MONDAY TUESDAY WEDNESDAY THURSDAY FRIDAY SATURDAY SUNDAY

Australia Post

Part of every day

Annual Report 2005/06

AUSTRALIA POST

News and

of the past 365 days

Larry couldn't stop the mail

When Cyclone Larry – Australia's worst storm in 30 years – hit North Queensland in March, we continued to get the mail through wherever access was safe. Although road closures and enormous amounts of debris on the roads affected deliveries in some areas, our staff, licensees and contractors did an amazing job of processing and delivering mail in very difficult conditions.

We achieved productivity gains of 3.7 per cent.

See page 8.

A new home for Post Logistics

Post Logistics opened its state-of-the-art 1.26 hectare warehouse and office facility at Brisbane Airport's Export Park (see page 30).

We carried out 268,000 100-point identification checks – an increase of 200 per cent on last year.

See page 24.

We delivered 95.6 per cent of domestic letters and 97.4 per cent of bulk letters on time or early.

See page 17.

China connections

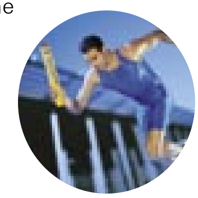
Sai Cheng Logistics International, our joint-venture partnership with China Post, opened two facilities (in Shanghai and Shenzhen) and a freight-forwarding office in Hong Kong (see page 30).

Australia Post and the Commonwealth Games

Australia Post was a major sponsor of the Melbourne 2006 Commonwealth Games – one of the biggest sporting events Australia has ever hosted. This provided retail opportunities for the sale of stamps and related products, especially our Australian Champions instant stamps (see page 24 and inside back cover).

For a full year leading up to the Games, people from many areas of Australia Post put in a huge team effort to make it a success. Retail Group ran three temporary post offices – including one at the Athletes' Village – to cater for the thousands of Games athletes, officials and media representatives.

The team at Dandenong Letters Centre processed the hundreds of thousands of mail items bound for the Village. And our Mail & Networks Division and Corporate Security Group ensured that – despite road closures and increased security around the Games venues – deliveries during the Games matched our regulated performance standards.



We involved our major business customers in the excitement with a Commonwealth Games hospitality program, and we got school children involved through our Letter Link promotion, which encourages students to write to their favourite Australian athletes.

Our Community Champions

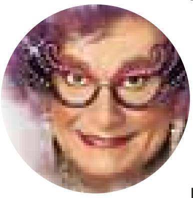
Winners of the third round of our Community Champion Award (see page 43) had the chance to run in the Queen's Baton Relay as part of our involvement in the 2006 Commonwealth Games.

Representation of women in leadership roles is 30.2 per cent – 1.9 times the national average.

We paid $514.1 million in taxes and paid the government a dividend of $282.5 million.

highlights

Dame Edna our Australian Legend



We presented comedian, satirist, actor and writer Barry Humphries (and his alter ego Dame Edna Everage) with the 2006 Australia Post Australian Legends Award. Five stamps were issued to commemorate the award (see page 43 and inside back cover).

Postie safety

We ran a Postie Safety campaign to help make our posties' jobs safer and to educate the public about what they can do to help (see page 36).

High-tech mail monitoring

We installed radio frequency identification (RFID) technology at 53 of our facilities to enhance our ability to monitor our delivery service performance (see pages 17–18).

We earned a net profit for the year of $367.9 million (an increase of $26.6 million).

See page 8.

We handled 5.42 billion mail items – an increase of 1.0 per cent from last year.

See page 140.

Contents

Report of operations

Key business results 2
Performance against targets 3
Our business 4
Our capabilities 6
Financial results 8
Chairman's report 10
Managing Director's report 12

Core business

Letters 14
Retail & agency services 20
Parcels & logistics 26

Corporate sustainability

People 32
Community 38
Economy 44
Environment 48

Corporate governance 52
Organisational structure 57
Board of directors 58
Executive committee 60

Financial and statutory reports 61

Community service obligations 122
Statutory reporting requirements 128
Australia Post statistics 135

Index 141
Contact details 144
Putting our stamp on every day Inside back cover

Report of operations

Key business results

	Letters (pages 14–19)	Retail & agency services (pages 20–25)	Parcels & logistics (pages 26–31)
Revenue	• Revenue from total domestic addressed letters increased by 0.4 per cent. • Revenue from unaddressed letters grew by 4.8 per cent. • Overall revenue growth from letters and associated products was 2.7 per cent.	• Retail revenue decreased by 3.2 per cent but profits increased by 7.1 per cent. • Agency services revenue increased by 0.8 per cent.	• Revenue from domestic parcels increased by 12 per cent. • Total Express Post revenue increased by 11.7 per cent. • Post Logistics revenue increased by 75.4 per cent. • Messenger Post Couriers revenue increased by 31.8 per cent.
Results & highlights	• Overall volume growth from letters and associated products was 0.5 per cent. • Domestic letter volumes increased by 0.2 per cent. • Unaddressed Mail volumes grew by 1.8 per cent. • Promotional letter volumes increased by 6 per cent. • Delivered 95.6 per cent of domestic letters on time or early. • First Direct Solutions, eLetter Solutions and Decipha all achieved record results. • Introduced radio frequency identification (RFID) technology to monitor our service performance for domestic letters. • Continued to operate one of the most inexpensive and reliable letters services in the world.	• Maintained Australia's largest retail network with 4,462 postal outlets (including 2,563 in rural and remote areas). • Introduced a stock management system that will allow us to better match our stock to the buying needs of our customers. • Conducted 1.01 million passport applications for Australians travelling overseas. • Introduced a range of new identity verification services. • Processed 194 million agency-based banking and bill payment transactions. • Designed, printed and distributed Australian Champions postage stamps within 24 hours of each Australian gold medal win at the Commonwealth Games. • Served more than a million customers every business day in our retail outlets.	• Domestic parcel volumes increased by 5.6 per cent. • Total Express Post volumes increased by 6.9 per cent. • Added more than 40 postcodes to the Express Post guaranteed network. • International parcel volumes rose by 9.9 per cent and revenue increased by 12.3 per cent. • Express Courier International achieved revenue growth of 28.3 per cent and volume growth of 22.5 per cent in its first full year of operation. • Completed construction work on our Sydney and Melbourne international gateway facilities. • Sai Cheng Logistics established facilities in Shanghai and Shenzhen. • Post Logistics established a freight-forwarding operation in Hong Kong.
Outlook	• Slight increases in letter volumes through continued growth in promotional mail. • The return on letters is expected to decrease, as rising costs outstrip revenue growth. • We will enhance the reading capability of our letter sorting machines to improve productivity.	• Retail profit and margins are expected to increase. • We will find more ways to improve our supply chain efficiency and further reduce our costs in this area. • We will launch a program that will enable us to provide on-line authentication services.	• Growth is forecast in domestic and international parcel volumes. • Improved parcel tracking, proof of delivery and consignment services. • We will focus on closer integration of our suite of logistics and distribution services.

Performance against targets

	Target	Performance
Financial	Revenue base of $4.57 billion.	We earned revenue of $4.53 billion.
	Profit before tax of $495.7 million.	We made a before-tax profit of $515.6 million.
	Return on average operating assets of 15.4 per cent.	We achieved a return on average operating assets of 18.7 per cent.
	Return on equity of 15.8 per cent.	We achieved return on equity of 18.7 per cent.
Service	Deliver 94 per cent of domestic letters on time.	We delivered 95.6 per cent of domestic letters on time.
	Maintain 4,000 postal outlets, including 2,500 in rural and remote areas.	We have 4,462 outlets, with 2,563 of these in rural and remote areas.
	Maintain 10,000 street posting boxes.	We have 15,436 street posting boxes.
People	Reduce our lost-time injury frequency rate to 9.6.	We achieved a record low of 7.6 lost-time injuries per million work hours.
	Increase representation of women in senior management to 30 per cent.	We increased the representation of women in senior management to 30.2 per cent.

Yesterday, today and tomorrow

Australia Post is part of the fabric of Australian life – in both familiar and surprising ways. Through our people, products, services and community involvement, we are contributing to everyday life and business success throughout the nation. We are part of Australia's history and its future. We are part of every day.

Our business today

Australia Post is a self-funding business that uses its assets and resources to earn profits, which can be reinvested in the business or returned as dividends to the Commonwealth Government. Our three core business areas are letters; retail and agency services; and parcels and logistics.

We have 34,842 full-time and part-time staff, we operate 4,462 post offices, we deliver mail to more than 10 million Australian addresses and we serve more than a million customers in our retail outlets every business day.

We are committed to our community service obligations of providing an accessible, affordable and reliable letters service for all Australians, wherever they live. Now we are also serving the needs of Australian businesses in the Asia–Pacific region through our supply chain management and logistics services.

Our history

Australia Post's origins date back to 1809, when former convict Isaac Nichols was appointed postmaster to the colony of New South Wales.

A regular Sydney–Melbourne mail service began in 1838 and by 1849 standardised postal rates were established by agreement between the colonies.

The colonial mail systems were merged in 1901 to become the Postmaster General's Department (PMG), which was responsible for telegraph, telephone and mail operations. Then, in 1975, the PMG became the Australian Postal Commission (trading as Australia Post) and the Australian Telecommunications Commission (trading as Telecom Australia, now Telstra).

In 1989, the Australian Postal Commission became the Australian Postal Corporation, a government business enterprise, under the *Australian Postal Corporation Act 1989*, with the Commonwealth Government as its sole shareholder. Since that time, we have been operating under a commercial charter with a board of directors.

In a continual process that began in the early 1990s, we have transformed our customer service culture and introduced a series of major change programs that have resulted in a revamped retail network and state-of-the-art mechanised mail processing.

Our values

Australia Post conducts its business with integrity, honesty and fairness and in compliance with all relevant laws, regulations, codes and corporate standards. All employees and contractors personally commit to the highest ethical standards of behaviour in their dealings with customers, with the corporation and with each other. Our leaders encourage a culture in which ethical conduct is exemplified, valued and recognised at all levels.

Our corporate values provide the foundation for our Code of Ethics, which can be viewed at auspost.com.au, and guide the thinking, decisions and actions of our people.

Our values are:

- being committed to customers
- recognising and developing the capability of our people
- sharing business understanding
- ensuring participation and involvement
- creating and maintaining a safe and healthy work environment
- being open and fair
- setting high standards
- being accountable
- acknowledging achievement
- encouraging flexibility and adaptiveness.

Our future

Our key ongoing business strategy is to defend and extend our three core business areas (letters, retail and agency services, and parcels and logistics). This strategy allows us to capitalise on our existing strengths and to establish leadership positions in substitute markets or activities with growth potential.

To support that overarching strategy, we are pursuing the following long-term plans.

1. Positioning cost-effective, paper-based products and services as a vital part of contemporary communications by:
   - engaging with business customers to meet their current and future needs, especially through the use of technology to stimulate the growth of mail marketing
   - improving the letters network and minimising costs
   - communicating the benefits of paper-based communications to our customers.
2. Using our retail products and agency services to support outlet viability by strengthening our position as a destination for agency services and for philatelic and packaging products by:
   - reinforcing our leading role in providing access to a range of financial and other services
   - rationalising and focussing our range of products and reducing supply chain costs
   - implementing a national marketing strategy to promote our retail offer.
3. Being the essential partner for domestic parcels and logistics services and a facilitator for Australian businesses that manufacture and trade in the Asia–Pacific by:
   - bringing together a suite of highly recognised, reliable and competitively priced products
   - extending partnerships with customers and suppliers to meet the emerging demand for global parcels and logistics services
   - continuing to reduce network costs while maintaining service standards.

Our commitment to tomorrow

Australia Post recognises that everything it does has social, environmental and economic impacts – locally and globally. We also recognise that our long-term commercial success – our own sustainability – depends on having a healthy and vibrant environment and society in which to operate.

We are committed to building a sustainable future by adopting and promoting the principles of sustainable development. This means integrating social, environmental and economic considerations into our decision-making processes and seeking continuous improvement in everything we do. We will adhere to the highest levels of corporate governance and openly report on our sustainability performance.

Our relationship with customers, suppliers and business partners is founded on sustainability principles. These principles are outlined on our website (auspost.com.au).

What we do – every day

We continue to strengthen our capabilities and extend our range of products and services. Every day, we work with consumers, small to medium-sized businesses, major corporations, suppliers and business partners to meet the needs of those customers and help them succeed.

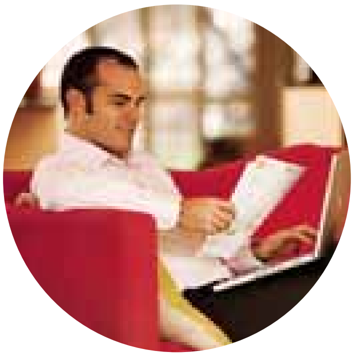
Letters

- We collect, process and distribute letters for the entire Australian community, and between Australia and overseas.
- We offer businesses and organisations cost savings on bulk mail, including invoices and statements, promotional mail and magazines.
- To help businesses achieve solid returns on marketing investment – and target their best prospects and customers – we provide research, advice, and consumer list rental, profiling and segmentation services.
- We help make the most of databases (and reduce errors and costs) through our address verification and updating services.
- To make mail-outs easier, we prepare, print and lodge documents and mailings. With our software solutions, we help our customers create and lodge mail from their desktops.
- We provide "smart" mailroom services for businesses – including screening, imaging and encryption of inbound mail.
- We help businesses manage their customers' replies to mailings more efficiently – receiving and sorting them, using technology to automatically capture relevant data, and organising transfer of the information.
- We provide a range of associated services, including ticket production and Internet-based archiving and retrieval.

Retail & agency services

We provide the following products and services through our retail network.

- Mail services and packaging products, including Postpak products and a range of gift boxes.
- Third-party agency services that connect consumers, businesses and government bodies, including:
  - bill payment services – in person, by phone and/or on the Internet
  - banking services – offering access to 77 Australian financial institutions
  - money orders and money transfers
  - personal identification and verification services
  - a range of services for travellers, including passport applications, passport photos, travellers' cheques and foreign currency.
- Post office boxes and locked bags.
- Collectable stamps, coins and associated products.
- Complementary products, including stationery, office supplies, communications products, gifts and cards.



Parcels & logistics

- We collect, process and deliver parcels to the entire Australian community, and between Australia and overseas.
- With a courier service in capital cities and a range of joint-venture partners, we offer a choice of distribution options – from economical road deliveries to express and time-critical services. Track and trace, proof of delivery and insurance are available with many services.
- We offer domestic and international integrated logistics services, including order processing, warehousing, fulfilment, distribution, returns management, freight forwarding and customs clearance.
- As part of a strong international network, we provide quality, worldwide delivery, as well as sophisticated parcels and logistics services between Australia and the Asia–Pacific region.

Our business partners

We collaborate with individuals, small businesses, joint-venture partners and subsidiaries to provide our comprehensive range of products and services.

Contractors and licensees

The people who service more than 5,000 mail, courier and parcel contracts and almost 3,000 licensed post offices across the nation are a crucial part of the Australia Post team.

Joint ventures

- Sai Cheng Logistics International – a joint venture with China Post to provide supply chain management and logistics services between China and Australia and the rest of the world.
- Australian air Express – a joint venture with Qantas to provide express air and linehaul delivery.
- Star Track Express – a joint venture with Qantas to provide express business-to-business transport.
- iPrint – a joint venture with wellcom to provide internal print management, including stamps, retail catalogues and publications.

Subsidiaries

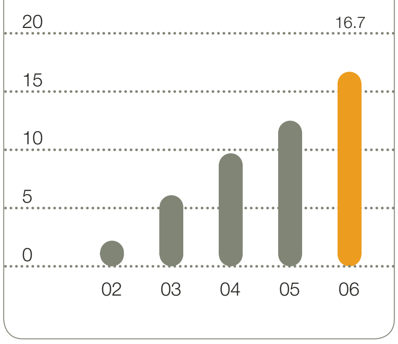
- Decipha – mailroom and document workflow services.
- Post Fulfilment Online – direct-to-consumer logistics services, including inventory management, fulfilment and delivery of groceries.
- State Warehousing and Distribution Services (SWADS) – third-party logistics.
- PrintSoft – software solutions for producing letters and documents.

Financial results

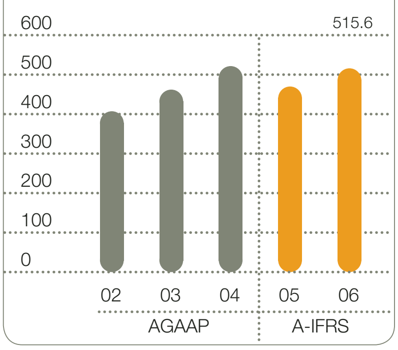
Five-year trends[1]

	AGAAP (1)			A-IFRS (1)	
	2002	2003	2004	2005	2006
Revenue ($m)[2]	3,806.6	3,971.9	4,161.1	4,325.9	4,530.1
Profit before tax ($m)	407.2	462.0	521.1	469.8	515.6
Profit after income tax ($m)	297.0	330.8	371.1	341.3	367.9
Return on revenue (%)	10.7	11.6	12.5	10.9	11.4
Return on average operating assets (%)	15.7	17.7	18.7	17.9	18.7
Debt to debt plus equity	31.7	28.7	25.4	21.2	18.3
Ordinary dividend ($m)[3]	175.1	200.2	220.9	286.2	267.3
Interest cover	15.3	16.7	17.2	15.1	17.2
Ongoing labour productivity improvement (%)	2.2	6.1	9.7	12.5	16.7
Mail volumes (millions)	5,281.2	5,261.7	5,307.5	5,363.1	5,417.8

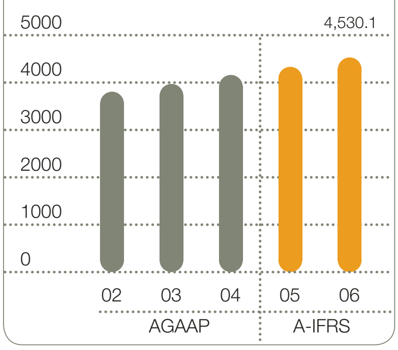
Ongoing labour productivity improvements
(% illustrating five-year cumulative growth)



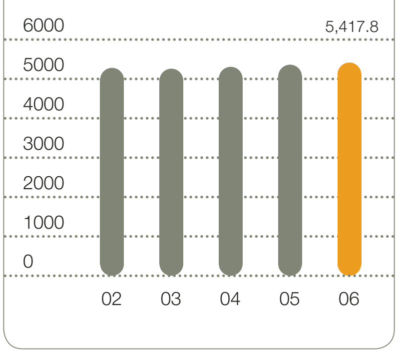
Operating profit before tax
($ million)



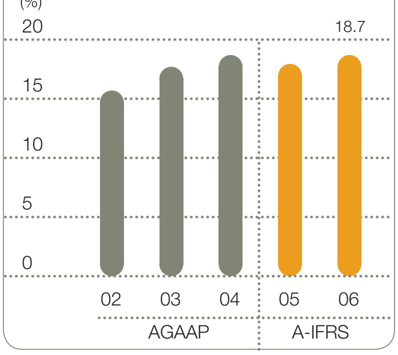
Revenue
($ million)



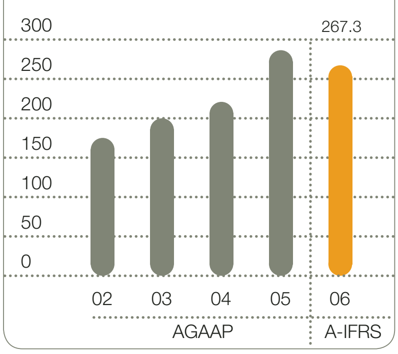
Mail volumes
(million)



Return on average operating assets
(%)



Dividends payable
($ million)



(1) Financial information for 2005 and 2006 is presented under Australian Equivalents to International Accounting Standards (A-IFRS). This has required certain financial information presented in the 2005 annual report to be restated to comply with A-IFRS. Full details of these changes can be found in note 32 of the financial statements (pages 113–121). Financial information for 2002, 2003 and 2004 is presented under accounting standards applicable to these periods (AGAAP) and has not been restated.

(2) Includes the Corporation's share of net profits of jointly controlled entities.

(3) The 2006 dividend has been determined under A-IFRS. The 2005 dividend was based on accounting standards applicable at the time and is not affected by the transition to A-IFRS.

Performance

The 2005/06 financial year was an excellent one for Australia Post. We exceeded the challenging targets we set for ourselves and significantly improved on the previous year's results. An impressive profit of $515.6 million highlights strong growth in our parcels and logistics businesses and ongoing success in driving operating cost efficiencies.

The letters and associated products portfolio and the parcels and logistics portfolio were key contributors to the corporation's total revenue growth of $204.2 million. Revenue growth in letters and associated services was 2.7 per cent – a significant result given the modest increase in domestic letter volumes and the price cap that currently applies to the basic postage rate. The corporation's acquisition of the PrintSoft Group further enhanced revenue growth in this portfolio.

Revenue growth in parcels and logistics (18.6 per cent) was again the result of strong growth from existing customers, combined with increases in targeted logistics and distribution segments. The full-year impact of the SWADS acquisition (see page 30), along with impressive growth in domestic and express parcels – particularly in on-line and mail-order sales – has maintained the momentum of our long-term strategy.

A marginal decline in retail and agency services revenue (1.2 per cent) is the direct result of management focus on improving the quality of revenue. This has been further progressed by a review of the range of retail products and a more targeted marketing and promotional strategy. Return on revenue increased from 10.9 per cent to 11.4 per cent in 2005/06. This reflects an improvement in the quality of revenue earned, associated with continued productivity improvements throughout the network. These combined factors have increased all of our segment returns. Productivity improvement of 3.7 per cent this year maintained the solid gains of recent years, with the five-year cumulative improvement being well above the national average. Trading expenditure was constrained to an increase of 4.2 per cent, a reasonable result given the significant pressures on carriage of mail costs (9.0 per cent increase) and driven mainly by efficient management of employee-related costs (1.5 per cent increase).

Post's before-tax profit of $515.6 million ensures that the corporation will continue its high level of dividend returns to the Commonwealth. Based on a 75 per cent distribution of the corporation's after tax profit, ordinary dividends payable from the 2005/06 result are expected to total $267.3 million.

Transition to A-IFRS

The corporation has completed the process of transitioning its accounting policies and financial reporting from Australian Accounting Standards (AGAAP) to Australian Equivalents of International Financial Reporting Standards (A-IFRS). Comparatives for the previous year have been restated accordingly. Last year's reported result was $524.5 million, which represented a record profit at that time. After restating for A-IFRS this was reduced to $469.8 million. Full details of items affected by this restatement are included in note 32 of the financial statements.

Strategic acquisitions

In the 2005/06 year Post continued its growth in the letters segment through its acquisition of the PrintSoft Group, which will complement the corporation's electronic messenger offering to domestic and international markets.

Capital expenditure

Capital expenditure for 2005/06 (not including our acquisition of PrintSoft-related entities) was $230.6 million, an increase of $71.2 million on the previous year. While investment was spread across all portfolios, there was a significant focus on sustaining our core operations through investment to replace plant and equipment and motor vehicles, and mail and delivery centre rationalisation. Investments to provide leverage into new markets continued, particularly in parcels and logistics.

Cash management

Australia Post was able to fund current year acquisitions through available cash reserves, resulting in minimal impact on the corporation's key balance sheet and cash flow indicators. Debt to debt plus equity again improved during the year (gearing dropped to 18.3) and interest cover remains stable at 17.2 times. The corporation's $530 million long-term term debt remains at floating interest rates with $230 million due to mature in March 2007.

Outlook

We do not expect to see significant changes in trading outlook in our three key portfolios in the coming year. The outlook is positive overall, with many opportunities to continue to develop our current strategies. Positioning cost-effective, paper-based products and services as a vital part of contemporary communication will complement anticipated growth opportunities within the parcels and logistics and the retail and agency services portfolios. Post continues to focus on being an essential partner for domestic parcels and logistics, both within Australia and in the wider Asia–Pacific region, while our retail products and services will be focussed on helping our customers get important things done. We expect that our strategy of building and operating complementary businesses to meet our customers' needs will continue to deliver long-term value for our stakeholders.

Report of operations

Chairman's report

This year we have succeeded in delivering another outstanding profit and record service delivery – that's how we continue to build our reputation and earn our customers' trust.

Letters

When I speak to people in the Australian business community, their perception is almost always that our letter volumes must be decreasing. While this is certainly true for many postal administrations around the world, Australia Post's letter volumes have increased once again in 2005/06.

Why are our volumes up while those in the rest of the world are down? The first reason is that our customers experience what independent research confirms: letters are value for money. Letters sell products and services better and collect payments faster than other communications media.

The second reason is that we understand that letters do not "sell themselves" – they need to be actively marketed to help customers improve their business results. These are major strategic differences between Australia Post and many other postal administrations.

Our strategy is different and our letters performance is better, but are these results sustainable? Yes. Personalised mail is a highly effective and influential form of communication (see page 16). We know it, our customers know it, their customers know it and independent research proves it.

The third reason that our letter volumes have increased is that Australia Post is continually developing new products to help business customers do their business better. Some of the most exciting letters products are coming through our eLetter Solutions division and our newest subsidiary company, PrintSoft. These products enable our customers – from small businesses to not-for-profit organisations to large corporations – to produce short-run mail campaigns, and even one-off letters, with the time and cost efficiencies normally associated with bulk mail (see pages 14 and 18).

Retail and agency services

With 4,462 retail outlets around Australia, Australia Post is a big business made up of many small businesses. We are proud of our retail network and particularly of our 2,975 licensed post offices – they are profitable, they are open to new ideas and they focus on meeting their customers' needs at a local level.

As a retailer, we think nationally and act locally. We know that successful retailers are active in supply chain and inventory management, and Australia Post is no exception (see page 25).

The work we are doing in inventory management allows us to better analyse our product mix at a local level and stock the products that match our customers' buying behaviour shop by shop. Customers are already noticing that our shops are presenting products and services differently by grouping them to meet important needs. Travelling? You can experience our new strategy in action. Australia Post now offers passports, instant passport photos, foreign currency, travellers' cheques, mobile phones and recharge, mail redirection, even luggage tags. Our approach to retail has moved beyond the traditional to make shopping at Australia Post a simpler and more relevant shopping experience (see page 20).

Parcels and logistics

Three years ago in my annual report I wrote about our change in strategic thinking to recognise that parcels and logistics was the future business of Post. Last year we had expanded our parcels and logistics business to be just about equal to letters and this year parcels and logistics is the clearly dominant business activity, having grown by 20 per cent year on year.

Our strategic transformation has been achieved by improving operational efficiency, adding competencies, building on our years of experience in managing complex networks, and expanding the scale and scope of our business. We have grown by acquiring Star Track Express in 2004 and SWADS in 2005 (see page 30); by forming joint ventures, such as Sai Cheng Logistics International, with major postal partners like China Post (see page 30): and by achieving strong revenue performance from new products and new customers.

Our work with postal partners is especially important. While the strategy of European post offices has been to compete with each other and their experience has been to lose market share to private sector players, in the Asia–Pacific region we collaborate with other post offices on joint services like Express Courier International (see page 29) and third-party logistics. Our strategy is different because we know that collaboration strengthens the market relevance of post offices, enhances the competitiveness of our products and services and underpins the sustainability of our established domestic businesses.

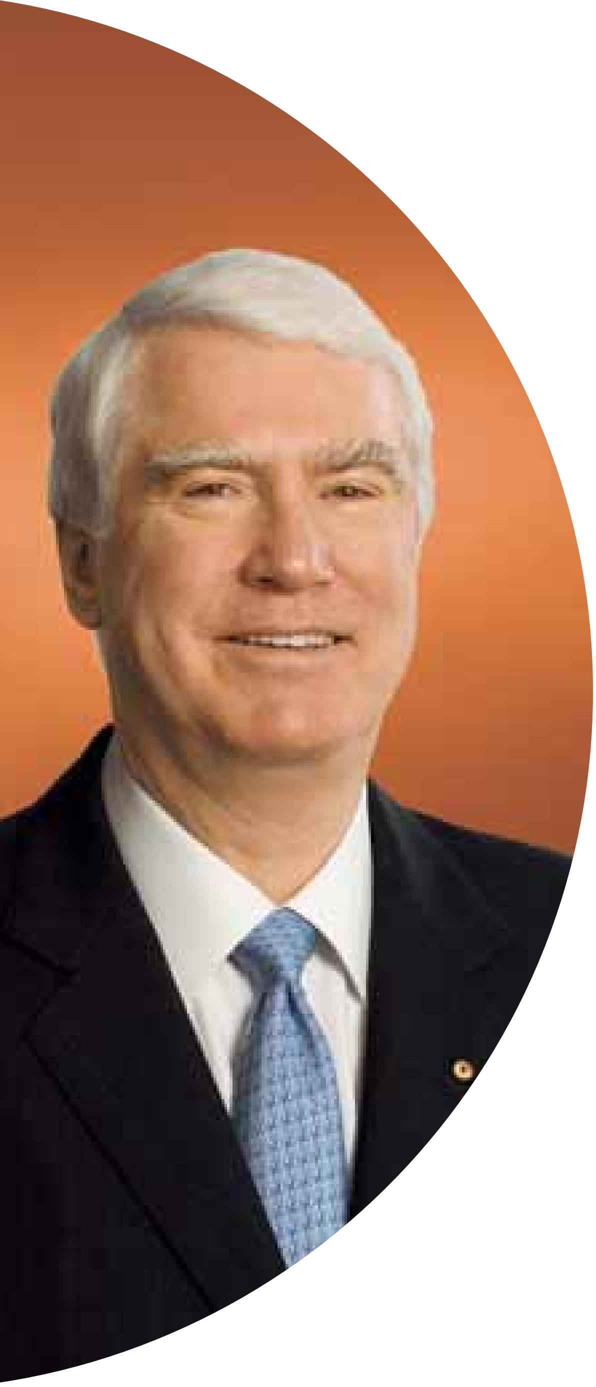
While we are penetrating new markets overseas, we are strongly committed to our domestic parcels business and we are excited about the many opportunities for growth in Australia. It is our ongoing intention to be a market champion in Australia, while extending our influence globally.

Thank you

I would like to thank all the people who make Australia Post the best post office in the world – our customers without whose confidence and support our success would not be possible; and all the men and women at Post, including our licensees and contractors, who are responsible for putting our strategies into practice day-to-day and every day. Once again we have proven we can be a profitable commercial business and provide outstanding customer service for all Australians.

In September 2006, I will be retiring from my position as chairman of Australia Post. Looking back on my 18 years as a director and nine years as chairman I am proud to have been directly involved in our transformation to the efficient, profitable and highly respected business that Australia Post is today. These have been exciting and challenging years. I would like to take this opportunity to thank my fellow board members for their staunch support – and to express my appreciation to our Managing Director Graeme John, who is a pleasure to work with, an outstanding chief executive and a transformational leader.

Linda B Nicholls
Chairman



Report of operations

Managing Director's report

In 2005/06, we achieved an excellent result and increased productivity while meeting or exceeding all of our community service obligations.

Financial results

I am pleased to report that in 2005/06 Australia Post achieved a $515.6 million profit before tax, a 9.7 per cent increase on last year's result. Revenue also increased, by 4.7 per cent, to a new record of $4.53 billion.

We achieved these results while meeting or exceeding all of our community service obligations, as well as exceeding our main service performance target by delivering 95.6 per cent of domestic letters on time or early.

Last year, I announced that profit from our letters business had declined by $56.9 million. This year I am able to report that we have seen a $16.6 million increase in profit from letters. This increase was driven mainly by strong growth in international letters and by the acquisition of PrintSoft (see opposite).

Our parcels and logistics business has continued its strong growth momentum and achieved an increased profit of $42.8 million this year through significant growth across all products and services.

Retail and agency services put in a solid performance in 2005/06 and, although revenue was down (by $7.9 million compared with last year), produced a $12.5 million increase in profit in a tough retail environment. This was a direct result of a strategy to improve the quality of revenue from our postal outlets.

Our core business

While we remain strongly committed to our letters business, we are now also reaping the rewards of our concentrated efforts in the parcels business: in 2005/06, for the first time, parcels and logistics surpassed letters in its contribution to earnings before interest and tax. This indicates a shift from Australia Post being primarily a letters business to a stronger focus on parcels and logistics – and we are perfectly placed for this: no other company in Australia can match our parcels and logistics offering.

Counter to a global trend of flattening (and, in some cases, declining) letter volumes, in 2005/06 our letter volumes grew by 0.5 per cent – some 28 million letters. As was the case last year, promotional mail – the area we are putting most emphasis on developing – was our strongest area of growth, with a volume increase of 6 per cent.

I am extremely proud of what we achieved this year but it continues to be increasingly difficult to maintain profits in our letters business. One of the key issues that we will need to address in order to ensure the long-term sustainability of our business is the basic postage rate, which has effectively not changed since 1992. (The 5-cent price rise in 2003 incorporated the cost of GST and provided the corporation with only $0.005 additional income per stamp.) Australia Post is unparalleled in the efficiency of its mail processing and delivery but – no matter how efficient we are, or how many cost-cutting measures we introduce – rising fuel, labour and operational costs seriously threaten our future letters profitability.

It was a year of consolidation for our retail outlets, with the foundations laid for the next stage of our development as a retail trader. As well as extending our range of agency-based services, we are redefining our retail offer to tie in more closely with our customers' buying behaviour and we expect the benefits of this work to be more fully reflected in next year's earnings.

International connections

We have much to celebrate this year in addition to our financial results.

Last year we laid the foundations of Sai Cheng Logistics, our joint venture with China Post, and the KPG Alliance – our partnership with China Post, Hongkong Post, Japan Post, Korea Post and the United States Postal Service. This year we have seen tangible and exciting results.

We established Sai Cheng Logistics facilities in Shanghai and Shenzhen and set up a freight forwarding operation in Hong Kong to provide our business customers with a seamless supply chain between Australia and China. We also demonstrated our commitment to strengthening the international delivery network through the success of Express Courier International (see page 29).

Our acquisition of PrintSoft (a provider of software solutions for letter and document production), which we announced on 1 July 2005, is a major investment in our future that will help to grow our letters business by combining the convenience of electronic technology with the effectiveness of paper-based communications (see page 18).

Our people and work performance

As one of Australia's largest employers, we recognise that the health and wellbeing of our workforce is fundamental to our business success. In addition to running numerous and extensive staff health programs, we put a strong focus on improving our safety performance throughout the business in 2005/06, resulting in a record lost-time injury frequency rate (LTIFR) per million work hours of 7.6 (compared with 9.6 last year).

We also achieved productivity growth of 3.7 per cent, which brings our cumulative productivity growth over the past five years to 16.7 per cent – three times the national average.

Our success has been made possible through the dedication and commitment of our workforce. In May this year – in a second Staff Attitude Survey – we asked our people for their opinions about Australia Post and their working conditions. Almost 70 per cent of staff participated, a slight increase on the previous year. Our people are having a real say in our future and it has been pleasing to see practical action plans being developed at workplace level throughout the business in response to the results of the first survey.

Thank you

This year I want to especially thank our Chairman Linda Nicholls, who will be retiring at the end of her term in September 2006 after 18 loyal years' service to Australia Post.

Linda was appointed to the Australian Postal Commission in 1988, appointed to the Australia Post board in 1989 and became Chairman in 1997. During that time, she has earned the trust and profound respect of the board, our shareholder and the business community for her commitment to the corporation and her ability to deliver Australia Post's strategies. The outstanding support of the board – and of Linda in particular – has been fundamental to the transformation of our business and our continued success.

I would like to acknowledge the appointment of board member David Mortimer as the new chairman and welcome him to the role.

Thanks must also go to our customers, our suppliers and our business partners for their ongoing support. And finally, I would like to thank everyone in the wider Australia Post family – our 45,000-plus staff, contractors and licensees – for helping us to maintain our excellent reputation within the community and to continue to achieve our financial and operational goals.

Graeme T John AO
Managing Director

The 2004/05 figures have been adjusted throughout to conform to the transition to Australian Equivalents to International Financial Reporting Standards (A-IFRS), which allows comparison on a like-with-like basis.

Monday

They're getting a healthy start to the week.
We're preparing letters to remind them to renew their membership.

Letters are probably the last thing on your mind when you're working out, but the right letter could just inspire you to join a health club or renew your membership.

Fitness First health clubs use our eLetter Solutions service to contact their existing members and to reach potential customers. This convenient service – which combines the ease of electronic technology with the effectiveness of paper-based communication – allows the Fitness First customer service team to create letters and to have them printed, placed in envelopes, barcoded and lodged … all without leaving their desks. They simply e-mail the letter to Australia Post – and we do the rest. Letters can be printed and prepared at any or all of eLetter Solutions' five production facilities around Australia, which means that Fitness First's mail reaches its customers sooner.

Letters

2005/06 highlights

- We met or exceeded all of our regulated performance standards, including delivering 95.6 per cent of domestic letters on time.
- We delivered 97.4 per cent of bulk letters for Australian businesses on time or early.
- We introduced state-of-the-art radio frequency identification (RFID) technology to monitor our service performance for domestic letters.
- EDI Post changed its name to eLetter Solutions and introduced a range of innovative services to help businesses create and send mail.
- Direct mail volumes increased by 6 per cent and revenue increased by 6 per cent.
- International letter volumes increased by 6.1 per cent.
- We continued to operate one of the most affordable and reliable letter services in the world.

Letters

Against a global trend of flattening letter volumes, Australia Post continues to add value to its letter service and achieve small but steady volume increases. We attribute this to our reliable and cost-effective service, to the enduring power of paper as a communications medium and to our development of innovative systems and products to suit the needs of a changing market.

The letters market

The letters market can be broadly segmented into three types of mail: transactional mail, promotional or direct mail, and social mail.

- Transactional mail, which involves a transaction between businesses and their customers (i.e. mailings of accounts, bills, statements and cheques), makes up approximately 79 per cent of all letters.
- Promotional or direct mail (i.e. marketing communications) makes up about 16 per cent of all letters.
- Social mail (i.e. letters, postcards and greeting cards between private individuals) makes up around 5 per cent of all letters.

In the world's rapidly changing messaging market, the letter is competing with electronic messaging, such as the Internet, e-mail and SMS. Combined with mass media channels, the range of mediums available has created new opportunities for businesses to communicate with their customers – as well as confusion about what is effective.

To explore this issue, a ground-breaking research study was undertaken in 2005/06 (with results released in July 2006). Conducted by internationally renowned marketing academics Professors Peter Danaher and John Rossiter, the research encourages businesses to understand how the communications channels they choose (including mail, e-mail, phone, SMS and mass media channels) will have an impact on customer behaviour – and on their bottom-line results. Australia Post sponsored, but was not directly involved in, the research.

The study shows how consumer preference for receiving information via particular channels directly influences them to take action (for example, to buy a product or pay a bill on time).

With the research comparing the effectiveness of paper-based and electronic channels for both transactional and promotional information, key results included the following.

- For promotional information, recipients (at home and at work) said that printed direct mail would be more likely to influence them to buy something than e-mail, phone or SMS.
- When it came to transactional information, household recipients were more likely to pay their bills on time when they received them via mail, as opposed to e-mail or SMS.
- People who received bills in the workplace were also more likely to pay them on time if they received them by mail rather than by e-mail. The difference, however, was not as significant as it was for home receivers, indicating that people are more averse to receiving transactional-based e-mail at home than at work.
- Personally addressed letters sent to residential recipients outperformed e-mail on all of the attributes ("enjoyable", "entertaining" and "reliable") that influence a product purchase.

