

Senate Standing Committee on Environment and Communications
Answers to Senate Estimates Questions on Notice
Additional Estimates Hearings February 2015
Communications Portfolio
Australia Post

Question No: 18

Program No. Australia Post

Hansard Ref: Page 33, 24/2/2015

Topic: Financial results

Senator Canavan, Matthew asked:

Senator CANAVAN: The five per cent growth was the size of the market and not the size of your share of the market?

Mr Fahour: Correct.

Senator CANAVAN: Did you submit the handout you are reading from to the committee? Is that something you released publicly?

Mr Fahour: Yes, we did.

Senator CANAVAN: I could not see that online. I have your release with some of the graphs. Could you provide that?

Mr Fahour: Would you like—

Senator CANAVAN: If it a PowerPoint presentation or something.

Mr Fahour: Of course. I am more than happy to do that.

Senator CANAVAN: I would appreciate that.

Answer:

Attached is a copy of Australia Post's First half 2014/15 results presentation. A copy of this presentation was provided to Senator Canavan via email on Tuesday, 24 February 2015.



“Your Post is evolving”

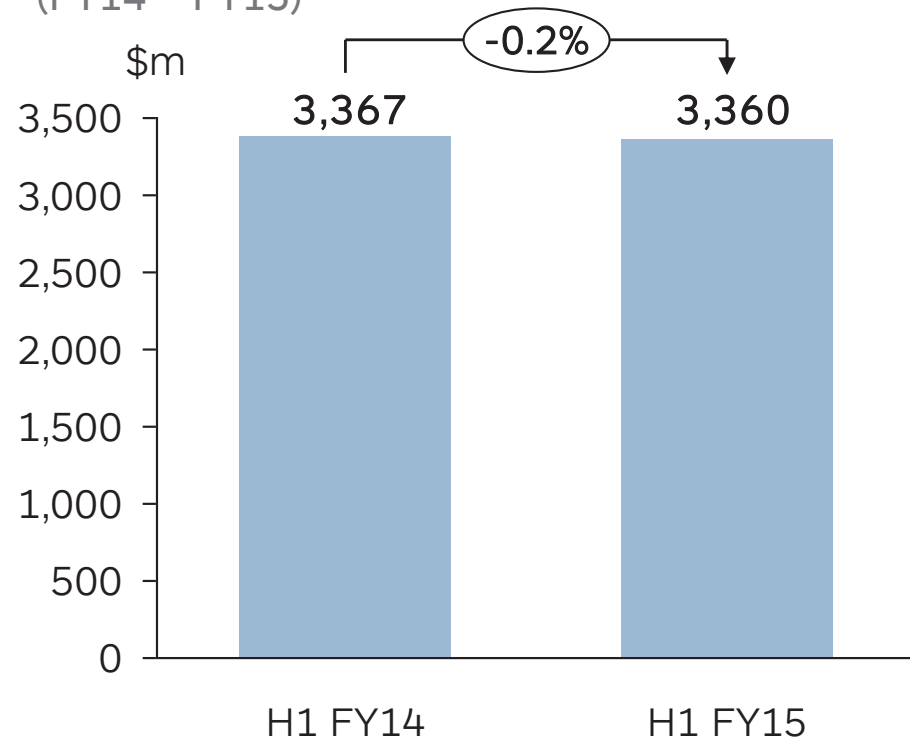
First half 2014/15 results

23rd February 2015

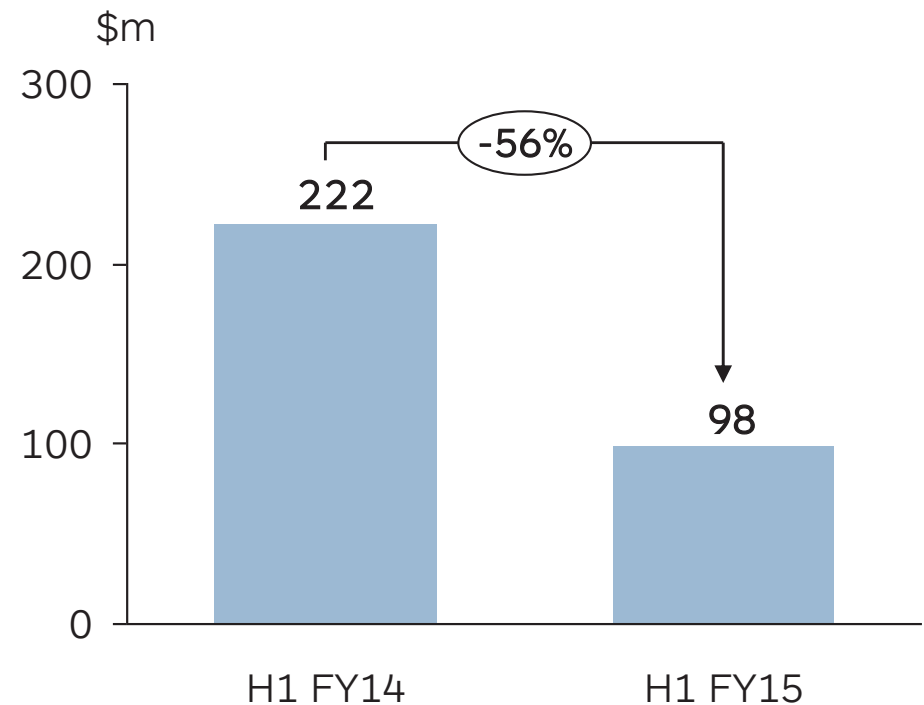


Australia Post profit falls 56% in the first half of 2014/15 as previously foreshadowed

Group revenue
(FY14 – FY15)



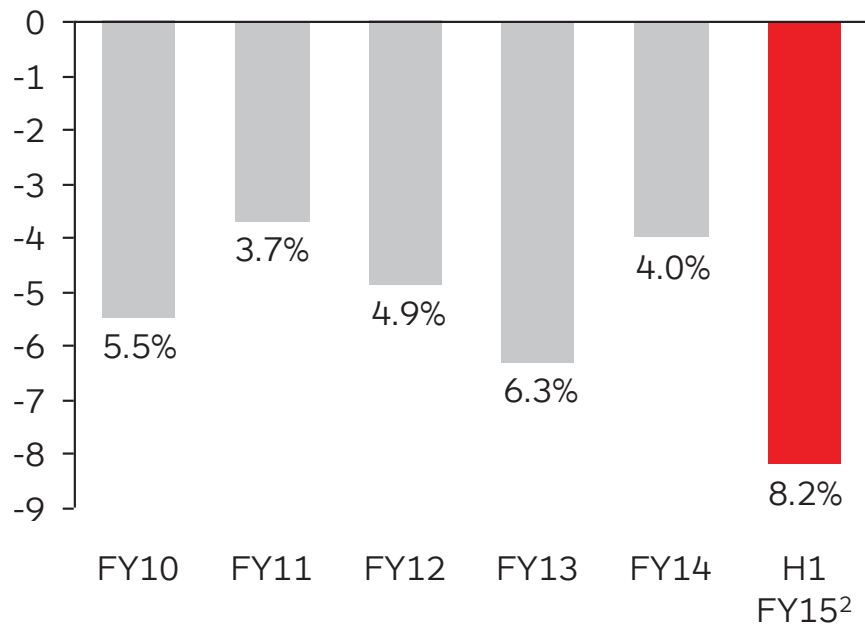
Group profit after tax
(FY14 – FY15)



