an industry specialist in valuing these types of properties in accordance with Australian Valuation Standards. The market value of each property has been determined by reference to the highest and best use of the property taking into account the specific characteristics and location of the asset.

Investment Property – at 30 June 2015 the value of this asset class was \$200.0m. Investment property is not allocated to products and services, and is not part of the asset base on which this notification is based.

Investment property is initially recorded at cost and subsequently remeasured to fair value on an annual basis with the valuations undertaken by Savills Pty Ltd.

Plant and Equipment & Other – are initially recorded at cost and subsequently measured at cost less accumulated depreciation and less any impairment losses. Information technology assets and motor vehicles are also stated at cost less accumulated depreciation.

Asset Lives – a high level summary of asset lives is shown below and is consistent with the summary provided in note 1 of the annual financial statements.

Asset Category	Useful Life Range
Buildings – general post offices	70 years
Buildings other facilities	40 – 50 years
Leasehold Improvements	Lower of lease term and 10 years
Motor Vehicles	3 – 10 years
Specialised plant / equipment	10 – 20 years
Other plant / equipment	3 – 10 years

Appendix 6 – Domestic reserved letter service fixed assets

The following Tables provide a breakdown of the domestic reserved letter service fixed assets (shown at Table 13) by product category. Asset data is based on 2014/15 final.

Table 20 – Small Ordinary / Other letters

\$million	Final	Forecast		
	2014/15	2015/16	2017/18	2018/19
Opening balance	351	252	253	202
Net Additions	(64)	50	(2)	44
Depreciation	(34)	(49)	(48)	(54)
Closing balance	252	253	202	192

Table 21 – Small PreSort letters

\$million	Final	Forecast		
	2014/15	2015/16	2017/18	2018/19
Opening balance	337	313	329	282
Net Additions	14	60	(4)	54
Depreciation	(38)	(44)	(43)	(45)
Closing balance	313	329	282	290

Table 22 – Large Ordinary / Other letters

\$million	Final	Forecast		
	2014/15	2015/16	2017/18	2018/19
Opening balance	79	67	67	56
Net Additions	0	11	(0)	10
Depreciation	(13)	(11)	(11)	(12)
Closing balance	67	67	56	54

Table 23 – Large PreSort letters

\$million	Final	Forecast		
	2014/15	2015/16	2017/18	2018/19
Opening balance	42	45	44	35
Net Additions	12	8	(0)	7
Depreciation	(8)	(9)	(8)	(9)
Closing balance	45	44	35	33