Letter volumes and revenue

In 2005/06, Post achieved overall volume growth of 28 million letters (0.5 per cent), marking its third successive year of growth. While growth has slowed significantly since the 1990s, this is a solid performance in an environment in which some countries have been experiencing significant declines in letter volumes since 2000. Taking into account the fact that the 2004/05 result was boosted by large volumes of mail generated for the Federal election, the underlying growth for domestic letter volumes in 2005/06 was almost 85 million letters (1.6 per cent).

Most of the growth in our letter volumes has been in the area of direct mail, where volumes were up around 6 per cent this year (compared with 5 per cent last year). At the same time, transactional mail volumes decreased in some market segments as businesses conducted more transactions electronically.

A 0.2 per cent increase in total domestic letter volumes provided revenue growth of 0.4 per cent. Unaddressed letter revenue grew by 4.8 per cent on a volume growth of 1.8 per cent. With the inclusion of associated letter products (such as eLetter Solutions, page 19), overall revenue growth for the letters business was 2.7 per cent.

An innovative approach

Innovation – particularly in the area of direct marketing – has been the catalyst for growth in Australia Post's letters business. Having a dedicated team that is responsible for developing and applying new ideas has allowed us to swiftly identify, develop, test and activate product and service opportunities to satisfy specific market needs. Over the past 18 months more than 15 letter products, strategies and initiatives have been introduced or trialled in the marketplace.

We strive to provide our customers and industry partners with new and different ways to use physical mail as a messaging medium. We also support the growth of physical mail by making the creation of mail easier and more cost-effective for the sender.

As well as working with our internal staff, we collaborate with postal authorities around the world and actively engage with industry associations within Australia. Taking a more consultative approach with our clients has also helped us to develop innovative solutions that work.

Greater efficiencies

Through a targeted program of cost reduction, Australia Post's Mail & Networks Division (M&ND) cut costs significantly during the year. The savings were partly achieved by standardising systems and eliminating the duplication of services as old systems were upgraded. This included an inventory of more than 250 different software systems that were previously used in M&ND; these have been simplified and reduced to the core systems that will support our future business needs.

Some important M&ND change projects undertaken in 2005/06 include:

- enhancing the reading capability of our letter sorting machines. This is currently being trialled within the network.
- investing in IT diagnostic tools to better analyse production costs throughout the network, set national benchmark rates and implement programs to achieve them
- consolidating the Sydney East Letters Facility into the Sydney West Letters Facility
- developing a consistent set of terms and descriptions to allow accurate comparison of cost, performance and productivity at each major facility. This useful diagnostic tool will ultimately help to lift performance throughout the network.

The price of a basic postage stamp

(a comparison between 15 developed countries)

Country	AU$ price
Switzerland	$1.17
Finland	$0.96
Portugal	$0.89
Japan	$0.88
Germany	$0.84
France	$0.82
Italy	$0.73
United Kingdom	$0.67
Netherlands	$0.61
Canada	$0.57
Spain	$0.52
United States	$0.51
Australia	**$0.50**
New Zealand	$0.42
Korea	$0.34

Sources: OECD and Australia Post.
Note: Rates calculated using Purchasing Power Parity. All rates are inclusive of GST or VAT.

A combination of efficiency improvements and a price freeze on the basic postage rate (BPR) means that Australia enjoys one of the lowest cost letters services in the world. Since 2000, the BPR has increased by only 5 cents – providing $0.005 additional net income per stamp after GST is deducted. By comparison, the BPRs in the UK and USA have increased by more than 18 per cent since 2000.

Delivery performance and community service

Australia Post is required under the *Australian Postal Corporation Act 1989* (the Act) to meet a performance standard of 94 per cent on-time delivery. This year, we again exceeded that target, with 95.6 per cent of domestic letters delivered on time or early. Nearly all of the remaining 4.4 per cent of letters were delivered by the following day.

Letters is the only area of our core business that is a partially protected service. Under the Act, letters weighing 250 grams or less – or priced below $2 – are reserved to Australia Post. In return for this protected service we are required to meet a series of community service obligations, all of which we met or exceeded in the 2005/06 financial year. (See page 122 for a full outline of these obligations and how we performed against them.)

Our delivery performance figures are measured against timetables outlined in the regulated standards and are independently audited.

Monitoring service performance

This year Australia Post made some major changes to the internal and external monitoring of its delivery service performance. We installed radio frequency identification (RFID) technology that will enhance our ability to monitor our service performance and provide a better analysis of potential problems within our delivery network.

Previously, all external monitoring was done manually. In the new system, the monitoring company inserts RFID tags into test letters through the course of each month – with more than 12,000 tags being recovered and reused on an ongoing basis.

Monitoring equipment, and new computer hardware and software (which will detect and register the RFID tags in test letters as they enter and leave our facilities), has been installed in all nine of our metropolitan letter processing facilities, in 21 country mail centres, in 23 delivery centres and in 16 mobile units.

Research International, which provides similar services for a number of postal administrations around the world, is monitoring our performance, and international audit firm Deloitte Touche Tohmatsu will provide quarterly and annual independent certification of that performance.

Whereas the previous system measured our overall postal performance, RFID technology will also provide intermediate measurement points throughout the journey of test mail items. This detailed information will enable us to better identify and solve any problems that arise within the mail network.

The old and new monitoring systems were run in parallel for six months, with the new monitoring service taking over completely from July 2006.

Acquisitions

On 1 July 2005, we acquired the PrintSoft Group, which now operates as a subsidiary of Australia Post. PrintSoft provides software for letter and document production, employs around 180 people and has customer sites (including mail houses and large corporate mailers) in the Asia–Pacific region, Europe and North America. For some time before the acquisition, we collaborated with PrintSoft to develop our Post eLetter product.

In March 2006, PrintSoft in turn acquired Program Products Ltd, which markets and supports software for the design, generation and high-volume production of digital documents.

Printsoft's hybrid mail solution, DeskDirect, was selected from more than a dozen candidates worldwide to be this year's recipient of the Xplor Technology Application Award, for imaginative use of current technology.

International letters

International letter volumes increased this year by 6.1 per cent (following a decrease in volume of 11.5 per cent last year). This was mainly due to a small number of our major customers receiving high response rates from direct mail offers to their overseas customers.

We again exceeded our on-time delivery target (set by the Universal Postal Union) on inward international letters.

Quarantine detector dogs, X-rays and customs and quarantine inspectors screen 100 per cent of incoming international mail, which last year amounted to more than 141 million items. See page 29 for information about our newest international mail gateway facilities in Sydney and Melbourne.

Bulk mail services

Bulk Mail Partner program

Support for our Bulk Mail Partner program (which we introduced in 2004/05) remains strong within the mailing industry, and achievement of Bulk Mail Partner status is highly regarded. The program requires participating mail houses to observe defined quality standards, which ensure that mail produced by our Bulk Mail Partners is capable of being processed and delivered efficiently and accurately.

The number of mail houses participating in the program rose to 51 during the financial year (up from 32 last year).

Nearly all of our bulk mail customers are now using our Electronic Lodgement of Mailing Statements (eLMS), an electronic gateway that allows mailing houses to lodge mail statement information through an Internet-based application.

Print Post

The volume of publications delivered through Print Post, our publications delivery service, increased by 3.2 per cent during 2005/06 and associated revenue increased by 5.3 per cent.

Unaddressed Mail

Our Unaddressed Mail Service achieved 1.8 per cent growth in volume during the year. Taking into account the large volumes of Unaddressed Mail generated by the 2004 Federal election, underlying growth in this area is actually around 10 per cent.

Direct marketing services

The scope of this report does not allow for a full description of our broad range of direct marketing services. The following are some aspects that have been of particular interest this year.

One Call Customer Mail

Australia has more franchises per capita of population than any other country in the world. Recognising this, Australia Post is working with the Franchise Council of Australia and the franchise industry to develop a range of direct mail solutions designed specifically for franchisors and franchisees.

One Call Customer Mail is a service for franchisees that is designed to make local direct marketing as simple as placing a phone call to choose from mail options provided by the master franchisor. Australia Post then manages the franchisees' print, mailhouse and postage requirements.

First Direct Solutions

Australia Post's consumer data and media services business, formerly Geospend, was renamed First Direct Solutions in February 2006. The new name more accurately represents its service offering and provides scope to extend our range of products and services in the future.

First Direct Solutions helps businesses to keep in touch with customers who have changed their address, to learn more about their customers, to find new customers and to communicate with customers who are moving house.

In 2005/06 First Direct Solutions achieved revenue growth of 16.4 per cent.

Charity Mail

Australia Post provides registered charities with a discounted direct mail service known as Charity Mail.

We achieved volume growth in Charity Mail of more than 3 per cent in 2005/06, due mainly to clarifying and publicising which organisations are eligible to use Charity Mail.

Communication of the eligibility criteria has been particularly effective through the Marketing Media and Post Centre, which we set up last year in partnership with the Our Community group on the ourcommunity.com.au website.

The lower postage rates offered through Charity Mail represented more than $5 million in foregone revenue in 2005/06.

Mail production and handling

Mailroom services

Our subsidiary company Decipha offers a range of services – from integrated mailroom management through to digital mailroom applications – for clients in sectors including financial services, government, health, travel and manufacturing. It is a leading-edge supplier of advanced workflow solutions to businesses with large inward volumes of documents and parcels.

Decipha launched security screening services this year, largely in the government sector, with the Melbourne 2006 Commonwealth Games being the major undertaking in this area. Other technologies were adopted to allow imaging and data capture processing for identity verification (see page 24 for more about these services).

Decipha increased its revenue this year by 35.3 per cent.

eLetter Solutions

In April 2006, EDI Post changed its name to eLetter Solutions. The new name better describes the way in which the eLetter Solutions suite of products allows our customers to send mail from their desktop computers to their customers' physical letterboxes.

With the name change comes an extended range of services: from the traditional bulk mail production of statements and invoices to a web-based document archive and retrieval service and cutting-edge direct mail solutions for marketing and ticket production. Many of our major customers have already saved many hundreds of thousands of dollars by implementing these services.

During the year, eLetter Solutions achieved Bulk Mail Partner accreditation, which will offer our customers greater transparency about the work we perform on their behalf.

eLetter Solutions generated 22.9 per cent more mail items during the year, increasing revenue by 16.8 per cent.

The future

As a result of changing customer needs, growth opportunities in traditional markets for letters and associated services are diminishing. Australia Post does, however, expect ongoing growth from direct mail in the coming years.

Our key strategic goal for the future is to position our paper-based products and services as a cost-effective and vital part of contemporary communications. This will include a comprehensive promotional campaign to highlight the benefits of paper-based communication in an environment where many businesses are currently more focussed on cost cutting than on the effectiveness of their communications.

We will also examine further opportunities to combine paper and electronic communications to provide effective business solutions.

To protect and grow our share in traditional markets we will continue to refine and reassess our current products to ensure that they remain relevant and effective for our customers while delivering an acceptable financial return to Post. And we are committed to developing innovative products and services that will bring further value to our customers.

Tuesday

She's preparing for a big overseas holiday.
We're making it easier for her to get organised.

An overseas holiday can be the experience of a lifetime but the preparation – running to the bank and from store to store – can be a stressful and tiring process.

Northland PostShop in Melbourne is one of almost 900 Australia Post retail outlets now offering a "one-stop shop" for people who are planning holidays. Travellers can apply for (or renew) a passport, have instant passport photos taken, buy overseas calling cards, transfer money and buy foreign currency or travellers' cheques. And, of course, Australia Post retail outlets can also arrange to hold or redirect a traveller's mail while they are away.

Core business

Retail & agency services

2005/06 highlights

- Our people served more than one million customers every business day in our 4,462 postal outlets.
- We introduced a range of new personal identification services, including a Working with Children identity check for the Department for Community Development (DCD) in Western Australia.
- We conducted 1.01 million passport applications for Australians travelling overseas.
- We processed 194 million agency-based banking and bill-payment transactions.
- Within 24 hours of each Australian gold medal win at the Commonwealth Games, we designed, printed and distributed postage stamps to celebrate the achievements of our champions.
- Under the same program, we released more than 100 new stamps in less than two weeks (compared with our normal stamp program of 60 stamps per year).
- Under a federal government initiative, we installed new technology that will give 266 remote and rural licensed post offices access to 77 financial institutions by the end of 2006.
- We introduced a Demand Chain Management system that will allow us to better match our stock to the buying needs of our customers.

Core business

Retail & agency services

The 2005/06 financial year was an exciting one for Australia Post's retail outlets. We have transformed our retail network over the past 15 years – and 2005/06 saw the next stage in that evolution. We adopted a world-class stock management system and developed a new way of presenting our products and services that will make it easier for our customers to get things done, every business day.

Our retail offer

The core products and services offered through our postal outlets include letter and parcel services and a wide range of agency-based services, including bill payment, agency banking, money orders, passport interviews, personal identity and verification services, travellers' cheques and money transfers.

We also offer a variety of merchandise that complements those core products and services, including packaging and philatelic products, stationery, communications products, office and computer products, and gifts and cards.

As well as making a commercial return through our retail outlets, we have a community service obligation under the *Australian Postal Corporation Act 1989* to maintain a minimum of 4,000 postal outlets across Australia, including 2,500 in rural and remote areas. In 2005/06 we exceeded that requirement with a total of 4,462 postal outlets, including 2,563 in rural and remote areas.

Our network of postal outlets is still the largest physical retail network in Australia. The table below gives a breakdown of the types and locations of our retail outlets.

The retail experience in a postal outlet is unique: our customers generally come to the post office with a specific list of things they need to achieve. With this in mind, we are now focussing more strongly on what we can do for our customers.

For our business customers, we are developing product categories and themes that are easy for them to understand and use – such as "marketing your business", "delivering your product", "collecting customer payments" and "supplying your office".

We are also grouping products and services to help consumers become organised and get things done. We have bundled a range of travel-related services and new accessory ranges to support this strategy. See case study on page 20.

Australia Post retail outlets at 30 June 2006

	NSW/ACT	Qld	SA/NT	Vic/Tas	WA	**Aust**
Corporate offices	283	174	80	231	89	**857**
Licensed post offices and franchises	914	463	320	980	298	**2,975**
Community postal agents	99	186	185	69	91	**630**
Total outlets	**1,296**	**823**	**585**	**1,280**	**478**	**4,462**

Note: This table uses Australia Post administrative states, not geographic states (which form the basis of Table 4 on page 136).

Our business partners

As at 30 June 2006, we had 2,975 licensed post offices (LPOs) – which represents two-thirds of our total retail network. LPOs are independently run small businesses that play a vital role in the economic and social life of the communities they serve (see page 44).

Overall retail and agency revenue from the LPO network increased this year by 4 per cent.

The national Licensee Advisory Council (LAC) is made up of nine elected licensee representatives and four senior managers from Australia Post's national Retail business. Each state also has its own LAC. These were established in 2003 to provide a forum for licensees and Australia Post to discuss business development initiatives and to address matters of concern to licensees. In 2005/06, the national LAC met in July, October, February and May.

Among its achievements in 2005/06 the LAC has been responsible for several new supplier arrangements that have offered licensees more choice in several product lines, such as telecommunications and insurance.

Through the Bank@Post program (see page 24) we installed technology to provide on-line banking facilities at a further 110 LPOs in 2005/06. Another 120 LPOs will receive this capability in the first half of the new financial year.

While maintaining our strong relationship with our LPO business partners, we are also introducing franchises into our retail network to support Australia Post's commercial viability and provide for a more consistent customer experience.

A PostShop franchise agreement differs from an LPO licence agreement in a number of ways, particularly in relation to the term of the licence, arrangements for stock and other capital investment. For example, all equipment in a franchised outlet is supplied and owned by Australia Post.

The franchises will operate alongside our current corporate PostShop and LPO networks and will not compete with existing outlets.

Serving our customers

We served more than a million customers each business day in our 4,462 postal outlets this year.

Results from our priorityCustomer mystery shopping program improved for the third consecutive year, giving us an overall customer service rating of 95.6 per cent (compared with 95.2 per cent last year).

Also for the third year in a row, we conducted our national reward and recognition program – Retail Star Performance – which gives staff in corporate outlets cash rewards when they meet or exceed specified customer service and sales performance targets.

See pages 40–41 for details on the progress of our customer contact centres this year.

Agency and retail revenue

Despite competition from alternative channels in the bill payment market, agency services revenue recorded an increase of 0.8 per cent.

Overall revenue from retail business was slightly lower (3.2 per cent) than in the previous year. However, our profits increased by 7.1 per cent. This reflects a major focus during the year on introducing greater discipline to our stock management methods (see Inventory Management, page 25).

AGENCY SERVICES

Our retail outlets carry out a broad range of agency transactions on behalf of Australian businesses and government bodies. We offer bill payment, travellers' cheques, money transfer services and identity verification services as well as agency-based banking services. As at 30 June 2006, 3,188 of our outlets were equipped with the technology to conduct agency services.

Behind the scenes, our Shared Services Division (SSD) processes and settles all of the agency transactions on Australia Post's behalf as well as handling other financial transactions for the corporation, such as accounts payable and accounts receivable.

Bill payment

Australia Post continues to be the country's premier in-person bill payment provider. The number of bill-payment partners increased from 633 to 681 this year.

The transaction volumes of our on-line bill payment channel grew by a total of 18 per cent during the year. Phone bill payment transactions fell by 16 per cent, largely as a result of some major billers opting to provide their own internal bill payment solutions.

In addition to our own electronic bill payment channels, we are also managing Internet bill payment services – branded with each company's own name – for a number of large companies, including the Royal Automobile Club of Victoria (RACV) and Western QBE.

A total of 75 billers (up from 70 last year) are now using our Billmanager service, which allows the billers' customers to develop and follow individual bill payment plans based on their projected expenses for the entire year. The number of payments made using Billmanager – which is particularly suited to bills that arrive regularly, such as gas, electricity and rates – also grew (by 39 per cent) during the 2005/06 financial year. Payment is available in person, over the phone or Internet, or by scheduled direct debit.

Banking services

In November 2005, our agency banking service (formerly giroPost) changed its name to Bank@Post, which better reflects the financial service we offer our customers.

The banking service itself has not changed: Bank@Post allows our customers to make deposits, withdrawals, credit card payments and account balance enquiries with a range of banks, credit unions, building societies and other financial institutions.

In September 2004, the Federal Government committed to funding the connection of 266 small remote and rural outlets to our on-line banking network. Under phase one of the Bank@Post program, the first 20 outlets were connected by 30 June 2005. In the second phase of the program, a further 110 outlets were connected by 30 June 2006. When this project is complete (in December 2006), more than 3,300 Australia Post outlets will be electronically connected in real time through our point-of-sale counter system.

We processed 30 million banking transactions in 2005/06 – a decrease of 2.6 per cent on the previous year, which reflects the continuing impact of electronic banking and the growth of EFTPOS cash-out ATM networks.

More than 1,100 Australia Post outlets now offer business banking, compared with 882 last year and 612 the year before. A total of 886 of these are in rural and regional areas.

Business banking transaction volumes increased by 7.7 per cent in 2005/06, with five banks and one credit union now offering the service through Australia Post.

Identity and verification services

Australia Post's reputation as a convenient and trusted third party has been vital in positioning our business to handle an increasing range of personal identity and verification services. Many of our corporate and government customers also value the fact that all Australia Post staff and licensees are required to undergo police checks.

We currently carry out 100-point identification checks for more than 40 organisations around Australia. And, as a result of having actively pursued this business, we conducted 268,000 100-point checks in 2005/06 – a 200 per cent increase.

During the year we also conducted 1.01 million passport interviews on behalf of the Department of Foreign Affairs and Trade.

We have introduced a number of new personal identity and verification services, including in-person proofing and acceptance of applications for national Maritime Security Identification Cards (for 1-Stop Connections Pty Ltd) and Working with Children checks for the Department of Justice in Victoria and the Department for Community Development (DCD) in Western Australia. Post also provides photo capture services for DCD.

Money transfers and travellers' cheques

Revenue from our money order business grew this year, despite a continued slight decrease in the number of money orders issued.

Thanks to our numerous convenient locations and our trusted brand, we are now the single largest retailer of Western Union money transfers in Australia. Transaction volumes for this service increased by more than 40 per cent in 2005/06.

Sales of American Express® Travellers Cheques and foreign cash increased by more than 10 per cent during the 2005/06 financial year.

RETAIL PRODUCTS

Our retail products, as outlined under Australia Post's retail offer on page 22, have been specifically selected to complement core business areas.

Packaging and complementary products

In line with the strong growth in our parcels business, we achieved more than 10 per cent growth in the packaging category of products.

Gifts, cards, stationery and office products also performed well in 2005/06.

Communications (prepaid mobile) products have been among our best-selling products for many years and, for the second year in a row, we won the Telstra Prepaid Dealer of the Year Award. However, despite this excellent result, prepaid mobiles have reached saturation in the market, resulting in negative growth after eight years of consistent double-digit growth.

Our philatelic program

Revenue from sales of philatelic products increased by 2 per cent this year – an excellent result, particularly considering that last year's philatelic-related events included the Athens Olympics and the Pacific Explorer Stamp Expo in Sydney.

This growth can largely be attributed to sales of stamps and collectable products linked to the Melbourne 2006 Commonwealth Games. In an ambitious team effort that involved people from many different areas of

Australia Post, we released more than 100 new stamps in less than two weeks (compared with our normal stamp program of 60 stamps per year). Among these were 17 “instant stamp” sheetlets, to commemorate our athletes’ gold medal wins at the Games, which were designed, printed and distributed in less than 24 hours.

The Commonwealth Games also saw the production of the second Snapshot! personalised souvenir stamp booklet. More than 15,000 Games visitors took advantage of the chance to watch their souvenir booklets being produced on site at Birrarung Marr near the major Games venues.

During the year, the philatelic product range was extended to include a range of stamp-related gifts and collectables that were marketed in the *Impressions* direct mail catalogue. Among the items offered in the catalogue was the limited edition Treasures of the Archive imperforate stamp sheetlet, which sold out within days of its release.

See page 43 for information about our program of philatelic exhibitions and the inside back cover to view a selection of the year’s stamp issues.

Inventory management

To improve profits from our retail and philatelic products, we introduced a state-of-the-art inventory management system this year. Following a successful trial, the Demand Chain Management (DCM) system has now been rolled out to all of our 838 corporate PostShops.

This has enabled us to reduce our stock on hand by almost 40 per cent. We will continue to focus on supply chain productivity improvements with suppliers through a vendor alliance strategy.

We have also been able to analyse the transactions associated with the entire retail offer and use that to segment our retail network to better suit the needs of our customers – both consumer and business. Individual stores will now start to stock products that closely match the buying behaviour of their local customers – for example, a PostShop that has mainly business customers will stock more bulk and office products than a store that primarily serves consumers. It will also allow us to identify those outlets that are predominantly service oriented and to look at aligning their format to suit that offer.

This year, cutting the costs of our supply chain, keeping less stock on hand and in storage, speeding up stock turnover, and stocking the products that our customers want to buy all contributed to an improved profit performance for retail products.

An added benefit of a streamlined product range will be better visibility of our retail products. We have embarked upon a new program of in-store visual merchandising that will provide optimum display conditions for each store’s individual product range.

THE FUTURE

In the year ahead we will explore further opportunities in personal identity and verification services and early in the next financial year we will launch a program to provide on-line authentication services.

We will continue to introduce new services and products that complement our themes and our core mail offer. We will continue to review our product mix to ensure that we have good stock turnover and achieve increased profit margins.

We will also work with our major suppliers to find more ways to improve our supply chain speed and efficiency and further reduce our costs in this area.

Wednesday

They're sending parcels to customers all over Australia. We're helping them move products across town, across country and across borders.

Australian "e-tailer" Deals Direct sells everything from electrical goods and computers through to pet supplies and musical equipment … even the odd diamond ring. Co-founders Michael Rosenbaum and Paul Greenberg (pictured) use Post eParcel to distribute their orders because it's a cost-effective and efficient way to reach customers in even the remotest regions of Australia.

The Deals Direct team sources many products from China, and the company is using the warehousing and freight forwarding services of Sai Cheng Logistics (Australia Post's logistics joint venture with China Post). Marketing Director Paul Greenberg says, "We're excited about the fact that Sai Cheng will make it possible for us to despatch orders straight from its Shanghai warehouse direct to our customers' homes in Australia – or anywhere in the world."

Parcels & logistics

2005/06 highlights

- We delivered 99.7 per cent of Express Post items, and 96.2 per cent of large and small parcels, on time.
- Domestic parcel volumes increased by 5.6 per cent and revenue increased by 12 per cent. This marked four consecutive years of strong growth.
- Total Express Post volumes increased by 6.9 per cent and revenue increased by 11.7 per cent. And we added another 48 postcodes to the Express Post guaranteed network.
- International parcel volumes increased by 9.9 per cent and revenue increased by 12.3 per cent.
- Express Courier International achieved revenue growth of 28.3 per cent and volume growth of 22.5 per cent in its first full year of operation.
- Construction work was completed on our Sydney and Melbourne international gateway facilities.
- Sai Cheng Logistics International established logistics hubs in Shanghai and Shenzhen.

Parcels & logistics

As the result of a series of acquisitions, strategic alliances and enhanced capabilities, Australia Post has established itself as the most comprehensive provider of parcels and logistics services within the Asia–Pacific region. With our international freight and parcels services, overnight express, across-town couriers and domestic delivery of large and small parcels, we are uniquely positioned to reach around 10 million households and businesses every day.

The parcels and logistics market

The Australian parcels and logistics market is substantial, with an estimated annual value of $70 billion. Competition within the market is fierce, characterised by aggressive expansion strategies to provide business customers with access to global markets through complex supply chains.

At Australia Post, our focus in the 2005/06 financial year was to achieve continued growth from our existing services, with an emphasis on improving service performance and developing solutions to meet our customers' requirements. Our 2005/06 results demonstrate that we are delivering reliable and competitive services.

The 2005/06 financial year was important for Australia Post, with the launch of Sai Cheng Logistics International, a joint venture with China Post to provide international supply chain services to the Asia–Pacific region. This – combined with the introduction of Express Courier International, in alliance with postal authorities in China, Hong Kong, Korea, Japan and the USA – has been significant for our business customers.

Domestic parcels

Parcel Post

Parcel Post is our reliable, low-cost nationwide parcel delivery service for Australian consumers and businesses. In 2005/06, Parcel Post volumes increased by 5.6 per cent and revenue increased by 12 per cent (against predicted growth of 8 per cent), marking four consecutive years of strong growth.

During that time we delivered 95.9 per cent of small parcels and 96.8 per cent of large parcels on time or early. This compares with 95.3 per cent and 96.5 per cent respectively in the previous financial year.

We achieved sound growth in both our small- and large-volume parcel services, with considerable new business coming from the wholesale, retail and publishing sectors.

Much of our growth derives from the increased popularity of on-line trading, with revenue from on-line transactions through both established (eBay) and new Internet trading customers more than doubling in 2005/06. There has also been considerable growth in business-to-consumer deliveries – through mail order and on-line purchases – of items such as wine, electronic goods, books, DVDs and CDs.

Our business parcel rates rose in line with the independent Trans Eco index. And, unlike many parcel delivery businesses, we did not impose any fuel surcharges on deliveries.

Post eParcel

The Post eParcel service provides electronic consignment management, tracking via a unique barcode number and proof of delivery. Express Post eParcel also provides guaranteed next-business-day delivery within the Express Post network.

During 2005/06 we made substantial progress in developing and implementing our enhanced eParcel service. These enhancements consist of two major systems for tracking and consignment management, more than 1,000 new wireless scanners (with GPRS, which enables "real time" tracking information downloads) and a series of operational process improvements. This program will be completed in 2006/07.

Express and courier services

Express Post

We aim to achieve higher than 99 per cent on-time delivery for total Express Post. This year we again surpassed that target, with 99.7 per cent on-time delivery.

Total Express Post volumes increased by 6.9 per cent this year and revenue showed strong growth of 11.7 per cent. The eBay phenomenon has had a positive impact on sales of prepaid Express Post satchels, which were up 12.2 per cent in 2005/06 (similar to the 12.7 per cent increase last year). Ongoing promotions, including a television advertising campaign, also helped to drive our sales this year.

Despite considerable increases in fuel costs during the year, Express Post prices increased by an average of just 2.5 per cent. This strengthened its position in the market as a cost-effective overnight service without extra charges such as fuel levies.

In 2005/06 the Express Post network expanded to cover an extra 46 postcodes in the Melbourne metropolitan area and another two in the Gosford region of New South Wales.

Messenger Post Couriers

Messenger Post Couriers had another year of outstanding growth, with a 31.8 per cent revenue increase on last year.

The full integration of SnapX Couriers, which Australia Post acquired in March 2005, has reduced our delivery costs, increased our coverage and improved driver retention in New South Wales.

Across Australia, our fleet has expanded to more than 600 vehicles and our network now covers all major capital cities. During the year we upgraded our booking processes to make both phone and Internet bookings easier for our customers.

Messenger Post Couriers this year established itself as the regular courier of choice for a number of major Australian business customers in government, financial services, office stationery supply, auto parts distribution, service industries and medical services.

Joint-venture partners

Australia Post is a joint-venture partner with Qantas in the Star Track Express and Australian air Express parcel delivery businesses. Star Track Express specialises in time-critical, business-to-business transport (including delivery of secure and sensitive documents), with particular strength in its national express road freight network. Australian air Express offers complementary time-critical express linehaul and air delivery services.

During the 2005/06 financial year, the combined revenue of Star Track Express and Australian air Express increased by 7.5 per cent.

See page 30 for details of our joint venture with China Post – Sai Cheng Logistics International.

International parcels

International parcels achieved volume growth of 12 per cent and revenue growth of 12.3 per cent in 2005/06. This was due mainly to the growth of Express Courier International, an increase in outbound international business parcels (12 per cent volume growth) and inbound parcels and other express services (11.8 per cent).

During the year we signed a bilateral Memorandum of Understanding with New Zealand Post regarding delivery charges and service performance. This will ensure that our trans-Tasman prices and service performance remain competitive.

Express Courier International

Last year we announced that Australia Post had formed a partnership with China Post, Hongkong Post, Japan Post, Korea Post and the United States Postal Service to create the Asia–Pacific's largest express courier network. The alliance of postal service providers is the first of its kind and has been developed to meet the demand for lower-cost international courier services.

In its first full year of operation (since its launch in March 2005) Express Courier International achieved a volume increase of 22.5 per cent and revenue growth of 28.3 per cent.

Express Courier International offers trackable door-to-door delivery of documents and goods to 190 countries and territories, with delivery between most major cities taking two to four business days. Service performance between the alliance countries improved greatly this year and was a significant factor in our continued success.

The dedicated national Express Courier International call centre and an outdoor advertising campaign both helped to raise product awareness and knowledge among our customers this year.

International gateway facilities

As part of a commitment to the Federal Government, Post provides facilities and equipment to ensure 100 per cent screening of inward international mail by the Australian Customs Service and the Australian Quarantine & Inspection Service.

The construction of two new gateway facilities, where this screening takes place, was completed during the year in Melbourne and in Sydney. An upgrade of material handling equipment, including X-ray machines, is due for completion in both facilities by September 2006.

Logistics services

Post Logistics

Post Logistics, in partnership with our Shared Services Division, offers business customers international supply chain services from point of manufacture to point of consumption. Services provided by Post Logistics include customs clearance, freight forwarding, warehousing, kitting, pick and pack, international and domestic distribution and returns management.

During the 2005/06 financial year, Post Logistics achieved substantial revenue growth of 75.4 per cent. This growth was supported by the integration of our acquisition State Warehousing and Distribution Services (SWADS), expansion of Sai Cheng Logistics International, establishment of a freight-forwarding capability and establishment of a new facility at Brisbane Airport.

In 2005/06 we actively recruited people with high levels of expertise in the logistics industry. This is designed to provide our customers with an improved level of customer service and the security of knowing that their outsourced logistics operations are being managed by pre-eminent industry experts.

New domestic logistics facilities

Post Logistics opened a purpose-built warehouse and office facility in Brisbane in February 2006. The 1.26 hectare facility, which is strategically located at the airport and near a container ship terminal, is providing international supply chain capability for our Queensland customers.

Another purpose-built facility – in Greystanes, New South Wales – is due to be completed early in the 2006/07 financial year, as is a new 32,000 square metre facility in Altona North, Victoria.

Logistics acquisitions

Since we acquired SWADS in March 2005, we have been working towards integrating this business to extract supply chain synergies across the combined Post Logistics and SWADS customer bases.

The acquisition of SWADS has provided Post with enhanced capability in appliance warehousing and distribution in regional Australia, with links into the Sai Cheng International supply chain. This will enable value-added logistics services from factory gate to retail shelf.

Post Fulfilment Online

Australia Post's subsidiary company Post Fulfilment Online provides logistics services for on-line businesses. These services include inventory management, fulfilment, pick and pack, and delivery of groceries (including frozen, chilled and fresh produce) and other products.

International supply chain

Last year we reported that Australia Post had established an international logistics business, Sai Cheng Logistics International, as a joint venture with China Post.

China is Australia's second-largest trading partner but supply chains between the two countries have traditionally been fragmented, involving multiple service providers. Now businesses can simply deal with Australia Post and its joint-venture partner to avail themselves of an integrated supply chain between the two countries.

Sai Cheng and Post Logistics can manage a customer's entire supply chain – or individual links within it – including collecting goods from the factory, assembling and packing orders, secure bonded warehousing, international shipping and air freight, customs clearance, time-critical delivery, credit management and reverse logistics.

Progress during the 2005/06 financial year included:

- establishing a 12,000 square metre logistics warehouse in Shanghai
- establishing a facility within a bonded logistics park at Shenzhen in southern China
- setting up a Hong Kong-based freight forwarding operation (Post Logistics Hong Kong) that will manage any logistics activities originating in Hong Kong.

At the close of the financial year, more than 10 Australian companies were using our international services (see case study on page 26) and a number of Chinese companies were using our domestic services within China.

As a result of this joint venture, we have already been able to provide some of our customers with a 20 per cent saving on their logistics costs between China and Australia.

The future

Our long-term focus will be to extract further value from Australia Post's comprehensive complementary range of assets and capabilities to satisfy our customers' existing and future requirements in domestic and global logistics and distribution services.

Key targets in 2006/07 will be to increase our market share in the high-volume business-to-business (B2B) parcels market and to launch a new Express Post International parcels range.

In our logistics businesses – both in Australia and overseas – we will continue to expand our infrastructure, develop staff skills and expertise, constantly improve the services we offer and build our customer base.

Thursday

We're providing development opportunities for them today.
They're ensuring that we are part of tomorrow.

Kim Grosvenor and Kaylene Janssen (pictured) are just two of the 118 women in Australia Post's transport team – nearly 8 per cent of our 1,554 drivers nationwide. The flexibility offered by part-time positions in this area is encouraging more women to join the ranks, particularly those returning to work after having children.

Step Ahead and Springboard are two extremely successful programs that are designed to provide women in base- to supervisory-level positions with the confidence and skill to manage their careers. Our Pathways program provides a structured development framework for supervisory levels through to the senior executive level. At 30.2 per cent, the participation of women in leadership roles at Post is far above the national average*.

*Generalist managers – 16%, ABS July 2005

People

2005/06 highlights

- We achieved productivity gains of 3.7 per cent, bringing cumulative productivity improvement over the past five years to 16.7 per cent, or three times the national average.
- The representation of women in our workforce and women at senior management levels is at a record high.
- Our lost-time injury frequency rate reached a record low of 7.6 lost-time injuries per million work hours.
- We initiated the Money for Keeps staff financial education program and received recognition for our Mensline and Staying Connected initiatives.
- We conducted a Work and Ageing survey with staff aged 45 and older and were the first company in Australia to conduct a survey of recent retirees.
- We received a Mature Age Employer Champion Award from the Department of Employment and Workplace Relations for our work and ageing surveys. We also received a commendation in the Innovation Award from the Australian Human Resources Institute for our work on our ageing strategy.
- Action plans were initiated at workplace level as a result of our 2005 Staff Attitude Survey, and a follow-up survey took place in May 2006.

People

Our people management strategies have helped to implement major change programs and transform our culture. They have also been the foundation for Australia Post's ongoing sustained efficiency and productivity gains.

Our diverse workforce

Australia Post is proud of the diversity of its workforce. We are 34,842 men and women of more than 130 nationalities. In short, we look very much like the communities that we serve across the length and breadth of our nation.

Valuing and making use of the individual skills, talents and abilities of our workforce brings significant business benefits to the corporation and has contributed to Australia Post being an employer of choice.

Australia Post continued its long-term commitment to placing women in leadership positions. In 2005/06, the representation of women in executive positions was 20.1 per cent (17.1 per cent last year). Some 30.2 per cent of all senior management positions were held by women (28 per cent last year), while the representation of women in Australia Post's workforce also increased to 39.1 per cent (38.7 per cent last year).

Australia Post remains a leader in Indigenous employment. We have retained a high number of Indigenous employees (594, or 1.7 per cent, of our workforce) and our commitment to providing real jobs and real opportunities for Indigenous Australians is stronger than ever.

We are pleased that some of our Indigenous employees, building on the skills and development they received at Australia Post, have been able to take up exciting career opportunities in the wider business community.

The representation of people from non-English speaking backgrounds and those with a disability remained relatively stable, at 20.9 per cent and 8.6 per cent respectively (20.8 per cent and 9.0 per cent last year).

Almost half of our workforce is aged 45 and over. To better understand the impact of workforce ageing on our business, how our people are currently planning their work and retirement, and the experiences of those who have retired, we conducted two surveys in 2005/06: Work and Ageing (for all current employees aged 45 and over) and Life After Post (for all mature-age employees who retired within the last five years).

The major goals of these surveys were to provide information on which we can base policy decisions, to lift workforce participation rates beyond the traditional retirement age of 55 and to ensure that we have an adequate supply of skilled labour over the next decade.

We received the Federal Government's Department of Employment and Workplace Relations (DEWR) Mature Age Employer Champion Award for this work on ageing workforce issues. We also received a commendation from the Australian Human Resources Institute for innovation in HR management for our work on our ageing strategy.

A key diversity initiative for this reporting period was the launch of the Diversity@Post kit in September 2005. The kit provides tips and tools to help managers integrate diversity into day-to-day management practices, including a series of "diversity success stories" that is continually being expanded. Over time, the kit will create a useful reference library

Our workforce profile at 30 June 2006

	Number of employees	% of workforce
Total staff	34,842	100
Men	21,232	60.9
Women	13,610	39.1
People from non-English speaking backgrounds	7,294	20.9
People with disabilities	3,009	8.6
Indigenous Australians	594	1.7
Full-time staff	25,434	73
Part-time staff	9,408	27

that will help to raise management and staff awareness of the business benefits of proactive diversity strategy.

The principal goal in our current workforce diversity strategy (2005–2008) is a continued emphasis on the business value of productive diversity while maintaining our strong commitment to equal employment opportunity and anti-discrimination principles. For more information about Australia Post's diversity and equal employment opportunity initiatives, see our Equal Employment Opportunity Report 2005–2006 at auspost.com.au

Employee engagement

Australia Post's national Staff Attitude Survey, conducted in 2004/05, provided a number of insights into staff views on workplace issues, including:

- positive levels of employee engagement and pride in working for Australia Post and its corporate goals and objectives
- a strong perception that Australia Post is highly regarded by its customers and the general public and is socially responsible
- staff commitment to fostering a work culture that encourages productive and effective customer relationships.

As a result of the survey, strategies have been developed at corporate and divisional levels to address issues such as improved performance management (incorporating better communication, teamwork and reward and recognition).