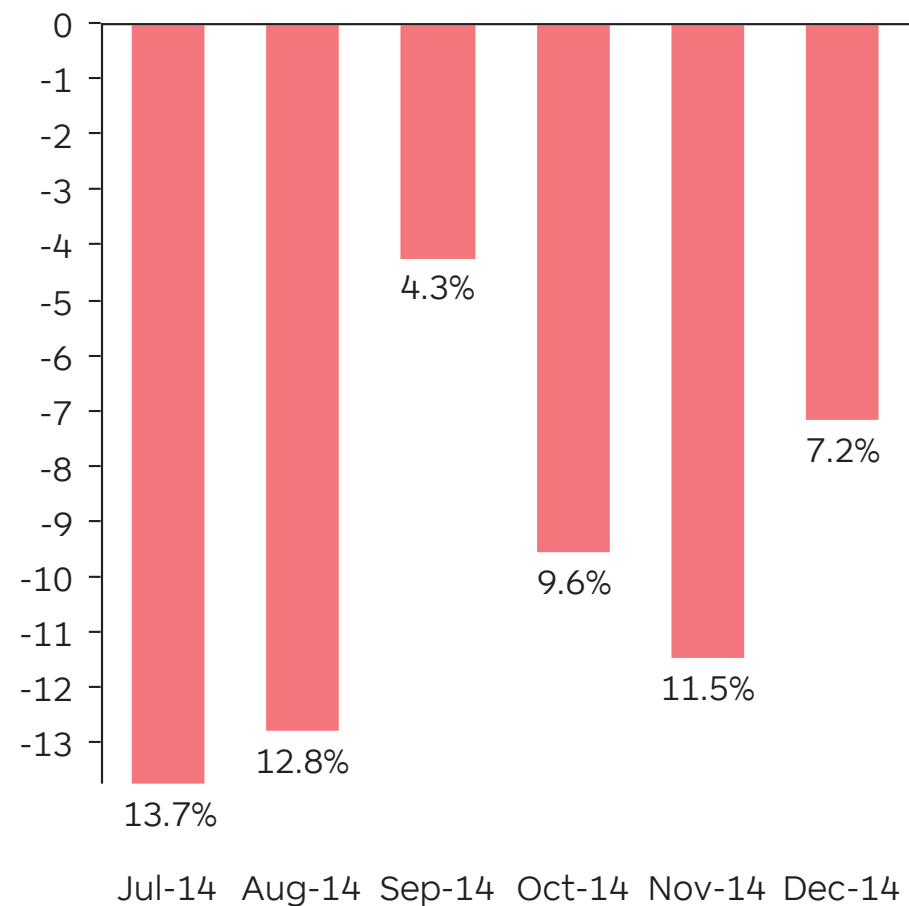
Forecast is for a full year loss

We are still experiencing accelerated letter volume declines in 2015 driven by ordinary letter volume declines

YOY¹ % change in addressed letter volumes (FY10 - H1 FY15)



Ordinary letter volume decline rate, excl. election volume (% , year-on-year)



