

AUDIT REPORT

TO THE DIRECTORS OF AUSTRALIAN PUBLISHERS ASSOCIATION LIMITED
A.B.N. 81 003 985 313

Scope

We have audited the schedule of comparative recommended retail pricing data ("the Schedule") of a selection of fiction titles of the five largest Publisher members of the Australian Publishers Association for the period from 1 November 2015 to 31 March 2016 as set out in Appendix A. Management is responsible for the preparation and presentation of the Schedule, selection of samples, compilation of data, and for maintaining a system of internal controls that enables the preparation of a schedule that is free of material errors. We have conducted an independent audit of the schedule in order to express an opinion on it to the Directors.

The attached Schedule has been prepared for the purpose of evaluating pricing variances in the international retail book market. We disclaim any assumption of responsibility for any reliance on this report or on the Schedule to which it relates to any person other than the Australian Publishers Association for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the Schedule is free of material misstatement. Our procedures include examination, on a test basis, of evidence supporting the amounts disclosed in the Schedule and the evaluation of the methodology used to gather and compile the RRP data. These procedures have been undertaken to form an opinion as to whether, in all material respects, the schedule presented fairly a comparison of RRP of the selected titles.

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

Audit Opinion

In our opinion the attached Schedule presents fairly a comparison of the recommended retail price of the selected titles between the reported international book markets.

Camphin Boston
Chartered Accountants

Justin Woods
Partner

Sydney

Dated this 3 day of June 2016

Appendix 'A'

Average RRP of selected titles of five largest Publisher Members of the APA

AU RRP	Avg UK RRP (AUD)	Avg US RRP (AUD)	Avg NZ RRP (AUD)	Avg HK RRP (AUD)
12.99	14.56	17.63	14.99	18.55
14.99	16.31	15.15	17.30	16.17
15.99	15.02	22.12	17.67	15.84
16.99	16.13	19.08	18.17	19.64
17.99	17.24	19.22	18.17	22.17
19.99	19.41	20.17	22.49	24.48
22.99	18.73	25.84	23.52	34.73
24.99	21.90	28.55	25.75	26.19
29.99	35.01	35.07	31.34	40.32
32.99	37.18	36.40	33.05	46.88
34.99	33.32	32.60	35.45	38.75
39.99	38.98	38.87	40.90	41.64
46.99	41.67	45.14	50.00	42.86
49.99	53.82	46.54	45.08	49.99

Variance in Average RRP

RRP Group	Avg AU - UK	Avg AU - US	Avg of AU - NZ	Avg AU - HK
a. < 19.99	-0.75	-1.76	-1.84	-2.55
b. 19.99	0.58	-0.18	-2.50	-4.49
c. 20 to 28.99	3.74	-2.79	-0.74	-8.20
d. 29.99	-4.74	-4.18	-1.07	-10.33
e. > 30	-2.10	-1.71	-0.11	-10.04

RRP Group	Avg AU - UK	Avg AU - US	Avg of AU - NZ	Avg AU - HK
a. \$10 to \$14.99	1.46	1.69	2.30	2.38
b. \$15 to \$19.99	-0.66	0.75	1.94	3.94
c. \$20 to \$24.99	-3.87	3.04	0.61	8.87
d. \$25 to \$29.99	4.50	4.03	1.11	9.94
e. \$30 to \$34.99	3.94	3.43	0.17	13.47
f. \$35 to \$39.99	-1.78	-2.19	0.69	1.77

The following foreign exchange rates have been used in the preparation of the comparative pricing data tables:

USD/AUD	0.8584
GBP/AUD	0.5165
NZD/AUD	1.1644
HKD/AUD	6.6654

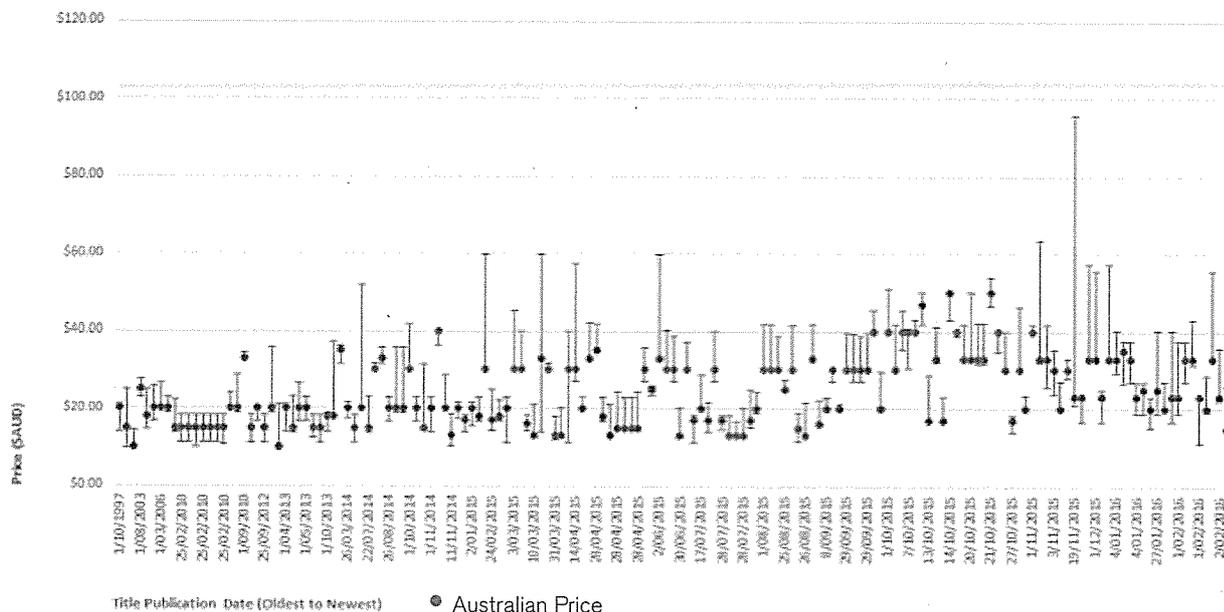
Book Prices in Australia

An examination of the prices of the same titles across different countries shows that book prices in Australia are broadly similar to prices in comparable markets.

The major English language markets for books, and the most important trading partners for Australian writers and their publishers, are the United States and the United Kingdom. Hong Kong and New Zealand are smaller English language markets closer, both in size and geographically, to Australia. They are also markets without effective territorial publishing rights that allow the parallel importation of books.

fig.1

High-Low Price Ranges for Individual Book Titles Across Different Markets



The APA has compiled a sample of nearly 200 titles from five major publishers. The list, with details, is at Table 1. The sample includes bestselling titles from a variety of categories: adult general and literary fiction, young adult, illustrated children's, biography, self-improvement, politics and food. For each title, we have compared:

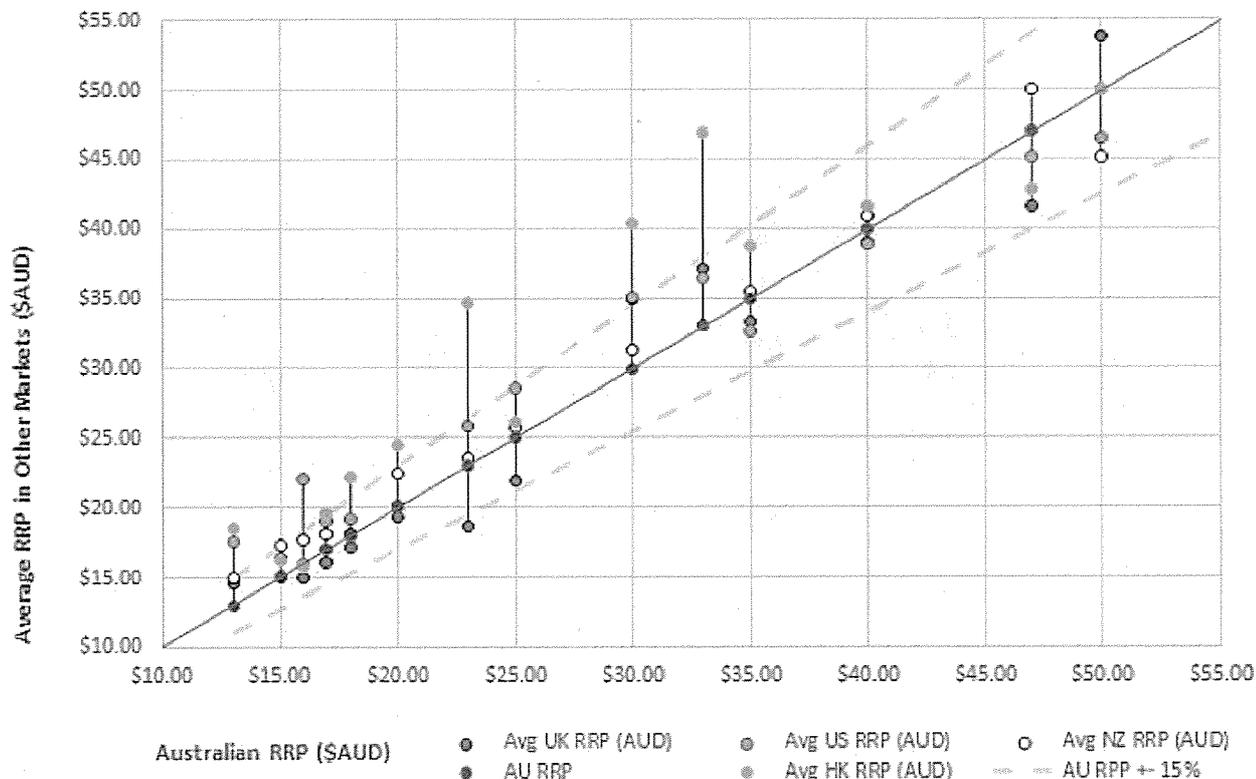
- The date it was published in Australia
- The date it was published in the UK
- The date it was published in the US
- The recommended retail price (RRP) in Australia
- The RRP in UK
- The RRP in the USA
- The RRP in New Zealand
- The RRP in Hong Kong
- The actual price, when available, in Kmart, Target and Big W
- The ebook RRP for Australia
- The ebook RRP in the UK
- The ebook RRP in the US

In Figure 1 a vertical bar showing the range of recommended retail prices, from highest to lowest, across the five markets. A red dot shows where the Australian RRP sits within that range. The chart shows the full list of titles, in order of publication. It can be clearly seen that the red dots are not consistently at the top of the bars. Books are not being priced for the Australian market higher than for the other comparable markets.

The red dots in Figure 1 are not evenly distributed along the vertical axis. The clusters reveal a number of common price points.

fig.2

How Books at Different Australian Price Points Are Priced in Other Markets



For each price point at which books were priced in Australia, Figure 2 compares the level at which they were priced in the other markets. Each vertical bar shows a price point used in Australia. The Australian price is shown on the horizontal axis. The price in the other markets is shown on the vertical axis. There are clear price points at \$15, \$20 and \$25, but there are also price points at \$16, \$17, \$18 and \$23. The vertical bars show, for each particular price in Australia, how books sold at that price in Australia were priced in other markets. For example, the bar at an Australian RRP of \$22.99 shows that books priced in Australia at \$22.99 were priced across the other markets at average prices ranging from \$18.73 to \$34.73. The coloured dots show, for each one of the other markets, the average price of titles from that price point in Australia. For example, for books priced in Australia at \$25 (or \$24.99), the average price of those books in the UK was \$21.90. The average price in New Zealand for a book priced in Australia at \$25, was \$27.26.