Line managers and staff at each work centre have developed their own action plans and activities to enhance communication, collaboration and co-operation, performance management and job satisfaction.

Nearly 70 per cent of employees participated in a follow-up survey in May 2006, compared with almost 69 per cent last year.

Learning and development

Our formal succession management program has 686 participants, 31 per cent of whom are women. During the year we began reviewing the program to ensure that we continue to effectively build leadership continuity and skills that match our current and future needs. Key elements of the review will be to identify the requirements of business-critical roles and to develop recruitment contingency plans that could be put into action if any of these roles becomes vacant.

Participants in Australia Post's leadership development programs have had the opportunity to practise new skills in the workplace, either through on-the-job experience or through classroom learning combined with work-based projects. Highlights of these programs included:

- three managers taking part in the Commonwealth Games Secondee Development program (three-month placements in key leadership roles in logistics, in IT and at the Athletes' Village)
- twelve senior managers combining on-campus studies and a team-based Australia Post business project through Action Learning programs
- senior managers mentoring 87 middle managers in project placement through an on-the-job leadership development program.

Our Development Pathways program, which is designed to provide structured learning opportunities for staff at all levels, was significantly expanded during the year to cover middle management levels. The Pathways eLearning suite was launched in late 2005.

In February 2005 we reintroduced technical apprenticeships and we currently employ 22 apprentices (two of whom are adult apprentices) who are learning to maintain mail processing equipment. The apprenticeships are targeted at the nationally recognised Certificate III in Electrotechnology (Systems Electrician).

Tomorrow's Leaders is a leadership development program targeting front line staff. This intensive 10-month program, which involves working on practical issues from the business plan, has helped to identify talent within the corporation. Currently, 87 per cent of staff who have been through this program have either been promoted or are working in higher-level positions.

In addition to these national development programs, a number of Australia Post divisions offer training and development specific to their business areas. Within these programs there is an increasing emphasis on providing participants with nationally recognised qualifications such as Certificate III & IV in Transport and Distribution (Warehousing & Storage and Road Transport) and Diploma of Business (Frontline Management).

Employee health and wellbeing

Australia Post is committed to helping improve its employees' general health and wellbeing and to enhancing their work performance and productivity. Health promotions in 2005/06 were aimed at preventive self care, mental health and building positive relationships.

These promotions were supported by a Health Resource Centre that provides information, referrals to local services and a free counselling service for employees and their families.

Our partnership with Mensline Australia, which provides a dedicated telephone contact line for our male employees, has proved successful over three years of operation.

The Staying Connected workshop program offered to separated fathers has continued to be popular. Independent research shows a return on investment in less than three years through improved attendance and work performance, as well as substantial personal benefits to the participants.

A domestic and family violence policy was implemented in May. Training sessions for managers and supervisors have given them the skills to provide information, referral and support to employees to assist in the prevention of violence and abuse in their relationships.

During the year we launched our Money for Keeps financial education program to provide our employees with high-quality, independent information that will equip them to be effective money managers and discerning consumers of financial products and services.

Money for Keeps is based on adult learning principles and an educational model prepared by Swinburne University Industry Consulting Services, in consultation with financial literacy educationalists. It is designed to help people move through the program so that they experience real learning to achieve, ultimately, positive behavioural change. Topics covered so far have included budgeting, credit and debt, savings, superannuation and tax.

Program materials are delivered through fortnightly fact sheets, quarterly newsletters and booklets, workshops and an interactive website. Whenever possible, materials are mailed to homes to encourage use by the whole family.

Pay and conditions

Under the EBA6 agreement, eligible staff received a pay increase of two per cent during the year. They also received a $400 service performance bonus, which was dependent on Australia Post achieving its 94 per cent target of on-time delivery of ordinary mail. (We achieved 95.6 per cent on-time delivery.)

As a result of Industrial Relations Commission decisions, and negotiations with the relevant unions, parental leave and carer's leave provisions have been extended. This added flexibility will further help our people to balance their work and family responsibilities.

In the coming financial year we will begin negotiations with the Communications Electrical Plumbing Union of Australia (CEPU) and Community and Public Sector Union (CPSU) on our seventh EBA. New EBAs will also be negotiated for our Post Logistics division.

Occupational health and safety

The incidence of work-related lost-time injuries fell by 21 per cent this year. The consistent, decade-long decline in our lost-time injury frequency rate (LTIFR) continued, reaching a record low of 7.6 lost-time injuries per million work hours (compared with 9.6 last year).

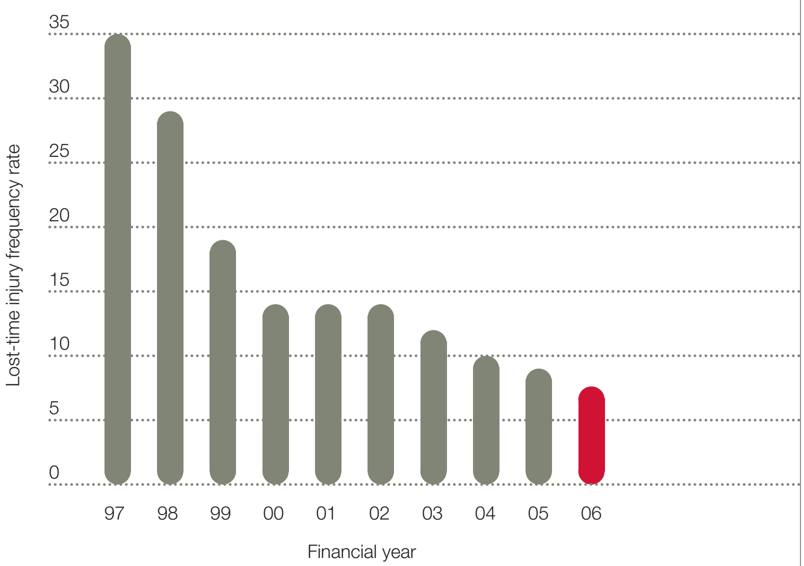
Australia Post continued to focus on injury prevention and building a culture of workplace safety through a range of initiatives. These included OH&S auditing, safe equipment design, workplace safety improvements, and training managers and supervisors in supervising for safety.

There was a strong focus on reducing the incidence of motorcycle accidents through reinforcing existing safe work practices, regular motorcycle maintenance inspections, risk reviews of motorcycle rounds, training in safe riding behaviour and thorough analysis of the cause of incidents.

A Postie Safety publicity and media campaign was initiated to highlight some of the risks affecting posties, and simple things that residents can do to help. Our posties actively contributed to the campaign, distributing millions of "8 tips for postie safety" postcards to residential addresses in most states.

During the year, we introduced upgraded procedures for the prevention of manual handling injuries. We also audited the effectiveness of OH&S management

Decline in workplace injuries at Australia Post



processes and introduced new safety procedures and training for employees changing wheels on linehaul vehicles. Other initiatives included successful rehabilitation and return-to-work programs.

Recognising team performance

Teams at 31 Australia Post facilities were recognised for their contributions to improved customer service and business performance through our annual National Excellence Awards. In the 18 winning facilities, staff received a $200 reward, and staff at the remaining 13 facilities received a $100 special commendation award. The most innovative achievers were profiled in our workforce magazine *Post Journal*, where they passed on practical tips to help other facilities achieve similar levels of success.

A further 21 teams from facilities around Australia attended the first day of Commonwealth Games athletics competition in recognition of their contribution to Australia Post's success. Seven high-achieving individuals were selected to be "Golden Posties", delivering mail within the Athletes' Village at the Games.

Preventing harassment

Australia Post has in place best-practice processes to manage complaints about harassment, discrimination and bullying in an appropriate, confidential and timely manner.

In May 2006, we launched a new policy to support our ongoing commitment to eliminating workplace harassment, discrimination and bullying. By October 2006, all of our people will have received training about individual rights and responsibilities in those areas and how to resolve issues about such behaviour should they experience it.

An ongoing information campaign will continue to provide facility-based briefing sessions, supported by workplace posters and payslip brochures targeted at eliminating inappropriate behaviour.

Friday

They're enjoying their first opera.
We're bringing arts and culture to communities in remote and regional Australia.

Opera Australia's OzOpera Touring Program brings a first taste of real opera to 80,000 primary school students every year. In 2005/06 students experienced Mozart's *Magic Flute* or Humperdinck's *Hansel and Gretel* in their own school, thanks to Australia Post's sponsorship. We have sponsored the schools tour since 2004, and we also sponsor OzOpera's annual regional tour of fully staged performances for communities across Australia. This year the company performed Bizet's *Carmen* 36 times in 22 regional towns in Queensland, Victoria and Tasmania and took its educational music program to secondary schools in some of these towns. This photo shows the children at Comet Hill Primary School in Bendigo, Victoria, enjoying the company's performance of *The Magic Flute* on Friday 14 July 2006.

Community

2005/06 highlights

- We helped to take the arts to rural and regional Australia through our sponsorship of OzOpera, which performed in 22 towns in three states.
- We contributed to the development of young Australians' literacy and numeracy skills through our continued involvement in National Literacy and Numeracy Week, our free educational resources for schools and our sponsorship of Phiggles the Flying Scientist.
- We recognised 24 of our people with the Australia Post Community Champion Award.
- We continued our commitment to community health with our sponsorship of research into a variety of medical conditions, including melanoma, cystic fibrosis, prostate cancer and ovarian cancer.
- We completed a formal strategy for the conservation and management of our heritage properties.
- Our workforce raised more than $200,000 from Be Seen in Red and Green Day and $70,000 from the Walk to Cure Diabetes.
- Approximately 150,000 people visited exhibitions at the Post Master Gallery in Melbourne and many more saw our philatelic exhibitions at regional galleries.

Community

Every day, our people play a central role in the communities in which Australia Post operates. We are committed to exceeding the requirements of our stakeholders, to making a real contribution to local communities and to investing in the future of all Australians.

Stakeholder consultation

Various areas within Australia Post have responsibility for timely and effective communication with employee groups, unions, customers, suppliers, community groups, government representatives and the media.

Our main methods of receiving and responding to community feedback are:

- stakeholder engagement
- community consultation procedures
- customer contact centres
- customer research.

For information about consultation with our shareholder, see page 46.

Stakeholder engagement

Australia Post's main point of connection with major business customers is through dedicated account managers. For those who lodge bulk mail it is through the Major Mail Users of Australia (MMUA) industry network. The Bulk Mail Partner program, which we developed in partnership with the MMUA and major mailing houses in the previous financial year, gives official recognition to mailing houses that have invested in processes to make mail lodgement more efficient and effective (see page 18).

We also consult directly with the Australian Direct Marketing Association (ADMA) and Australian Business and Specialist Publishers (ABSP).

The Postal Services Consultative Council (PSCC) is chaired by a member of the Australia Post board and is representative of the community we serve. It advises Australia Post on matters relating to postal services and improving communication with customers. The PSCC met three times in 2005/06. Council members are: Peter McLaughlin, Director, Australia Post (PSCC Chairman); Brian Baulk, former Divisional Secretary, CEPU; Bill Blair, former Group General Manager, Queensland United Foods (NSW); Colin Brideson, retired school principal, board member of Masonic Homes (SA); George Etrelezis, Managing Director, Small Business Development Corporation (WA); Tom Greene, Managing Director, Ortega Publishing (NSW); Marie McGrath-Kerr, Chairman, Post Office Agents Association Ltd (Tas); Margaret Smith AO, former National President, Country Women's Association (NSW); Rob Spence, Chief Executive Municipal Association of Victoria (Vic) and Rob Tolmie, Managing Director, Extrafilm (Qld).

Community consultation

As a result of changing demographics and customer needs it is sometimes necessary for Australia Post to make changes to its retail network. Mindful of the fact that relocating or closing a PostShop has an immediate effect on the local community, we have a formal process of consultation for responding to our customers' concerns. The process involves communicating the reasons for the changes, consulting with local stakeholders, and gathering and analysing community feedback before implementing change.

Similarly, when it is necessary to remove or relocate a street posting box, we first place an advisory notice in the local newspaper and consult with businesses in the area and the local Federal Member of Parliament.

Customer contact centres

Australia Post's six customer contact centres (CCCs) handle customer telephone enquiries and complaints, trace mail items, respond to advertising sales campaigns and take an account management role for many of our smaller business customers. As a result of an ongoing strategic review that began last year, the CCCs have implemented a national Complaints Management System to analyse complaint details and identify opportunities to better serve our customers. The system improvements will allow us to capture more detailed information about customer complaints, enabling us to more readily locate and deal with the cause of the problem. There has been a focus on active information sharing between the CCCs at both national and state levels, and this year we decided to introduce a mystery shopping program, which aims to independently measure CCC performance, starting on 1 July 2006.

Call volumes increased by 1.8 per cent during the year and customer complaints were resolved within an average of 5.3 days.

We currently employ 543 people in our call centres (11 per cent more than last year). During the year approximately 30 new positions were created to handle outsourced work on behalf of major customers. Staff member Jeanette Bayliss received the Australian Teleservices Association Teleprofessional of the Year award (for superior customer service) – the second consecutive year that an Australia Post CCC employee has won this prestigious national award.

Customer research

Each year Australia Post commissions an independent research company to conduct a corporate image monitor. A random sample of approximately 2,400 businesses and 1,500 residential customers around Australia was interviewed at intervals throughout the year (200 and 125 per month) to measure customer satisfaction and gain insight into customer perceptions of our image and brand. We also conduct annual research interviews with our major business customers and small business customers. This research allows us to analyse both decreases and increases in customer satisfaction levels, to identify problems and assist in future planning.

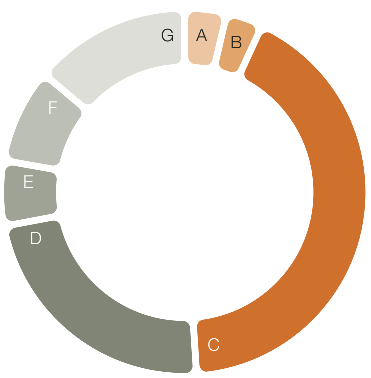
Business customer satisfaction with Australia Post

	2003/04	2004/05	2005/06
Satisfaction with letter and postal services	96%	96%	96%
Satisfaction with Australia Post's retail outlets	96%	97%	97%
Satisfaction with customer contact centres	90%	98%	91%
Overall satisfaction with Australia Post	97%	97%	97%

Residential customer satisfaction with Australia Post

	2003/04	2004/05	2005/06
Satisfaction with letter and postal services	97%	98%	96%
Satisfaction with Australia Post's retail outlets	97%	97%	97%
Satisfaction with customer contact centres	95%	95%	94%
Overall satisfaction with Australia Post	97%	98%	97%

Corporate Image Monitor 2005/06 conducted by Sweeney Research.
Previous years conducted by TNS.



Allocation of community support 2005/06

A	4%	education and literacy
B	3%	health
C	42%	the arts
D	23%	community groups and events
E	6%	philanthropy
F	8%	environment
G	14%	other

Community support

Australia Post supports programs and events that have synergy with the organisation and that deliver genuine benefits to the Australian community. We also place a strong emphasis on supporting events and programs in rural and regional Australia.

In 2005/06, we spent more than $2.8 million on community sponsorship programs, spread over the following categories:

- education and literacy
- health
- the arts
- community groups and events
- philanthropy
- environment (see pages 49 and 51 for details)
- other.

Education and literacy

Australia Post is committed to supporting the development of literacy and numeracy in young Australians. We have been involved in National Literacy and Numeracy Week since its inception in 1999. The program focuses on the importance of developing children's numeracy and literacy skills and recognises the work of schools in raising numeracy and literacy standards in Australia.

Another seasonal literacy activity is our popular Santa Mail program. Over the 2005 Christmas season, more than 100,000 children developed their letter writing skills by writing to Santa.

We promote literacy throughout the year by providing free on-line resources for teachers, students and parents at our website (auspost.com.au/education). The *Postie Kate* educational picture book, which we produced last year, has proved so popular that we have developed a special Postie Kate section of the website, a complementary letter-writing kit – and even Postie Kate stamps (see inside back cover).

Many of our staff, licensees and contractors visit local schools or host school group visits at Australia Post facilities. These visits promote literacy skills, the hobby of stamp collecting and awareness of Australia Post's role in the community. In Stamp Collecting Month (October) alone, our people conducted school visits involving more than 50,000 primary school students.

As part of our commitment to supporting communities in rural and regional Australia, we have sponsored the Phiggles the Flying Scientist program for the past four years. Phiggles brings practical science skills to children at remote farm stations and in Aboriginal communities.

This year we again partnered with the University of South Australia to support the Gavin Wanganeen Indigenous Scholarship, which has been developed to help young Indigenous Australians achieve their academic goals.

Health

In 2005/06 we continued to sponsor research into a number of medical conditions, including melanoma, prostate cancer, cystic fibrosis and ovarian cancer. We also continued our support of the Breast Cancer Network Australia and Queensland's Mater Foundation.

More than 2,100 Australia Post staff, family and friends took part in the annual Walk to Cure Diabetes to raise a total of $70,000 for the Juvenile Diabetes Research Foundation.

The arts

Australia Post is a founding member and partner of the Australian Business Arts Foundation (AbaF) and a financial supporter of many arts festivals and companies, including The Bell Shakespeare Company, Melbourne Theatre Company and the Noosa Long Weekend.

Our major arts partnership is with Opera Australia: 2005/06 marked the third year of our sponsorship of the company and principal sponsorship of OzOpera, its touring arm. In 2005/06, we also sponsored the Young Artists' Development Program, which offers young singers, conductors or accompanists the opportunity to spend a year with Australia's national opera company. Through the year, OzOpera performed to more than 80,000 primary school students at schools in Victoria and New South Wales, and took its production of *Carmen* to 22 towns in Victoria, Tasmania and Queensland (see page 38).

During the Commonwealth Games, Australia Post also supported the Art4Athletes program. We provided Reply Paid postcards for athletes and officials to send messages of thanks to the Australian school children who created "Welcome!" works of art for everyone staying in the Athletes' Village during the Games.

For information about our philatelic exhibitions program, see Heritage Management, opposite.

Community groups and events

Australia Post is a major sponsor of the ourcommunity.com.au website. The website's Marketing Media and Post Centre, which we helped to develop in the previous financial year, has proven extremely popular with charities and community groups. The use of Charity Mail – which provides charities with discounted mailing costs – also increased during the year, due at least in part to the website's tips to help community groups make the most of direct mail.

The 2005/06 financial year was also our eleventh year as a major sponsor of the iconic Stawell Gift athletic carnival in western Victoria. This year, in the wake of the devastating New Year bushfires that destroyed more than 9,000 hectares of bush and farmland in the area, our continued support was particularly important to this rural community.

We also supported a wide range of youth sport programs (including Australian Rules football, Rugby League, cricket and tennis), several of which were in rural and regional areas.

Philanthropy

We continued to support a number of charities through corporate donations, including The Alannah and Madeline Foundation, a charity that supports child victims of violent crime.

A donation of $10,000 – the profit we made from sending international mail bags for recycling – was given to Down Syndrome Victoria. This charity was chosen because many of the men and women who work at Brunswick Industries (where the bags are packed for recycling) are affected by Down Syndrome.

Post people were involved in many and various activities to support charities and community groups, including our Christmas fundraiser, Be Seen in Red and Green Day. A national activity for the first time this year, the day raised more than $200,000, which has been distributed to the Smith Family, the Starlight Foundation and the Royal Flying Doctor Service.

Commercial sponsorships

We are the principal sponsor of the National Australia Day Council's luncheons, which are held in cities around Australia. Each year, to coincide with Australia Day, Australia Post presents the Australian Legends Award to recognise the work of a living Australian treasure. This year's Legends were Barry Humphries and his alter ego Dame Edna Everage – the first character ever to receive the award. (The Australian Legends stamps are shown on the inside back cover.)

Australia Post was an official sponsor of the Melbourne 2006 Commonwealth Games and the Australian team. See inside front cover for more about our involvement with the Games.

In 2005/06 we also sponsored the Australian Open Tennis Championships for the fourth consecutive year.

Our people in the community

Since we instigated the Australia Post Community Champion Award in January 2005, 36 of our staff, licensees and contractors have been recognised for the dedicated voluntary work that benefits their local communities. Some of the diverse organisations that have benefited through the award include Special Olympics; Camp Quality; St John Ambulance; Nutcha Aboriginal and Torres Strait Islander Corporation; Make-a-Wish Foundation; life saving, rural fire brigade, ambulance and state emergency services; native animal shelters; and junior sporting groups.

Award winners receive $1,000 to donate to their chosen charity or community organisation as well as a $100 gift voucher for their personal use. Winners of the third round of the award also had the opportunity to run in the Queen's Baton Relay as part of Australia Post's involvement in the Melbourne 2006 Commonwealth Games.

Human rights

We believe that people everywhere should be treated fairly and with dignity and respect. Australia Post observes all conventions ratified by the Commonwealth Government. The conventions and covenants made under the Universal Declaration of Human Rights are of particular relevance to Australia Post's sustainability policy, including those relating to civil and political rights; economic, social and cultural rights; elimination of all forms of discrimination; and rights of the child.

Heritage management

Australia Post owns many historic buildings that are heritage-listed or of heritage importance. A total of 18 of our properties are currently recorded on the Commonwealth Heritage List, with a further 104 subject to heritage controls under local or state planning authorities.

In December 2005, we completed a formal corporate heritage strategy for the conservation and management of our heritage properties. The strategy, which has been reviewed by the Australian Heritage Council and meets our obligations under the *Environment Protection and Biodiversity Conservation Act 1999*, will be implemented over a five-year period.

Key aspects of the strategy include identifying properties with heritage values, managing data, training staff, promoting heritage awareness, planning for future building works, and property development and divestment.

During 2004/05, we engaged one of Australia's leading conservation architecture firms to evaluate the 520 properties in our property portfolio with regard to their architectural, social and environmental merit. This work has progressed steadily, with the review of our properties in Victoria and Tasmania almost finalised. The completed review will provide a substantial body of information that will help us in recommending further nominations to the Commonwealth Heritage List and in preparing property-specific conservation management plans.

National Archives and National Philatelic Collection

Australia Post also maintains an extensive collection of works of art, documents and photographs. These are part of the National Archives of Australia collection, the official repository for federal government records, under the *Archives Act 1983*. These records, along with works belonging to Australia Post, form the National Philatelic Collection – Australia's most important and comprehensive collection of stamp-related art and philatelic material.

In 2005/06, more Australians than ever were able to experience and learn about the National Philatelic Collection.

An estimated 150,000 people visited exhibitions at the Post Master Gallery in Melbourne and at travelling exhibitions around Australia. More than 2,000 people took part in public programs at the Post Master Gallery and approximately 650 visual arts and design students participated in Meet the Stamp Designer seminars.

Four exhibitions were held at the Post Master Gallery. As a result of our extended exhibition-touring program, Post Master Gallery exhibitions were shown at galleries in Launceston, Burnie, Lake Macquarie and Tamworth.

In our first opportunity to exhibit at a national institution, our *A Summer of Cricket* exhibition was shown at the National Museum of Australia in Canberra. This popular exhibition will also be on display in 2007 at the Bradman Museum in Bowral, New South Wales.

Saturday

They're meeting at one of the town's social and economic hubs. We're contributing to the local economy every day.

Moora Licensed Post Office (LPO), located 189 kilometres north of Perth, is a favourite place for locals to stop and chat on a Saturday … and the impact of this small business is felt every day of the week in this rural community. The LPO is an essential part of the social and economic life of the town – and far beyond.

Licensees Sue McCagh and Rosemary Lennox worked in the post office before taking over the business in 1998. Their small business employs 10 full- and part-time staff and Australia Post engages five contractors to deliver letters and parcels from Moora to 30 other regional post offices, some as far afield as Mullewa (more than a three-hour drive). Moora LPO is just one of more than 7,000 small businesses (LPOs, community postal agencies and mail contractors) with which Australia Post has a direct business relationship and which, in turn, provide employment for many thousands of people all over Australia.

Economy

2005/06 highlights

- We paid $514.1 million in local, state and Commonwealth rates and taxes.
- We provided direct employment for 34,842 staff, and indirect employment for the tens of thousands of staff employed by our contractors and licensees.
- We provided electronic banking facilities at 3,188 retail outlets, including 1,391 in rural and remote areas.
- We paid our shareholder a dividend of $282.5 million.
- We contributed $2,175.9 million to the Australian economy by paying for goods and services ($1,937.4 million), and capital assets and business acquisitions ($238.5 million).

Corporate sustainability

Economy

Australia Post employs more than 34,000 Australians and provides indirect employment for many thousands more via its licensed post offices and mail and parcel contracts. Through that employment, through our relationships with other businesses and through the taxes we pay, we are making direct and practical contributions to Australia's economy every day.

Shareholder relations and value

Australia Post is a wholly owned government business enterprise. As such, our relationship with our shareholder is governed by the requirements of the *Australian Postal Corporation Act* and the *Commonwealth Authorities and Companies Act*. Shareholder responsibilities are exercised jointly by the Minister for Communications, Information Technology and the Arts, and the Minister for Finance and Administration. For more information, see the corporate governance section at auspost.com.au

The corporate plan is the most significant element in our shareholder relationship. Submitted in June each year, the plan sets out the key strategies and targets for the following three-year period. The shareholder has 60 days from receipt of the plan to direct any changes to its financial targets or to its community service obligation strategies and policies. Progress against the plan is subject to formal quarterly reporting and subsequent review with shareholder departments. We also continuously disclose to our shareholder any matters relating to the proposed formation of a company, trust or joint venture, as well as any proposals for significant acquisitions or divestments.

Dividend recommendations are made to shareholder ministers twice each year: in February (interim) and August (final). In light of the corporation's financial position and consistent with normal commercial practice, the board of directors decided in 2005 to increase our target dividend ratio from 60 per cent to 75 per cent of after-tax profits. Dividends payable from the 2005/06 result will be $267.3 million.

Return on investment

All of our return-on-investment outcomes were positive in 2005/06. Revenue per dollar of fixed assets rose slightly from 3.06 to 3.10.

Capital investment (including business acquisitions) of $238.5 million exceeded the annual depreciation charge of $168.9 million. Profit after tax increased by 7.8 per cent to $367.9 million ($341.3 million last year). Return on average operating assets was 18.7 per cent, well above the comparable weighted average cost of capital of 9.5 per cent.

Sustainability in commercial decisions

It is Australia Post policy that all business cases involving an outlay of more than $250,000 must include an assessment of environmental, social, economic and risk impacts (in addition to the financial appraisal). All such business cases also require endorsement by representatives from the Ecologically Sustainable Development Working Party and from the Risk Management Unit before project approval. Post's procurement policy also features sustainability in general purchasing practices. This policy includes extensive guidelines covering probity, open and effective competition, ethics and fair dealing, and environmental considerations. During the year we changed our sourcing documentation to ensure that our purchasing processes follow sound sustainability principles. Training programs will further reinforce these practices for relevant staff.

Protecting our assets

Protection of assets – including cash, long-term fixed assets, intellectual property and the Australia Post brand – is crucial for sustainable revenue generation and the growth of our business. Revenue protection in all three business portfolios is supported by a formal program overseen by the Revenue Collection Steering Committee and managed by the Revenue Collection Group. We introduced several initiatives this year to improve our revenue collection processes, including simplification of product terms and conditions.

Fixed assets are protected by an asset recording process at each work centre as well as an annual stocktake process. Management of stock, cash and related items in our retail outlets is the responsibility of postal managers and is carried out in accordance with the Financial Integrity Control system. In addition to normal reconciliation processes, regular stock checks are undertaken to protect the business from high-risk losses. Intellectual property is protected by a formal policy administered by the Legal Services Unit, and the integrity of the Australia Post brand is protected by a brand management system administered by Post's Corporate Public Affairs department.

Competing fairly and vigorously

Under the *Australian Postal Corporation Act 1989*, letters weighing less than 250 grams are reserved to Australia Post unless they are carried for a price more than four times the basic postage rate. All of the other goods and services that we offer are sold in fully competitive markets, and they provide the majority of revenue and profit for our business. The graph at right shows how an increasing proportion of our profit is derived from the sale of products and services in competitive markets (i.e. from non-reserved services).

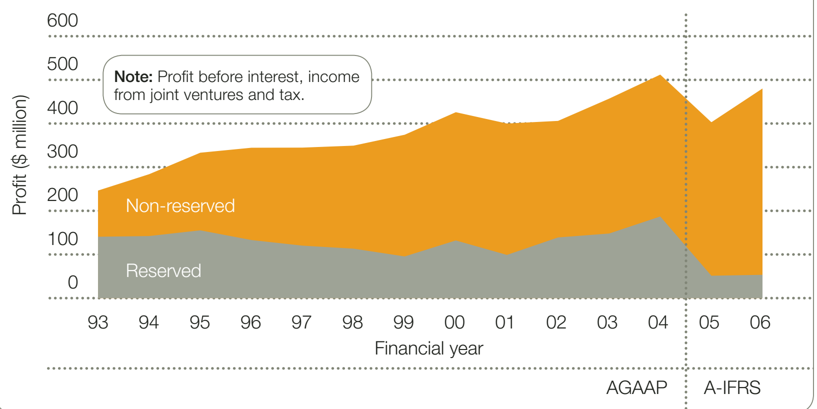
To ensure that costs are fairly allocated to all products and services, our costing system is periodically subjected to independent, expert scrutiny. The last such review (by Trowbridge Consulting in 2000) concluded that the costing system "is an effective methodology for regulatory and compliance purposes".

As of 2004/05, our financial results are subject to an additional audit by an external auditor as part of the ACCC assessment of whether any cross-subsidy exists from the reserved service to products and services sold in fully competitive markets. The ACCC has released its first public report, which decisively concluded that "Australia Post's non-reserved services did not … receive a subsidy from reserved services in 2004/05". For more information about trade practices compliance, see page 56.

Our credit rating

Every year, independent ratings agency Standard & Poors conducts a detailed review of Australia Post's financial results and outlook to establish a credit rating. This year we maintained our AAA rating, which we have held consistently since we were first rated in 1994.

Profit from reserved and non-reserved services ($ million)



Contribution to economic development

	2004/05	2005/06
Revenue	$4,325.9m	$4,530.1m
Australian	$4,209.1m	$4,387.2m
Export	$116.8m	$142.9m
Direct employment	35,024	34,842
Full-time employees	25,851	25,387
Part-time employees	8,953	9,196
Other employment	220	259
Labour productivity growth	2.6%	3.7%
Payments		
To employees	$1,806.7m	$1,972.7m
To goods and services suppliers	$1,869.9m	$1,937.4m
For capital assets & business acquisitions	$225.1m	$238.5m
Taxes and rates paid	$526.8m	$514.1m
Commonwealth	$413.2m	$392.9m
State and local government	$113.6m	$121.2m
Cost of community service obligations	$81.0m	$87.9m
Revenue foregone through letter price restraint (compared with CPI)		
last 10 years	$3,113m	$2,585m
last 5 years	$1,337m	$507m

	2004/05	2005/06
Small businesses directly supported	7,217	7,245
Licensed post offices	2,979	2,975
Metropolitan	1,274	1,277
Rural and remote areas	1,705	1,698
Mail contractors	3,606	3,586
Metropolitan	734	719
Rural and remote areas	2,872	2,867
Community postal agencies	632	630
Metropolitan	34	35
Rural and remote areas	598	595
New services and products introduced in last two years	$263.2m	$178.8m
Outlets with on-line banking facilities	3,078	3,188
Metropolitan	1,793	1,797
Rural and remote areas	1,285	1,391
Basic postage rate (ranking in OECD)	4th lowest	3rd lowest
Delivery points (at 30 June)	9.9m	10.0m
Shareholder value		
profit after tax	$341.3m	$367.9m
dividends declared	$286.2m	$267.3m

Sunday

She's helping to preserve native bushland.
We're supporting environmental stewardship through Landcare grants.

Wildplant Rescue "rescues" native plants in one of Australia's most spectacular World Heritage areas – the Blue Mountains. In response to bushland being steadily replaced by building development and exotic gardens, the group collects native plants from proposed building sites and sells them on to gardeners, government agencies, and bush and Landcare groups. The low-maintenance plants flourish in local gardens and attract birds and wildlife back to the region.

Australia Post is actively supporting Wildplant Rescue with a $3,300 Australia Post/Landcare Community Development Grant – one of 55 community development grants that we provided this year through our partnership with Landcare Australia. Schools and community youth groups will also benefit from 80 Australia Post/Junior Landcare grants of $500 each. Wildplant Rescue's grant will go towards constructing a greenhouse to protect fragile seedlings at the group's nursery (pictured) in Katoomba.

Corporate sustainability

Environment

2005/06 highlights

- Through a new partnership with Landcare Australia, we committed to funding two grants programs to help create more sustainable and healthy communities.
- Our involvement with the Cards 4 Planet Ark and Cartridges 4 Planet Ark programs helped prevent hundreds of tonnes of waste from going to landfill.
- We increased the recycled content of our packaging materials and provided multi-use carry bags at many PostShops as an alternative to plastic shopping bags.
- We reduced our greenhouse gas emissions to 80.4 tonnes of CO_2 equivalent per million dollars of revenue.
- We implemented the first stage of a three-year national energy management program that is designed to reduce our annual energy consumption by around 10 per cent.

Environment

Our facilities and vehicles, the products we create and the resources we use all have an effect on the environment. Through Australia Post's policies and everyday activities, we are working to minimise that impact while supporting environmental stewardship.

Environmental management

Australia Post adopts the strictest federal and state legislation as its minimum environmental standard. We also conduct regular internal and independent environmental audits to support our risk-based environmental management program.

Our major environmental risk arises from our refuelling facilities and underground diesel storage tanks. A major project to upgrade fuel tanks and decommission tanks that are no longer required continued during the year. Leak detection equipment and a system to monitor fuel movements and minimise the possibility of soil or groundwater contamination are being installed as part of this project.

Energy used at Australia Post's 1,283 facilities makes up two-thirds of our greenhouse gas emissions. Accordingly, the first stage of our national energy management program, which began last year, has focussed on installing power-factor correction equipment and voltage-reduction lighting units in our larger facilities. These, and a range of other initiatives to be instigated over the next two to three years, are expected to reduce our annual energy consumption by around 10 per cent.

The fuel required to run our fleet of approximately 10,500 vehicles is another major contributor to our greenhouse gas emissions. Australia Post adopts a rigorous maintenance program to ensure that the fleet operates at peak efficiency, while meticulous truck loading and route planning minimise distances and the number of trips required to transport mail.

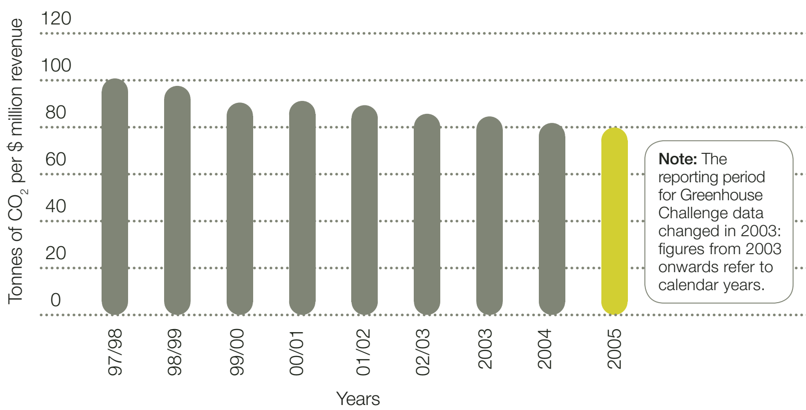
New Volvo linehaul trucks introduced this year have created further efficiency gains by saving around two litres of diesel for every 100 kilometres travelled – an enormous saving when multiplied by the 240,000 (approximately) kilometres that each of these trucks covers every year.

As well as introducing fuel-efficient vehicles, Australia Post has a longstanding commitment to trialling alternative fuels. We are about to test new LPG fumigation technology that is designed to reduce fuel consumption and exhaust emissions as well as increasing diesel engine performance. Further trials, including an assessment of hybrid fuel technology, are currently being planned for implementation in the next financial year.

Since becoming a partner in the Greenhouse Challenge in 1997, we have achieved greenhouse gas emissions savings of 122,359 tonnes of carbon dioxide (CO_2) equivalent – including 22,519 tonnes in the 2005/06 financial year. However, due to growth in our traditional products and services and the acquisition of the SWADS warehousing and distribution group, our total greenhouse gas emissions increased by 1.8 per cent this year.

As a result of our environmental management policies, we estimate that Australia Post will achieve the Kyoto Protocol target of 108 per

Reduction of greenhouse gas emissions per $ million revenue



Note: The reporting period for Greenhouse Challenge data changed in 2003: figures from 2003 onwards refer to calendar years.

cent of our 1990 emission levels (independently assessed this year at 304,093 tonnes of CO_2 equivalent) by 2008.

Impact of products and services

In a corporation the size of Australia Post, an active recycling program can have an enormous and positive effect on the environment. Both our national waste management contract with Visy and a comprehensive computer recycling program are aimed at keeping our landfill waste to a minimum. In 2005/06 we sent nearly 9,000 obsolete 9-inch computer monitors for recycling, and almost 90 per cent of the components were able to be recycled into other manufactured products.

The recycled content of our packaging materials has increased since last year and is now at 37 per cent across our range of products. The recyclability of the total weight of packaging materials has also increased to 80 per cent across the range (70 per cent last year).*

Australia Post has been a member of the National Packaging Covenant since 2002. To conform with the recently revised Packaging Covenant, we have developed a three-year action plan to continue to improve our practices in this area.

In 2005/06, Australia Post extended its Winepak range by introducing two- and three-bottle cardboard packs. Multi-use carry bags are also now available at many of our PostShops, to provide customers with an alternative to plastic shopping bags.

Our project to recycle international mail bags, which we instigated last year, has continued successfully. The bags are baled up at Brunswick Industries, a Victorian workshop that provides employment for 52 disabled people, and the bales are sold on for recycling into shopping bags. The money made from the sale of the bags this year has been donated to charity (see page 42).

During the year we entered into a national facilities cleaning contract that requires the use of biodegradable and environmentally friendly cleaning products.

Conservation stamps

In June we released the Whales Down Under stamp issue in partnership with the Worldwide Fund for Nature (WWF). This will be the sixth Australia Post stamp issue since 1998 to carry the WWF logo as a means of promoting conservation and raising awareness about Australian animals at risk of extinction. (See inside back cover.)

Community environment programs

Australia Post, in association with environmental group Planet Ark, has continued to offer its customers an easy way to recycle Christmas cards and printer cartridges – and divert hundreds of tonnes of waste from landfill. In 2005/06 we collected more than 79 tonnes of cards and more than 106 tonnes of cartridges – a 23 per cent increase over the previous calendar year. The cards are recycled into cardboard packaging or toilet tissue, while the components of the cartridges are removed for reuse or recycling.

Through a new partnership with Landcare Australia, we are also funding two Landcare Australia grants programs to help create more sustainable and healthier communities. Community groups can receive financial assistance up to $3,300 to help them tackle land degradation issues in their local areas through the Australia Post/Landcare Community Development Grants Program. In 2005/06, we provided 55 of these grants. Approximately 80 eligible schools and youth groups each year will also receive funding of up to $500 under the Australia Post/Junior Landcare Biodiversity Grants program. The grants will support initiatives such as action on erosion, water quality or weed issues; and improving habitat for native animals by planting native vegetation, removing weeds or installing nest boxes.