1. Year on year
 2. H1 FY15 has been compared to H1 FY14 on a trading day adjusted basis

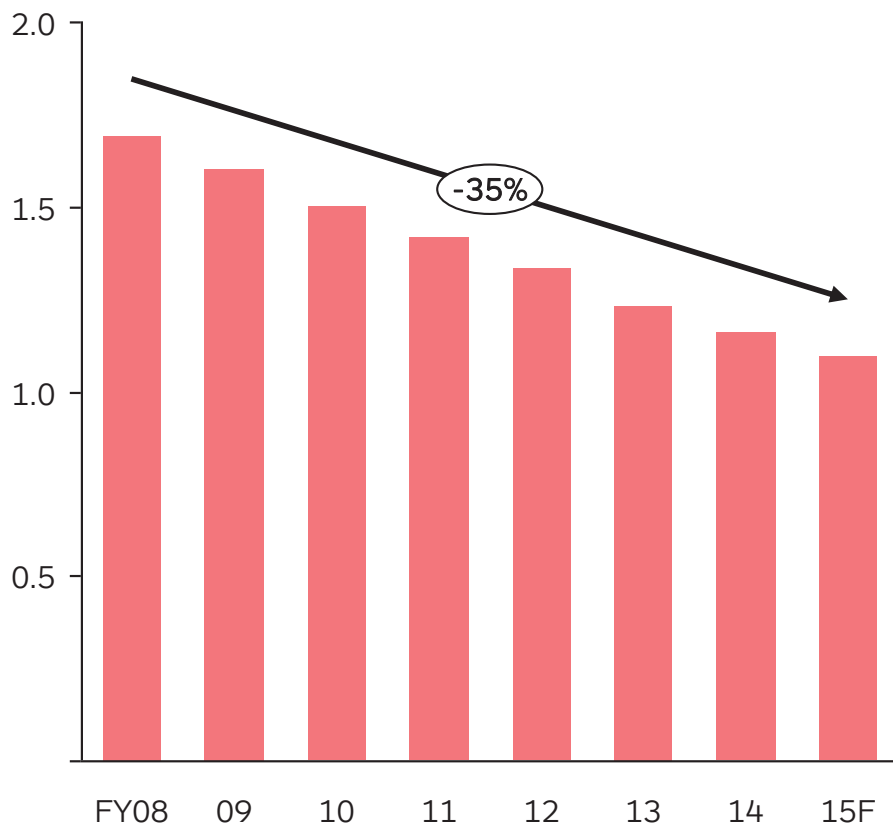
The Mail services segment losses continue to grow, with first half profit FY15 down 57%

	H1 FY14	H1 FY15	% Change
Mail Revenue	\$1,102m	\$1,090m	 1%
Mail Profit/Loss	(\$96m)	(\$151m)	 57%

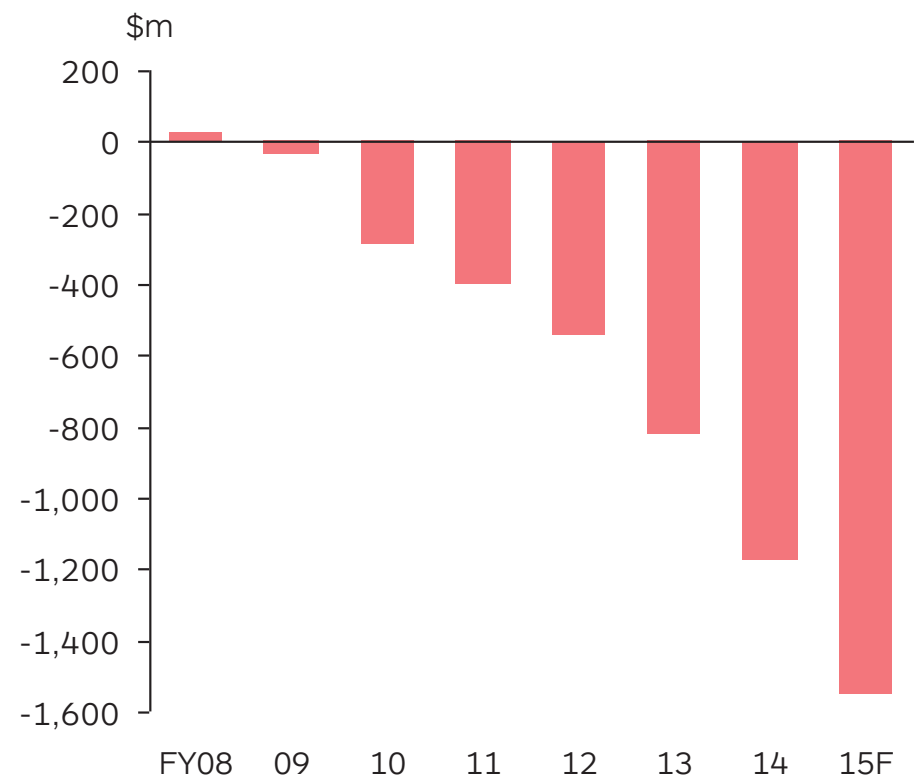
Full year estimated loss of approximately \$350 million