Once again, the red dots are not consistently, or even frequently, at the top of the bars. The prices of books in Australia are not consistently higher than for other comparable markets.

fig.3

Average Difference from Australian RRP of Book Prices in Other Markets

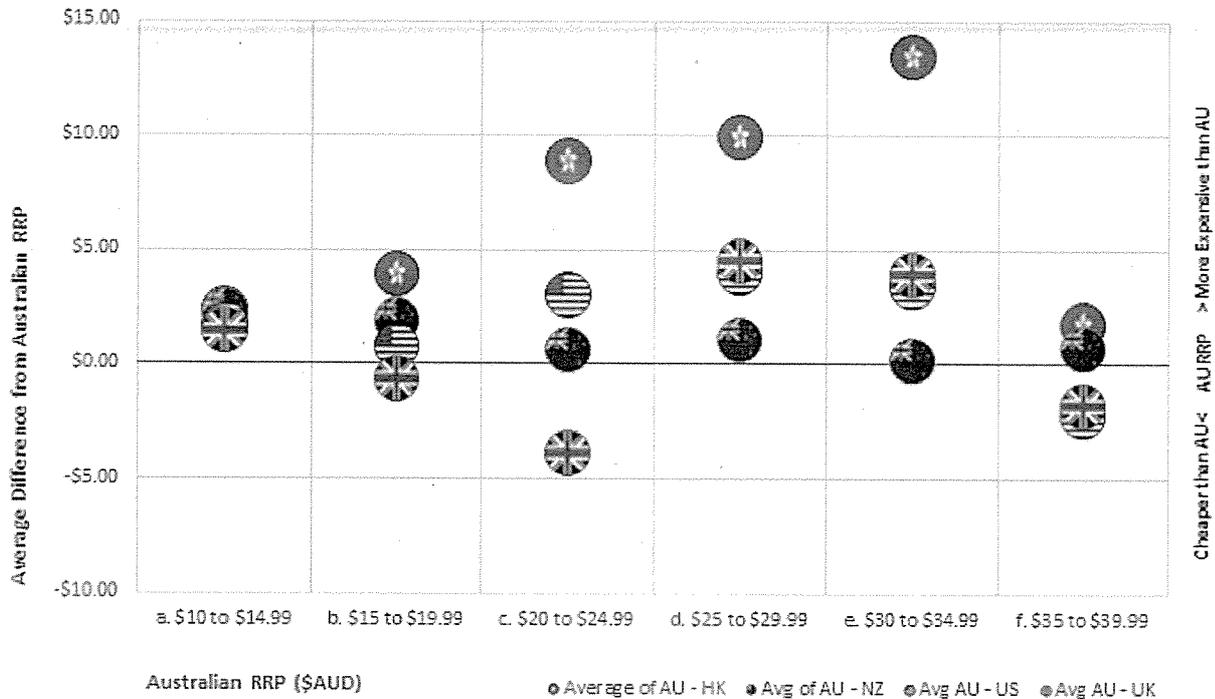


Figure 3 shows the average difference in the price of a book between Australia and the other markets at different price levels. When a country's flag is on the red line in a column, then for titles in that price range in Australia there was on average no difference between their price in that country and their price in Australia. For example, New Zealand's flag is close to the red line in column e. \$30 to \$34.99 because books priced in Australia between \$30 to \$34.99 had prices in New Zealand only \$0.17 more expensive on average. When a country's flag appears below the red line, then those titles were on average priced more cheaply in that country than they were in Australia. Flags above the line indicate that the titles had higher prices. For example, books priced in Australia between \$25 - \$29.99 had prices on average \$9.94 more expensive in Hong Kong. If Australian books were consistently more expensive than the other markets, all the flag points would appear below the red benchmark line. To the contrary, in more than half the cases surveyed the Australian prices were within \$2 of the cheapest anywhere, and almost a third of titles (31.3%) were priced cheapest for the Australian market.