*Note: These figures include only products specific to Australia Post, such as the Postpak range. Under the revised Covenant Agreement, next year's figures will also include the packaging of Australia Post branded products, such as computer peripherals.

Our environmental performance

	Measure	2004/05	2005/06
Energy consumption			
Electricity	Kilowatt hours	208,973,387	215,948,904
Gas	Gigajoules	110,798,270	106,192
Petrol	Litres	5,952,080	6,102,455
Diesel	Litres	24,463,580	25,325,034
Greenhouse gas emissions			
Greenhouse gas emissions	Tonnes CO_2 equivalent	334,073	349,871
Emissions per $1m revenue	Tonnes CO_2 equivalent	82.1	80.4
Emissions savings	Tonnes CO_2 equivalent	17,150	22,519
Packaging impacts			
Recycled content of total weight of packaging materials	% (average)	30	37
Recyclability of total weight of packaging materials	% (average)	70	80
Community initiatives			
Cards 4 Planet Ark	Tonnes	61	79
Cartridges 4 Planet Ark	Tonnes CO_2 equivalent	86	106

Corporate governance

General

Australia Post has in place 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 consistent with the ASX Corporate Governance Council's best practice recommendations, in so far as they can be applied to a government business enterprise such as Post.

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

Shareholder ministers

The Minister for Communications, Information Technology and the Arts, Senator the Hon. Helen Coonan has portfolio responsibility for Australia Post. Under a dual shareholder model, overall responsibility for the enterprise is exercised jointly with Senator the Hon. Nick Minchin, Minister for Finance and Administration.

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 and reappointment is permissible. Current practice is for terms of appointment to be generally of three years' duration.

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 2005/06 was:

- Linda Nicholls (Chairman)
- David Mortimer (Deputy Chairman)
- Graeme John (Managing Director)
- Mark Birrell
- Margaret Gibson
- Peter McLaughlin
- Sandra McPhee
- Tom Phillips (from 25 November 2005)
- Edward Tweddell (deceased 4 August 2005)
- Ian Warner

Profiles of each director and details of their skills, experience and expertise are provided on pages 58 and 59 of this report.

The chairman (Linda Nicholls) retired from the board on 11 September 2006.

Role of the board

The board is accountable for Australia Post's overall performance and for ensuring that the corporation performs its functions in a manner 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 about developments of significance on an ongoing basis.

Board committees

Separate Audit & Risk and Human Resources committees assist the board in the discharge of its responsibilities.

Audit & Risk Committee

The Audit & Risk Committee provides a forum for regular communication between the board and the corporation's auditors, both external and internal. Made up entirely of non-executive directors, its membership during 2005/06 was:

David Mortimer (Chairman)
Margaret Gibson
Sandra McPhee.

The committee charter, which is reviewed annually by the board, is included in the corporate governance section of the Australia Post website (auspost.com).

The committee meets five times a year, focussing in particular on the areas of financial reporting, risk management and internal controls. Among other things it is responsible for reviewing:

- annual financial statements before consideration and adoption by the board
- 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
- related party transactions.

The external and internal auditors attend all Audit & Risk Committee meetings, as do the managing director, chief finance officer and group financial controller.

Before each meeting the committee holds separate private-session discussions with the external auditors, the internal auditor and the chief finance officer.

The committee also reviews annually how it has met its various charter responsibilities over the year. This is followed by a formal report to the board by the committee chairman.

All directors receive copies of committee meeting papers and minutes, and each director has the right to attend meetings, whether or not a member of the committee.

Meeting attendance details for 2005/06 are provided in the chart on page 56.

Human Resources Committee

Incorporating the functions of both a nomination and remuneration committee, the Human Resources Committee addresses major policy, structural and remuneration issues including:

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

Membership of the committee during 2005/06 was:

Mark Birrell (Chairman)
Linda Nicholls
Graeme John
Peter McLaughlin.

The committee charter is included in the corporate governance section of the Australia Post website (auspost.com).

Meeting attendance details for 2005/06 are provided in the chart on page 56.

Board performance

An externally facilitated board performance appraisal was undertaken during the year, focussing on both board and board committee effectiveness.

Director induction and education

A comprehensive induction program is in place to provide newly appointed directors with an understanding of their role and responsibilities, and to expose them to key features of the business, including its operations, policies and strategies. Additional supplements are tailored to meet an individual director's particular needs or interests. Ongoing director education is provided by way of periodic presentations on matters of current interest.

Independent professional advice

Directors have the right, with the 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.

If an issue to be considered by the board or a board committee is thought to present a director with a potential conflict of interest, that director will not initially be provided with the related material.

Code of ethics

Australia Post seeks to conduct its business with integrity, honesty and fairness and in compliance with all relevant laws, regulations, codes and corporate standards. A board-approved Code of Ethics sets out clearly the ethical standards that are expected of both directors and employees in their dealings with customers, suppliers, the corporation and each other.

Any action or omission that contravenes the Code of Ethics constitutes misconduct and is subject to counselling or disciplinary action appropriate to the circumstances and seriousness of the behaviour. Disciplinary action may include dismissal.

Australia Post's whistleblower policy encourages the confidential disclosure of serious breaches of the Code of Ethics, particularly where criminal activity may be involved. An independently operated contact service is in place for the lodgement of any such whistleblower complaints.

A senior management Ethics Committee oversees the application of the Code of Ethics across the organisation.

Director remuneration

Remuneration levels for Australia Post's non-executive directors are determined by the Commonwealth Remuneration Tribunal. For 2005/06 these were as follows:

- Chairman
  $135,330
- Deputy Chairman
  $75,478
- Directors
  $67,670
- Audit Committee Chairman
  $15,620
- Audit Committee Member
  $7,808

Details of individual amounts received in 2005/06 by each non-executive director are provided in Note 27 to the financial statements (page 103).

Remuneration levels for Holders of Part-Time Public Offices (including Australia Post non-executive directors) have been increased by the Remuneration Tribunal by 4.4 per cent, with effect from 1 July 2006.

Executive remuneration

The Human Resources Committee is responsible for reviewing and recommending to the board the remuneration arrangements for the managing director. These arrangements are then implemented in accordance with remuneration policy and procedural arrangements approved by the Remuneration Tribunal.

In undertaking this role the committee has adopted 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.

On a periodic basis advice is sought from independent specialised remuneration consultants on:

- the structure of remuneration packages
- the quantum of increases that apply in other comparable Australian corporations.

On the basis of this advice, the managing director 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 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 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 to:

- in the case of the managing director, 60 days' payment in lieu of notice and a termination payment of 1.5 times annual base salary
- for other senior executives, 90 days' payment in lieu of notice and a termination payment calculated on four weeks for each of the first five years of employment and three weeks for every year thereafter to a maximum of 84 weeks, including the payment in lieu of notice.

All of the above payments are based upon annual base salary.

Remuneration details for the managing director and the other key executives with the greatest authority for the management of Australia Post are provided in Note 27 to the financial statements (page102).

External audit

Under section 8 of the *CAC Act*, the Auditor-General inspects and audits the accounts and records of the corporation's financial transactions and assets, reporting to the board, the minister and parliament. The Auditor-General also audits and reports on 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 adopted 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 is to be rotated at least every five years.

Internal audit

Australia Post maintains an independent internal audit service to assist the corporation in meeting its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal audit is empowered by the board to direct a comprehensive program of internal auditing within the corporation, with full and unrestricted access to all functions, property, personnel records, accounts, files and other documentation.

The internal audit work program is subject to annual endorsement by the Audit & Risk Committee, with the 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 oversees a comprehensive risk management policy framework covering all significant business risks and strategic considerations. The underpinning processes, which seek to identify, analyse, assess and treat these risks, are consistent with the principles of the relevant Australian Standard (AS/NZS 4360).

As part of the risk management framework all business units report quarterly and provide a presentation annually to an internal Risk Management Committee on their existing and emerging risks, associated mitigation strategies and progress against their implementation. Outcomes are reported to the board Audit & Risk Committee each quarter. The most significant risks and mitigating strategies are included in the corporate plan submitted annually to shareholder ministers.

Risk identification, measurement and mitigation strategies are included in business-related proposals considered by the board. There are also a number of programs in place to manage risk in specific areas such as fraud, the environment, injury prevention and management, legislative compliance, fire-safety and 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 ongoing effectiveness of the corporation's risk management framework is reviewed annually by the board. Also, to ensure best practice, independent external reviews of risk management across the corporation are commissioned periodically. The most recent such review was completed in December 2004 by Deloitte.

Internal control framework

The corporation's internal control framework covers multifaceted components that span intersecting control categories, control objectives, control activities and business units and processes. The framework is consistent with the model defined by the Committee of Sponsoring Organisations (COSO) of the Treadway Commission, with strategic, financial, operational and compliance elements established across the COSO internal control layers. These include financial planning and reporting, capital expenditure appraisal procedures, authority delegation, due diligence examination and procurement contract tendering, senior management review forums, extensive polices and procedures, expenditure gating, external performance reporting and corporation-wide risk management practices. Financial reporting and business systems integrity are assured through the application of detailed information technology and operating procedure manuals.

Consistent with the ASX Corporate Governance Council's best practice recommendations (Principle 7), before adopting the 2005/06 financial statements the board received written confirmation from the managing director and the chief finance officer that the integrity of the statements was founded on a sound system of risk management and internal compliance and control.

Treasury

A comprehensive and prudent treasury policy has been established to manage liquidity, interest rate, foreign exchange and fuel price risk. 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. A Treasury Risk Management Committee determines appropriate hedging strategies within policy parameters.

Treasury activities are reported quarterly to the board and are subject to annual review by auditors.

Corporate Security

The Corporate Security Group has responsibility for ensuring the integrity of the mail and the safety of Post's personnel and other assets. This specialist group maintains close internal working relationships with the legal, risk and audit areas, as well as externally with international, national, state and territory law enforcement services and agencies.

Trade Practices

To facilitate compliance with the relevant legislation Post has a dedicated trade practices compliance officer responsible for a national trade practices compliance program. In addition to undertaking comprehensive biennial trade practices training, the corporation has in place a detailed formal clearance process for all promotional and advertising material.

Privacy

The corporation also has a full-time chief privacy officer responsible for maintaining a national privacy compliance program. Detailed policies, processes and procedures are in place to safeguard customers' personal information and to foster a corporate culture that values privacy.

Directors' attendance at meetings – 2005/06

	Board		Audit committee		Human resources committee	
	(a)	(b)	(a)	(b)	(a)	(b)
Linda Nicholls	11	11			4	4
David Mortimer	11	10	5	4		
Graeme John	11	11			4	4
Mark Birrell	11	11			4	4
Margaret Gibson	11	11	5	5		
Peter McLaughlin	11	10			4	4
Sandra McPhee	11	10	5	5		
Tom Phillips	6	5				
Edward Tweddell	1	1				
Ian Warner	11	11				

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

Organisational structure

Australia Post has the following board and management structure.

The board sets the corporation's objectives, strategies and policies. Led by a non-executive chairman, the board comprises up to eight non-executive directors and one executive director (the managing director).

The managing director is responsible for the day-to-day management of the corporation and is also a member of the board.

The executive committee is the peak body of senior managers. It advises the managing director on operational matters and is responsible for the formulation of strategies and policies for consideration by the board.

The senior management team is responsible for key business and support functions. Its members are listed below.

Mail & Networks Division

- **General Manager:** Jim Marshall
- **Managers:** National Logistics – Terry Sinclair; Network Renewal – Peter McBride; Finance – Les Pradd; Human Resources – Peter Rogan; Communications – Ian Cropper; Business Planning – Mike Forster
- **State M&ND Managers:** Terry Taylor (NSW/ACT); William Wilson (Qld); Gary Prior (SA/NT); Steve Ousley (Vic/Tas); Mike Owen (WA)

Commercial

- **General Manager:** Bill Mitchell
- **Group Managers:** Retail Services – Amber McDougall; Retail Channels & Infrastructure – Elizabeth Button; Financial Services – Terry Stephens; Commercial Services – Elizabeth Grant; Philatelic – Noel Leahy; Parcels – Chris Koo
- **Managers:** Commercial Development – Karen Ryan-Cowell; Human Resources – Peter Godfrey
- **State Commercial Managers:** Mark Warren (NSW/ACT); Helen Brodie (Qld); Bevan Adams (SA/NT); Peter Lavis (Vic/Tas); David Eaton (WA)

Products & customised services

- **Letters Group Manager:** Allan Robinson
- **International Group Manager:** Peter Morrison
- **Post Logistics General Manager:** Alec Ceselli
- **First Direct Solutions General Manager:** Vicki Miller
- **eLetter Solutions General Manager:** Frank Forgione
- **Courier & Mailroom Solutions General Manager:** Geoff Cook

Finance

- **Chief Finance Officer:** Peter Meehan
- **Group Financial Controller:** Michael Tenace
- **Group Managers:** Finance, Commercial – Brian McCraith; Superannuation – Angus McKenzie; Financial Strategy & Sustainability – Alan Marshall; Taxation – Peter Dimech; Product and Commercial Analysis – Andrew Downie
- **Shared Services General Manager:** Arthur Skipitaris
- **Managers:** Treasury – Errol Dorfan; Finance, Corporate Infrastructure Services – Martin Lobb

Corporate Infrastructure Services

- **General Manager:** Mark Howard
- **Chief Information Officer:** Wayne Saunders
- **Group Managers:** Technology Services – Andrew Howlett; Business Technology Solutions – Kerry Ashbrook; Corporate Sourcing – Rob Loats; Corporate Real Estate – Adam Treffry
- **Managers:** Refresh Project – Jill Malyaris/Denise Dyer; Human Resources – Kim Maybery

Business support

- **Human Resources Group Manager:** Rod McDonald
- **Corporate Secretary:** Michael McCloskey
- **Corporate Strategy Group Manager:** Shane Morris
- **Corporate Public Affairs Group Manager:** Stephen Walter
- **Corporate Audit Group Manager:** David Mallard
- **Corporate Security Group Manager:** John Sharp
- **International Treaty and Policy Group Manager:** Chris Grosser
- **General Counsel** – vacant

Board of Directors

Linda B Nicholls

BA (Econ), MBA (Harvard), FAICD

Chairman (non-executive)

Linda Nicholls is a corporate advisor and director of a number of leading Australian companies and organisations. A member of the Australia Post board since 1989, she was appointed chairman in September 1997 (current term expires in September 2006). Mrs Nicholls is deputy chairman of Healthscope and a director of St George Bank and the Sigma Pharmaceutical Group.

David A Mortimer AO

BEcon (Hons), FCPA

Deputy Chairman (non-executive)

David Mortimer has extensive experience in the fields of banking, finance and transportation. He was appointed deputy chairman of Australia Post in June 2001. Mr Mortimer was formerly managing director and chief executive officer of TNT. He is chairman of Crescent Capital Partners, a director of Petsec Energy, Adsteam Marine, Macquarie Infrastructure Investment Management, Leighton Holdings and the Sigma Pharmaceutical Group. He was appointed to succeed Mrs Nicholls as Chairman from September 2006 (term expires September 2009).

Graeme T John AO

FCILT

Managing Director

Graeme John joined Australia Post as Chief Manager National Operations in 1990 and was appointed managing director of the corporation in 1993. Mr John is a director and alternative chairman of Australian air Express and Star Track Express and a director of Sai Cheng Logistics, China. He is also a commissioner of the Australian Football League, a fellow of the Chartered Institute of Logistics and Transport, and a member of the Business Council of Australia, the Australian Institute of Company Directors and the Committee for Melbourne.

Mark A Birrell

LLB, BEc, FAIM

Director (non-executive)

Mark Birrell has had a successful career in both public policy and the law. He was appointed to the Australia Post board in August 2003 (current term expires in August 2009). Mr Birrell is a former cabinet minister in Victoria and government leader in the Legislative Council. He is special counsel with Minter Ellison lawyers and the leader of its infrastructure industry group. Mr Birrell is the national chairman of Infrastructure Partnerships Australia.

Margaret M Gibson

LLB (Hons), BCom, FCA, FTIA, FAICD

Director (non-executive)

Margaret Gibson was appointed to the Australia Post board in September 2004 (current term expires in September 2007). Ms Gibson is a retired partner of PricewaterhouseCoopers where she was a member of the Board of Partners. She is currently a director of Airtrain Holdings Pty Ltd, a member of the Corporate Advisory Board of Australia and New Zealand of Unisys (Australia), and a councillor and the treasurer of the RSPCA (Queensland).

Peter A McLaughlin

BCom (Hons)

Director (non-executive)

Peter McLaughlin has had a distinguished career as an economic adviser and human resources consultant. He was appointed to the Australia Post board in November 1997 (current term expires in November 2006). Mr McLaughlin is a former executive vice president Asia Pacific for the Empower Group and former executive director of the Business Council of Australia. He was also first assistant secretary of the departments of Prime Minister and Cabinet (1982–83) and Treasury (1983–86).

Sandra V McPhee

DipEd, FAICD

Director (non-executive)

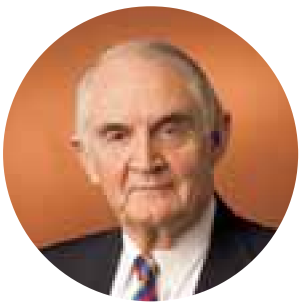
Sandra McPhee has extensive experience as a non-executive director and as a senior executive in international consumer-facing industries including aviation, retail and tourism, most recently with Qantas Airways. She was appointed to the Australia Post board in October 2001 (current term expires in October 2007). She is a director of Coles Myer, Perpetual Limited, The Art Gallery of NSW and St Vincents and Mater Health. Ms McPhee's previous appointments include Deputy Chair South Australia Water, and director of Primelife Corporation Limited, CARE Australia and Tourism Council Australia.

Tom R Phillips

MBA (University of New England), FAICD

Director (non-executive)

Tom Phillips has had a successful career in the automotive industry. He was appointed to the Australia Post board in November 2005 (current term expires in November 2008). Mr Phillips is a former CEO of Mitsubishi Motors Australia and chairman of Thrifty Car Rentals Australia. He is currently chairman of the South Australian Training and Skills Commission, and the Safework SA Authority; and a board member of the Flinders Medical Centre Foundation and the Adelaide Festival Centre Foundation.



Ian K Warner

RFD, LLM, FAICD

Director (non-executive)

Ian Warner is a distinguished legal practitioner with extensive commercial experience. He was appointed to the Australia Post board in June 2001 (current term expires in September 2007). Mr Warner is a former senior partner, and currently a senior consultant, at Jackson McDonald barristers and solicitors. He is chairman of Rivaknar Properties (WA), deputy chairman of Amcom Telecommunications and a director of Cape Bouvard Investments.

Report of operations

Executive Committee

Graeme John
Managing Director

Michael McCloskey
Corporate Secretary

Shane Morris
Group Manager,
Corporate Strategy

Paul Burke
Manager, Board &
Shareholder Liaison

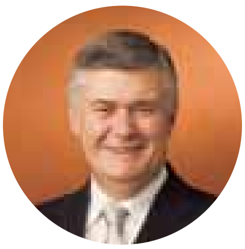
Rod McDonald
Group Manager,
Human Resources

Suzanne Stewart
Manager,
Strategic Planning

Mark Howard
General Manager,
Corporate Infrastructure
Services Division

Peter Meehan
Chief Finance Officer

Stephen Walter
Group Manager,
Corporate Public Affairs



Jim Marshall
General Manager,
Mail & Networks Division

Bill Mitchell
General Manager,
Commercial Division

Contents

For the year ended 30 June 2006

	Understanding our statements	62
	Statements by directors	63
	Independent audit report	64
	Income statement	66
	Balance sheet	67
	Cash flow statement	68
	Statement of recognised income & expense	69
	Schedule of commitments	70
	Schedule of contingencies	71
	Notes to and forming part of the financial report	72
1	Summary of significant accounting policies	72
2	Revenues and other income	81
3	Expenses (excluding financing costs)	82
4	Financing costs	83
5	Income tax	83
6	Current assets – trade and receivables	85
7	Current assets – inventories (held for sale)	86
8	Other current assets	86
9	Non-current assets – trade and other receivables	86
10	Investments in controlled entities	87
11	Investments in jointly controlled entities	88
12	Superannuation	89
13	Analysis of property, plant & equipment	91
14	Analysis of intangibles	93
15	Investment properties	94
16	Impairment testing of goodwill	94
17	Other financial assets	94
18	Current liabilities – trade and other payables	95
19	Interest-bearing loans and borrowings	95
20	Provisions	96
21	Non-current liabilities – payables	96
22	Analysis of total equity	97
23	Analysis of reserves	98
24	Dividends paid	98
25	Auditor's remuneration	99
26	Segment information	99
27	Directors' and executives' remuneration and retirement benefits	102
28	Related parties	105
29	Financial instruments	106
30	Leases	109
31	Notes to the cash flow statement	110
32	Adoption of Australian Equivalents to International Financial Reporting Standards	113
33	Contingent liabilities	121
34	Corporate information	121
35	Events after balance date	121
	Community service obligations	122
	Performance standards	122
	Organisational arrangements	122
	CSO costs	122
	Auditor-General's report	123
	KPMG report on domestic letter service performance	125
	AC Nielsen survey certification	126
	Reserved / non-reserved services	127
	Statutory reporting requirements index	128
	Statutory reporting requirements	131
	Statistical summary	135
1	Five-year statistical summary	135
2	Basic postage rate and the Consumer Price Index	135
3	Australia Post outlets	136
4	Australia Post outlets by state and geographic classification	136
5	Mail delivery network	137
6	Letter senders' access to postal network	137
7	Letter recipients' access to postal network	138
8	Frequency of service to delivery points	138
9	Overall letter service performance in 2005/06	139
10	Summary of Australia Post property portfolio	139
11	Total articles through Australia Post's network	140
12	Persons engaged in providing postal services	140

Financial and statutory reports

For the year ended 30 June 2006

UNDERSTANDING OUR STATEMENTS

Australia Post's 2005/06 financial statements enable readers to assess the corporation's results for the year, its present financial position, its future outlook and the value of its assets. Comparable measures are provided for the previous year.

The Statements by Directors and the Auditor-General's Report are standard legal declarations which are required in all annual financial reports.

The "Corporation" figures are for Australia Post alone, while the "Consolidated" figures include transactions between Post or its subsidiary companies and third parties.

All figures in these statements are rounded to the nearest $100,000 unless otherwise stated.

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

The balance sheet provides information on Australia Post's assets and liabilities and indicates the amount of the Commonwealth Government's investment at the end of the financial year.

Assets listed in the balance sheet as "current" are likely to be converted to cash within the next 12 months. Liabilities that are "current" are due and payable within 12 months. "Non-current" assets or liabilities are long-term. Equity is the corporation's total capital and reserves plus profits that have been reinvested over the years.

The cash flow statement shows the derivation of the corporation's cash resources during the financial year and its cash outlays.

To gain a complete understanding of Australia Post's 2005/06 results, the financial statements should be read in conjunction with the accompanying explanatory notes.

2005/06 FINANCIAL REPORT

In the opinion of the directors:

(a) the accompanying financial report for the year ended 30 June 2006:

(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*; and

(ii) has been prepared based on properly maintained financial records; and

(b) at the date of this statement, 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.

L B Nicholls
Chairman

G T John
Managing Director

Melbourne
24 August 2006

2005/06 FINANCIAL STATEMENTS CERTIFICATION

Prior to the adoption of the 2005/06 financial report the board received and considered a written statement from the managing director and chief finance officer 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 was 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*; and

– that the integrity of the financial report and notes thereto are 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 4360:2004) and policies adopted by the board of directors.

L B Nicholls
Chairman

Melbourne
24 August 2006

2005/06 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 Administration are met in the general body of this report (pages 1–60) and in the Statutory Report (pages 128–134).

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

L B Nicholls
Chairman

Melbourne
24 August 2006

Auditor-General for Australia

Australian National
Audit Office

INDEPENDENT AUDIT REPORT

To the Minister for Communications, Information Technology and the Arts and the Board of the Australian Postal Corporation

Scope

The financial statements and Directors' responsibility

The financial statements comprise:

- Statement by Directors;
- Income Statement, Balance Sheet and Cash Flow Statement;
- Statement of Recognised Income and Expense;
- Schedules of Commitments and Contingencies; and
- Notes to and forming part of the Financial Statements

for both the Australian Postal Corporation (the Corporation) and consolidated entity for the year ended 30 June 2006. The consolidated entity comprises both the Corporation and the entities it controlled during that year.

The Directors are responsible for preparing the financial statements that give a true and fair view of the financial position and performance of the Corporation and the consolidated entity, and that comply with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia. The Directors are also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit Approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether in all material respects the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Commonwealth*

GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit
BARTON ACT
Phone (02) 6203 7500 Fax (02) 6273 5355
Email ian.mcphee@anao.gov.au

Authorities and Companies Act 1997, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Corporation's and the consolidated entity's financial position, and of their financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and

- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Directors.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Audit Opinion

In my opinion, the financial statements of the Australian Postal Corporation and the consolidated entity:

(a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997;* and

(b) give a true and fair view of the Australian Postal Corporation's and the consolidated entity's financial position as at 30 June 2006 and of their performance for the year then ended, in accordance with:

(i) the matters required by the Finance Minister's Orders; and

(ii) applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

Additional Statutory Disclosure

I have not acted as auditor of, or audited the financial statements of subsidiaries as indicated in Note 10.

Ian McPhee
Auditor-General

Canberra

24 August 2006

Income statement

For the year ended 30 June 2006

	Note	Consolidated		Corporation	
		2006 $m	2005 $m	2006 $m	2005 $m
REVENUE	*2, 26*				
Goods and services		4,416.1	4,178.9	4,282.1	4,139.4
Interest		34.0	29.9	34.4	30.3
		4,450.1	4,208.8	4,316.5	4,169.7
OTHER INCOME					
Dividends		0.0	0.0	21.8	25.7
Rents		21.1	20.8	21.8	20.8
Other revenues and gains		27.4	66.2	26.2	65.0
		48.5	87.0	69.8	111.5
Total income		4,498.6	4,295.8	4,386.3	4,281.2
EXPENSES (excluding financing costs)	*3*				
Employees		1,982.1	1,952.2	1,929.2	1,929.3
Suppliers		1,795.2	1,657.0	1,726.8	1,643.5
Depreciation and amortisation		168.9	176.4	161.8	173.3
Net loss on disposal of property, plant & equipment		2.1	2.7	2.0	1.8
Net foreign exchange losses		0.4	0.0	0.3	0.0
Write-down and impairment of assets		0.1	3.7	0.0	3.5
Other expenses		33.8	30.8	31.8	31.6
Total expenses (excluding financing costs)		3,982.6	3,822.8	3,851.9	3,783.0
Profit before income tax, financing costs and share of net profits of jointly controlled entities		516.0	473.0	534.4	498.2
Financing costs	*4*	31.9	33.3	31.5	33.0
Share of net profits of jointly controlled entities	*11*	31.5	30.1	0.0	0.0
Profit before income tax		515.6	469.8	502.9	465.2
Income tax expense	*5*	147.5	128.5	146.5	130.4
Net profit for period		368.1	341.3	356.4	334.8
Profit attributable to minority interests		(0.2)	–	–	–
Profit attributable to members of parent		367.9	341.3	356.4	334.8

Balance sheet

As at 30 June 2006

	Note	Consolidated 2006 $m	Consolidated 2005 $m	Corporation 2006 $m	Corporation 2005 $m
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	*31*	641.5	568.7	630.3	565.8
Trade and other receivables	*6*	339.5	360.5	313.4	341.7
Inventories	*7*	42.8	67.6	42.8	67.6
Accrued revenues		100.5	68.2	102.3	68.2
Other current assets	*8*	52.7	48.8	50.7	47.3
Total current assets		1,177.0	1,113.8	1,139.5	1,090.6
NON-CURRENT ASSETS					
Trade and other receivables	*9*	230.1	226.1	243.9	238.8
Investments in controlled entities	*10*	0.0	0.0	77.6	72.3
Investments in jointly controlled entities	*11*	297.7	285.7	263.6	263.6
Superannuation asset	*12*	1,351.3	883.6	1,351.3	883.6
Land and buildings	*13*	739.9	708.5	738.5	707.3
Plant and equipment	*13*	512.4	515.8	500.0	503.2
Intangible assets	*14*	155.5	126.2	91.2	70.3
Investment property	*15*	95.6	89.8	95.6	89.8
Deferred income tax assets	*5*	243.2	238.2	240.4	237.6
Other financial assets	*17*	4.9	5.0	4.9	5.0
Total non-current assets		3,630.6	3,078.9	3,607.0	3,071.5
Total assets		4,807.6	4,192.7	4,746.5	4,162.1
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	*18*	695.8	641.1	678.8	636.7
Interest-bearing loans and borrowings	*19*	231.3	1.5	230.2	0.0
Provisions	*20*	265.6	275.1	261.0	272.2
Income tax payable		17.2	31.8	16.3	31.2
Total current liabilities		1,209.9	949.5	1,186.3	940.1
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	*19*	302.7	531.8	301.1	530.0
Provisions	*20*	397.1	384.2	393.8	381.6
Payables	*21*	5.1	4.5	1.5	2.1
Deferred tax liabilities	*5*	504.8	351.6	502.1	348.8
Total non-current liabilities		1,209.7	1,272.1	1,198.5	1,262.5
Total liabilities		2,419.6	2,221.6	2,384.8	2,202.6
Net assets		2,388.0	1,971.1	2,361.7	1,959.5
EQUITY					
Contributed equity	*22*	400.0	400.0	400.0	400.0
Reserves	*23*	2.1	0.0	1.9	0.0
Retained profits	*22*	1,985.5	1,571.1	1,959.8	1,559.5
Parent interest		2,387.6	1,971.1	2,361.7	1,959.5
Minority interest	*22*	0.4	–	–	–
Total equity		2,388.0	1,971.1	2,361.7	1,959.5

Cash flow statement

For the year ended 30 June 2006

	Note	Consolidated 2006 $m	Consolidated 2005 $m	Corporation 2006 $m	Corporation 2005 $m
OPERATING ACTIVITIES					
CASH RECEIVED					
Goods and services		4,823.6	4,591.2	4,686.9	4,551.7
Interest		34.2	29.7	34.6	30.1
Dividends		22.3	26.5	21.8	25.7
Total cash received		4,880.1	4,647.4	4,743.3	4,607.5
CASH USED					
Employees		1,972.7	1,806.7	1,921.7	1,785.9
Suppliers		1,937.4	1,869.9	1,862.1	1,849.9
Financing costs		31.5	28.3	30.9	28.0
Income tax		156.0	167.7	156.0	167.7
GST paid		213.4	222.9	210.5	222.3
Total cash used		4,311.0	4,095.5	4,181.2	4,053.8
Net cash from operating activities	*31(b)*	569.1	551.9	562.1	553.7
INVESTING ACTIVITIES					
CASH RECEIVED					
Proceeds from sales of property, plant and equipment		24.7	27.7	24.5	27.7
Total cash received		24.7	27.7	24.5	27.7
CASH USED					
Loans to related parties		0.0	8.1	1.5	9.5
Payments for investments in controlled entities (net of cash acquired)		7.9	49.1	14.0	59.3
Purchase of joint-venture entities		0.0	8.5	0.0	0.5
Payments for investment property		0.3	0.3	0.3	0.3
Purchase of property, plant and equipment		178.3	124.1	173.0	122.6
Purchase of intangibles		52.0	35.0	50.8	34.5
Total cash used		238.5	225.1	239.6	226.7
Net cash used by investing activities		(213.8)	(197.4)	(215.1)	(199.0)
FINANCING ACTIVITIES					
CASH USED					
Dividends paid	*24*	282.5	241.7	282.5	241.7
Net cash used by financing activities		(282.5)	(241.7)	(282.5)	(241.7)
Net increase in cash and cash equivalents		72.8	112.8	64.5	113.0
Cash and cash equivalents at beginning of reporting period		568.7	455.9	565.8	452.8
Cash and cash equivalents at end of reporting period	*31(a)*	641.5	568.7	630.3	565.8

Statement of recognised income & expense

As at 30 June 2006

	Note	Consolidated 2006 $m	Consolidated 2005 $m	Corporation 2006 $m	Corporation 2005 $m
STATEMENT OF RECOGNISED INCOME & EXPENSE					
Adjustment on adoption of new accounting standards relating to financial instruments[(i)]	*22*	1.8	0.0	1.0	0.0
Exchange differences on translation of foreign operations	*23*	0.1	0.0	0.0	0.0
Actuarial gain/(loss) on defined benefit plans	*12*	467.6	9.9	467.6	9.9
Effective portion of changes in fair value of cash flow hedges taken to equity	*23*	0.7	0.0	0.7	0.0
Income tax on items taken directly to or transferred directly from equity	*5*	(141.1)	(3.0)	(141.1)	(3.0)
Movements in joint-venture reserves and actuarial gains and (losses) – net of tax		1.9	(0.4)	0.0	0.0
Net income recognised directly in equity		331.0	6.5	328.2	6.9
Net profit for period		368.1	341.3	356.4	334.8
Total recognised income and expense for the period		699.1	347.8	684.6	341.7
Attributable to:					
Equity holders of the parent		698.9	347.8	684.6	341.7
Minority interest		0.2	0.0	0.0	0.0
Total recognised income and expense for the period		699.1	347.8	684.6	341.7

(i) Included in the consolidated amount is $0.8 million (2005: $nil) in relation to joint ventures.

Other movements in equity arising from transactions with owners as owners are set out in notes 22 & 23.

Schedule of commitments

As at 30 June 2006

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
SCHEDULE OF COMMITMENTS				
BY TYPE				
Capital commitments				
Land and buildings	19.6	15.0	19.6	15.0
Plant and equipment	56.0	41.9	51.2	41.2
Other	0.5	0.0	0.5	0.0
Total capital commitments	76.1	56.9	71.3	56.2
Other commitments				
Operating leases (i)	406.7	347.6	279.6	208.7
Other commitments (ii)	850.1	731.4	849.9	728.3
Total other commitments	1,256.8	1,079.0	1,129.5	937.0
BY MATURITY				
Capital commitments due				
Within one year	76.1	54.1	71.3	53.4
From one to five years	0.0	2.8	0.0	2.8
Total capital commitments	76.1	56.9	71.3	56.2
Operating lease commitments due				
Within one year	95.2	95.4	68.3	62.1
From one to five years	220.3	193.3	141.9	124.8
Over five years	91.2	58.9	69.4	21.8
Total operating lease commitments	406.7	347.6	279.6	208.7
Other commitments due				
Within one year	344.9	306.6	344.7	303.9
From one to five years	503.0	419.8	503.0	419.4
Over five years	2.2	5.0	2.2	5.0
Total other commitments	850.1	731.4	849.9	728.3

(i) These commitments are net of sub-lease recoveries. $84.3 million (2005: $93.8 million) relates to jointly controlled entities.

(ii) The majority of these commitments relate to carriage and delivery of letters and parcels by contractors. $0.2 million (2005: $3.1 million) relates to jointly controlled entities.

Schedule of contingencies
As at 30 June 2006

	Guarantees (i)		Finance leases (ii)		Claims for damages or other costs (iii)		Total	
	2006 $m	2005 $m	2006 $m	2005 $m	2006 $m	2005 $m	2006 $m	2005 $m
SCHEDULE OF CONTINGENCIES								
CONSOLIDATED								
Balance from previous period	202.0	186.2	209.9	222.1	9.6	4.8	421.5	413.1
New	1.0	4.1	–	1.6	3.3	6.2	4.3	11.9
Re-measurement	3.0	13.3	9.1	(10.9)	1.2	0.1	13.3	2.5
Liabilities crystallised	–	–	–	–	–	(0.5)	–	(0.5)
Obligations expired	(0.1)	(1.6)	(15.5)	(2.9)	(3.3)	(1.0)	(18.9)	(5.5)
Total contingent liabilities	205.9	202.0	203.5	209.9	10.8	9.6	420.2	421.5
CORPORATION								
Balance from previous period	162.7	148.7	209.9	222.1	9.6	4.8	382.2	375.6
New	–	–	–	1.6	3.3	6.2	3.3	7.8
Re-measurement	3.7	14.0	9.1	(10.9)	1.2	0.1	14.0	3.2
Liabilities crystallised	–	–	–	–	–	(0.5)	–	(0.5)
Obligations expired	–	–	(15.5)	(2.9)	(3.3)	(1.0)	(18.8)	(3.9)
Total contingent liabilities	166.4	162.7	203.5	209.9	10.8	9.6	380.7	382.2

(i) Relate to outstanding workers' compensation claims liabilities and other guarantees provided by joint-venture entities.

(ii) The corporation has guaranteed lease payments to be made by a third party, on the corporation's behalf, over the 15-year and 17-year terms of finance leases entered into by the corporation during the year ended 30 June 2000 and 30 June 2001 respectively. The discounted value of the future lease payments over the period of the leases amounts to $203.5 million (2005: $209.9 million).

(iii) Various legal liability claims have been lodged against the corporation, including motor vehicle accident and personal injury claims. The directors are of the opinion that it is unlikely that the total of damages that may become payable will exceed the amount shown.

Notes to and forming part of the financial report

For the year ended 30 June 2006

01. 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 2005;
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and
- Urgent Issues Group Interpretations.

The financial report has been prepared on a historical cost basis, except for investment properties, derivative financial instruments and available-for-sale investments, 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, which include Australian Equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on A-IFRS. Comparatives for the year ended 30 June 2005 have been restated accordingly, except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The corporation has adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of A-IFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to A-IFRS are detailed in note 32.

Except for the revised AASB 119 *Employee Benefits* (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006. The standards are as follows:

AASB amendment	Affected standard(s)	Nature of change to accounting policy	Application date of standard	Application date for group
2005–1	AASB 139 *Financial Instruments: Recognition and Measurement*	No material change to accounting policy anticipated.	1 January 2006	1 July 2006
2005–2	AASB 1 *First-time adoption of A-IFRS* and AASB 139 *Financial Instruments: Recognition and Measurement*	No material change to accounting policy anticipated.	1 January 2006	1 July 2006
2005–4	AASB 139 *Financial Instruments: Recognition and Measurement*	No material change to accounting policy anticipated.	1 January 2006	1 July 2006
2005–5	AASB 1 *First-time adoption of A-IFRS* and AASB 139 *Financial Instruments: Recognition and Measurement*	No material change to accounting policy anticipated.	1 January 2006	1 July 2006
2005–6	AASB 3 *Business Combinations*	No material change to accounting policy anticipated.	1 January 2006	1 July 2006
2005–9	AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 132 *Financial Instruments: Disclosure and Presentation*	No material change to accounting policy anticipated.	1 January 2006	1 July 2006
2005–10	AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time adoption of A-IFRS*	No material change to accounting policy anticipated.	1 January 2007	1 July 2007
2006–1	AASB 121 *The Effects of Changes in Foreign Currency Rates*	No material change to accounting policy anticipated.	1 January 2006	1 July 2006
New standard/ UIG affected standards	**Affected standard(s)**	**Nature of change to accounting policy**	**Application date of standard**	**Application date for group**
	UIG 4 *Determining whether an Arrangement contains a Lease*	No material change to accounting policy anticipated.	1 January 2006	1 July 2006
	UIG 9 *Reassessment of Embedded Derivatives*	No material change to accounting policy anticipated.	1 June 2006	1 July 2006
New standard	AASB 7 *Financial Instruments: Disclosures*	No material change to accounting policy anticipated.	1 January 2007	1 July 2007

(c) BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the corporation and its subsidiaries as at 30 June each year (the group). 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, 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 transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

(d) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(i) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are as follows.