Cumulative losses in Mail services are estimated to be \$1.6 billion driven by ~35% decline of letters per delivery point

Average addressed letters, per day, per delivery point (FY08 – FY15F)

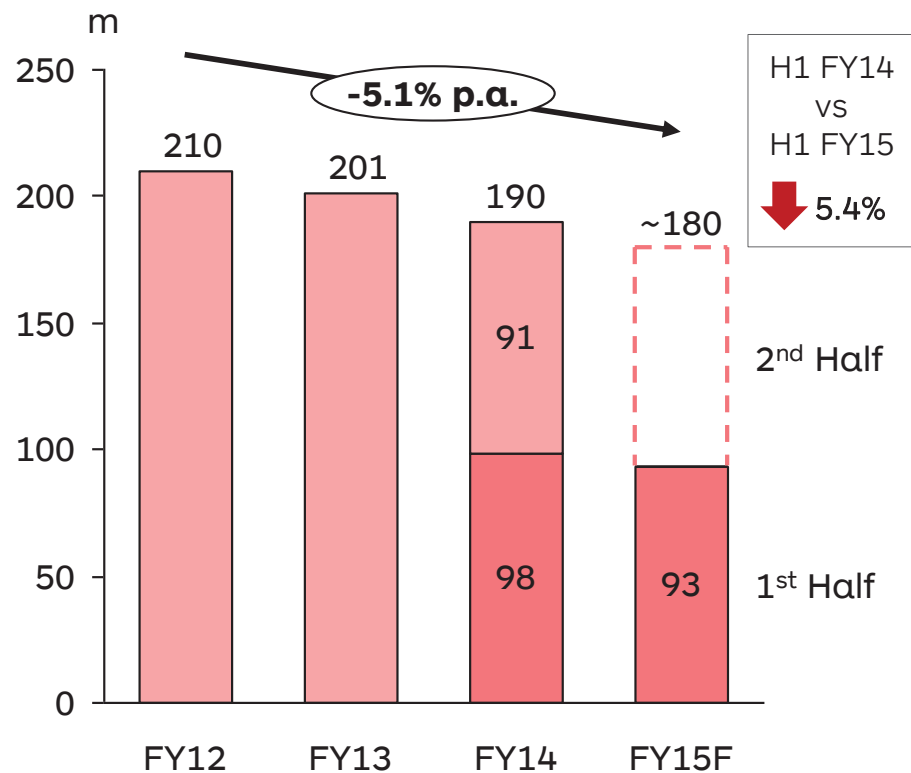


Cumulative financial losses in Mail Services (FY08 – FY15)