AUDIT REPORT

TO THE DIRECTORS OF AUSTRALIAN PUBLISHERS ASSOCIATION LIMITED
A.B.N. 81 003 985 313

Scope

We have audited the schedule of comparative recommended retail pricing data ("the Schedule") of a selection of fiction titles of the five largest Publisher members of the Australian Publishers Association for the period from 1 November 2015 to 31 March 2016 as set out in Appendix A. Management is responsible for the preparation and presentation of the Schedule, selection of samples, compilation of data, and for maintaining a system of internal controls that enables the preparation of a schedule that is free of material errors. We have conducted an independent audit of the schedule in order to express an opinion on it to the Directors.

The attached Schedule has been prepared for the purpose of evaluating pricing variances in the international retail book market. We disclaim any assumption of responsibility for any reliance on this report or on the Schedule to which it relates to any person other than the Australian Publishers Association for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the Schedule is free of material misstatement. Our procedures include examination, on a test basis, of evidence supporting the amounts disclosed in the Schedule and the evaluation of the methodology used to gather and compile the RRP data. These procedures have been undertaken to form an opinion as to whether, in all material respects, the schedule presented fairly a comparison of RRP of the selected titles.

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

Audit Opinion

In our opinion the attached Schedule presents fairly a comparison of the recommended retail price of the selected titles between the reported international book markets.

Camphin Boston
Chartered Accountants

Justin Woods
Partner

Sydney

Dated this 3 day of June 2016

Appendix 'A'

Average RRP of selected titles of five largest Publisher Members of the APA

AU RRP	Avg UK RRP (AUD)	Avg US RRP (AUD)	Avg NZ RRP (AUD)	Avg HK RRP (AUD)
12.99	14.56	17.63	14.99	18.55
14.99	16.31	15.15	17.30	16.17
15.99	15.02	22.12	17.67	15.84
16.99	16.13	19.08	18.17	19.64
17.99	17.24	19.22	18.17	22.17
19.99	19.41	20.17	22.49	24.48
22.99	18.73	25.84	23.52	34.73
24.99	21.90	28.55	25.75	26.19
29.99	35.01	35.07	31.34	40.32
32.99	37.18	36.40	33.05	46.88
34.99	33.32	32.60	35.45	38.75
39.99	38.98	38.87	40.90	41.64
46.99	41.67	45.14	50.00	42.86
49.99	53.82	46.54	45.08	49.99

Variance in Average RRP

RRP Group	Avg AU - UK	Avg AU - US	Avg of AU - NZ	Avg AU - HK
a. < 19.99	-0.75	-1.76	-1.84	-2.55
b. 19.99	0.58	-0.18	-2.50	-4.49
c. 20 to 28.99	3.74	-2.79	-0.74	-8.20
d. 29.99	-4.74	-4.18	-1.07	-10.33
e. > 30	-2.10	-1.71	-0.11	-10.04

RRP Group	Avg AU - UK	Avg AU - US	Avg of AU - NZ	Avg AU - HK
a. \$10 to \$14.99	1.46	1.69	2.30	2.38
b. \$15 to \$19.99	-0.66	0.75	1.94	3.94
c. \$20 to \$24.99	-3.87	3.04	0.61	8.87
d. \$25 to \$29.99	4.50	4.03	1.11	9.94
e. \$30 to \$34.99	3.94	3.43	0.17	13.47
f. \$35 to \$39.99	-1.78	-2.19	0.69	1.77

The following foreign exchange rates have been used in the preparation of the comparative pricing data tables:

USD/AUD	0.8584
GBP/AUD	0.5165
NZD/AUD	1.1644
HKD/AUD	6.6654

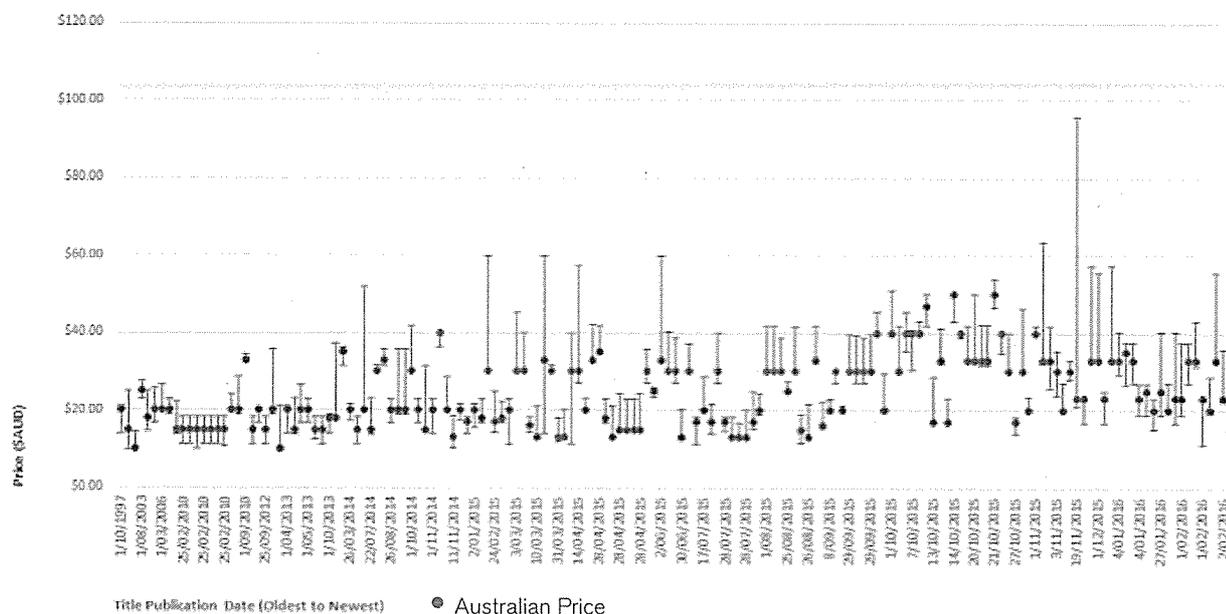
Book Prices in Australia

An examination of the prices of the same titles across different countries shows that book prices in Australia are broadly similar to prices in comparable markets.

The major English language markets for books, and the most important trading partners for Australian writers and their publishers, are the United States and the United Kingdom. Hong Kong and New Zealand are smaller English language markets closer, both in size and geographically, to Australia. They are also markets without effective territorial publishing rights that allow the parallel importation of books.

fig. 1

High-Low Price Ranges for Individual Book Titles Across Different Markets



The APA has compiled a sample of nearly 200 titles from five major publishers. The list, with details, is at Table 1. The sample includes bestselling titles from a variety of categories: adult general and literary fiction, young adult, illustrated children's, biography, self-improvement, politics and food. For each title, we have compared:

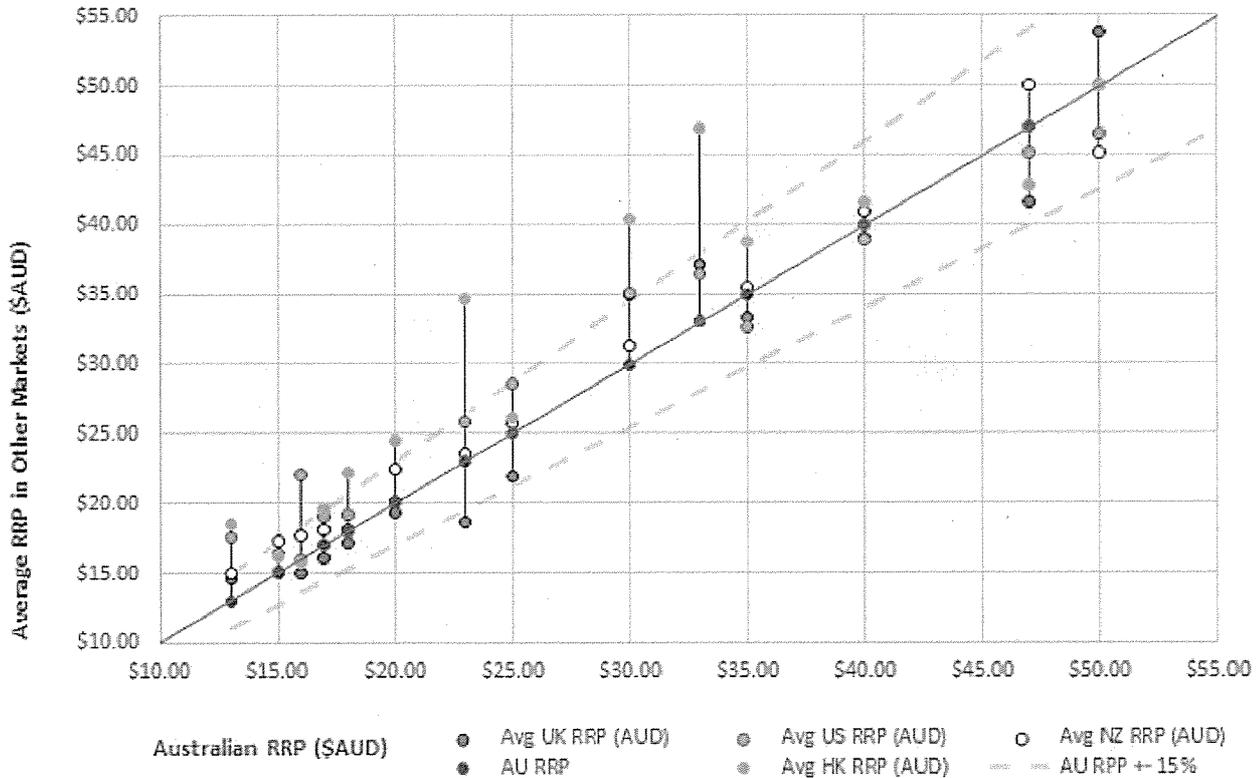
- The date it was published in Australia
- The date it was published in the UK
- The date it was published in the US
- The recommended retail price (RRP) in Australia
- The RRP in UK
- The RRP in the USA
- The RRP in New Zealand
- The RRP in Hong Kong
- The actual price, when available, in Kmart, Target and Big W
- The ebook RRP for Australia
- The ebook RRP in the UK
- The ebook RRP in the US

In Figure 1 a vertical bar showing the range of recommended retail prices, from highest to lowest, across the five markets. A red dot shows where the Australian RRP sits within that range. The chart shows the full list of titles, in order of publication. It can be clearly seen that the red dots are not consistently at the top of the bars. Books are not being priced for the Australian market higher than for the other comparable markets.

The red dots in Figure 1 are not evenly distributed along the vertical axis. The clusters reveal a number of common price points.

fig.2

How Books at Different Australian Price Points Are Priced in Other Markets



For each price point at which books were priced in Australia, Figure 2 compares the level at which they were priced in the other markets. Each vertical bar shows a price point used in Australia. The Australian price is shown on the horizontal axis. The price in the other markets is shown on the vertical axis. There are clear price points at \$15, \$20 and \$25, but there are also price points at \$16, \$17, \$18 and \$23. The vertical bars show, for each particular price in Australia, how books sold at that price in Australia were priced in other markets. For example, the bar at an Australian RRP of \$22.99 shows that books priced in Australia at \$22.99 were priced across the other markets at average prices ranging from \$18.73 to \$34.73. The coloured dots show, for each one of the other markets, the average price of titles from that price point in Australia. For example, for books priced in Australia at \$25 (or \$24.99), the average price of those books in the UK was \$21.90. The average price in New Zealand for a book priced in Australia at \$25, was \$27.26.