Impairment of goodwill and intangibles with indefinite useful lives

The group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying 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 are dependent on the nature of the premises occupied.

Employee benefits

Various assumptions are required when determining the group’s superannuation, long-service leave, annual leave and workers’ compensation obligations. Note 12 describes the assumptions used in calculating the group’s superannuation obligation.

(ii) Significant accounting judgements

In the process of applying the group’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

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 entered into 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 consequently classified the leases as operating leases.

(e) REVENUE RECOGNITION

Revenue is recognised to the extent that 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.

(ii) Interest income

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. Dividends received from joint ventures are accounted for in accordance with the equity method of accounting.

(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.

(f) 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 income statement over the expected useful life of the relevant asset by equal annual instalments.

(g) FINANCING COSTS

Financing costs are recognised as an expense when incurred.

(h) LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. 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.

(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 expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(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.

(i) CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

(j) TRADE AND OTHER RECEIVABLES

Trade receivables, which generally have 30–90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An allowance for doubtful debts is made when there is objective evidence that the group will not be able to collect the debts. Bad debts are written off when identified.

(k) INVENTORIES

Inventories 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
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding financing costs.

Cost of inventories includes the transfer from equity of gains and losses on qualifying cash flow hedges of purchases of raw materials. 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.

(l) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for derivative financial instruments and hedging applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

The group uses derivative financial instruments such as forward currency contracts, oil swap contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency 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 cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts and oil swap contracts are determined by reference to market values for similar instruments.

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;
- cash flow hedges when they hedge exposure to variability in cash flows 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.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the group formally designates and documents the hedge relationship to which the group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

The changes in the fair value of the hedging instrument are also recognised in profit or loss. 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) Cash flow hedges

Cash flow hedges are hedges of the group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The group enters into such contracts in regards to its fuel exposures. The group enters into forward exchange contracts whereby it agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies to protect the group against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 12 months.

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 to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. 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. If the related transaction is not expected to occur, the amount is taken to the income statement.

Accounting policies applicable for the year ending 30 June 2005

(i) Forward exchange contracts

The group entered into forward exchange contracts whereby it agreed to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective was to match the contract with anticipated future cash flows from sales and purchases in foreign currencies to protect the group against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts were usually for no longer than 12 months.

Forward exchange contracts were recognised at the date the contract was entered into. Exchange gains or losses on forward exchange contracts were recognised in net profit except those relating to hedges of specific commitments, which were deferred and included in the measurement of the sale or purchase.

(ii) Interest rate swaps

The group entered into interest rate swap agreements that were used to convert the fixed interest rate of its medium- and long-term borrowings to variable interest rates. The swaps were entered into with the objective of reducing the risk of a change to fair value of the group's borrowings. It was the group's policy not to recognise interest rate swaps on balance sheet. Net receipts and payments were recognised as an adjustment to interest expense.

(m) FOREIGN CURRENCY TRANSLATION

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.

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 balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

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.

As at the reporting date, the assets and liabilities of subsidiaries with a different functional currency from the Australian dollar are translated into the presentation currency of the corporation at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(n) INVESTMENTS 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. 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. 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. The consolidated income statement reflects the group's share of the results of operations of the jointly controlled entity.

Where a change has been recognised directly in the jointly controlled entity's equity, the group recognises its share of any changes and discloses this in the statement of recognised income and expense.

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 are different from those of the corporation, necessary adjustments have also been made.

(o) TAXATION

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet 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 interests in joint ventures, 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 assets 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, associates or interests in joint ventures, 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 balance sheet 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 balance sheet 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 balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss. 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.

(p) 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; and receivables and payables that 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.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(q) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any impaired losses.

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 profit or loss 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/amortisation 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 and amortisation rates applying to items in each class of depreciable asset are based on the following useful lives.

	2006	2005
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	3–7 years	3–7 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 and amortisation allocated for each class of asset during the reporting period is disclosed in note 3.

(r) 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 when 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 stated at fair value, which reflects market conditions at the balance sheet 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 or ending of construction or development. Transfers are made from investment property 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 (note 1(q)) up to the date of change in use. When the group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

(s) DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable to the derecognition of financial assets and financial liabilities for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

(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 cash flows from the asset have expired; or
- the group retains the right to receive cash flows 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 cash flows 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 or 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.

Accounting policies applicable for the year ending 30 June 2005

(i) Financial assets

A financial asset was derecognised when the contractual right to receive or exchange cash no longer existed.

(ii) Financial liabilities

A financial liability was derecognised when the contractual obligation to deliver or exchange cash no longer existed.

(t) IMPAIRMENT OF FINANCIAL ASSETS

The group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

The group assesses at each balance sheet 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 cash flows (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 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 income statement. 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.

Accounting policies applicable for the year ending 30 June 2005

An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

(u) INVESTMENTS AND OTHER FINANCIAL ASSETS

The group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date on which 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.

(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. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments 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 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.

(iv) Available-for-sale investments

Available-for-sale investments 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 investments 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.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis; and option pricing models.

Accounting policies applicable for the year ending 30 June 2005

All non-current investments were carried at the lower of cost and recoverable amount. In determining recoverable amount, the expected net cash flows were discounted to their present value using a market-determined risk-adjusted discount rate. Other non-current assets were held at fair value.

(v) GOODWILL

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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 group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the group's primary or reporting format determined in accordance with AASB 114 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. 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.

(w) 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 charged against profits 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 the useful life and assessed 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 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. 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.

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

(x) IMPAIRMENT OF ASSETS

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 cash flows 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 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.

(y) TRADE AND OTHER PAYABLES

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the group before 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.

(z) INTEREST-BEARING LOANS AND LIABILITIES

The group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest-bearing loans and borrowings applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Accounting policies applicable for the year ending 30 June 2005

All loans were measured at the principal amount. Interest was recognised as an expense as it accrued. Interest was recognised on an effective yield basis.

(aa) PROVISIONS (EXCLUDING EMPLOYEE BENEFITS)

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation when 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 income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects 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.

(bb) 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 as a provision for employee benefits 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 $120.7 million at balance date (refer note 20) of which $6.3 million relates to claims made in the 2005/06 financial year (2004/05: $8.2 million).

(iv) Separation and redundancy

A liability is recognised for separation and redundancy benefit payments for ongoing major restructuring only where the corporation is demonstrably committed to the restructuring and the cost can be reliably measured (refer note 20). Generally such assessments do not exceed the certainty of initiatives planned for the following year.

(cc) SUPERANNUATION AND OTHER POST-EMPLOYMENT BENEFITS

The group has a defined benefit plan. 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.

(dd) 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.

(ee) COMPARATIVES

Where necessary, comparatives have been reclassified and repositioned for consistency with current-year disclosures, other than where the AASB132 and AASB139 exemption outlined in note 1(b) has been applied.

02. REVENUES AND OTHER INCOME

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
REVENUE				
Rendering of services to				
Related entities (i)	251.9	248.2	251.9	248.2
External entities (ii)	3,827.8	3,594.0	3,705.3	3,554.5
	4,079.7	3,842.2	3,957.2	3,802.7
Sale of goods to external entities (ii)	336.4	336.7	324.9	336.7
	4,416.1	4,178.9	4,282.1	4,139.4
Interest from				
Deposits and discount securities	23.7	19.5	24.1	19.9
Loans	10.3	10.4	10.3	10.4
	34.0	29.9	34.4	30.3
Total revenue	4,450.1	4,208.8	4,316.5	4,169.7
OTHER INCOME AND GAINS				
Dividends received or receivable from joint ventures	0.0	0.0	21.8	25.7
Rents from operating leases	21.1	20.8	21.8	20.8
Other revenues and gains				
Other services				
Related entities (government grants) (i)	3.4	6.5	3.4	6.5
External entities (ii)	19.8	17.4	18.7	16.2
	23.2	23.9	22.1	22.7
Net gain on disposal of assets				
Land and buildings	0.3	28.0	0.3	28.0
	0.3	28.0	0.3	28.0
Change in fair value of investment properties	3.8	12.3	3.8	12.3
Net foreign exchange gains – non-speculative	0.1	2.0	0.0	2.0
Total other revenues and gains	27.4	66.2	26.2	65.0
Total other income and gains	48.5	87.0	69.8	111.5
Total revenue and other income	4,498.6	4,295.8	4,386.3	4,281.2

(i) Related entities – related to the Commonwealth Government.
(ii) External entities – not related to the Commonwealth Government.

03. EXPENSES (excluding financing costs)

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
EMPLOYEES				
Wages and salaries	1,532.5	1,471.3	1,492.0	1,451.8
Superannuation (defined benefit expense)	99.4	129.1	99.4	129.1
Payroll tax	103.1	93.8	100.4	92.7
Leave and other entitlements	187.3	189.7	183.3	188.7
Separation and redundancy	8.5	7.6	8.5	7.5
Workers' compensation	24.4	38.2	23.7	38.1
Other employee expenses	26.9	22.5	21.9	21.4
	1,982.1	1,952.2	1,929.2	1,929.3
SUPPLIERS				
Purchase of services from				
Related entities (i)	35.7	35.2	35.4	35.2
External entities (ii)	1,464.3	1,319.6	1,409.8	1,309.4
	1,500.0	1,354.8	1,445.2	1,344.6
Cost of sales – goods purchased from external entities (ii)	194.7	206.8	192.2	206.6
Operating lease rentals (note 30 (i))	100.5	95.4	89.4	92.3
	1,795.2	1,657.0	1,726.8	1,643.5
DEPRECIATION AND AMORTISATION				
Depreciation				
Buildings	45.6	45.0	45.6	45.0
Plant and equipment	81.6	84.1	77.4	81.7
Plant and equipment under finance lease	9.8	11.7	9.8	11.7
Amortisation				
Computer software	29.5	35.2	29.0	34.9
Other intangibles	2.4	0.4	0.0	0.0
	168.9	176.4	161.8	173.3
NET LOSS ON DISPOSAL OF ASSETS				
Plant and equipment	2.1	2.4	2.0	1.8
Intangibles	0.0	0.3	0.0	0.0
	2.1	2.7	2.0	1.8
NET FOREIGN EXCHANGE LOSSES – non-speculative	0.4	0.0	0.3	0.0
WRITE-DOWN AND IMPAIRMENT OF ASSETS				
Inventory	(0.1)	3.1	(0.1)	3.1
Receivables	0.2	0.6	0.1	0.4
	0.1	3.7	0.0	3.5
OTHER EXPENSES	33.8	30.8	31.8	31.6
Total expenses	3,982.6	3,822.8	3,851.9	3,783.0

(i) Related entities – related to the Commonwealth Government.
(ii) External entities – not related to the Commonwealth Government.

04. FINANCING COSTS

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Interest expense – bonds	30.7	32.0	30.6	32.0
Interest expense – hire purchase	0.3	0.3	0.0	0.0
Unwinding of discount (note 20)	0.9	1.0	0.9	1.0
Total financing costs	31.9	33.3	31.5	33.0

05. INCOME TAX

Major components of income tax expense for the years ended 30 June 2006 and 2005 are:

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
INCOME STATEMENT				
Current income tax				
Current income tax charge	140.3	159.9	138.0	159.5
Adjustments in respect of current income tax of previous years	0.1	(1.1)	(0.9)	0.7
Deferred income tax				
Relating to origination and reversal of temporary differences	7.1	(30.3)	9.4	(29.8)
Income tax expense reported in income statement	147.5	128.5	146.5	130.4
STATEMENT OF RECOGNISED INCOME AND EXPENSE				
Deferred income tax related to items charged or credited directly to equity				
Net gain on revaluation of cash flow hedges	0.8	0.0	0.8	0.0
Net actuarial gains	140.3	3.0	140.3	3.0
Income tax expense reported in equity	141.1	3.0	141.1	3.0

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 from continuing operations	515.6	469.8	502.9	465.2
Accounting profit before income tax	515.6	469.8	502.9	465.2
At the group's statutory income tax rate of 30% (2005: 30%)	154.7	140.9	150.9	139.6
Adjustments in respect of current income tax of previous years	0.1	(1.1)	(0.9)	0.7
Investment property	0.9	(3.7)	0.9	(3.7)
Unrecognised tax losses	0.3	0.0	0.0	0.0
Expenditure not allowable for income tax purposes	1.0	1.0	1.0	1.0
Share of net profits of joint-venture entities	(9.3)	(9.0)	0.0	0.0
Dividend rebate	0.0	0.0	(6.4)	(7.6)
Sundry items	(0.2)	0.4	1.0	0.4
At effective income tax rate of 28.6% (Corp: 29.1%) (2005: 27.4%, Corp: 28.0%)	147.5	128.5	146.5	130.4
Income tax expense reported in income statement	147.5	128.5	146.5	130.4

Notes to and forming part of the financial report

For the year ended 30 June 2006

05. INCOME TAX (cont.)

	Balance sheet		Income statement	
	2006 $m	2005 $m	2006 $m	2005 $m
DEFERRED INCOME TAX				
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED				
Deferred income tax liabilities				
Accelerated depreciation for tax purposes	(29.5)	(28.7)	0.8	4.1
Superannuation asset	(405.4)	(265.1)	0.0	(28.2)
Sydney GPO lease receivable	(31.2)	(31.0)	0.2	0.0
International income	(32.9)	(21.5)	11.4	0.2
Net gain on revaluation of cash flow hedges	(0.8)	0.0	0.0	0.0
Fair value adjustments on acquisition	(2.2)	(2.7)	(0.5)	0.0
Sundry	(2.8)	(2.6)	0.2	1.6
Gross deferred income tax liabilities	(504.8)	(351.6)	12.1	(22.3)
Deferred income tax assets				
Provisions	187.0	186.5	(0.5)	(14.3)
Capital losses available for offset against future taxable income	7.5	7.5	0.0	0.0
Sydney GPO refurbishment	6.2	6.5	0.3	0.3
International expenditure	22.7	17.7	(5.0)	9.3
Government grant	4.5	5.3	0.8	(2.5)
Make good	14.4	14.7	0.3	(0.2)
Sundry	0.9	0.0	(0.9)	(0.6)
Gross deferred income tax assets	243.2	238.2	(5.0)	(8.0)
Deferred income tax benefit/(expense)			7.1	(30.3)
CORPORATION				
Deferred income tax liabilities				
Accelerated depreciation for tax purposes	(29.4)	(28.0)	1.4	3.4
Superannuation asset	(405.4)	(265.1)	0.0	(28.2)
Sydney GPO lease receivable	(31.2)	(31.0)	0.2	0.0
International income	(32.9)	(21.5)	11.4	0.2
Net gain on revaluation of cash flow hedges	(0.8)	0.0	0.0	0.0
Sundry	(2.4)	(3.2)	(0.8)	2.2
Gross deferred income tax liabilities	(502.1)	(348.8)	12.2	(22.4)
Deferred income tax assets				
Provisions	185.6	185.3	(0.3)	(13.1)
Capital losses available for offset against future taxable income	7.5	7.5	0.0	0.0
Sydney GPO refurbishment	6.2	6.5	0.3	0.3
International expenditure	22.7	17.7	(5.0)	9.3
Government grant	4.5	5.3	0.8	(2.5)
Make good	13.8	14.3	0.5	0.2
Sundry	0.1	1.0	0.9	(1.6)
Gross deferred income tax assets	240.4	237.6	(2.8)	(7.4)
Deferred income tax benefit/(expense)			9.4	(29.8)

The group has income tax losses arising in Australia of $nil (2005: $nil) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

At 30 June 2006, there is no recognised or unrecognised deferred income tax liability (2005: $nil) for taxes that would be payable on the unremitted earnings of certain of the group's subsidiaries, or joint ventures, as the group has no liability for additional taxation should such amounts be remitted.

05. INCOME TAX (cont.)

TAX CONSOLIDATION

The Australian Postal Corporation and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2004. The 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. At the balance date, 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, the 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.

06. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Goods and services receivable (1)	321.3	309.7	291.6	289.5
Provision for doubtful debts	(4.7)	(5.6)	(3.5)	(4.3)
	316.6	304.1	288.1	285.2
Proceeds receivable	0.0	14.9	0.0	14.9
Finance lease receivable (note 30 (ii))	6.5	6.5	6.5	6.5
Interest receivable	1.1	1.3	1.1	1.3
Trade receivables from controlled and joint venture entities (note 28)	3.3	1.5	5.4	3.7
Other receivables (2)	12.0	32.2	12.3	30.1
Total current receivables	339.5	360.5	313.4	341.7
Receivables (gross) are aged as follows				
Current	305.9	338.0	290.3	319.4
Overdue less than 30 days	23.4	14.7	16.4	13.9
Overdue 30–60 days	2.7	1.3	1.8	1.2
Overdue 61–90 days	0.6	0.4	0.3	0.4
Overdue more than 90 days	11.6	11.7	8.1	11.1
	344.2	366.1	316.9	346.0
The provision for doubtful debts is aged as follows				
Current	0.4	0.6	0.4	0.5
Overdue less than 30 days	0.1	0.3	0.1	0.2
Overdue 30–60 days	0.0	0.3	0.0	0.2
Overdue 61–90 days	0.0	0.0	0.0	0.0
Overdue more than 90 days	4.2	4.4	3.0	3.4
	4.7	5.6	3.5	4.3

(1) Denominated in Australian dollars, are interest free, and are on settlement terms of between 10 and 30 days.
(2) Receivables are interest-free with various maturities.

Notes to and forming part of the financial report
For the year ended 30 June 2006

07. CURRENT ASSETS – INVENTORIES (held for sale)

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Raw materials (at cost)	0.8	0.9	0.8	0.9
Work in progress (at cost)	0.6	0.6	0.6	0.6
Finished goods (at cost)	47.4	72.8	47.4	72.8
Provision for diminution of finished goods	(6.0)	(6.7)	(6.0)	(6.7)
Total current inventories at lower of cost and net realisable value	42.8	67.6	42.8	67.6

Inventory write-downs recognised as a benefit totalled $0.1 million (2005: $3.1 million expense) for the group and $0.1 million (2005: $3.1 million expense) for the corporation. This amount is included in the cost of sales line item as a cost of inventories. Refer to note 3.

08. OTHER CURRENT ASSETS

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Prepayments	52.7	48.8	50.7	47.3
Total other current assets	52.7	48.8	50.7	47.3

09. NON-CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Loans to controlled and joint-venture entities (note 28)	129.0	129.0	142.8	141.7
Finance lease receivable (note 30 (ii))	97.6	97.1	97.6	97.1
Derivative asset (note 29 (e))	3.5	0.0	3.5	0.0
Total non-current receivables	230.1	226.1	243.9	238.8

10. INVESTMENTS IN CONTROLLED ENTITIES

			Australian Postal Corporation investment amount		% of equity held by immediate parent	
	Note	Country of incorporation	2006 $m	2005 $m	2006 %	2005 %
Sprintpak Pty Ltd	(1)	Australia	1.0	1.0	100.0	100.0
Postcorp Developments Pty Ltd	(1)	Australia	0.1	0.1	100.0	100.0
Geospend Pty Ltd	(1)	Australia	1.2	1.2	100.0	100.0
corProcure Pty Ltd	(1)	Australia	0.1	0.1	100.0	100.0
Post Fulfilment Online Pty Ltd	(2)	Australia	0.0	0.0	100.0	100.0
Newco NZ Limited	(3)	New Zealand	0.0	0.0	100.0	100.0
PostLogistics Pte Ltd	(3)	Hong Kong	0.0	–	100.0	–
SnapX Pty Ltd	(1)	Australia	8.6	8.4	100.0	100.0
Decipha Pty Ltd	(2)	Australia	1.9	1.9	100.0	100.0
AP International Holdings Pty Ltd	(1)	Australia	4.0	4.0	100.0	100.0
Australia Post Transaction Services Pty Ltd	(1)	Australia	0.0	–	100.0	–
JR Haulage Pty Ltd	(2)	Australia	47.0	46.9	100.0	100.0
– Lakewood Logistics Pty Ltd	(2)	Australia	–	–	75.0	75.0
– Chainlink Computer Systems Pty Ltd	(1)	Australia	–	–	60.0	60.0
PrintSoft Holdings Pty Ltd	(2)	Australia	13.7	8.7	100.0	100.0
– PrintSoft Development Pty Ltd	(2)	Australia	–	–	100.0	–
– PrintSoft Products Pty Ltd	(2)	Australia	–	–	100.0	–
– PrintSoft Americas, Inc	(3)	USA	–	–	100.0	–
– Program Products (Services) Ltd	(3)	UK	–	–	100.0	–
– Program Products SA	(3)	France	–	–	100.0	–
– PrintSoft Systems GmbH	(3)	Germany	–	–	100.0	–
– PrintSoft Slovenska Republic SRO	(3)	Slovak Republic	–	–	68.0	–
– PrintSoft Ceska Republic SRO	(3)	Czech Republic	–	–	72.0	–
– PrintSoft Italia SRL	(3)	Italy	–	–	100.0	–
Investments in controlled entities			77.6	72.3		

(1) These entities are incorporated in Australia and are small proprietary companies that have not been audited as 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.

11. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
CARRYING AMOUNTS OF INVESTMENTS				
Balance at the beginning of the financial year	285.7	274.0	263.6	263.1
Acquisitions at cost	0.0	7.7	0.0	0.5
Share of profits for the year	31.5	30.1	0.0	0.0
Actuarial gain/(loss) on defined benefit plans	2.6	(0.4)	0.0	0.0
Share of foreign currency translation reserve	0.1	0.0	0.0	0.0
Share of hedging reserve	0.1	0.0	0.0	0.0
Dividends received/receivable	(22.3)	(25.7)	0.0	0.0
Balance at the end of the financial year	297.7	285.7	263.6	263.6

				Ownership interest	
Name	Principal activity	Country of incorporation	Balance date	2006 %	2005 %
Australian air Express Pty Ltd – ordinary shares	Express air freight	Australia	30 June	50.0	50.0
iPrint Corporate Pty Ltd – ordinary shares	Printing services	Australia	30 June	50.0	50.0
Star Track Express Holdings Pty Ltd – ordinary shares	Express freight	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
Multi Media Logistics Pty Ltd – ordinary shares (1)	Logistics services	Australia	30 June	50.0	50.0
Wetherill Park Partnership	Warehousing facilities	Australia	30 June	50.0	50.0

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

	Consolidated	
	2006 $m	2005 $m
INVESTMENTS IN JOINTLY CONTROLLED ENTITIES SHARE OF JOINTLY CONTROLLED ENTITIES' PROFITS		
Revenues	562.5	517.4
Expenses	(517.4)	(474.5)
Net profits before income tax	45.1	42.9
Income tax expense	(13.6)	(12.8)
Net profits after income tax	31.5	30.1
SHARE OF ASSETS AND LIABILITIES		
Current assets	79.4	78.7
Non-current assets	419.2	413.1
Total assets	498.6	491.8
Current liabilities	(53.4)	(58.3)
Non-current liabilities	(147.5)	(147.8)
Total liabilities	(200.9)	(206.1)
Net assets	297.7	285.7
RETAINED PROFITS OF THE CONSOLIDATED ENTITY ATTRIBUTABLE TO THE JOINTLY CONTROLLED ENTITIES		
Balance at the beginning of the financial year	18.2	11.0
Share of equity of jointly controlled entities acquired	0.0	3.2
Share of profits for the year	31.5	30.1
Actuarial gains/(losses)	2.6	(0.4)
Dividends received/receivable	(22.3)	(25.7)
Balance at the end of the financial year	30.0	18.2

The consolidated entity's share of the jointly controlled entities' commitments and contingent liabilities are included in the schedule of commitments and the schedule of contingencies respectively.

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-finance 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	
	2006 $m	2005 $m
(ii) Amount recognised in the income statement		
Current service cost	196.0	171.5
Interest cost on benefit obligation	237.3	205.8
Expected return on plan assets	(358.1)	(276.5)
Plan expenses	9.3	9.0
Contributions tax reserve	14.9	19.3
Net superannuation expense	99.4	129.1
(iii) Amount recognised in the balance sheet		
Present value of benefit obligation (wholly funded)	(4,544.9)	(4,171.0)
Fair value of plan assets	5,693.4	4,922.1
Contributions tax reserve	202.8	132.5
Net superannuation asset – non-current [(i)]	1,351.3	883.6

(i) 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.

	2006 $m	2005 $m
(iv) Reconciliations		
Changes in the present value of the defined benefit obligation are as follows		
Opening defined benefit obligation at 1 July	4,171.0	3,661.1
Interest cost	237.3	205.8
Current service cost	196.0	171.5
Benefits paid	(239.6)	(216.8)
Member contributions	56.0	45.1
Actuarial (gains)/losses on obligation	124.2	304.3
Closing defined benefit obligation at 30 June	4,544.9	4,171.0
Changes in the fair value of the plan assets are as follows		
Opening fair value of plan assets at 1 July	4,922.1	4,483.7
Expected return	358.1	276.5
Contributions by employer	99.4	35.0
Member contributions	56.0	45.1
Benefits paid	(239.6)	(216.8)
Actuarial gains/(losses)	521.7	312.7
Plan expenses	(9.3)	(9.0)
Contribution tax	(15.0)	(5.1)
Fair value of plan assets at 30 June	5,693.4	4,922.1

12. SUPERANNUATION (cont.)

(v) Categories of plan assets

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows.

	Consolidated	
	2006 %	2005 %
Public market equities	22	32
Public market debt	29	30
Real estate	24	20
Other	25	18

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 PostShops.

	2006 $m	2005 $m
(vi) Actual return on plan assets		
Actual return on plan assets	802.0	581.5
(vii) Cumulative actuarial gains and losses		
Actuarial (gains)/losses recognised in the year in the statement of recognised income and expense	(397.5)	(8.4)
Contributions tax	(70.1)	(1.5)
	(467.6)	(9.9)
Cumulative actuarial (gains)/losses recognised in the statement of recognised income and expense	(477.5)	(9.9)
(viii) Actuarial reports		
Details of the defined benefit superannuation plan as extracted from the plans' most recent financial report:		
Net market value of assets held by the APSS to meet future benefit payments	5,693.4	4,923.7
Present value of employees' accrued benefits	(4,434.6)	(3,952.5)
Excess of assets held to meet future benefit payments over the present value of employees' accrued benefits	1,258.8	971.2

Comprehensive actuarial valuations are made at no more than three-yearly intervals, and the last such assessment was made as at 30 June 2003 and the assessment as at 30 June 2006 is currently underway. The actuary to the Australia Post Superannuation Scheme is Dr AJ Goddard (FIAA, FIA) of Russell Employee Benefits Pty Ltd. Annual actuarial updates are also obtained.

The objective of the valuation and the annual actuarial update is to ensure that the benefit entitlements of employees are fully funded by the time they become payable.

The corporation reviews the contribution strategy annually. Under the trust deed, contributions are determined by the corporation on the advice of the scheme's actuary after consultation with the trustee, having regard to the assets and liabilities of the scheme. Funding recommendations made by the actuary are based on assumptions of various matters such as future salary levels, mortality rates, membership turnover and interest rates. The assumptions are shown below for 2006 and 2005. The actuary's current contribution recommendation has been made using the projected unit credit funding method, which entails contributions being paid based on the corporation's superannuation expense. The group expects on this basis to contribute approximately $73 million to its defined benefit superannuation plan in 2006/07.

(ix) Actuarial assumptions

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

	2006 %	2005 %
Discount rate after tax	4.3	5.0
Expected after tax rate of return on assets	7.4	6.4
Future salary increases	5.0	5.0

(x) *Superannuation Act 1976*

The superannuation 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 CSS liabilities for any Australia Post employees (past and present) remaining in the CSS.

13. ANALYSIS OF PROPERTY, PLANT & EQUIPMENT

Consolidated	Land $m	Buildings $m	Total land & buildings $m	Plant & equipment $m	Total $m
Reconciliation of the opening and closing balances of property, plant & equipment					
Gross book value	162.7	848.7	1,011.4	1,126.0	2,137.4
Accumulated depreciation	0.0	(306.0)	(306.0)	(581.0)	(887.0)
Net book value at 30 June 2004	162.7	542.7	705.4	545.0	1,250.4
Additions	6.0	51.5	57.5	67.7	125.2
Additions through acquisition of subsidiary	0.0	0.7	0.7	9.1	9.8
Depreciation	0.0	(45.0)	(45.0)	(95.8)	(140.8)
Disposals	(3.6)	(3.1)	(6.7)	(10.2)	(16.9)
Transfers to investment properties	(1.0)	(2.4)	(3.4)	0.0	(3.4)
Gross book value	164.1	888.6	1,052.7	1,155.1	2,207.8
Accumulated depreciation	0.0	(344.2)	(344.2)	(639.3)	(983.5)
Net book value at 30 June 2005 (i)	164.1	544.4	708.5	515.8	1,224.3
Additions	27.4	52.5	79.9	97.1	177.0
Additions through acquisition of subsidiary	0.0	0.0	0.0	0.6	0.6
Depreciation	0.0	(45.6)	(45.6)	(91.4)	(137.0)
Disposals	(0.4)	(0.3)	(0.7)	(9.7)	(10.4)
Transfers to investment property	(1.0)	(1.2)	(2.2)	0.0	(2.2)
Gross book value	190.1	911.5	1,101.6	1,191.0	2,292.6
Accumulated depreciation	0.0	(361.7)	(361.7)	(678.6)	(1,040.3)
Net book value at 30 June 2006 (i)	190.1	549.8	739.9	512.4	1,252.3

(i) Were the entity to apply the fair value methodology, the net book value of land and buildings would be $1,303.4 million (2005: $1,175.7 million).

	Land $m	Buildings $m	Total land & buildings $m	Plant & equipment $m	Total $m
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 2004	0.0	0.0	0.0	98.5	98.5
Accumulated amortisation	0.0	0.0	0.0	(11.7)	(11.7)
As at 30 June 2005	0.0	0.0	0.0	86.8	86.8
Accumulated amortisation	0.0	0.0	0.0	(9.8)	(9.8)
As at 30 June 2006	0.0	0.0	0.0	77.0	77.0
Property, plant & equipment under construction included in the net book value of assets					
Gross value at 30 June 2006	0.0	13.5	13.5	16.7	30.2
Gross value at 30 June 2005	0.0	43.6	43.6	5.0	48.6
Gross value at 30 June 2004	0.0	21.9	21.9	8.4	30.3

13. ANALYSIS OF PROPERTY, PLANT & EQUIPMENT (cont.)

Corporation	Land $m	Buildings $m	Total land & buildings $m	Plant & equipment $m	Total $m
Reconciliation of the opening and closing balances of property, plant & equipment					
Gross book value	162.7	848.5	1,011.2	1,119.5	2,130.7
Accumulated depreciation	0.0	(306.0)	(306.0)	(579.4)	(885.4)
Net book value at 30 June 2004	162.7	542.5	705.2	540.1	1,245.3
Additions	6.0	51.2	57.2	66.2	123.4
Depreciation	0.0	(45.0)	(45.0)	(93.4)	(138.4)
Disposals	(3.6)	(3.1)	(6.7)	(9.7)	(16.4)
Transfers to investment properties	(1.0)	(2.4)	(3.4)	0.0	(3.4)
Gross book value	164.1	887.4	1,051.5	1,138.0	2,189.5
Accumulated depreciation	0.0	(344.2)	(344.2)	(634.8)	(979.0)
Net book value at 30 June 2005 (i)	164.1	543.2	707.3	503.2	1,210.5
Additions	27.4	52.2	79.6	93.4	173.0
Depreciation	0.0	(45.6)	(45.6)	(87.2)	(132.8)
Disposals	(0.4)	(0.2)	(0.6)	(9.4)	(10.0)
Transfers to investment properties	(1.0)	(1.2)	(2.2)	0.0	(2.2)
Gross book value	190.1	910.2	1,100.3	1,169.6	2,269.9
Accumulated depreciation	0.0	(361.8)	(361.8)	(669.6)	(1,031.4)
Net book value at 30 June 2006 (i)	190.1	548.4	738.5	500.0	1,238.5

(i) Were the entity to apply the fair value methodology, the net book value of land and buildings would be $1,302.0 million (2005: $1,174.5 million).

	Land $m	Buildings $m	Total land & buildings $m	Plant & equipment $m	Total $m
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 2004	0.0	0.0	0.0	98.5	98.5
Depreciation	0.0	0.0	0.0	(11.7)	(11.7)
As at 30 June 2005	0.0	0.0	0.0	86.8	86.8
Depreciation	0.0	0.0	0.0	(9.8)	(9.8)
As at 30 June 2006	0.0	0.0	0.0	77.0	77.0
Property, plant & equipment under construction included in the net book value of assets					
Gross value at 30 June 2006	0.0	13.5	13.5	16.7	30.2
Gross value at 30 June 2005	0.0	43.6	43.6	5.0	48.6
Gross value at 30 June 2004	0.0	21.9	21.9	8.4	30.3

14. ANALYSIS OF INTANGIBLES

Consolidated	Computer software $m	Goodwill $m	Other intangibles $m	Total intangibles $m
Reconciliation of the opening and closing balances of intangibles				
Gross book value	434.9	1.9	0.0	436.8
Accumulated depreciation/amortisation	(364.8)	0.0	0.0	(364.8)
Net book value as at 30 June 2004	70.1	1.9	0.0	72.0
Additions by purchase	35.0	0.0	0.0	35.0
Additions through acquisition of entity	0.0	45.3	9.8	55.1
Depreciation/amortisation expense	(35.2)	0.0	(0.4)	(35.6)
Disposals	(0.3)	0.0	0.0	(0.3)
Gross book value	462.2	47.2	9.8	519.2
Accumulated depreciation/amortisation	(392.6)	0.0	(0.4)	(393.0)
Net book value as at 30 June 2005	69.6	47.2	9.4	126.2
Additions by purchase	50.9	0.0	1.1	52.0
Additions through acquisition of entity [(i)]	0.0	8.9	1.2	10.1
Depreciation/amortisation expense	(29.5)	0.0	(2.4)	(31.9)
Disposals	(0.9)	0.0	0.0	(0.9)
Gross book value	509.6	56.1	12.1	577.8
Accumulated depreciation/amortisation	(419.5)	0.0	(2.8)	(422.3)
Net book value as at 30 June 2006	90.1	56.1	9.3	155.5

(i) Included in the goodwill amount is $0.4 million relating to acquisition costs associated with acquisitions that occurred in 2005.

Intangibles under construction included in the net book value of assets				
Gross value at 30 June 2006	31.9	0.0	0.0	31.9
Gross value at 30 June 2005	21.9	0.0	0.0	21.9
Gross value at 30 June 2004	6.9	0.0	0.0	6.9

Corporation	Computer software $m	Goodwill $m	Other intangibles $m	Total intangibles $m
Reconciliation of the opening and closing balances of intangibles				
Gross book value	433.4	1.9	0.0	435.3
Accumulated depreciation/amortisation	(364.6)	0.0	0.0	(364.6)
Net book value as at 30 June 2004	68.8	1.9	0.0	70.7
Additions by purchase	34.5	0.0	0.0	34.5
Depreciation/amortisation expense	(34.9)	0.0	0.0	(34.9)
Gross book value	460.5	1.9	0.0	462.4
Accumulated depreciation/amortisation	(392.1)	0.0	0.0	(392.1)
Net book value as at 30 June 2005	68.4	1.9	0.0	70.3
Additions by purchase	50.8	0.0	0.0	50.8
Depreciation/amortisation expense	(29.0)	0.0	0.0	(29.0)
Disposals	(0.9)	0.0	0.0	(0.9)
Gross book value	507.8	1.9	0.0	509.7
Accumulated depreciation/amortisation	(418.5)	0.0	0.0	(418.5)
Net book value as at 30 June 2006	89.3	1.9	0.0	91.2
Intangibles under construction included in the net book value of assets				
Gross value at 30 June 2006	31.9	0.0	0.0	31.9
Gross value at 30 June 2005	21.9	0.0	0.0	21.9
Gross value at 30 June 2004	6.9	0.0	0.0	6.9

As from 1 July 2004, goodwill is no longer amortised but is subject to annual impairment testing (refer note 16).

15. INVESTMENT PROPERTIES

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Opening balance as at 1 July	89.8	73.8	89.8	73.8
Additions	0.3	0.3	0.3	0.3
Transfer to investment property	2.2	3.4	2.2	3.4
Disposals	(0.5)	0.0	(0.5)	0.0
Net gain from fair value adjustments	3.8	12.3	3.8	12.3
Closing balance as at 30 June	95.6	89.8	95.6	89.8

Investment properties are stated at fair value, which has been determined based on valuations performed by Chesterton International (Qld) Pty Ltd for all property in Queensland and Savills Pty Ltd for all remaining property as at 30 June 2006 and 30 June 2005. 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.

16. IMPAIRMENT TESTING OF GOODWILL

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Goodwill acquired through business combinations has been allocated to individual cash generating units as follows:				
JR Haulage	37.8	37.5	0.0	0.0
Messenger Post	9.8	9.7	1.9	1.9
The PrintSoft Group	8.5	0.0	0.0	0.0
	56.1	47.2	1.9	1.9

The recoverable amount of all goodwill has been determined based on a value in use calculation using cash flow 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. Revenue growth rates applied by all cash generating units to the two year period outside the corporate plan are 4.5%. After this period a 2.5% revenue growth rate is applied. A pre-tax discount rate applicable to the specific cash generating unit has been applied. These rates are between 9.0% and 11.0%.

17. OTHER FINANCIAL ASSETS

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Prepayments	3.9	4.0	3.9	4.0
Other receivables	1.0	1.0	1.0	1.0
Total other financial assets	4.9	5.0	4.9	5.0

18. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Trade creditors (i)	264.5	249.2	256.4	242.3
OTHER				
Agency creditors (i)	212.8	189.1	212.8	189.1
Salaries and wages	33.0	28.3	32.4	27.4
Borrowing costs (ii)	7.7	8.0	7.7	8.0
Unearned postage revenue	55.4	55.2	55.3	55.2
Other advance receipts	64.2	56.8	61.6	56.7
Deferred government grant income	15.1	17.7	15.1	17.7
Payables to controlled and joint-venture entities (note 28)	10.0	10.2	10.0	10.7
Other payables	33.1	26.6	27.5	29.6
	431.3	391.9	422.4	394.4
Total current payables	695.8	641.1	678.8	636.7

(i) Trade creditors and agency creditors are non-interest bearing and normally settled on 30-day and next business day terms respectively.
(ii) Borrowing costs are normally settled on a half-yearly basis throughout the financial year.

19. INTEREST-BEARING LOANS AND BORROWINGS

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
CURRENT				
Fixed-rate unsecured bonds payable – within one year	229.1	0.0	229.1	0.0
Interest rate swaps – within one year	1.1	0.0	1.1	0.0
Finance lease and hire purchase liabilities payable – within one year	1.1	1.5	0.0	0.0
Total current interest-bearing liabilities	231.3	1.5	230.2	0.0
NON-CURRENT				
Fixed-rate unsecured bonds payable – in one to five years	298.8	530.0	298.8	530.0
Interest rate swaps – in one to five years	2.3	0.0	2.3	0.0
Finance lease and hire purchase liabilities payable – in one to five years	1.6	1.8	0.0	0.0
Total non-current interest-bearing liabilities	302.7	531.8	301.1	530.0

Effective interest rate between 5.6% and 6.0% (2005: 5.5% and 6.1%).

Fair value disclosures

Details of the fair value of the group's interest-bearing liabilities are set out in note 29.

$530 million bonds

These bonds are unsecured and repayable in full, with $230 million due on 23 March 2007 and the remaining $300 million maturing on 25 March 2009.