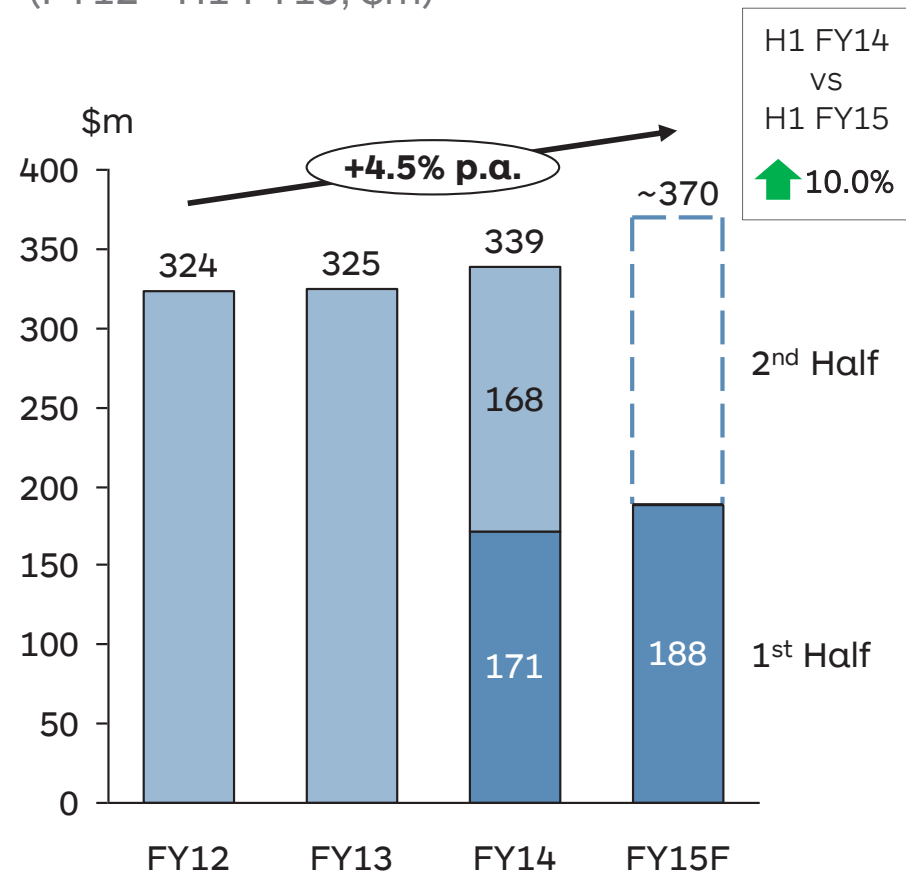


Retail customer visits are also declining due to letter volume declines, while payments to Licenced Post Offices have increased

Physical retail visits
(FY12 - H1 FY15, m)



Payments to Licenced Post Offices
(FY12 - H1 FY15, \$m)



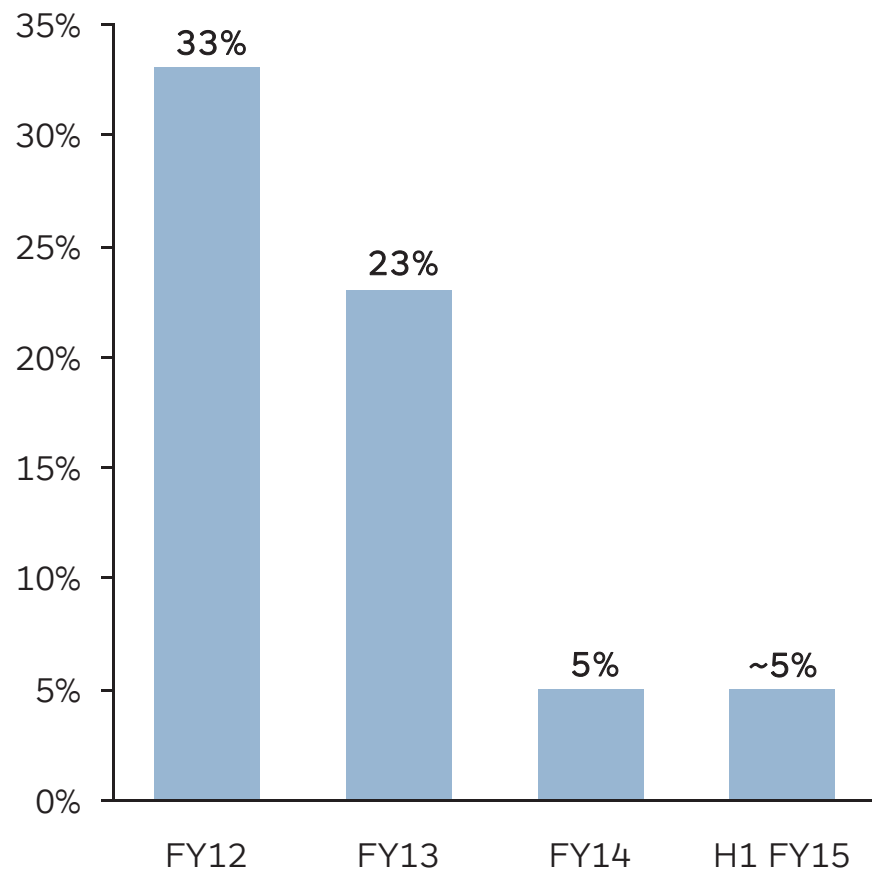
Despite volume declines, community services have been maintained and Customer experience improved