Once again, the red dots are not consistently, or even frequently, at the top of the bars. The prices of books in Australia are not consistently higher than for other comparable markets.

fig.3

Average Difference from Australian RRP of Book Prices in Other Markets

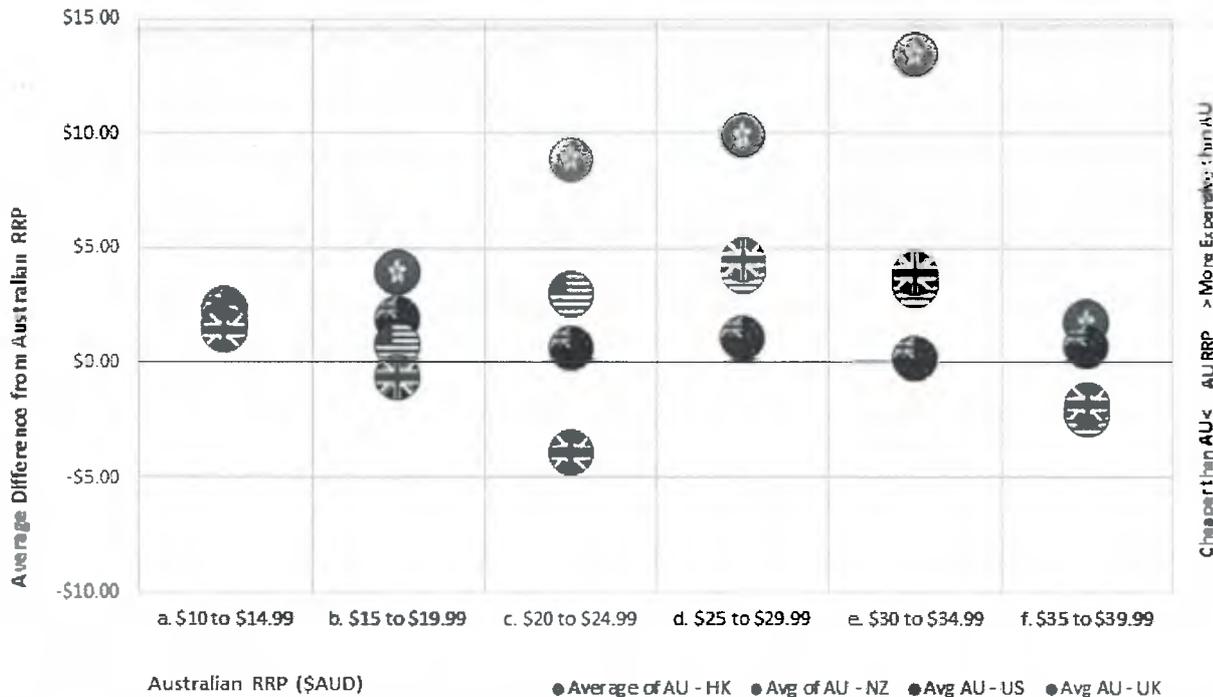


Figure 3 shows the average difference in the price of a book between Australia and the other markets at different price levels. When a country's flag is on the red line in a column, then for titles in that price range in Australia there was on average no difference between their price in that country and their price in Australia. For example, New Zealand's flag is close to the red line in column e. \$30 to \$34.99 because books priced in Australia between \$30 to \$34.99 had prices in New Zealand only \$0.17 more expensive on average. When a country's flag appears below the red line, then those titles were on average priced more cheaply in that country than they were in Australia. Flags above the line indicate that the titles had higher prices. For example, books priced in Australia between \$25 - \$29.99 had prices on average \$9.94 more expensive in Hong Kong. If Australian books were consistently more expensive than the other markets, all the flag points would appear below the red benchmark line. To the contrary, in more than half the cases surveyed the Australian prices were within \$2 of the cheapest anywhere, and almost a third of titles (31.3%) were priced cheapest for the Australian market.