Interest rate swaps

At 30 June 2006, the corporation had interest rate swap agreements in place with a notional amount of $530 million whereby it receives a fixed rate of interest of 5.5% on the $230 million tranche and 6.0% on the $300 million tranche and pays a variable rate equal to the six-monthly BBSW on the notional amount. The swaps are being used to hedge the exposure to changes in the fair value of the $530 million bonds. The bonds and the interest rate swaps have the same critical terms.

20. PROVISIONS

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
CURRENT PROVISIONS				
Annual leave	174.3	172.5	171.3	170.3
Long-service leave	31.1	34.4	30.4	34.0
Workers' compensation	31.2	24.9	31.2	24.9
Separations and redundancies	6.0	18.5	6.0	18.4
Other employee	23.0	24.8	22.1	24.6
Balance at 30 June 2006	265.6	275.1	261.0	272.2
NON-CURRENT PROVISIONS				
Long-service leave	259.6	236.2	258.3	235.5
Workers' compensation	89.5	98.6	89.5	98.6
Make good [(i)]	48.0	49.4	46.0	47.5
Balance at 30 June 2006	397.1	384.2	393.8	381.6
Total provisions	662.7	659.3	654.8	653.8

(i) 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 dependent on the nature of the building being leased.

Movements in provisions

Movements in the make good provision during the financial year are set out below.

	Consolidated	Corporation
	2006 $m	2006 $m
Balance at 1 July 2005	49.4	47.5
Amount recognised	1.2	1.2
Amount capitalised	0.3	0.2
Unused amount reversed	(2.3)	(2.3)
Payments made	(1.5)	(1.5)
Discount rate adjustment	0.9	0.9
Balance at 30 June 2006	48.0	46.0

21. NON-CURRENT LIABILITIES – PAYABLES

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Deferred interest	0.3	0.4	0.3	0.4
Loans from controlled entities (note 28)	0.0	0.0	1.2	1.7
Other payables	4.8	4.1	0.0	0.0
Total non-current payables	5.1	4.5	1.5	2.1

22. ANALYSIS OF TOTAL EQUITY

Consolidated	Total reserves (note 23) $m	Contributed equity $m	Retained profits $m	Minority interest $m	Total equity $m
Balance at 1 July 2004	–	400.0	1,465.0	–	1,865.0
Operating profit	–	–	341.3	–	341.3
Net actuarial gains and (losses)	–	–	6.9	–	6.9
Joint venture actuarial gains and (losses)	–	–	(0.4)	–	(0.4)
Dividends (note 24)	–	–	(241.7)	–	(241.7)
Balance at 30 June 2005	0.0	400.0	1,571.1	0.0	1,971.1
Adjustment on adoption of new accounting standards relating to financial instruments	2.8	–	(1.0)	–	1.8
Tax effect on adoption of new accounting standards relating to financial instruments	(0.6)	–	–	–	(0.6)
Operating profit	–	–	367.9	0.2	368.1
Translation differences on group operations	0.1	–	–	–	0.1
Net actuarial gains and (losses)	–	–	327.4	–	327.4
Joint venture actuarial gains and (losses)	–	–	2.6	–	2.6
Minority interest acquired	–	–	–	0.2	0.2
Movement in joint venture reserves	(0.7)	–	–	–	(0.7)
Revaluation – gross	1.0	–	–	–	1.0
Deferred tax	(0.3)	–	–	–	(0.3)
Transfer to net profit – gross	(0.3)	–	–	–	(0.3)
Deferred tax	0.1	–	–	–	0.1
Dividends (note 24)	–	–	(282.5)	–	(282.5)
Balance at 30 June 2006	2.1	400.0	1,985.5	0.4	2,388.0

Corporation	Total reserves (note 23) $m	Contributed equity $m	Retained profits $m	Minority interest $m	Total equity $m
Balance at 1 July 2004	–	400.0	1,459.5	–	1,859.5
Operating profit	–	–	334.8	–	334.8
Net actuarial gains and (losses)	–	–	6.9	–	6.9
Dividends (note 24)	–	–	(241.7)	–	(241.7)
Balance at 30 June 2005	0.0	400.0	1,559.5	0.0	1,959.5
Adjustment on adoption of new accounting standards relating to financial instruments	2.0	–	(1.0)	–	1.0
Tax effect on adoption of new accounting standards relating to financial instruments	(0.6)	–	–	–	(0.6)
Operating profit	–	–	356.4	–	356.4
Net actuarial gains and (losses)	–	–	327.4	–	327.4
Revaluation – gross	1.0	–	–	–	1.0
Deferred tax	(0.3)	–	–	–	(0.3)
Transfer to net profit – gross	(0.3)	–	–	–	(0.3)
Deferred tax	0.1	–	–	–	0.1
Dividends (note 24)	–	–	(282.5)	–	(282.5)
Balance at 30 June 2006	1.9	400.0	1,959.8	0.0	2,361.7

23. ANALYSIS OF RESERVES

Consolidated	Foreign currency translation reserve (1) $m	Hedging reserve (2) $m	Total reserves $m
Balance at 1 July 2004	–	–	0.0
Net revaluation increase	–	–	0.0
Transfer	–	–	0.0
Balance at 30 June 2005	0.0	0.0	0.0
Adjustment on adoption of new accounting standards relating to financial instruments	–	2.8	2.8
Tax effect on adoption of new accounting standards relating to financial instruments	–	(0.6)	(0.6)
Translation differences on group operations	0.1	–	0.1
Movement in joint venture reserves	–	(0.7)	(0.7)
Revaluation – gross	–	1.0	1.0
Deferred tax	–	(0.3)	(0.3)
Transfer to net profit – gross	–	(0.3)	(0.3)
Deferred tax	–	0.1	0.1
Balance at 30 June 2006	0.1	2.0	2.1

Corporation	Foreign currency translation reserve (1) $m	Hedging reserve (2) $m	Total reserves $m
Balance at 1 July 2004	–	–	0.0
Net revaluation increase	–	–	0.0
Transfer	–	–	0.0
Balance at 30 June 2005	0.0	0.0	0.0
Adjustment on adoption of new accounting standards relating to financial instruments	–	2.0	2.0
Tax effect on adoption of new accounting standards relating to financial instruments	–	(0.6)	(0.6)
Revaluation – gross	–	1.0	1.0
Deferred tax	–	(0.3)	(0.3)
Transfer to net profit – gross	–	(0.3)	(0.3)
Deferred tax	–	0.1	0.1
Balance at 30 June 2006	0.0	1.9	1.9

(1) The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.
(2) This reserve records the portion of the gain or loss on a cash flow hedge that is determined to be effective.

24. DIVIDENDS PAID

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Final ordinary dividend (from prior year results)	156.0	111.5	156.0	111.5
Interim ordinary dividend	126.5	130.2	126.5	130.2
Total dividends paid	282.5	241.7	282.5	241.7
Dividend not recognised as a liability (note 35)	140.8	156.0	140.8	156.0

25. AUDITOR'S REMUNERATION

	Consolidated 2006 $	Consolidated 2005 $	Corporation 2006 $	Corporation 2005 $
Amounts received or due and receivable by the corporation's auditors [(1)] for:				
• an audit or review of the financial report of the entity and any other entity in the consolidated entity	1,183,000	1,103,500	1,071,000	992,000
• other services in relation to the entity and any other entity in the consolidated entity				
– assurance related	130,000	143,300	130,000	143,300
– special audits required by regulators	165,000	60,000	165,000	60,000
– other.	–	25,000	–	25,000
Total auditor's remuneration	1,478,000	1,331,800	1,366,000	1,220,300

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

26. SEGMENT INFORMATION

The group's primary segment reporting format is business segments as the group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary segment information is reported geographically.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

The following represent the segments the group operates in.

Letters

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

Parcels and logistics

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

Retail and agency services

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

Other and unallocated

Includes other non-product services, none of which constitutes separately reportable segments, and unallocated items.

26. SEGMENT INFORMATION (cont.)

Business segments

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2006 and 30 June 2005.

2006	Letters $m	Parcels & logistics $m	Retail and agency services $m	Other and unallocated $m	Total $m
REVENUE					
Revenue and other income	2,634.8	1,095.8	670.6	63.4	4,464.6
Inter-segment sales	–	–	–	–	0.0
Total segment revenue	2,634.8	1,095.8	670.6	63.4	4,464.6
Interest revenue					34.0
Consolidated revenue					4,498.6
RESULT					
Segment result	174.6	189.5	85.8	32.1	482.0
Share of net profits of equity-accounted joint-venture entities	–	31.0	–	0.5	31.5
Profit before interest and income tax expense	174.6	220.5	85.8	32.6	513.5
Income tax expense					(147.5)
Net interest					2.1
Net profit for period					368.1
ASSETS					
Segment assets	1,237.0	721.0	426.2	774.4	3,158.6
Superannuation asset				1,351.3	1,351.3
Investments in joint ventures	–	296.2	–	1.5	297.7
Total assets	1,237.0	1,017.2	426.2	2,127.2	4,807.6
LIABILITIES					
Segment liabilities	793.1	229.8	329.2	1,067.5	2,419.6
Acquisitions of PP&E and intangible assets	163.9	51.5	24.1	0.2	239.7
Depreciation and amortisation expense	110.7	40.1	16.5	1.6	168.9
Change in value of investment properties	–	–	–	(3.8)	(3.8)
Other non-cash expenses	110.7	40.1	16.5	(2.2)	165.1

26. SEGMENT INFORMATION (cont.)

2005	Letters $m	Parcels & logistics $m	Retail and agency services $m	Other and unallocated $m	Total $m
REVENUE					
Revenue and other income	2,566.6	923.9	678.5	96.9	4,265.9
Inter-segment sales	–	–	–	–	–
Total segment revenue	2,566.6	923.9	678.5	96.9	4,265.9
Interest revenue					29.9
Consolidated revenue					4,295.8
RESULT					
Segment result	158.0	148.3	73.3	63.5	443.1
Share of net profits of equity-accounted joint-venture entities	–	29.4	–	0.7	30.1
Profit before interest and income tax expense	158.0	177.7	73.3	64.2	473.2
Income tax expense					(128.5)
Net interest					(3.4)
Net profit for period					341.3
ASSETS					
Segment assets	1,201.2	667.1	437.0	718.1	3,023.4
Superannuation asset				883.6	883.6
Investments in joint ventures	–	284.8	–	0.9	285.7
Total assets	1,201.2	951.9	437.0	1,602.6	4,192.7
LIABILITIES					
Segment liabilities	762.1	210.3	314.0	935.2	2,221.6
Acquisitions of PP&E and intangible assets	103.4	99.5	17.0	1.6	221.5
Depreciation and amortisation expense	115.6	39.5	19.6	1.7	176.4
Change in value of investment properties	–	–	–	(12.3)	(12.3)
Other non-cash expenses	115.6	39.5	19.6	(10.6)	164.1

Geographical segments

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

Accounting policies

Segment accounting policies are the same as described in note 1.

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.

Use of fair value accounting

As outlined in note 1 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.

	2006 $m	2005 $m
Letters	1,555.3	1,450.2
Parcels and logistics	1,097.7	1,013.0
Retail and agency services	494.3	509.1
Other and unallocated	2,223.8	1,687.6
Total	5,371.1	4,659.9

27. DIRECTORS' AND EXECUTIVES' REMUNERATION AND RETIREMENT BENEFITS

(a) DETAILS OF KEY MANAGEMENT PERSONNEL

(i) Directors

Linda Nicholls	Chairman (non-executive)
David Mortimer	Deputy Chairman (non-executive)
Graeme John	Managing Director
Mark Birrell	Director (non-executive)
Margaret Gibson	Director (non-executive)
Peter McLaughlin	Director (non-executive)
Sandra McPhee	Director (non-executive)
Thomas Phillips	Director (non-executive) – appointed 23 November 2005
Edward Tweddell	Director (non-executive) – deceased 4 August 2005
Ian Warner	Director (non-executive)

(ii) Executives

Alec Ceselli	Post Logistics General Manager
Mark Howard	General Manager, Corporate Infrastructure Services Division
James Marshall	General Manager, Mail & Networks Division
Rodney McDonald	Group Manager, Human Resources
Peter Meehan	Chief Finance Officer
Bill Mitchell	General Manager, Commercial Division

(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. The Board Human Resources Committee is responsible for reviewing and recommending to the board the compensation arrangements for the managing director. These arrangements are then implemented in accordance with compensation policy and procedural arrangements approved by the Remuneration Tribunal. Further information relating to the corporation's compensation policies is contained in the corporation's Corporate Governance Statement.

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, incorporated into directors' remuneration). Compensation arrangements for senior executives are reviewed by the managing director. 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. Further information relating to the corporation's executive compensation policies is contained in the corporation's Corporate Governance Statement.

(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.

(d) COMPENSATION OF KEY MANAGEMENT PERSONNEL BY CATEGORY

	Consolidated		Corporation	
	2006 $	2005 $	2006 $	2005 $
Short term	6,346,835	5,911,592	6,346,835	5,911,592
Post employment	849,903	768,597	849,903	768,597
Other long term	214,399	284,846	214,399	284,846
Termination benefits	–	440,621	–	440,621
	7,411,137	7,405,656	7,411,137	7,405,656

27. DIRECTORS' AND EXECUTIVES' REMUNERATION AND RETIREMENT BENEFITS (cont.)

(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 2006 ($)	Short term			Post employment benefits	Other long term	Termination benefits	Total
	Cash salary (1)	Cash bonus	Non-monetary benefits (2)	Superannuation benefits (3)	Long-service leave	Termination	
DIRECTORS							
Linda Nicholls	135,330	–	51,218	19,352	–	–	205,900
David Mortimer	91,098	–	–	13,027	–	–	104,125
Graeme John	1,159,034	788,239	25,274	273,296	50,475	–	2,296,318
Mark Birrell	67,670	–	–	9,677	–	–	77,347
Margaret Gibson	75,478	–	2,017	10,793	–	–	88,288
Peter McLaughlin	67,670	–	–	9,677	–	–	77,347
Sandra McPhee	75,478	–	–	10,793	–	–	86,271
Thomas Phillips	40,602	–	–	5,806	–	–	46,408
Edward Tweddell	7,238	–	–	1,035	–	–	8,273
Ian Warner	67,670	–	3,048	9,677	–	–	80,395
	1,787,268	788,239	81,557	363,133	50,475	–	3,070,672
EXECUTIVES							
Alec Ceselli	326,754	105,211	23,938	59,476	11,010	–	526,389
Mark Howard	353,011	201,278	11,734	78,468	12,437	–	656,928
James Marshall	481,057	264,537	6,591	103,002	51,917	–	907,104
Rodney McDonald	307,609	172,524	25,312	67,207	17,812	–	590,464
Peter Meehan	407,008	228,563	30,407	89,130	13,769	–	768,877
Bill Mitchell	408,596	230,032	105,609	89,487	56,979	–	890,703
	2,284,035	1,202,145	203,591	486,770	163,924	–	4,340,465
Total key management personnel	4,071,303	1,990,384	285,148	849,903	214,399	–	7,411,137

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

(2) Non-monetary benefits include spouse travel, motor vehicles, accommodation assistance and other expenses paid on behalf of the directors and executives.

(3) The above amount for superannuation reflects the benefit to be received by the directors and executives (calculated at 14.3% of the directors' and executives' salary for superannuation purposes).

27. DIRECTORS' AND EXECUTIVES' REMUNERATION AND RETIREMENT BENEFITS (cont.)

Year ended 30 June 2005 ($)	Short term			Post employment benefits	Other long term	Termination benefits	Total
	Cash salary (1)	Cash bonus	Non-monetary benefits (2)	Superannuation benefits (3)	Long-service leave	Termination	
DIRECTORS							
Linda Nicholls	130,000	–	81,228	18,590	–	–	229,818
David Mortimer	87,500	–	–	12,513	–	–	100,013
Graeme John	1,108,740	739,000	43,833	256,299	53,145	–	2,201,017
Mark Birrell	65,000	–	–	9,295	–	–	74,295
Margaret Gibson	59,986	–	2,629	8,578	–	–	71,193
Peter McLaughlin	65,000	–	–	9,295	–	–	74,295
Sandra McPhee	72,500	–	–	10,368	–	–	82,868
Edward Tweddell	72,500	–	–	10,368	–	–	82,868
Ian Warner	53,781	–	–	7,691	–	–	61,472
	1,715,007	739,000	127,690	342,997	53,145	–	2,977,839
EXECUTIVES							
Alec Ceselli	320,680	95,452	25,067	56,064	17,500	–	514,763
Robert Finch	128,562	–	97,746	16,913	–	440,621	683,842
Mark Howard	308,108	148,274	14,855	66,596	10,540	–	548,373
James Marshall	434,549	188,658	12,129	85,062	45,500	–	765,898
Rodney McDonald	276,193	123,117	19,902	55,791	17,906	–	492,909
Peter Meehan	373,292	165,569	30,027	78,021	12,609	–	659,518
Bill Mitchell	363,866	148,178	55,671	67,153	127,646	–	762,514
	2,205,250	869,248	255,397	425,600	231,701	440,621	4,427,817
Total key management personnel	3,920,257	1,608,248	383,087	768,597	284,846	440,621	7,405,656

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

(2) Non-monetary benefits include spouse travel, motor vehicles, accommodation assistance and other expenses paid on behalf of the directors and executives.

(3) The above amount for superannuation reflects the benefit to be received by the directors and executives (calculated at 14.3% of the directors' and executives' salary for superannuation purposes).

28. RELATED PARTIES

The consolidated financial statements include the financial statements of the 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 27.

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year end, refer to notes 6, 9, 18 and 21).

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
OTHER TRANSACTIONS WITH RELATED PARTIES				
Payments for collection and delivery services				
Joint-venture entities	43.5	42.1	43.5	42.1
Controlled entities	–	–	–	–
Payments for management and administrative services				
Joint-venture entities	39.2	39.1	39.2	39.1
Controlled entities	–	–	26.6	24.1
Payments for accommodation				
Joint-venture entities	2.1	2.0	2.1	2.0
Revenue from collection and delivery services				
Joint-venture entities	13.4	11.3	13.4	11.3
Controlled entities	–	–	15.6	3.4
Revenue from administrative services				
Joint-venture entities	25.1	10.8	11.6	10.8
Controlled entities	–	–	0.2	0.2
Dividends received or receivable (note 2)				
Joint-venture entities	–	–	21.8	25.7
Interest received				
Joint-venture entities	10.3	10.3	10.3	10.3
Controlled entities	–	–	0.7	0.6
AGGREGATE AMOUNTS RECEIVABLE FROM AND PAYABLE TO OTHER RELATED PARTIES AT BALANCE DATE				
Current receivables				
Joint-venture entities	3.3	1.5	1.4	1.5
Controlled entities	–	–	4.0	2.2
Current payables				
Joint-venture entities	10.0	10.2	10.0	10.2
Controlled entities	–	–	–	10.7
Loans advanced to				
Joint-venture entities	129.0	129.0	129.0	129.0
Controlled entities	–	–	13.8	12.7
Loans advanced from				
Controlled entities	–	–	1.2	1.7

All transactions with other related parties are made in arm's-length transactions both at normal market prices and on normal commercial terms. Transactions entered into directly by directors or director-related entities with the Australian Postal Corporation have been either domestic or trivial in nature. Outstanding balances at year-end are unsecured and interest free and settlement occurs in cash.

For the year ended 30 June 2006, the group has not made any allowance for doubtful debts relating to amounts owed by related parties (2005: $nil). 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.

A number of directors of the Australian Postal Corporation are also directors of other entities that have transacted with the Australian Postal Corporation Group. One of these entities, PricewaterhouseCoopers is considered to be a director-related entity of Margaret Gibson. PricewaterhouseCoopers provided services totalling $1.8 million (2005: $1.9 million) to the group during the financial year. These transactions have occurred on terms and conditions no more favourable than those that it is reasonable to expect the group would have adopted if dealing at arm's length with any third party.

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.

29. FINANCIAL INSTRUMENTS

(a) TRANSITION TO AASB 132 AND AASB 139

The group has taken the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards on 1 July 2005:

For the group

A pre-tax net adjustment of $1.8 million increase in net assets was recognised representing:

- the fair value of the interest-rate swap of $5.3 million taken to the derivative asset and $6.3 million to the underlying bonds
- a $2.0 million increase on the re-measurement of hedged fuel contracts taken to the hedge reserve
- $0.8 million (corporation's share) taken to the hedge reserve on the fair value of fuel hedges for a jointly controlled entity.

For the parent entity

A pre-tax net adjustment of $1.0 million increase in net assets was recognised representing:

- the fair value of the interest rate swap of $5.3 million taken to the derivative asset and the fair value of $6.3 million to the underlying bonds
- a $2.0 million increase on the re-measurement of hedged fuel contracts taken to the hedge reserve.

For further information refer to note 1(l).

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's principal financial instruments, other than derivatives, comprise 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 statements.

(c) DERIVATIVE INSTRUMENTS

The corporation is a party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates, foreign exchange rates and commodity prices. Reference should also be made to note 1(l) relating to derivative financial instruments.

FORWARD EXCHANGE CONTRACTS AND COMMODITY CONTRACTS

With respect to capital equipment sourced internationally, the corporation may enter into forward exchange contracts to purchase United States dollars (USD) and euros (EUR). The contracts are timed to mature when major shipments of equipment are scheduled for delivery and payment.

With respect to international trading transactions, the corporation may enter into forward exchange contracts to sell New Zealand dollars (NZD). The contracts are timed to mature when accumulated receipts have reached a predetermined level.

Exposure to commodity and currency prices arise through the corporation's use of fuel. The corporation has entered into commodity swap contracts to hedge commodity and foreign exchange exposures arising from its consumption of fuel. The contracts are timed to mature on a monthly basis.

Trading exposures arise as a result of obligations with overseas postal administrations and are invoiced in Special Drawing Rights (SDR) and settled in EUR and USD. The SDR is a basket currency composed of fixed quantities of the four major traded currencies (USD, Yen, EUR and Pounds Sterling). The composition of the basket is set by the International Monetary Fund.

In the following table the "Buy" amounts represent the Australian dollar (AUD) equivalent of commitments to purchase foreign currencies, and the "Sell" amounts represent the AUD equivalent of commitments to sell foreign currencies.

At balance date, the details of outstanding forward exchange and swap contracts are as follows.

	2006		2005	
Currency	Average exchange rate	AUD $m	Average exchange rate	AUD $m
BUY USD				
0–6 months	–	–	0.7309	1.7
BUY EUR				
0–6 months	–	–	0.5868	0.1
SELL NZD				
0–6 months	–	–	1.0841	5.5

Amounts disclosed above represent currency bought or sold measured at the AUD equivalent contracted rate.

29. FINANCIAL INSTRUMENTS (cont.)

	2006		2005	
Commodity	Average price (A$)	AUD $m	Average price (A$)	AUD $m
BUY OIL				
Swap contracts				
0–6 months	98.45	8.2	81.17	7.2
7–24 months	98.45	8.2	84.33	8.6

Swap contracts are transacted in AUD.

All forward exchange and swap contracts are entered into on the basis of known or projected exposures. Australia Post has elected to adopt cash flow hedge accounting in respect of its commodity hedging activities. Consequently any gains and losses on the contracts, together with the cost of the contracts, are deferred and will be recognised in the measurement of the underlying transaction. The group adjusts the initial measurement of the component recognised in the balance sheet by the related amount deferred in equity.

INTEREST RATE SWAPS

All interest-swap contracts are entered into on the basis of known borrowing obligations. As these contracts are utilised to hedge against the impact of movements in market interest rates, any gains or losses on the contracts are accounted for on the same basis as the underlying borrowing exposures being hedged.

The gain or loss from remeasuring the hedging instrument at fair value is recorded in earnings to the extent that the hedge is effective and the carrying amount of the borrowing is adjusted by the gain or loss attributable to the hedged risk.

(d) CREDIT RISK EXPOSURES

The credit risk on financial assets of the corporation which have been recognised in the balance sheet is generally the carrying amount, net of any provisions for doubtful debts.

For financial instruments, including derivatives, credit risk also arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. Counterparties are entities of at least “investment grade” as rated by Standard & Poor’s (Australia). A material exposure may arise from financial instruments and the corporation may become exposed to loss in the event that counterparties fail to deliver the contracted amount. The corporation does not have a significant exposure to any individual counterparty. At balance date the following amounts represent the credit exposures.

AUD equivalents	2006 $m	2005 $m
Foreign exchange contracts	0.0	0.4
Commodity swap contracts	4.5	3.0
Interest rate swap contracts	17.0	24.0
	21.5	27.4

It is the group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, with the result that the group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the group.

With respect to credit risk arising from the other financial assets of the group, which comprise cash and cash equivalents, held-to-maturity financial assets and certain derivative instruments, the group’s exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Since the group trades only with reputable third parties, there is no requirement for collateral.

29. FINANCIAL INSTRUMENTS (cont.)

(e) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities approximates their carrying value.

The fair value of other monetary financial assets and financial liabilities is based on market prices (where a market exists) or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Cash and bank account balances are omitted as their balances approximate fair value.

The carrying amounts and fair values of financial assets and liabilities at balance date are as follows.

	2006		2005	
	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
ON BALANCE SHEET				
Financial assets				
Floating rate notes and promissory notes	239.1	239.1	207.7	207.7
Loan to joint venture entity	129.0	127.4	129.0	132.7
Currency and commodity contracts	3.5	3.5	–	–
	371.6	370.0	336.7	340.4
Financial liabilities				
Debt	(527.9)	(527.9)	(530.0)	(536.3)
Interest-rate swaps	(3.4)	(3.4)	0.0	0.0
Other debt	(2.7)	(2.7)	(3.3)	(3.3)
	(534.0)	(534.0)	(533.3)	(539.6)
OFF BALANCE SHEET				
Financial assets				
Interest-rate swaps	0.0	0.0	0.0	5.3
Currency and commodity contracts	0.0	0.0	0.0	2.0
	0.0	0.0	0.0	7.3
Financial liabilities				
Contingencies	0.0	420.2	0.0	421.5
	0.0	420.2	0.0	421.5

CONTINGENCIES

The corporation has potential financial liabilities that may arise as described in the schedule of contingencies. No material loss is anticipated in respect of any of those contingencies and the net fair value disclosed above is the estimated amount that would be payable by the group as consideration for the assumption of those contingencies by another party.

(f) INTEREST RATE RISK EXPOSURES

The group's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities are set out below. All amounts reflect the consolidated position.

AUD equivalents Consolidated	Note	1 year or less $m	Over 1 to 2 years $m	Over 2 to 3 years $m	Over 3 to 4 years $m	Over 4 to 5 years $m	Over 5 years $m	Total $m	Weighted average effective interest rate %
2006									
FINANCIAL ASSETS									
Fixed rate									
Receivables	*9*	–	–	–	–	128.2	0.8	129.0	8.01
Weighted average effective interest rate (%)		–	–	–	–	8.00	9.14		
Floating rate									
Cash	*31*	358.4	–	–	–	–	–	358.4	5.66
Weighted average effective interest rate (%)		5.66	–	–	–	–	–		

29. FINANCIAL INSTRUMENTS (cont.)

AUD equivalents Consolidated	Note	1 year or less $m	Over 1 to 2 years $m	Over 2 to 3 years $m	Over 3 to 4 years $m	Over 4 to 5 years $m	Over 5 years $m	Total $m	Weighted average effective interest rate %
2006									
FINANCIAL LIABILITIES									
Fixed rate									
Debt	*19*	229.1	–	298.8	–	–	–	527.9	5.78
Other debt	*19*	1.1	0.8	0.8	–	–	–	2.7	7.59
IRS/FRAs		(229.1)	–	(298.8)	–	–	–	(527.9)	5.78
Weighted average effective interest rate (%)		8.15	6.41	7.71	–	–	–		
Floating rate									
IRS/FRAs		230.2	–	301.1	–	–	–	531.3	5.73
Weighted average effective interest rate (%)		5.73	–	5.74	–	–	–		

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. The other financial instruments of the group and corporation that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

AUD equivalents	Note	Floating interest rate $m	Fixed interest rate maturing in: 1 Year or less $m	Over 1 to 5 years $m	More than 5 years $m	Non-interest bearing $m	Total $m	Average interest rate: Floating %	Fixed %
2005 (i)									
FINANCIAL ASSETS									
Cash		317.0	0.0	0.0	0.0	251.7	568.7	5.55	–
Receivables	*6, 9*	0.0	6.5	26.0	200.1	354.0	586.6	–	7.22
Accrued revenue		0.0	0.0	0.0	0.0	68.2	68.2	–	–
Other	*17*	0.0	0.0	0.0	0.0	5.0	5.0	–	–
Total financial assets		317.0	6.5	26.0	200.1	678.9	1,228.5		
FINANCIAL LIABILITIES									
Suppliers – trade creditors	*18*	0.0	0.0	0.0	0.0	249.2	249.2	–	–
Agency creditors	*18*	0.0	0.0	0.0	0.0	189.1	189.1		
Debt	*19*	0.0	0.0	531.8	0.0	0.0	531.8	–	5.78
IRS/FRAs		530.0	0.0	(530.0)	0.0	0.0	0.0	5.62	6.07
Total financial liabilities		530.0	0.0	1.8	0.0	438.3	970.1		
Net financial assets		(213.0)	6.5	24.2	200.1	240.6	258.4		

(i) The 2005 disclosures have been prepared based on the accounting principles used previously which have been outlined at note 1(l), (s) and (z).

30. LEASES

(i) Operating leases

The corporation leases a total of 778 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 31 commercial, 206 industrial, 10 residential and 531 retail sites. Leases generally provide the corporation 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. The corporation has a small portion of its passenger vehicle fleet under operating leases (generally over three years) and has some minor items of plant and equipment under operating leases.

	2006 $m	2005 $m
Minimum lease payments	98.5	93.3
Contingent rentals	2.0	2.1
Operating lease rentals (note 3)	100.5	95.4

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

30. LEASES (cont.)

(ii) Finance lease receivable

The corporation 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.

	2006 $m	2005 $m
Reconciliation of minimum lease payments to lease receivable		
Gross minimum finance lease rentals receivable	582.3	588.3
Lease finance revenue not yet recognised	(478.2)	(484.7)
Finance lease receivable (note 6 and 9)	104.1	103.6
Minimum finance lease rentals receivable		
(a) within one year	6.5	6.5
(b) from one year to five years	26.0	26.0
(c) over five years	549.8	555.8
Total	582.3	588.3

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 $2.7 million (2005: $3.3 million). $1.1 million (2005: $1.5 million) will be made within a year and the remainder between one to five years.

31. NOTES TO THE CASH FLOW STATEMENT

(a) RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents include 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 cash flow statement are reconciled to the related items in the balance sheet as follows.

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Cash on hand	402.4	361.0	391.2	358.1
Promissory notes	239.1	202.7	239.1	202.7
Floating-rate notes	0.0	5.0	0.0	5.0
Total cash and cash equivalents	641.5	568.7	630.3	565.8

31. NOTES TO THE CASH FLOW STATEMENT (cont.)

(b) RECONCILIATION OF NET PROFIT AFTER TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Profit for the period	368.1	341.3	356.4	334.8
Depreciation and amortisation	168.9	176.4	161.8	173.3
Changes in associates not received as dividend	(8.4)	(4.9)	0.0	0.0
Net revaluation gain on investment property	(3.8)	(12.3)	(3.8)	(12.3)
Net losses/(gains) from sales of property, plant and equipment	1.8	(25.3)	1.7	(26.2)
	158.5	133.9	159.7	134.8
CHANGES IN ASSETS AND LIABILITIES ADJUSTED FOR THE ACQUISITION OF BUSINESSES				
(Increase)/decrease in debtors	(21.4)	(17.1)	(17.4)	(23.4)
Decrease/(increase) in inventories	24.8	(8.2)	24.8	(8.2)
Decrease/(increase) in interest receivable	0.2	(0.2)	0.2	(0.2)
(Increase)/decrease in other current assets	(3.3)	7.1	(3.4)	7.2
(Increase)/decrease in superannuation asset	0.0	94.1	0.0	94.1
(Increase)/decrease in deferred income tax asset	(5.0)	(8.1)	(2.8)	(7.4)
Increase/(decrease) in creditors and other payables	40.2	(17.8)	42.7	(10.4)
(Decrease)/increase in accrued interest expenditure	(0.3)	4.0	(0.3)	12.1
Increase/(decrease) in advance receipts	5.0	9.6	2.4	9.9
Increase/(decrease) in employee entitlements	4.8	44.8	2.5	42.6
Increase/(decrease) in income tax payable	(14.6)	(9.2)	(14.9)	(9.8)
Increase/(decrease) in deferred income tax liability	12.1	(22.3)	12.2	(22.4)
	201.0	210.6	205.7	218.9
Net cash from operating activities	569.1	551.9	562.1	553.7

LOAN FACILITIES

Fully drawn loan facilities of $530.0 million (2005: $530.0 million) and $2.7 million (2005: $3.3 million) hire purchase and finance leases were held at 30 June 2006 (refer note 19).

(c) DETAILS OF THE ACQUISITION OF THE CONTROLLED ENTITY

On 1 July 2005 PrintSoft Holdings Pty Ltd (a wholly owned subsidiary of Australia Post) acquired 100% of the issued share capital of both PrintSoft Development Pty Ltd and PrintSoft Systems GmbH who in turn held investments in other subsidiaries (refer note 10). At the date of acquisition, the PrintSoft Group provided software solutions for producing letters and documents and continues to do so. On 1 March 2006, PrintSoft Holdings Pty Ltd acquired the remaining 85% interest in Program Products (Services) Limited (the other 15% interest was already held within the PrintSoft Group).

The operating results of these newly controlled entities have been included in the consolidated income statement since the date of the acquisition, and contributed a loss of $0.5 million.

31. NOTES TO THE CASH FLOW STATEMENT (cont.)

Details of acquisitions are as follows.