- Continued to **exceed our prescribed performance** of 94% delivery standard
- **Redesigned our mail network**, for business customers with the successful launch of priority and regular mail
- Expanded to **53 Superstores** (11 in rural and regional), **66 Business Hubs** and **193 24/7 Parcel Locker sites**
- **Launched MyPost deliveries**, including Parcel Collect at 3,500 outlets to give customers flexibility in delivery choice
- Introduced **Saturday opening** of Post Offices for greater convenience
- Continued to grow the **MyPost** product with 1.5 million accounts and ~400,000 registered with a digital account, bringing customers into the digital world

The parcels market continues to grow but at a slower pace, while competition is intensifying with new international entrants

YOY¹ % Change in Transaction Volumes - Online Physical Goods Index (FY11 –FY15)



Example competitors to Parcel Services



1. Year on year

Source: NAB Quantum Online Physical Goods Index

In Parcel Services, we have extended our capabilities and expanded product features to offer choice to our customers




- Completed extensions to our Melbourne and Sydney parcel facilities to service higher volumes and imported services
- Introduced **Saturday deliveries** for customer convenience
- Expanded **parcels product features**, including returns, delivery choices and SMS notifications
- Established **partnerships** with major **eCommerce players** including Alibaba (Tmall) and NetSuite
- Continued **Parcel rebranding** to 
- First half domestic business¹ volume growth of ~5%

1. Comprises domestic contract rate parcels and StarTrack. Excludes C2C over-the-counter retail customers

Despite the challenging environment and increased competition, Parcel Services continues to grow successfully while Postal is flat

Segment Revenues (H1 FY14 and H1 FY15)

	H1 FY14	H1 FY15	% Change
Postal Revenue	\$1,618m	\$1,612m	Flat
Parcel Revenue	\$1,625m	\$1,690m	 4%

We have also strengthened our business through the following enterprise achievements



Continued improvements in safety



Reduced our Corporate headcount and costs in response to our financial challenges



Provided **sustainability packages** for our LPOs, and brought forward \$41m in payments by three months



Engaged with our communities and local constituents regarding their future requirements of Australia Post

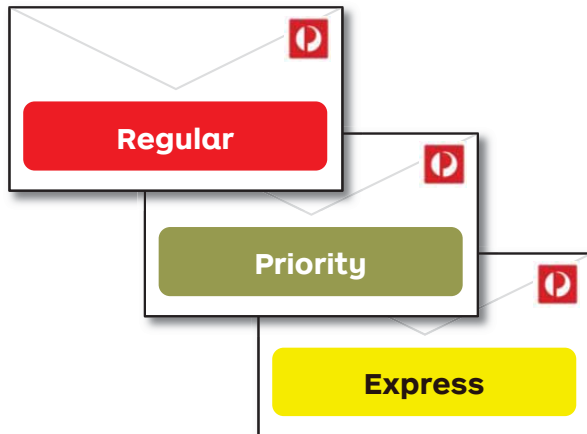


Worked closely with our Shareholders on our mail reform strategy

We must reform our letters products, prices and operations to align with customer needs...