Consideration comprising:	Consolidated 2006 $m	Consolidated 2005 $m
Cash	9.3	53.8
Contingent amount due for payment in year ending 30 June 2006	0.0	1.3
Contingent amount due for payment in year ending 30 June 2007	0.0	4.0
Cash receivable from purchase price adjustments	0.0	(5.4)
Acquisition costs	1.3	1.6
Total consideration	10.6	55.3
Fair value of identifiable net assets of controlled entity acquired		
Cash	3.1	2.2
Receivables	5.2	12.3
Prepayments	0.6	0.6
Property, plant and equipment	0.6	9.8
Intangible assets	1.2	9.8
Investments	0.0	4.0
Payables	(8.4)	(11.9)
Loans	0.0	(14.0)
Deferred tax liability	0.0	(2.7)
	2.3	10.1
Add: outside equity interests	(0.2)	(0.1)
	2.1	10.0
Goodwill on consolidation	8.5	45.3
Total consideration	10.6	55.3

	Consolidated		Corporation	
	2006 $m	2005 $m	2006 $m	2005 $m
Outflow of cash to acquire controlled entity (net of cash acquired)				
Cash consideration	10.6	53.8	14.0	53.8
Less: cash balances acquired	3.1	2.2	0.0	0.0
Outflow of cash	7.5	51.6	14.0	53.8

32. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

(i) Reconciliation of the balance sheet reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to the balance sheet under Australian Equivalents to IFRS (A-IFRS)

(a) AT THE DATE OF TRANSITION TO A-IFRS: 1 JULY 2004

		Consolidated			Corporation		
	Ref	Previous AGAAP $m	Transition adjustment $m	A-IFRS $m	Previous AGAAP $m	Transition adjustment $m	A-IFRS $m
ASSETS							
Current assets							
Cash and cash equivalents		455.9	0.0	455.9	452.8	0.0	452.8
Trade and other receivables		312.8	0.0	312.8	310.0	0.0	310.0
Inventories		59.4	0.0	59.4	59.4	0.0	59.4
Tax assets	*(f)*	110.6	(110.6)	0.0	110.6	(110.6)	0.0
Accrued revenues		63.4	0.0	63.4	63.3	0.0	63.3
Other current assets		57.0	0.0	57.0	56.2	0.0	56.2
Total current assets		1,059.1	(110.6)	948.5	1,052.3	(110.6)	941.7
Non-current assets							
Trade and other receivables		226.1	0.0	226.1	232.8	0.0	232.8
Investments in controlled entities		0.0	0.0	0.0	4.3	0.0	4.3
Investments in jointly controlled entities	*(d)*	275.0	(1.0)	274.0	263.1	0.0	263.1
Superannuation asset	*(d)*	0.0	967.8	967.8	0.0	967.8	967.8
Land and buildings	*(a)(b)(g)*	1,146.3	(440.9)	705.4	1,146.3	(441.1)	705.2
Plant and equipment	*(a)*	587.3	(42.3)	545.0	582.4	(42.3)	540.1
Intangible assets	*(c)*	72.0	0.0	72.0	70.7	0.0	70.7
Investment property	*(b)*	0.0	73.8	73.8	0.0	73.8	73.8
Deferred income tax assets	*(f)*	94.6	135.6	230.2	94.6	135.6	230.2
Other financial assets	*(h)*	11.4	(0.1)	11.3	11.4	0.0	11.4
Total non-current assets		2,412.7	692.9	3,105.6	2,405.6	693.8	3,099.4
Total assets		3,471.8	582.3	4,054.1	3,457.9	583.2	4,041.1
LIABILITIES							
Current liabilities							
Trade and other payables	*(e)(g)*	622.1	9.2	631.3	619.8	9.8	629.6
Interest-bearing loans and borrowings		0.0	0.0	0.0	0.0	0.0	0.0
Provisions		268.0	0.0	268.0	267.2	0.0	267.2
Income tax payable		41.0	0.0	41.0	41.0	0.0	41.0
Deferred tax liabilities	*(f)*	17.6	(17.6)	0.0	17.6	(17.6)	0.0
Total current liabilities		948.7	(8.4)	940.3	945.6	(7.8)	937.8
Non-current liabilities							
Interest-bearing liabilities		530.0	0.0	530.0	530.0	0.0	530.0
Provisions	*(g)*	297.1	48.9	346.0	296.5	47.4	343.9
Payables		4.6	0.0	4.6	1.7	0.0	1.7
Deferred tax liabilities	*(f)*	131.8	236.4	368.2	131.8	236.4	368.2
Total non-current liabilities		963.5	285.3	1,248.8	960.0	283.8	1,243.8
Total liabilities		1,912.2	276.9	2,189.1	1,905.6	276.0	2,181.6
Net assets		1,559.6	305.4	1,865.0	1,552.3	307.2	1,859.5
Equity							
Contributed equity		400.0	0.0	400.0	400.0	0.0	400.0
Reserves	*(a)(b)*	215.8	(215.8)	0.0	215.8	(215.8)	0.0
Retained profits		943.8	521.2	1,465.0	936.5	523.0	1,459.5
Total equity		1,559.6	305.4	1,865.0	1,552.3	307.2	1,859.5

32. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

(b) AT THE END OF THE LAST REPORTING PERIOD UNDER PREVIOUS AGAAP: 30 JUNE 2005

		Consolidated			Corporation		
	Ref	Previous AGAAP $m	Transition adjustment $m	A-IFRS $m	Previous AGAAP $m	Transition adjustment $m	A-IFRS $m
ASSETS							
Current assets							
Cash and cash equivalents		568.7	0.0	568.7	565.8	0.0	565.8
Trade and other receivables		360.5	0.0	360.5	341.7	0.0	341.7
Inventories		67.6	0.0	67.6	67.6	0.0	67.6
Tax assets	*(f)*	104.0	(104.0)	0.0	104.0	(104.0)	0.0
Accrued revenues		68.2	0.0	68.2	68.2	0.0	68.2
Other current assets		48.8	0.0	48.8	47.3	0.0	47.3
Total current assets		1,217.8	(104.0)	1,113.8	1,194.6	(104.0)	1,090.6
Non-current assets							
Trade and other receivables		226.1	0.0	226.1	238.8	0.0	238.8
Investments in controlled entities		0.0	0.0	0.0	72.3	0.0	72.3
Investments in jointly controlled entities	*(c)(d)*	273.9	11.8	285.7	263.6	0.0	263.6
Superannuation asset	*(d)*	0.0	883.6	883.6	0.0	883.6	883.6
Land and buildings	*(a)(b)(g)*	1,259.8	(551.3)	708.5	1,259.1	(551.8)	707.3
Plant and equipment	*(a)*	550.7	(34.9)	515.8	538.1	(34.9)	503.2
Intangible assets	*(c)*	122.6	3.6	126.2	69.9	0.4	70.3
Investment property	*(b)*	0.0	89.8	89.8	0.0	89.8	89.8
Deferred income tax assets	*(f)*	106.5	131.7	238.2	106.5	131.1	237.6
Other financial assets		5.0	0.0	5.0	5.0	0.0	5.0
Total non-current assets		2,544.6	534.3	3,078.9	2,553.3	518.2	3,071.5
Total assets		3,762.4	430.3	4,192.7	3,747.9	414.2	4,162.1
LIABILITIES							
Current liabilities							
Trade and other payables	*(e)(h)*	624.5	16.6	641.1	619.0	17.7	636.7
Interest-bearing loans and borrowings		0.0	1.5	1.5	0.0	0.0	0.0
Provisions		275.1	0.0	275.1	272.2	0.0	272.2
Income tax payable		31.8	0.0	31.8	31.2	0.0	31.2
Deferred tax liabilities	*(f)*	20.9	(20.9)	0.0	20.9	(20.9)	0.0
Total current liabilities		952.3	(2.8)	949.5	943.3	(3.2)	940.1
Non-current liabilities							
Interest-bearing liabilities		531.8	0.0	531.8	530.0	0.0	530.0
Provisions	*(g)*	334.8	49.4	384.2	334.1	47.5	381.6
Payables		4.5	0.0	4.5	2.1	0.0	2.1
Deferred tax liabilities	*(f)*	124.6	227.0	351.6	124.6	224.2	348.8
Total non-current liabilities		995.7	276.4	1,272.1	990.8	271.7	1,262.5
Total liabilities		1,948.0	273.6	2,221.6	1,934.1	268.5	2,202.6
Net assets		1,814.4	156.7	1,971.1	1,813.8	145.7	1,959.5
Equity							
Contributed equity		400.0	0.0	400.0	400.0	0.0	400.0
Reserves	*(a)(b)*	337.4	(337.4)	0.0	337.4	(337.4)	0.0
Retained profits		1,077.0	494.1	1,571.1	1,076.4	483.1	1,559.5
Total equity		1,814.4	156.7	1,971.1	1,813.8	145.7	1,959.5

32. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

(ii) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian Equivalents to IFRS (A-IFRS)

(a) AT THE DATE OF TRANSITION TO A-IFRS: 1 JULY 2004

		Consolidated			Corporation		
	Ref	Previous AGAAP $m	Transition adjustment $m	A-IFRS $m	Previous AGAAP $m	Transition adjustment $m	A-IFRS $m
EQUITY							
Contributed equity		400.0	0.0	400.0	400.0	0.0	400.0
Reserves	*(a)(b)*	215.8	(215.8)	0.0	215.8	(215.8)	0.0
Retained profits		943.8	521.2	1,465.0	936.5	523.0	1,459.5
Breakdown of impact on retained profits							
Investment property	*(b)*		42.0			42.0	
Make good provisions	*(g)*		(42.5)			(41.8)	
Superannuation asset	*(d)*		967.8			967.8	
Superannuation – joint ventures	*(d)*		(1.0)			0.0	
Other	*(h)*		(0.1)			0.0	
Land & buildings	*(a)*		(199.7)			(199.7)	
Plant & equipment	*(a)*		(42.3)			(42.3)	
Government grants	*(e)*		(9.2)			(9.2)	
Deferred tax	*(f)*		(193.8)			(193.8)	
Total equity		1,559.6	305.4	1,865.0	1,552.3	307.2	1,859.5

(b) AT THE END OF THE LAST REPORTING PERIOD UNDER PREVIOUS AGAAP: 30 JUNE 2005

		Consolidated			Corporation		
	Ref	Previous AGAAP $m	Transition adjustment $m	A-IFRS $m	Previous AGAAP $m	Transition adjustment $m	A-IFRS $m
EQUITY							
Contributed equity		400.0	0.0	400.0	400.0	0.0	400.0
Reserves	*(a)(b)*	337.4	(337.4)	0.0	337.4	(337.4)	0.0
Retained profits		1,077.0	494.1	1,571.1	1,076.4	483.1	1,559.5
Breakdown of impact on retained profits							
Investment property	*(b)*		57.6			57.6	
Make good provisions	*(g)*		(43.7)			(42.3)	
Superannuation asset	*(d)*		883.6			883.6	
Superannuation – joint ventures	*(d)*		(1.0)			0.0	
Other	*(h)*		(0.3)			0.0	
Land & buildings	*(a)*		(187.4)			(187.4)	
Plant & equipment	*(a)*		(34.9)			(34.9)	
Government grants	*(e)*		(17.7)			(17.7)	
Business combinations	*(c)*		13.6			0.4	
Deferred tax	*(f)*		(175.7)			(176.2)	
Total equity		1,814.4	156.7	1,971.1	1,813.8	145.7	1,959.5

32. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

(iii) Reconciliation of profit for the year ended 30 June 2005

		Consolidated			Corporation		
	Ref	Previous AGAAP $m	Transition adjustment $m	A-IFRS $m	Previous AGAAP $m	Transition adjustment $m	A-IFRS $m
REVENUE							
Goods and services		4,178.9	0.0	4,178.9	4,139.4	0.0	4,139.4
Interest		29.9	0.0	29.9	30.3	0.0	30.3
		4,208.8	0.0	4,208.8	4,169.7	0.0	4,169.7
OTHER INCOME							
Dividends		0.0	0.0	0.0	25.2	0.5	25.7
Revenue from sale of assets	*(a)*	42.6	(14.6)	28.0	42.6	(14.6)	28.0
Rents		20.8	0.0	20.8	20.8	0.0	20.8
Net foreign exchange gains/(losses)		2.0	0.0	2.0	2.0	0.0	2.0
Change in fair value of investment properties	*(b)*	0.0	12.3	12.3	0.0	12.3	12.3
Other revenues	*(e)*	32.4	(8.5)	23.9	31.2	(8.5)	22.7
		97.8	(10.8)	87.0	121.8	(10.3)	111.5
Total Income		4,306.6	(10.8)	4,295.8	4,291.5	(10.3)	4,281.2
EXPENSES (excluding financing costs)							
Employees	*(d)*	1,858.1	94.1	1,952.2	1,835.2	94.1	1,929.3
Suppliers	*(h)*	1,656.6	0.4	1,657.0	1,643.5	0.0	1,643.5
Depreciation and amortisation	*(a)(b)(g)*	184.9	(8.5)	176.4	181.5	(8.2)	173.3
Value of assets sold	*(a)*	30.7	(28.0)	2.7	29.8	(28.0)	1.8
Write-down and impairment of assets		3.7	0.0	3.7	3.5	0.0	3.5
Other expenses	*(g)(h)*	32.7	(1.9)	30.8	33.5	(1.9)	31.6
Total expenses (excluding financing costs)		3,766.7	56.1	3,822.8	3,727.0	56.0	3,783.0
Profit before income tax & financing costs		539.9	(66.9)	473.0	564.5	(66.3)	498.2
Financing costs	*(g)*	32.3	1.0	33.3	32.0	1.0	33.0
Share of net profits of jointly controlled entities	*(c)(d)*	16.9	13.2	30.1	0.5	(0.5)	0.0
Profit before income tax		524.5	(54.7)	469.8	533.0	(67.8)	465.2
Income tax expense	*(f)*	149.6	(21.1)	128.5	151.4	(21.0)	130.4
Net profit for period		374.9	(33.6)	341.3	381.6	(46.8)	334.8
Profit attributable to minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Profit attributable to members of parent		374.9	(33.6)	341.3	381.6	(46.8)	334.8

(iv) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of A-IFRS has not resulted in any material adjustments to the cash flow statement.

32. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

Outlined below are the areas affected by adoption of A-IFRS, including the financial impact on equity and profit before tax.

Ref	Item	AGAAP	A-IFRS	Consolidated	Corporation
(a)	Property, plant & equipment (PP&E)	PP&E were valued on a fair value basis.	The group has adopted the depreciated historical cost for PP&E on transition to A-IFRS. In situations where the fair value of items of PP&E was below the depreciated historical cost, the fair value was deemed as cost.	Equity at transition Decrease to retained earnings of $199.7 million, decrease to asset revaluation reserve of $173.6 million and land & buildings of $373.3 million. Decrease to retained earnings and decrease to plant and equipment of $42.3 million. Equity at 30 June 2005 Decrease to retained earnings of $187.4 million, decrease to asset revaluation reserve of $279.8 million and decrease to land & buildings of $468.3 million. Difference of $1.1 million represents additional fair value on land and buildings transferred to investment property during the year. Decrease to retained earnings and decrease to plant and equipment of $34.9 million. Profit for 30 June 2005 Increase to profit of $22.2 million.	Equity at transition Decrease to retained earnings of $199.7 million, decrease to asset revaluation reserve of $173.6 million and land & buildings of $373.3 million. Decrease to retained earnings and decrease to plant and equipment of $42.3 million. Equity at 30 June 2005 Decrease to retained earnings of $187.4 million, decrease to asset revaluation reserve of $279.8 million and decrease to land & buildings of $468.3 million. Difference of $1.1 million represents additional fair value on land and buildings transferred to investment property during the year. Decrease to retained earnings and decrease to plant and equipment of $34.9 million. Profit for 30 June 2005 Increase to profit of $22.2 million.
(b)	Investment properties	Investment properties were classified under property, plant and equipment. Fair value movements in investment properties were recognised in the asset revaluation reserve to the extent that there were revaluation increments to offset against.	Under AASB 140 *Investment Property*, fair value movements in investment properties are recognised in the income statement. An adjustment was required at transition to transfer these fair value movements from the asset revaluation reserve to retained earnings. An adjustment was also required at transition to reclassify investment properties separately from property, plant and equipment.	Equity at transition Increase to retained earnings and decrease to asset revaluation reserve of $42.2 million. Decrease to land and buildings of $74.0 million and recognition of investment properties of $73.8 million and decrease to retained earnings of $0.2 million. Equity at 30 June 2005 Increase to retained earnings and decrease to asset revaluation reserve of $57.6 million. Decrease to property, plant & equipment $88.7 million and recognition of investment properties of $89.8 million. Difference of $1.1 million represents additional fair value on land and buildings transferred to investment property during the year. Profit for 30 June 2005 Increase to profit of $13.0 million.	Equity at transition Increase to retained earnings and decrease to asset revaluation reserve of $42.2 million. Decrease to land and buildings of $74.0 million and recognition of investment properties of $73.8 million and decrease to retained earnings of $0.2 million. Equity at 30 June 2005 Increase to retained earnings and decrease to asset revaluation reserve of $57.6 million. Decrease to property, plant & equipment $88.7 million and recognition of investment properties of $89.8 million. Difference of $1.1 million represents additional fair value on land and buildings transferred to investment property during the year. Profit for 30 June 2005 Increase to profit of $13.0 million.

32. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

Ref	Item	AGAAP	A-IFRS	Consolidated	Corporation
(c)	Business combinations and goodwill	Goodwill was amortised over its useful life (not exceeding 20 years).	The group has chosen to adopt the exemption available under AASB 1 of not retrospectively applying AASB 3 *Business Combinations* to its business combinations occurring before transition date. Under AASB 3, goodwill is subject to annual impairment testing and amortisation of goodwill is prohibited. An adjustment is required to reverse the amortisation charge for 30 June 2005.	Equity at transition No effect. Equity at 30 June 2005 Decrease to retained earnings and increase to goodwill of $0.8 million. Investment in jointly controlled entities increased by $12.8 million, representing the corporation's share of goodwill amortisation that was reversed as a result of the adoption of AASB 3. Additional intangibles of $2.8 million were recognised in relation to an acquisition in the year ended 30 June 2005 upon adoption of AASB 3. Profit for 30 June 2005 Increase to profit of $13.6 million.	Equity at transition No effect. Equity at 30 June 2005 Increase to retained earnings and increase to goodwill of $0.4 million. Profit for 30 June 2005 Increase to profit of $0.4 million.
(d)	Defined benefit fund	The superannuation expense for the defined benefit plan was accounted for on a cash basis.	For defined benefit plans, AASB 119 *Employee Benefits* requires the net surplus or deficit in the scheme to be recognised as an asset or liability on the balance sheet. The group has decided to adopt the retained earnings approach, whereby actuarial gains and losses are recognised directly in retained earnings in accordance with the early adoption of AASB 119 (Dec '04) version.	Equity at transition Increase to retained earnings and recognition of superannuation asset of $967.8 million. Investments in jointly controlled entities decreased by $1.0 million due to recognition of a superannuation deficit in a joint venture entity. Equity at 30 June 2005 Increase to retained earnings and recognition of superannuation asset of $883.6 million. Investments in jointly controlled entities decreased by $1.0 million due to recognition of a superannuation deficit in a joint venture entity. Profit for 30 June 2005 Decrease to profit of $94.1 million and a $0.4 million increase in profit due to a reduction in a joint venture entity's superannuation expense.	Equity at transition Increase to retained earnings and recognition of superannuation asset of $967.8 million. Equity at 30 June 2005 Increase to retained earnings and recognition of superannuation asset of $883.6 million. Profit for 30 June 2005 Decrease to profit of $94.1 million.

32. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

Ref	Item	AGAAP	A-IFRS	Consolidated	Corporation
(e)	Government grants	Fair value of the government grant was recognised as revenue when the entity gained control of the grant.	Under AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, when the government grant relates to an asset, the fair value of the grant is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal instalments. The government grant received by the group, which has previously been recognised as income, was adjusted so that it is now recognised over the useful life of the related asset.	Equity at transition Decrease to retained earnings and recognition of government grant deferred income (as a liability) of $9.2 million. Equity at 30 June 2005 Decrease to retained earnings and recognition of government grant deferred income (as a liability) of $17.7 million. Profit for 30 June 2005 Decrease to profit of $8.5 million reflecting the matching of grant income with the underlying expense.	Equity at transition Decrease to retained earnings and recognition of government grant deferred income (as a liability) of $9.2 million. Equity at 30 June 2005 Decrease to retained earnings and recognition of government grant deferred income (as a liability) of $17.7 million. Profit for 30 June 2005 Decrease to profit of $8.5 million reflecting the matching of grant income with the underlying expense.
(f)	Income tax	The income statement method was used, which involved tax affecting only those items that affected profit and loss.	AASB 112 *Income Taxes* requires the balance sheet method to be used, which recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. In addition all deferred tax balances are classified as non-current. As a result of the above adjustments, the deferred tax liabilities and deferred tax assets increased as follows.		

	Consolidated 30 June 2005 $m	Consolidated 1 July 2004 $m	Corporation 30 June 2005 $m	Corporation 1 July 2004 $m
Property, plant & equipment	(63.4)	(73.3)	(63.4)	(73.3)
Superannuation asset	265.1	290.3	265.1	290.3
Other	4.4	1.8	1.6	1.8
Total increase in deferred tax liabilities	206.1	218.8	203.3	218.8
Capital losses	7.5	7.5	7.5	7.5
Government grants	4.8	2.8	5.3	2.8
Make good provision	14.9	14.7	14.3	14.7
Other	0.5	0.0	0.0	0.0
Total increase in deferred tax assets	27.7	25.0	27.1	25.0

32. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

Ref	Item	AGAAP	A-IFRS	Consolidated	Corporation
(g)	Make good provision	Such costs were not required to be recognised.	Under AASB 116 *Property, Plant & Equipment*, where the construction or commissioning of an asset results in the obligation to dismantle or remove the asset and restore the site on which the asset stands, an estimate of such costs is required to be included in the cost of the asset. This includes leasehold improvements, whereby the costs involved in restoring the leased asset at the end of the lease term must be included in the cost of the asset and depreciated over the lease term. In accordance with lease agreements, the group must restore leased premises to their original condition at the end of the lease term. An equivalent liability is recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.	Equity at transition Increase to property, plant & equipment of $6.4 million, decrease to retained earnings of $42.5 million and recognition of a provision of $48.9 million. Equity at 30 June 2005 Increase to property, plant & equipment of $5.7 million, decrease to retained earnings of $43.7 million and recognition of a provision of $49.4 million. Profit for 30 June 2005 Decrease to profit of $1.0 million due to unwinding of the discount on the provision, additional amortisation of make good asset and release of excess provision.	Equity at transition Increase to property, plant & equipment of $6.2 million, increase to intercompany payables of $0.6 million, decrease to retained earnings of $41.8 million and recognition of a provision of $47.4 million. Equity at 30 June 2005 Increase to property, plant & equipment of $5.2 million, decrease to retained earnings of $42.3 million and recognition of a provision of $47.5 million. Profit for 30 June 2005 Decrease to profit of $0.8 million due to unwinding of the discount on the provision, additional amortisation of make good asset and release of excess provision.
(h)	Other	Amounts capitalised as formation costs. Lease expense recognised in accordance with payments.	AASB 138 *Intangible Assets* requires all start-up business costs to be expensed unless the cost is an item of property, plant and equipment. AASB 117 *Leases* requires operating lease expenses to be recognised on a straight-line basis over the lease term.	Equity at transition Decrease to retained earnings and other non-current assets of $0.1 million. Equity at 30 June 2005 Decrease to retained earnings of $0.3 million and increase in other payables of $0.3 million. Profit for 30 June 2005 Decrease to profit of $0.3 million.	Equity at transition No effect. Equity at 30 June 2005 No effect. Profit for 30 June 2005 No effect.

32. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

Impact of adopting AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement.*

The group elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the areas affected by adoption of AASB 132 and AASB 139, including the financial impact to equity.

Ref	Item	AGAAP	A-IFRS	Consolidated	Corporation
(i)	Interest rate swap	Interest rate swaps were not recognised on balance sheet. Net receipts and payments were recognised as an adjustment to interest expense.	Under AASB 139, all derivatives must be recognised on balance sheet at fair value. The interest rate swap held at 1 July 2005 was designated as a hedge and has been accounted for as a derivative on balance sheet. Any movements in the fair value of the bonds and swap are taken to income.	Recognition of a derivative asset of $5.3 million and an increase in the fair value of the bonds for $6.3 million. No effect on profit.	Recognition of a derivative asset of $5.3 million and an increase in the fair value of the bonds for $6.3 million. No effect on profit.
(j)	Fuel hedge	Fuel hedges were not recognised on balance sheet. Payments were recognised as an adjustment to fuel costs.	Under AASB 139, the fair value of the fuel hedge is recognised on balance sheet. If a fuel hedge is deemed effective the movements in the hedge are taken to the hedge reserve. That portion of a hedge which is not effective is taken to the income statement.	Recognition of a derivative asset of $2.0 million and recognition of a hedge reserve for the same amount. Recognition of the corporation's share of the fuel hedge reserve in a jointly controlled entity of $0.8 million.	Recognition of a derivative asset of $2.0 million and recognition of a hedge reserve for the same amount.

33. CONTINGENT LIABILITIES

Finance lease – the corporation has indemnified third parties in respect of certain United States of America tax liabilities which could arise in the event that the corporation carries out acts which are not "Permitted Acts" under the indemnity agreement. The indemnity applies over the 15-year and 17-year terms of the cross-border finance leases entered into by the corporation during the years ended 30 June 2000 and 30 June 2001 respectively. It is considered remote that the corporation would ever infringe the provisions of the agreement. However, any incident of loss that may arise from an infringement would not have a material impact on the fair statement of the financial statements.

34. CORPORATE INFORMATION

The financial report of the Australian Postal Corporation for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 24 August 2006.

The Australian Postal Corporation is 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.

Registered office:
321 Exhibition Street
Melbourne VIC 3000
Australia

35. EVENTS AFTER BALANCE DATE

On 24 August 2006, the directors of the Australian Postal Corporation declared a final dividend in respect of the 2006 financial year. The total amount of the dividend is $140.8 million and this has not been provided for in the 30 June 2006 financial statements.

Community service obligations

For the year ended 30 June 2006

Australia Post's Community Service Obligations (CSOs) are set out in section 27 of the *Australian Postal Corporation Act* (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 section 28c 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 2005/06. The actual result for each standard is outlined in the table below. The associated ANAO Audit Report is reproduced on pages 123–124.

ORGANISATIONAL ARRANGEMENTS

To maintain an appropriate ongoing focus on CSO compliance, Australia Post has a national CSO co-ordinator in its Headquarters, as well as nominated CSO co-ordinators at the state level.

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 (i.e. after reduction of related revenue). It is funded by internal cross-subsidy within the letter service and from a lower-than-otherwise return on the business.

For 2005/06, calculated on the avoidable cost methodology, CSO "costs" are estimated to have been $87.9 million.

Performance standard	2005/06 performance
LODGEMENT	
10,000 street posting boxes	15,436(1)
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 per cent of non-bulk letters	95.6%
ACCESS	
4,000 retail outlets (2,500 in rural and remote areas)	4,462(1) (2,563(1) in rural and remote areas)
Retail outlets located so that:	
in metropolitan areas at least 90% of residences are within 2.5 km of an outlet	94%(1)
in non-metropolitan areas at least 85% of residences are within 7.5 km of an outlet	86.7%(1)
DELIVERY FREQUENCY	
98 per cent of delivery points to receive deliveries five days a week	98.7%(1)
99.7 per cent of delivery points to receive deliveries no less than twice a week	99.9%(1)
COMPLAINTS (2)	
To be resolved within 10 days on average	Resolved within an average of 5.3 days

Note
(1) Result as at 30 June 2006.
(2) Not part of performance regulations; this is a Customer Service Charter commitment.

Auditor-General for Australia

Australian National
Audit Office

Independent Audit Report on the extent to which the Australian Postal Corporation has complied with the Australian Postal Corporation (Performance Standards) Regulations for the year ended 30 June 2006

To the Minister for Communications, Information Technology and the Arts and the Board of the Australian Postal Corporation

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, as amended, for the year ended 30 June 2006.

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 4,000 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 an opinion to you.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards and accordingly included such tests and other procedures considered necessary.

GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit
BARTON ACT
Phone (02) 6203 7500 Fax (02) 6273 5355
Email ian.mcphee@anao.gov.au

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.

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

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

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 control. 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. I have provided a report to the Corporation on exceptions noted, potential performance improvements, the Corporation's performance compared with best practice and the positive assurance report on compliance. Nothing in that report has caused me to modify my opinion presented below.

Opinion

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, as amended, during the year ended 30 June 2006.

Ian McPhee
Auditor-General

Canberra
24 August 2006

KPMG

To: **The Board of the Australian Postal Corporation**
Report on Australia Post's Domestic Letter Service Performance

Scope

We have undertaken an independent audit of Australia Post's domestic letter service (excluding letters posted under bulk pre-sorted conditions) against its delivery undertakings for the year ended 30 June 2006 in accordance with the requirements of the Australian Postal Corporations Act 1989.

Our audit was based on properly prepared, statistically valid quarterly samples of approximately 76,500 test letters. Sample sizes were determined in conjunction with ACNielsen, having 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, 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.

Results

For the year ended 30 June 2006, the audit showed that Australia Post delivered 95.6 per cent of all letters early or on time, and 98.5 per cent of letters were delivered on time or not more than one working day after your delivery undertakings. The comparable figures for the twelve months ended 30 June 2005, were 94.9 and 98.3 per cent respectively.

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 0.2 per cent, these results present fairly the performance of Australia Post's domestic letter service for the year ended 30 June 2006.

KPMG

KPMG

DN Bartley
Partner

Melbourne, Australia
11 August 2006

ACNielsen

To: The Board of the Australian Postal Corporation

ACNIELSEN

SURVEY CERTIFICATION

ACNielsen has designed statistically valid samples of test letters for the surveys undertaken by KPMG for the quarters ended 30 September 2005; 31 December, 2005; 31 March, 2006; and 30 June, 2006. ACNielsen has also carried out an audit on the survey results for these quarters. The samples were designed to enable the accurate testing of Australia Post's letter delivery performance, having regard to the postal network design parameters provided by Australia Post. The samples were representative of these postal network design parameters. The estimation procedures used were statistically valid and the results are accurate within the limits of precision as set out in KPMG's report attached, although a reliance is being placed on the assumption that the reason for non-response in the sample is uncorrelated with Australia Post's performance.

P. Hughes

Dr Phil Hughes
Executive Director
Measurement Science
ACNielsen
Sydney, Australia

11 August 2006

ACNielsen Australia Pty Ltd ACN 003 212 922

ACNielsen Centre
11 Talavera Road, Macquarie Park
NSW 2113 Australia

Phone: (61-2) 8873 7000
Fax: (61-2) 8873 7001
www.acnielsen.com.au

a VNU company

ESTIMATED RESULTS OF PRODUCT DISSECTION
BETWEEN RESERVED AND NON-RESERVED SERVICES

	Reserved		Non-reserved		Total	
	$m	%	$m	%	$m	%
CONSOLIDATED RESULTS						
Revenue	1,856.5	41.6	2,608.1	58.4	4,464.6	100.0
Expense	1,803.1	45.3	2,179.5	54.7	3,982.6	100.0
Profit from ordinary activities before net interest and income tax	53.4	11.1	428.6	88.9	482.0	100.0
Interest and net profit related to joint ventures					41.8	
Profit before third-party interest and tax					523.8	
Return on revenue (1)		2.9		16.4		10.8
Average operating assets (2)	984.4	35.1	1,821.0	64.9	2,805.4	100.0
Return on average operating assets (3)		5.4		23.5		18.7

(1) Excludes interest and share of net profits of joint ventures.
(2) Assets reflect average operating assets for 2004/04 and 2005/06.
(3) Total return on average operating assets includes interest and share of net profits relating to joint ventures. Reserved and non-reserved return on average operating assets excludes all interest and share of net profits of joint ventures.

Statutory reporting requirements index

For the year ended 30 June 2006

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 200/06 Annual Report.

COMMONWEALTH AUTHORITIES AND COMPANIES (CAC) ACT 1997 – SCHEDULE 1 REPORTING REQUIREMENTS			
Section	Subject	Location	Page
s.1(a)	Report of Operations	Report of operations Financial statements Statutory report	1–60 63 128–134
s.1(b)	Financial Statements	Financial statements	62–121
s.1(c)	Financial Statements Audit	Financial statements	64–5
s.2(3)	Directors' Statement	Financial statements	63
AUSTRALIAN POSTAL CORPORATION ACT 1989 – GENERAL REPORTING REQUIREMENTS			
s.43(a)	Statement of corporate objectives under the corporate plan	Statutory report	131
s.43(b)(i)	Overall strategies and policies under the corporate plan	Our business Chairman's report Statutory report	4 10–11 131
s.43(b)(ii)	Performance indicators and targets under the corporate plan	Statutory report	131
s.43(c)	Assessment of extent to which objectives under s.43(a) have been achieved	Performance against targets Financial results Chairman's report Managing director's report Community service obligations Statutory report	3 8–9 10–11 12–13 123–6 131
s.43(d)	Strategies and policies relating to Community Service Obligations (CSOs)	Letters Community service obligations	17–18 123
s.43(e)	Directions by the Minister under s.40(1)(CSOs)	N/A	N/A
s.43(f)	Assessment of appropriateness and adequacy of strategies and policies for CSOs	Letters Community service obligations	17–18 122–6
s.43(fa)	Performance standards relating to CSOs	Performance against targets Letters Community service obligations Statistical summary	3 17 122 135–140
s.43(g)(i)	Notifications by the Minister under s.28 of the CAC Act (general policies of the Commonwealth)	Statutory report	131–2
s.43(g)(ii)	Directions by the Minister under s.49 of the APC Act (public interest)	N/A	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	131–2
s.43(h)(ii)	Impact of other Government obligations	Statutory report	132
s.43(j)	Ministerial power under s.33(3) to disapprove postage determinations	N/A	N/A
s.43(k)	Companies and other associations established or sold	Chairman's report Managing director's report Letters Parcels & logistics Financial statements	10–11 12–13 18 30 73, 75, 87–8, 111–112
s.43(m)(i)&(ii)	Shares purchased and disposed of	Financial statements	87–8, 111–112
s.43(m)(iii)	Subsidiaries	Our capabilities Parcels & logistics Chairman's report Managing director's report Letters Financial statements	7 9 10–11 12–13 18 73, 87–8
s.43(n)	Authority to open or examine the contents of postal articles	Statutory report	133
s.43(o)	Disclosure of information	Statutory report	133
s.44(a)	Financial targets	Performance against targets Financial results Statutory report	3 9 131

AUSTRALIAN POSTAL CORPORATION ACT 1989 – GENERAL REPORTING REQUIREMENTS (cont.)			
Section	Subject	Location	Page
s.44(b)	Ministerial direction under s.40(i) to vary the financial targets	N/A	N/A
s.44(c)	Progress in achieving the financial targets	Performance against targets Financial results Statutory report	3 8–9 131
s.44(d)	Dividend payable to the Commonwealth	Financial results Economy Financial statements Statutory report	8–9 46 98 131
s.44(e)	Ministerial direction under s.54(3) as to dividend	N/A	N/A
s.44(f)	Capital repaid to the Commonwealth	N/A	N/A
s.44(g)(i)	Cost impact of CSOs	Economy Community service obligations	47 122
s.44(g)(ii)	Cost impact of Ministerial notifications under s.28 of CAC Act	Statutory report	131–2
s.44(g)(iii)	Cost impact of Ministerial directions under s.49 of APC Act	N/A	N/A
s.44(g)(iv)	Cost impact of other Government obligations	Statutory report	132
s.44(h)(i)&(ii)	Financial information requested by the Minister in relation to the reserved services and other activities	N/A	N/A
FREEDOM OF INFORMATION ACT 1982 – REPORTING REQUIREMENTS			
s.8(1)(a)(i)	Information on organisation and functions	Statutory report	132
s.8(1)(a)(ii)	Consultative arrangements	Statutory report	132–3
s.8(1)(a)(iii)	Categories of documents	Statutory report	133
s.8(1)(a)(iv)&(v)	Access to documents and initial inquiries	Statutory report	133
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	132
s.74(1)(d)	Measures taken to ensure health, safety and welfare of employees and contractors	People Statutory report	36–7 132
s.74(1)(e)	Statistics requiring the giving of notice under s.68	Statutory report	132
s.74(1)(f)&(g)	Details of investigations and other matters as prescribed	Statutory report	132
SUPERANNUATION BENEFITS (SUPERVISORY MECHANISMS) ACT 1990			
s.6(1)(b)	Report on operation of superannuation arrangement	Statutory report	132
ENVIRONMENT PROTECTION AND BIODIVERSITY CONSERVATION ACT 1999			
s.516A(3)(6)	Report on the implementation of the Ecologically Sustainable Development program within Post, including social, economic, cultural and environmental performance	Corporate sustainability Corporate governance	32–51 55

Commonwealth Authorities and Companies (Report of Operations) Orders 2005

Division 2 – General information about operations and activities

ENABLING LEGISLATION AND RESPONSIBLE MINISTER			
s.8(a)	Enabling legislation	Statutory report	131
s.8(b)	Ministers responsible	Economy Corporate governance	46 52
OUTLINE OF ORGANISATIONAL STRUCTURE			
s.9	Organisational structure	Board of directors Corporate structure	58–9 57
REVIEW OF OPERATIONS AND FUTURE PROSPECTS			
s.10(1)(a)(i)	Performance measured against statutory objectives	Community service obligations	122
s.10(1)(a)(ii)	Corporate plan	Statutory report	131

Statutory reporting requirements

For the year ended 30 June 2006

Section	Subject	Location	Page
REVIEW OF OPERATIONS AND FUTURE PROSPECTS (cont.)			
s.10(1)(a)(iii)	Principal outputs and contributions	Key business results Financial results Chairman's report Managing director's report	2 8–9 10–11 12–13
s.10(1)(b)	Current and future events and trends, including risks and opportunities	Our year in summary Financial results Chairman's report Managing director's report	2 8–9 10–11 12–13
s.10(1)(c)	Significant events under s.15 of CAC Act	Financial results Chairman's report Managing director's report	8–9 10–11 12–13
s.10(1)(d)(i)	Operational and financial results – principal outputs	Our year in summary Financial results Chairman's report Managing director's report	2 8–9 10–11 12–13
s.10(1)(d)(ii)	Major investing and financial activities	Financial results Chairman's report Managing director's report	8–9 10–11 12–13
s.10(1)(d)(iii)	Financial and non-financial performance indicators	Financial results Community service obligations Statutory report	8–9 122 131–2
s.10(1)(e)	Significant changes in affairs or principal activities during the year	N/A	N/A
s.10(1)(f)	Significant developments since end of financial year	N/A	N/A
JUDICIAL REVIEWS BY OUTSIDE BODIES			
s.11(a)	Judicial tribunal decisions that have had a significant impact	N/A	N/A
s.11(b)	Reports by the Auditor-General, a Parliamentary Committee or Commonwealth Ombudsman	Financial statements audit Performance standards audit	64–5 124–6
EFFECTS OF MINISTERIAL DIRECTIONS			
s.12(1)(a)(i)	Any directions by responsible ministers during the financial year	N/A	N/A
s.12(1)(a)(ii)	Since the end of the financial year	N/A	N/A
s.12(1)(a)(iii)	Continuing from previous financial years	N/A	N/A
s.12(1)(b)(i)	Government policies under s.28 of the CAC Act during the financial year	N/A	N/A
s.12(1)(b)(ii)	Since the end of the financial year	N/A	N/A
s.12(1)(b)(iii)	Continuing from previous financial years	Statutory report	131
DISCLOSURE REQUIREMENT OF GBES			
s.13(1)(a)(i)	Significant changes in financial structure	N/A	N/A
s.13(1)(a)(ii)	Events that may affect future operating results	N/A	N/A
s.13(1)(b)	Dividends paid or recommended	News & highlights Financial results Financial statements	Inside front cover 8–9 98
s.13(1)(c)	Community service obligations	Community service obligations Statutory report	122 131
Division 3 – Specific information			
DIRECTORS			
s.14(1)(a)	Directors' details	Board of directors	58–9
s.14(1)(b)	Directors' meetings	Corporate governance	56
STATEMENT ON GOVERNANCE			
s.15(1)	Main governance practices	Corporate governance	52–5
s.15(2)	Board committee details (including Audit Committee)	Corporate governance	52–3
INDEMNITIES AND INSURANCE PREMIUMS FOR OFFICERS			
s.16(1)(a)	Indemnity for officers	Statutory report	131
s.16(1)(b)	Premium paid	Statutory report	131

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 128–130 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)*.

Australia Post's principal function is to supply postal services within Australia and between Australia and other countries. Australia Post may also carry on any business or activity, either domestically or internationally, that relates or is incidental to the supply of postal services.

BOARD OF DIRECTORS

The board may consist of up to nine directors. Membership during the 2005/06 financial year was:

Linda B Nicholls – Chairman (retired 11 September 2006)
David A Mortimer – Deputy Chairman
Graeme T John – Managing Director
Mark A Birrell (reappointed 14 August 2006)
Margaret M Gibson
Peter A McLaughlin
Sandra V McPhee
Tom R Phillips (appointed 23 November 2005)
Edward D Tweddell (deceased 4 August 2005)
Ian K Warner

Australia Post has in place a Directors' and Officers' Liability insurance policy. The policy, which expires in February 2007, 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 in February 2016, 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 prepares a rolling three-year corporate plan. The 2005/06 plan and associated Statement of Corporate Intent were submitted to the shareholder ministers in June 2005.

Objectives

The main objectives of the plan, over the triennium, were to:

- meet all of Australia Post's community service obligations and become the first choice for customers for all products and services offered
- maintain low cost of production and high staff commitment
- expand business to provide substitute profit growth for otherwise mature businesses
- grow profitability levels and shareholder value.

Strategies

Australia Post's overarching strategy continues to be, to defend and extend the core business and to establish leadership positions in substitute markets and in activities with growth potential, where it is possible to fully capitalise on our existing strengths.

To support this, the corporation has pursued three strategies that maintain and grow revenue from our existing operations in Letters and associated services, Retail and agency services, and Parcels and logistics. The strategies and their main associated programs were:

1. Position cost-effective, paper-based products and services as a vital part of contemporary communications by:
   - engaging with business customers to meet their current and future needs, especially through the improved use of technology to aid the growth of mail marketing
   - improving the letters network and minimising costs
   - communicating the superior benefits of paper-based communications to our customers.
2. Use our retail products and services to support outlet viability by strengthening our position as a destination for agency services, philatelic and packaging by:
   - rationalising and extending the range of products while reducing supply chain costs
   - implementing a national marketing strategy to promote our retail merchandise
   - re-enforcing our leading role in providing access to a range of financial and other services.
3. Be the "essential partner" for domestic parcels and logistics services and a facilitator for Australian businesses that manufacture and trade in Asia–Pacific by:
   - bringing together a suite of highly recognised, reliable and competitively priced products
   - extending partnerships with customers and suppliers to meet emerging demand for global parcels and logistics services
   - continuing to reduce network costs while maintaining service standards.

Targets

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

- on-time letter delivery of 94 per cent per year
- profit before tax averaging $543 million per year
- dividends averaging $287 million over the three years of the plan.

Specific targets for 2005/06 and performance against these targets were:

Performance indicator	Target	Performance
On-time letter delivery	94%	95.6%
Profit before tax	$495.7m	$515.6m
Return on average operating assets	15.4%	18.7%
Dividend for 2005/06	$253m	$282.5m

GOVERNMENT POLICIES

In February 2004, the Minister for 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 Post had, since their introduction in 1997, made compliance with the code and guidelines a condition of all of its construction-related tenders.

Statutory reporting requirements
For the year ended 30 June 2006

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 2005/06 is estimated at around $1 million.

Medical and Educational Remote Area Parcel Service

The Medical and Educational Remote Area Parcel Service provides reduced postage rates for parcels containing health and education materials that are sent to and from people living in remote communities. In the 2005/06 reporting period, revenue foregone in meeting this obligation is estimated at $29,500.

Superannuation

During 2005/06 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 (Commonwealth Employment) 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 include:

- continuing to implement our OH&S Policy and OH&S Agreement
- auditing legislative and corporation policy compliance through the Australia Post Occupational Health and Safety Management System Quality Assurance Program
- 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
- 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 employee involvement in OH&S
- working to reduce the number and severity of major accident types, including motorcycle, manual handling and forklift incidents, through staff training, and identifying and controlling accident risks
- undertaking a national Postie Safety awareness campaign to make members of the public aware of their posties' safety
- implementing new national procedures and training for the prevention of manual handling injuries
- ensuring new and modified equipment and work practices were compliant with safety requirements before activation
- advising contractors on safe work practices.

During the year:

- 976 incidents were notified/reported to Comcare in accordance with s68 of the OH&S Act 1991.
- 56 Provisional Improvement Notices were given.
- 3 Improvement Notices (s47) were given.
- 13 investigations were conducted relating to:
  - plant and machinery safety (7)
  - motorcycle safety (2)
  - OH&S management system arrangements (1)
  - OH&S compliance (1)
  - HSR arrangements (1)
  - contractor safety (1).
- One s44 action was taken.
- Three s45 directions were issued.
- Two s46 notices were issued.

FREEDOM OF INFORMATION REPORT

In the year to 30 June 2006 Australia Post received 73 applications under the *Freedom of Information Act 1982 (Cth)*.

These were handled as follows:

Granted in full	37
Granted in part	8
Access refused	22
Withdrawn	3
On hand at 30 June 2006	3
Total	73

There were five applications for internal review during the year – each of which resulted in the decision of the Freedom of Information Officer being substantially confirmed.

The two applications that were lodged with the Administrative Appeals Tribunal in the previous financial year were determined during the period. Australia Post was substantially successful in one and partially successful in the other.

The two applications that were lodged with the Administrative Appeals Tribunal in the 2005/06 financial year are yet to be listed for hearing.

Australia Post is appealing one Administrative Appeals Tribunal decision from the previous financial year to the Federal Court.

The estimated cost of handling Freedom of Information requests and related responsibilities in 2005/06 was $59,809. Application fees and charges of $1,020 were collected.

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, five state-based profit centres, and four joint ventures. Headquarters is responsible for strategic planning, policy and support activities. State-based profit centres direct day-to-day business activities within the states.

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 Postal Services Consultative Council provides a further external forum for discussing Australia Post's services and performance. 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.

Categories of documents

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

- corporate organisation and administration
- financial and asset management
- 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 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:

National Freedom of Information Officer
Legal Services Group
Australia Post Headquarters
GPO Box 1777
MELBOURNE VIC 3001

Alternatively, access to documents can be obtained by writing to the Freedom of Information Officer in the relevant state administrations. The addresses of Australia Post's state administrations are provided on page 144 of this report.

PRIVACY AND ACCESS TO PERSONAL INFORMATION

Under the *Privacy Act 1988 (Cth)* 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:

Chief Privacy Officer
Legal Services Group
Australia Post Headquarters
GPO Box 1777
MELBOURNE VIC 3001

FRAUD CONTROL

Measures consistent with sound commercial practices, for the deterrence and detection of fraud are applied by Australia Post. This is further supported through the maintenance of a National Fraud Control Policy and Code of Ethics.

The Corporate Audit Services Group applies a risk-based methodology to review business operations and related systems, including policies and procedures, which make up the control environment. It does so on a programmed basis to ensure that the corporation's assets are safeguarded and business risks minimised.

The Corporate Security Group is a specialised unit charged with the responsibility of ensuring the integrity of the mail and the safety of Australia Post's personnel and other assets. It works closely with law enforcement agencies both within Australia and internationally.

Annual reviews of conventional computer and computer-related crime risk exposures are undertaken by the Risk Management Unit.

Corporate Security, Audit and Risk Groups formally liaise to enhance fraud awareness and to ensure that a co-ordinated approach to fraud management is adopted.

The Systems Security section has a specialist role of ensuring security of Australia Post's information technology systems.

EXAMINATION OF MAIL

The corporation is authorised under the Act to open mail, as required by the Australian Customs Service, when it is suspected that articles may contain prohibited substances or to determine that appropriate duties/taxes are met. For this purpose authorised examiners, in accordance with section 90FB of the Act, have been appointed at designated locations where mail can be so opened.

Australian Customs Service personnel have also been authorised under section 90T to remove and open articles of a particular weight that they reasonably believe may contain certain drugs or other chemical compounds. They have also been authorised under section 90FB(3) for the purpose of examining mail without opening (i.e. by X-ray or with drug detection dogs).

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 with 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 section 43(o) of the Act, Tables 1 and 2 on the following page detail the number of times that such information was disclosed during the year and the authorities or bodies to which it was disclosed.

Statutory reporting requirements

For the year ended 30 June 2006

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)]	33	Aust. Customs Service, Aust. Security Intelligence Organisation, Aust. Federal Police, State Police (Qld, SA, Tas, WA)
Disclosure under a law of the Commonwealth [s. 90J(5)]	25,935	Aust. Crime Commission, Aust. Customs Service, Aust. Taxation Office, Centrelink, Child Support Agency, Dept. of Immigration Multicultural & Indigenous Affairs, Dept. of Veteran's Affairs, Health Insurance Commission, Insolvency & Trustees Services Aust.
Disclosures under certain laws establishing commissions [s. 90J(6)]	38	Crimes Commission (NSW), 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)]	117	Aust. Security Intelligence Organisation
Disclosure for the enforcement of laws or protection of public revenue [s. 90K(5)]	6,015	Attorney General's Dept, Aust Communications Authority, Aust Competition & Consumer Commission, Aust Fisheries Management Authority, Aust Quarantine Inspection Service, Aust Securities & Investments Commission, Civil Aviation Authority, Comcare Aust., Consumer & Business Affairs (Vic), Corrections Victoria, Corruption & Crime Commission (WA), Crime & Misconduct Commission (Qld), Crown Solicitor's Office (SA), Dept of Agriculture, Fisheries & Forestry, Dept of Consumer & Employment Protection (WA), Dept of Environment & Heritage, Dept of Fair Trading (NSW), Dept of Justice (Qld), Dept of Natural Resources & Environment (Fisheries Vic), Dept of Education, Training & Youth Affairs, Dept of Health & Aged Care, Director of Public Prosecutions, Directorate of Security & Policing – Air Force, Fisheries Compliance Unit (SA), Health Professionals Registration Board, Inspector General Division, Office of Consumer & Business Affairs (SA), Office of Consumer Affairs (Tas), Office of Fair Trading (ACT), Office of Fair Trading (Qld), Office of Gaming Regulation (Qld), Office of Police Integrity (Vic), Office of State Revenue (NSW) & (Qld), Aust. Federal Police, Police (Defence Force including Military & RAAF), State Police (NSW) (NT) (Qld) (SA) (Tas) (Vic) (WA), Police (Naval Investigative Service), Police Integrity Commission (NSW), Residential Tenancies Authority (Qld), Revenue SA (SA), RSPCA, Sheriff's Office (Vic), State Revenue Office (Vic), Transport Accident Commission (Vic), WorkCover Authority (Vic), WorkCover Corp (SA), WorkCover Queensland (Qld), WorkCover New South Wales (NSW)

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

01. FIVE-YEAR STATISTICAL SUMMARY

	2001/02	2002/03	2003/04	2004/05	2005/06
CONSOLIDATED (1)					
Revenue ($m)	3,806.6	3,971.9	4,161.1	4,325.9	4,530.1
Expenditure ($m)	3,399.4	3,509.9	3,640.0	3,856.1	4,014.5
Profit from ordinary activities before income tax ($m)	407.2	462.0	521.1	469.8	515.6
Total assets ($m)	3,228.9	3,364.7	3,471.8	4,192.7	4,807.6
Return on average operating assets (%)	15.7	17.7	18.7	17.9	18.7
Cost of community service obligations ($m)	87.9	90.5	79.1	81.0	87.9
Total taxes and government charges ($m)	454.9	484.7	526.2	527.4	514.1
Ordinary and special dividends ($m) (2)	291.8	304.3	220.9	286.2	267.3
CORPORATION					
Total mail articles handled (m)	5,281.2	5,261.7	5,307.5	5,363.1	5,418.1
On-time letter delivery performance (%)	96	96.5	95.5	94.9	95.6
Full-time employees	26,950	26,394	26,019	25,851	25,387
Labour productivity improvement (%)	2.2	3.8	3.4	2.6	3.7
Number of corporate outlets	882	872	862	863	857
Number of licensed post offices	2,979	2,981	2,982	2,979	2,975
Number of postpoints	817	790	755	740	679
Number of delivery points	9,197,298	9,443,227	9,681,976	9,868,275	10,048,811

(1) Financial information for 2005 and 2006 is presented under Australian Equivalents to International Accounting Standards (A-IFRS). This has required certain financial information presented in the 2005 Annual Report to be restated to comply with A-IFRS. Full details of these changes can be found in note 32 of the financial statements (page 113). Financial information for 2002, 2003 and 2004 is presented under accounting standards applicable to these periods and has not been restated.

(2) The 2006 dividend has been determined under A-IFRS. The 2005 dividend was based on accounting standards applicable at the time and is not affected by the transition to A-IFRS.

02. BASIC POSTAGE RATE* (BPR) AND THE CONSUMER PRICE INDEX (CPI)

As at 30 June	BPR cents	CPI all groups 8 capitals base 1989–90 = 100	Year on year: Change in BPR %	Year on year: Change in CPI %	Change in real postage %
1996	45	119.8	0	0.0	0.0
1997	45	120.2	0	0.3	-0.3
1998	45	121.0	0	0.7	-0.7
1999	45	122.3	0	1.1	-1.1
2000	45	126.2	0	3.2	-3.2
2001	45	133.8	0	6.0	-6.0
2002	45	137.6	0	2.8	-2.8
2003	50	141.3	11	2.7	8.2
2004	50	144.8	0	2.5	-2.5
2005	50	148.4	0	2.5	-2.5
2006	50	154.3	0	4.0	-3.8

** Postage rates applicable to standard letters carried within Australia by ordinary post.*

Australia Post – the statistics

For the year ended 30 June 2006

03. AUSTRALIA POST OUTLETS AT 30 JUNE 2006

	NSW/ ACT	Qld	SA/ NT	Vic/ Tas	WA	Aust 2006	Aust 2005
CORPORATE OFFICES							
– at 1 July 2005	284	175	80	233	91	863	862
Changes during 2005/06							
– Opened	1	0	0	2	0	3	5
– Changed from LPO	0	0	0	0	0	0	0
– Changed to LPO	1	0	0	1	2	4	2
– Closed	1	1	0	3	0	5	2
Total at 30 June 2006	283	174	80	231	89	857	863
LICENSED POST OFFICES/FRANCHISES							
– at 1 July 2005	916	462	320	985	296	2,979	2,982
Changes during 2005/06							
– Opened	1	1	0	2	0	4	3
– Changed from corporate office	1	0	0	1	2	4	2
– Changed from community postal agency	0	0	0	0	0	0	0
– Changed to corporate office	0	0	0	0	0	0	0
– Changed to community postal agency	2	0	0	3	0	5	2
– Closed	2	0	0	5	0	7	6
Total at 30 June 2006	914	463	320	980	298	2,975	2,979
Grand total at 30 June 2006	1,197	637	400	1,211	387	3,832	3,842
Community postal agencies at 30 June 2006	99	186	185	69	91	630	632
Total outlets at 30 June 2006	1,296	823	585	1,280	478	4,462	4,474

04. AUSTRALIA POST OUTLETS BY STATE(3) AND GEOGRAPHIC CLASSIFICATION

Outlet type	Geographic (1) classification	NSW	ACT	Qld	SA	NT	Vic	Tas	WA	Other terr	Aust
Corporate offices	Metro	195	17	101	48	4	148	11	63	0	587
	Rural	71	0	62	24	0	54	17	16	0	244
	Remote	1	0	10	1	3	1	0	10	0	26
		267	17	173	73	7	203	28	89	0	857
Licensed post offices (2)	Metro	414	37	169	127	5	375	27	123	0	1,277
	Rural	421	1	202	144	3	436	114	94	0	1,415
	Remote	46	0	92	27	14	17	5	79	3	283
		881	38	463	298	22	828	146	296	3	2,975
Community postal agents	Metro	10	0	4	7	1	4	6	3	0	35
	Rural	82	0	103	101	5	32	19	40	0	382
	Remote	8	0	79	25	42	1	2	52	4	213
		100	0	186	133	48	37	27	95	4	630
Totals	Metro	619	54	274	182	10	527	44	189	0	1,899
	Rural	574	1	367	269	8	522	150	150	0	2,041
	Remote	55	0	181	53	59	19	7	141	7	522
		1,248	55	822	504	77	1,068	201	480	7	4,462

(1) Geographic classifications use DPIE/HSH November 1994 metropolitan, rural remote areas classifications by 1991 Census SLA.
(2) LPO = Licensed post office. This figure also includes one post office agency and four franchised PostShops.
(3) This table uses geographic states, not Australia Post administrative states.

05. MAIL DELIVERY NETWORK AT 30 JUNE 2006
For the year ended 30 June 2006

	NSW/ACT	Qld	SA/NT	Vic/Tas	WA	Aust 2006	Aust 2005
PRIVATE HOUSEHOLDS RECEIVING MAIL VIA:							
Street delivery	2,607,791	1,371,074	626,573	2,034,626	763,339	7,403,403	7,301,216
Post office boxes/locked bags	251,653	203,131	122,637	199,553	101,176	878,150	837,898
Private and community bags	5,350	3,038	10,534	1,146	4,119	24,187	25,517
Roadside delivery	174,861	130,332	10,861	145,739	14,707	476,500	468,601
Counter delivery	40,209	38,037	42,506	51,279	24,401	196,432	195,458
Total	3,079,864	1,745,612	813,111	2,432,343	907,742	8,978,672	8,828,690
BUSINESSES RECEIVING MAIL VIA:							
Street delivery	195,468	113,818	41,442	159,030	50,233	559,991	536,089
Post office boxes/locked bags	170,213	107,411	37,137	111,392	48,173	474,326	468,669
Private and community bags	429	572	938	445	463	2,847	2,874
Roadside delivery	5,794	4,363	648	4,542	367	15,714	15,103
Counter delivery	3,331	2,530	2,806	6,395	2,199	17,261	16,850
Total	375,235	228,694	82,971	281,804	101,435	1,070,139	1,039,585
Total delivery points	3,455,099	1,974,306	896,082	2,714,147	1,009,177	10,048,811	9,868,275

06. LETTER SENDERS' ACCESS TO POSTAL NETWORK

	Metro areas	Rural areas	Remote areas	Total
ACCESS TO STAMPS AND POSTAGE ASSESSMENT				
(Number of facilities)				
Total retail outlets	1,899	2,041	522	4,462
Other outlets (1)	1,992	2,713	318	5,023
Total outlets (2)	3,891	4,754	840	9,485
ACCESS TO POSTING FACILITIES				
(Number of facilities)				
Total retail outlets	1,899	2,041	522	4,462
Community mail agents	7	35	81	123
Street posting boxes	10,959	3,978	499	15,436
Roadmail contractors (3)	719	2,389	478	3,586
Posting facilities (4)	13,584	8,443	1,580	23,607
DISTANCE FROM POSTAL OUTLETS				
Average household distance from outlets (km)	1.1	3.2	13.3	2.0
DISPERSION				
% of households within 2.5 km of a retail outlet	94.0	68.9	57.3	86.4
% of households within 7.5 km of a retail outlet	99.7	88.2	72.3	95.9

(1) Includes postpoints, licensed stamp vendors, off-site vending machines, etc (self assessment only).
(2) Does not include roadmail contractors, all of whom, on request, would arrange supply of stamps.
(3) Roadmail contractors, on request, accept letters for posting.
(4) In addition, postal delivery officers, on request, accept letters for posting.

07. LETTER RECIPIENTS' ACCESS TO POSTAL NETWORK (000 delivery points)

	Metro areas	Rural areas	Remote areas	Total
HOUSEHOLDS				
Delivery to residence via:				
Street delivery	5,803.7	1,509.5	90.2	7,403.4
Roadside delivery	125.9	335.6	15.0	476.5
Total to residence	5,929.6	1,845.1	105.2	7,879.9
Delivery to postal premises via:				
Post office boxes and bags	411.8	389.7	79.7	881.2
Counter delivery	28.8	117.5	50.1	196.4
Total at postal premises	440.6	507.2	129.8	1,077.6
Delivery to intermediate point via:				
Community bags	1.2	11.1	8.9	21.2
Total households	6,371.4	2,363.4	243.9	8,978.7
BUSINESS				
Delivery via:				
Street delivery	442.9	111.5	5.6	560.0
Roadside delivery	7.4	7.9	0.4	15.7
Post office boxes and bags	324.6	130.1	21.6	476.3
Counter delivery	3.8	11.5	2.0	17.3
Delivery to intermediate point via:				
Community bags	0.1	0.5	0.2	0.8
Total business	778.8	261.5	29.8	1,070.1
Total delivery points served	7,150.2	2,624.9	273.7	10,048.8

08. FREQUENCY OF SERVICE TO DELIVERY POINTS (% of total delivery points as at 30 June 2006)

Frequency per week	Metro areas	Rural areas	Remote areas	Total
One per week	0	0.1	0.3	0
Two to four	0.1	4.1	5.4	1.3
Five or more	99.9	95.8	94.3	98.7
Total	100.0	100.0	100.0	100.0

09. OVERALL LETTER SERVICE PERFORMANCE IN 2005/06

	Qtr ended 30/9/05	Qtr ended 31/12/05	Qtr ended 31/3/06	Qtr ended 30/6/06	Full year 2005/2006
Based on letters delivered in the following:					
PER CENT ON TIME					
NSW	95.4	95.7	95.4	95.8	95.6
ACT	94.7	97.3	95.4	95.3	95.7
Qld	95.3	96.0	96.2	94.5	95.5
SA	95.2	94.9	95.2	94.8	95.0
NT	95.9	96.0	95.4	95.2	95.6
Vic	96.2	94.8	95.7	95.3	95.6
Tas	97.9	96.7	97.9	97.6	97.5
WA	96.0	96.2	96.1	95.6	95.9
National averages	95.7	95.6	95.7	95.4	95.6
PER CENT + ONE DAY					
NSW	98.3	98.4	98.1	98.4	98.3
ACT	98.2	98.8	98.0	98.2	98.3
Qld	98.3	98.7	98.5	98.0	98.4
SA	98.5	98.3	98.3	98.1	98.3
NT	98.9	98.7	98.7	98.4	98.6
Vic	99.0	98.6	98.7	98.5	98.7
Tas	98.8	98.9	99.1	98.9	98.9
WA	98.6	98.7	98.8	98.5	98.6
National averages	98.5	98.6	98.4	98.4	98.5

10. SUMMARY OF AUSTRALIA POST PROPERTY PORTFOLIO AS AT 30 JUNE 2006

	NSW	Qld	SA	Vic/Tas	WA	Total
PROPERTY TYPE – OWNED						
Commercial	2	1		1		4
Industrial	47	42	15	55	23	182
Residential	1	6		1	3	11
Retail	126	42	36	87	25	316
GPO	1	1	2	1	1	6
	177	92	53	145	52	519
PROPERTY TYPE – LEASED						
Commercial	11	5	2	11	0	29
Industrial	90	27	9	63	9	198
Residential	0	0	1	2	8	11
Retail	149	125	41	149	58	522
GPO	1	0	0	0	0	1
	251	157	53	225	75	761
PROPERTY TYPE – ALL						
Commercial	13	6	2	12	0	33
Industrial	137	69	24	118	32	380
Residential	1	6	1	3	11	22
Retail	275	167	77	236	83	838
GPO	2	1	2	1	1	7
	428	249	106	370	127	1,280

a. Commercial includes national headquarters and state office/regional office administration.
b. GPOs are those general post offices located in central city business districts.
c. Melbourne GPO no longer has an Australia Post presence – reclassified as commercial use.
d. Industrial includes mail centres, parcel and transport centres, warehousing and some stand alone or co-located business centres.
e. Retail includes retail PostShops and traditional post offices.

Australia Post – the statistics

For the year ended 30 June 2006

11. TOTAL ARTICLES THROUGH AUSTRALIA POST'S NETWORK (MILLIONS) (1)

	2001/02	2002/03	2003/04(2)	2004/05	2005/06
Posted in Australia for delivery in Australia	4,961.9	4,950.4	5,016.1	5,102.1	5,125.7
Posted in Australia for delivery overseas	172.8	164.8	169.1	141.8	151.3
Total posted	5,134.7	5,115.2	5,185.1	5,243.9	5,277.0
Posted overseas for delivery in Australia	146.5	146.5	122.3	119.2	141.1
Total articles through network	5,281.2	5,261.7	5,307.5	5,363.1	5,418.1

(1) Mail volume statistics exclude articles that do not generate revenue e.g. official mail, redirected mail and international mail in transit (e.g. Singapore to New Zealand via Australia).
(2) A revision in the methodology was applied in 2003/04. This resulted in a reduction in mail from overseas.

12. PERSONS ENGAGED IN PROVIDING POSTAL SERVICES AT 30 JUNE 2006

	Mail & Networks Division								Commercial Division									
Australia Post employment	HQ	NSW/ACT	Qld	SA/NT	Vic/Tas	WA	Head office	Total	NSW/ACT	Qld	SA/NT	Vic/Tas	WA	Head office	Total	Other operating divisions	Total June 2006	Total June 2005
FULL TIME																		
Permanent	524	7,348	2,891	1,227	4,806	1,456	671	18,399	1,679	882	358	1,152	493	204	4,768	1,315	25,006	25,461
Fixed term	6	135	53	11	13	17	9	238	45	15	2	28	18	5	113	24	381	390
Total full time	530	7,483	2,944	1,238	4,819	1,473	680	18,637	1,724	897	360	1,180	511	209	4,881	1,339	25,387	25,851
PART TIME																		
Permanent	21	1,484	486	275	1,554	370	26	4,195	1,319	810	265	1,116	371	1	3,882	36	8,134	7,806
Fixed term	2	134	88	107	168	80	16	593	125	122	44	112	62	0	465	2	1,062	1,147
Total part time	23	1,618	574	382	1,722	450	42	4,788	1,444	932	309	1,228	433	1	4,347	38	9,196	8,953
OTHERS																		
Casuals	0	62	14	2	7	4	1	90	103	33	5	23	4	0	168	1	259	220
Agency (1)	12	38	0	139	110	116	19	434	37	13	11	57	32	9	159	178	771	950
LPOs (2)	0	0	0	0	0	0	0	0	914	463	320	980	298	0	2,975	0	0	
Mail contracts (2)	0	1,503	1,602	361	1,434	485	0	5,385	0	0	0	0	0	0	0	0	5,385	5,421
Total others	12	1,603	1,616	502	1,551	605	20	5,897	1,054	509	336	1,060	334	9	3,302	179	6,415	6,591

(1) Persons working in award-level positions under contract arrangements with preferred employment providers.
(2) Denotes the number of LPOs/mail contracts and does not reflect the number of persons who may be involved in providing postal services.

GRAPHS, TABLES AND CHARTS

(not including Financial and Statutory Reports)

	Pages
Allocation of community support 2005/06	41
Australia Post retail outlets	22
Business customer satisfaction with Australia Post	41
Contribution to economic development	47
Decline in workplace injuries at Post	36
Directors' attendance at meetings	56
Dividends payable	8
Five-year trends (financial)	8
Key business results	2
Mail volumes	8
Ongoing labour productivity improvements	8
Operating profit before tax	8
Organisational structure	57
Our environmental performance	51
Our workforce profile	34
Performance against targets	3
The price of a basic postage stamp	17
Profit from reserved and non-reserved services	47
Reduction of greenhouse gas emissions per $ million	50
Residential customer satisfaction with Australia Post	41
Return on average operating assets	8
Revenue	8

Notes:

Information that satisfies a statutory reporting requirement is indexed separately (see pages 128–30)

IFC = inside front cover, IBC = inside back cover

A

ABSP (Australian Business and Specialist Publishers) 40
ACCC public report 47
accounting policies and standards 72–80, 85, 101
acquisitions 9, 18, 30, 45, 46, 50, 88, 93, 100, 112
address verification services 6
ADMA (Australian Direct Marketing Association) 40
ageing (of the workforce) 34
agency services 23
A-IFRS (Australian Equivalents to International Financial Reporting Standards: IFRS) 9, 72, 113–121
apprenticeships 35
Archives Act 1983 43
archiving and retrieval services 6
arts, support for 38, 39, 41, 42
Asia–Pacific region 4, 5, 7, 9, 18, 28
asset protection 46–7
assets and liabilities 45, 67, 113–14
audit
- environmental 50
- external 47, 54–5
- internal 55

audit report, independent 64
Audit & Risk Committee 53
Auditor-General's Report 62, 123
Australia Post Superannuation Scheme (APSS) 89
Australian Accounting Standards Board (AASB): *see* accounting policies and standards
Australian air Express 7, 29, 88
Australian Champions IFC, 2, 24, IBC
Australian Legends Award 2006 1, 43, IBC
Australian Postal Corporation Act 1989 4, 17, 22, 46, 47, 52, 72, 73, 121, 122, 128–9, 131
awards
- AHRI Innovation Award (commendation) 33
- Australia Post Community Champion Award 39, 43
- Australia Post National Excellence Awards 37
- Australian Teleservices Association Teleprofessional of the Year 39
- DEWR Mature Age Employer Champion Award 33, 34
- Telstra Prepaid Dealer of the Year 24

B

Balance Sheet 62, 67
Bank@Post 23, 24
banking services 2, 6, 21, 24, 45
basic postage rate 17, 135
Be Seen in Red and Green 39, 42
bill payment services 2, 6, 16, 21, 23
Billmanager 23–4
board committees 52–3
board of directors 52, 57, 58–9, 131
bonds 95, 106
borrowings: *see* loans
bulk mail 6, 15, 18, 40
Bulk Mail Partner program/accreditation 18, 19, 40
business segments, accounting for 99–101
business strategy/goals 5, 9, 10, 11, 19, 131

C

capital, weighted average cost of 46
capital expenditure 9, 46
capital losses 119
cash flow statement 62, 68, 110–12
cash management 9
cash received & used 68
Charity Mail 19
China Post: *see* Sai Cheng Logistics
Code of Ethics 4, 53–4
commitments, schedule of 70
Commonwealth Authorities and Companies Act 1997 46, 52, 63, 72, 128, 131
Commonwealth Games 2006 IFC, 2, 21, 24–5, 35, 36, 43
community 38–43
Community Champions: *see* awards
community health, support for 39, 41, 43
community service obligations (CSOs) 4, 17, 22, 122
competition 47
consolidation, basis of 73
contingencies, schedule of 71
contingent liabilities 71, 121
contracts (mail, courier & parcel) 7, 140
control, internal 55, 63
controlled entities 67, 68, 87, 96, 105, 113–14
core business 4, 5, 12–13, 14–31, 131
corporate governance 5, 52–60
corporate image monitor 41
corporate information 121
corporate offices 22
corporate plan 131
corporate sustainability 32–51
costing system 47
courier services (*see also* Express Courier International, Messenger Post Couriers, SnapX) 7
credit rating 47
credit risk 107
customer contact centres 23, 40–41
customer satisfaction 35, 39, 41
customer service 37
customers served 2, 4, 21, 23
Cyclone Larry IFC

Index

D

debt, long-term 9
debt, short-term 109
debt to debt plus equity 8, 9
debts, provision for doubtful 85
Decipha 2, 7, 87
delivery: *see* letters, delivery of
delivery points, frequency of service to 138
Demand Chain Management system 21, 25
depreciation and amortisation 46, 84, 91, 93, 100, 111, 116
DeskDirect 18
Development Pathways program 35
direct mail/marketing (*see also* promotional mail) 15, 16, 18–19
directors: *see* board of directors
discrimination and harassment 35, 37, 43
distribution services 7
diversity, workforce 34–5
dividends IFC, 8, 9, 45, 46, 73, 81, 83, 88, 97, 98, 116, 121
Down Syndrome Victoria 42

E

economic development, contribution to 47
economy 44–7
education and literacy, support for 39, 41–2
eLetter Solutions 2, 10, 14, 15, 17, 19
eLMS (Electronic Lodgement of Mailing Statements) 18
employee entitlements 111
employees and contractors 4, 34, 44, 45, 46, 140
energy management 49, 50
environment 5, 41, 46, 48–51
Environment Protection and Biodiversity Conservation Act 1999 128, 129, 131
environmental management and performance 50, 51
equal employment opportunity 35
equity 97, 113, 114, 115, 117–20
events after balance date 121
Executive Committee 57, 60
Express Courier International 2, 7, 9, 11, 12, 13, 27, 28, 29, 30, 32, 34
Express Post 2, 27, 28–9

F

financial and statutory reports 61–140
financial instruments 106–9
financial results 8–9, 12
financial report 63
  notes to and forming part of the 72–121
financing activities 68
First Direct Solutions 2, 19
five-year trends 8
foreign currency 66, 81, 82, 88, 106, 116
franchise agreements 23
fraud 133
Freedom of Information Act 1982 128, 129, 131, 132–3
freight forwarding 2, 7, 13, 30
fuel efficiency and alternatives 50
fulfilment 7

G

gearing 9
goodwill 73, 78, 94, 118
Governance Arrangements for Commonwealth Government Business Enterprises (1997) 52
government grants 73, 84, 115, 119
government policies 131–2
greenhouse gas emissions 49, 51

H

harassment: *see* discrimination and harassment
health and wellbeing (of staff) (*see also* occupational health and safety) 13, 35
health (community), support for 39, 41, 43
hedging 55, 69, 72, 74–5, 83, 88
heritage properties 39, 43
Human Resources Committee 53
human rights 43

I

identity checks/verification services IFC, 2, 6, 21, 24, 25
income statement 62, 66
Indigenous employees 34
information, disclosure of 133–4
innovation 17
insurance 80
intangibles 93, 112
interest 8, 9, 96, 100, 109, 111, 116, 127
international couriers: *see* Express Courier International
International Financial Reporting Standards (IFRS) 9, 72, 113
international gateway facilities 2
international mail: *see* letters
inventory management 10, 25
investing activities 68
investments 9, 94, 100, 111, 113–14, 117
iPrint 7, 88

JK

joint ventures / jointly controlled entities IFC, 7, 26, 29, 30, 67, 69, 71, 81, 85, 86, 88, 97, 100, 105, 113–14, 116, 127
KPG Alliance 13, 29

L

labour productivity 8, 33, 47
land and buildings 70
Landcare Australia 49, 51
leadership development programs 35
leases, operating and finance 70, 71, 73, 81, 85, 86, 106, 109–10
letter sorting 17
letter volumes 2, 12, 15, 16, 17, 18
letters, delivery of IFC, 2, 3, 17, 15, 17, 18, 36, 122, 125, 138, 139
letters service/market 2, 4, 5, 9, 10, 14–19, 99, 100, 101, 139
liabilities 67, 95
  contingent 71
  legal 71, 131
licensed post offices (LPOs) 7, 23, 44
Licensee Advisory Council 23
Life After Post survey 34
loans 67, 81, 86, 95, 96, 108, 112
logistics (*see also* parcels and logistics) IFC, 2, 4, 7, 11, 29–30
long-service leave 73, 79, 96, 103, 104
lost-time injuries 3, 13 33, 36

M

mail delivery points/network 4, 51, 116, 118, 137
mail production 19
mail volumes 1, 2, 8, 140
mailroom services 19, 28
Major Mail Users of Australia 40
Mensline Australia 33, 35
merchandise 22, 24
Messenger Post Couriers 29
Money for Keeps program 33, 36
money orders and transfer services 6, 24, 27
motorcycle safety 36, 132

N
National Archives of Australia 43
National Literacy and Numeracy Week 39, 41
notes to and forming part of the financial report 72–121
notes to the cash flow statement 110–12

O
occupational health and safety 36–7
Occupational Health and Safety (Commonwealth Employment) Act 1991 36–7, 128, 129, 131
One Call Customer Mail 18–19
on-line trading 9, 26, 28
operating activities 68
organisational structure 57
outlets, postal/retail 3, 22, 136
OzOpera 38, 39

PQ
Parcel Post 28
parcel volumes 2, 9, 27, 28, 29, 30
parcels and logistics 2, 5, 7, 9, 11, 26–31, 99, 100, 101
passport services: *see* identity checks; travel services
Pathways program 32, 35
performance measurement 15, 17–18
philanthropy 42
philatelic products and services 5, 24–5, 39, 43, IBC
Planet Ark 49, 50, 51
Post eLetter 18
Post Fulfilment Online 7, 30
Post Logistics 2, 29–30, 36
postage rate, basic 17, 135
postal network 5, 6, 137, 138
Postal Services Act 1975 121
Postal Services Consultative Council 40
Postie Safety campaign 36, 132
posting facilities 3, 122, 137
Print Post 18
PrintSoft 7, 9, 10, 12, 13, 18, 87, 111
priorityCustomer program 23
privacy 56, 133
procurement policy 46
productivity IFC, 8, 9, 12, 13, 33
profit
  after tax 1, 8, 9, 46, 69, 116
  before tax 3, 8, 9, 97, 100, 116, 117–20, 127
  operating 97
  retail 2
profit from reserved and non-reserved services 47
profits, retained 113–15
promotional mail 2, 6, 16
property, plant and equipment 66, 70, 76, 91–2, 100, 111, 112, 113–14, 115, 117, 119
property portfolio 139
Qantas: *see* Australian air Express; Star Track Express

R
radio frequency identification (RFID) technology 1, 2, 15, 17–18
recognised income & expense, statement of 69
recycling 49, 51
remuneration and benefits 54, 102–5
report of operations 1–60, 63
reporting requirements, statutory 128–34
reserved/non-reserved services 47, 127
retail and agency services 2, 5, 9, 10–11, 20–25, 99, 100, 101
retail outlets/network 2, 4, 122
Retail Star Performance program 23
return
  on operating assets 3, 8, 46, 127
  on equity 3
  on investment 46
  on revenue 127
returns management 7
revenue base 30
revenues 2, 8, 9, 10, 17, 19, 23, 66, 81, 100, 116, 127
risk management 46, 55, 63, 106

S
safety 1, 13, 36
Safety Rehabilitation and Compensation Act 1988 79
Sai Cheng Logistics IFC, 2, 7, 13, 26, 27, 28, 29, 30, 88
Santa Mail program 41–2
schedule of commitments 70
schedule of contingencies 71
security, corporate 56
Shared Services Division 23, 29
shareholder, relationship with 4, 46
shareholder ministers 46, 52
SnapX couriers (*see also* Messenger Post Couriers) 87
social mail 16
sponsorships 38, 39, 41–43
staff: *see* employees
Staff Attitude Survey 2005 13, 33, 35
stamp issues and exhibitions (*see also* philatelic) 21, 25, 39, 43, 51, IBC
Star Track Express 7, 29, 88
State Warehouse and Distribution Services: *see* SWADS
statement of financial performance: *see* income statement
statement of financial position: see balance sheet
statement of recognised income & expense 69
statements by directors 63, 72
statistical summary 135–40
Statutory Report 63, 128–34
statutory reporting requirements 128–134
Staying Connected program 33, 35–6
stock management 2, 23
succession management 35
superannuation 73, 84, 89–90, 100, 103, 104, 111, 113–14, 115, 119, 131, 132
supply chain management 2, 5, 7, 10, 25
survey certification 126
sustainability 5, 11, 46
SWADS 7, 30, 50

T
targets, financial and non-financial 3, 131
taxation and taxes IFC, 45, 66, 69, 75–6, 83–5, 97, 98, 111, 112, 113–14, 115, 116, 119
termination benefits 102, 103
trade practices compliance 47, 56
training and development 35, 46
transactional mail 16–17
travel services 2, 6, 11, 20, 21, 22, 24
treasury policy 55–6
Treasury Risk Management Committee 55

UVW
Unaddressed Mail 2, 18
values 4
Walk to Cure Diabetes 39
wellbeing: *see* health and wellbeing
whistleblower policy 54
women employed IFC, 3, 32, 33, 34
Work and Ageing survey 33, 34
workers' compensation 71, 73, 79–80, 96

Contact details & about this report

CONTACT DETAILS

Australia Post Headquarters

321 Exhibition Street
MELBOURNE VIC 3000

GPO Box 1777
MELBOURNE VIC 3001

Phone 03 9204 7171
Fax 03 9663 1160

Customer Contact Centres (all states & territories)

Phone 13 13 18 (general enquiries)

Phone 13 13 17 (enquiries re postcodes, post office locations, and hours of operation)

Phone 13 11 18 (business enquiries)

Websites

auspost.com.au
auspost.com.au/eletter
auspost.com.au/education
decipha.com.au

STATE/TERRITORY OFFICES

Australian Capital Territory

7–9 Geelong Street
FYSHWICK ACT 2609

Locked Bag 7000
MANUKA ACT 2603

Phone 02 6209 8111
Fax 02 6209 8132

Queensland

GPO
261 Queen Street
BRISBANE QLD 4000

GPO Box 6000
BRISBANE QLD 4001

Phone 07 3109 5501
Fax 07 3109 5222

Victoria

321 Exhibition Street
MELBOURNE VIC 3000

GPO Box 1777
MELBOURNE VIC 3001

Phone 03 9204 7171
Fax 03 9299 4733

New South Wales

219–241 Cleveland Street
STRAWBERRY HILLS
NSW 1420

PO Box 1018
STRAWBERRY HILLS
NSW 1420

Phone 02 9202 6033
Fax 02 9202 6733

South Australia

GPO
141 King William Street
ADELAIDE SA 5000

GPO Box 4000
ADELAIDE SA 5001

Phone 08 8402 6019
Fax 08 8402 6218

Western Australia

GPO Box 9000
PERTH WA 6848

Phone 08 9237 5000
Fax 08 9322 7743

Northern Territory

GPO
48 Cavenagh Street
DARWIN NT 0800

GPO Box 3600
DARWIN NT 0801

Phone 08 8402 6019
Fax 08 8402 6218

Tasmania

GPO
9 Elizabeth Street
HOBART TAS 7000

GPO Box 4000
HOBART TAS 7001

Phone 03 6236 3501
Fax 03 6236 3599

COPIES OF THIS REPORT

This report can be found at auspost.com.au.

Phone 03 9204 8266 to request a printed copy.

ABOUT THIS ANNUAL REPORT

Writer/Project manager

Claire Beaumont

Design

Magnetic Design

Australia Post publications manager

Leonie Fleming

Consultant

Paul O'Farrell

Proofreader

Context Editorial

Print management

iPrint

Pre-press

wellcom

Paper

Papers stocks used in this annual report were manufactured at ISO 14001 accredited mills using low environmental impact pulps. Fibre used in both paper stocks is sourced from sustainable forests or managed plantations.

Printing

This annual report was printed by ISO 14001 accredited Finsbury Green Printing, using vegetable-based inks on Heidelberg CD 2000 presses. Printing plates were made using computer-to-plate systems, which eliminate the need for film and its associated chemicals.

Photographer

James Braund

Other small photographs sourced from the Australia Post image library, except for photos of Cyclone Larry and Community Champion (both inside front cover) from Newspix.

SOCCER IN AUSTRALIA

— 9 MAY 2006

AUSTRALIAN WILDFLOWERS

— 7 FEBRUARY 2006

QUEEN'S BIRTHDAY — 19 APRIL 2006

COMMONWEALTH GAMES
MOST MEMORABLE MOMENT

— 28 MARCH 2006

MELBOURNE 2006
COMMONWEALTH
GAMES LOGO

— 12 JANUARY 2006

Putting our stamp on every day

Featuring selected stamps from selected issues

CHRISTMAS – 1 NOVEMBER 2005

DOWN ON THE FARM – 4 OCTOBER 2005

WHALES DOWN UNDER – 6 JUNE 2006

POSTIE KATE – 1 JUNE 2006

AUSTRALIAN WINE – 19 JULY 2005

LIGHTHOUSES FROM THE 20TH CENTURY

– 2 MAY 2006

AUSTRALIAN LEGENDS – 20 JANUARY 2006

COMMONWEALTH GAMES AUSTRALIAN CHAMPIONS SHEETLET (NO. 14) – 25 MARCH 2006

ROSES – 27 JANUARY 2006

NATIVE TREES – 8 AUGUST 2005

MONDAY TUESDAY WEDNESDAY THURSDAY FRIDAY SATURDAY SUNDAY