Product choices

Products that match our customers' contemporary needs



Pricing flexibility

Prices that cover the cost of delivering the letter service



Operational changes

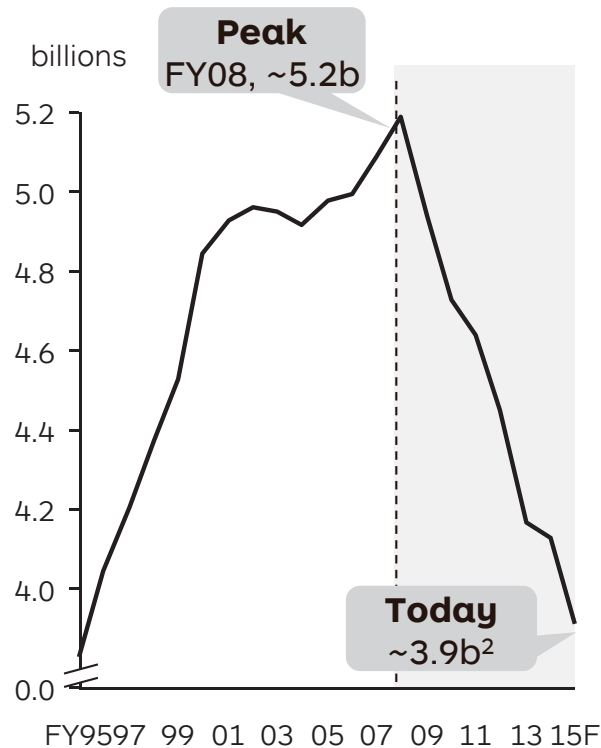
Mail operations that enable staged capacity changes to match supply and demand



...as letter volumes have now returned to the level they were 20 years ago, but processed and delivered at today's costs

Letter volumes have dropped to 1995 levels...

Annual domestic letters volume¹
(FY95-FY15F)



...while costs to meet the Prescribed Performance Standards are fixed...

The cost of accepting, transporting, processing and delivering letters is 90% fixed

Regardless of volume, Australia Post must:



Collect from ~10,000 SPBs and ~4,000 Post Offices everyday



Process and transport letters overnight to ~330 delivery centres



Ride past every household and business five days a week³ – 11.4 million delivery points

...and growing faster than stamp price rises

Price rises have been outstripped...



↑ 41%⁴

Stamp prices

...by cost growth



↑ 45%

Delivery points



↑ 100%⁵

Public sector wages



↑ 71%⁶

Consumer Price Index



↑ 175%⁷

Electricity prices



↑ 184%⁷

Gas prices

1. Domestic letters volume includes ordinary, presort, print post and unaddressed mail and federal elections (excludes express and international mail) 2. FY15 forecast 3. PPS requires 98% 5 day a week delivery 4. Basic Postage Rate excluding GST 5. Based on CPI for FY95-97 and wage price index for FY97-FY15 6. RBA 7. ABS

In any reform of letter services, we are committed to safeguarding communities most dependent on Australia Post, particularly in rural Australia



Delivery frequency remains unchanged – 5 days/week for 98% of delivery points, 2 days/week for 99.7% of delivery points



Increase in stamp prices result in increased payments to Licenced Post Offices



Concession stamp maintained for 5.7 million eligible Australians – with the price frozen at 60 cents



Reform will allow for further investment in growth of ecommerce and trusted services, especially for small businesses and rural and regional areas



Investment in rolling out electronic terminals to all regional and rural LPOs, for free, remains unchanged



Investment in superstore program will continue, resulting in 50 superstores in regional and rural areas by 2020

With reform Australia Post can become an Australian eCommerce leader and continue to grow its trusted services business



Continue to maximise the value of the mail service



Become the lead provider in **ecommerce** and **payments** for **small business**



Expand and grow services and access to **ecommerce** in **regional and rural Australia**



Innovate to provide easy, safe and personal **ecommerce solutions** for **citizens**



Offer solutions for **government service delivery** both **in-store** and **digitally**



Grow **international logistics** capabilities to support Australian businesses to globalise