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# EANS-Adhoc: Revenue Decline of 1.6% as Expected; Cost Reduction Measures Have a Positive Impact - Earnings Only Slightly Below Prior-Year Level; Higher free cash flow



Austrian Post Q1 2010:
Revenue Decline of 1.6% as Expected; Cost Reduction Measures Have a Positive Impact - Earnings Only Slightly Below Prior-Year Level; Higher free cash flow

- Ongoing difficult market environment in 2010
  - Mail Division: electronic substitution of letters is continuing
  - Parcel & Logistics Division: increased parcel volumes but price pressure continues
  - Branch Network Division: revenue and structural change in the branch network
- Group revenue down 1.6% in Q1 as expected
- Cost reduction measures have a positive impact
  - Raw materials, consumables and services used: -2.8%, Staff costs: -0.7%, Other operating expenses: -2.4%
- Q1 earnings below the prior-year figure
  - EBITDA margin remains high at 11.7%
  - EBIT at EUR 45.3m, a decrease of EUR 2.4m from Q1 2009
- Free cash flow of EUR 30.1m surpasses previous year´s level
- 2010 outlook confirmed

Austrian Post at a glance
The market environment faced by Austrian Post in the first quarter of 2010 continued to be difficult. Electronic substitution of letters is ongoing, as expected, whereas the advertising market is slowly improving. Moreover, the parcel and logistics segment in our core markets is showing an upward trend, as demonstrated by volume increases. Accordingly, Group revenue declined in the first quarter of the 2010 financial year as expected, falling by 1.6% or EUR 9.5m, to EUR 585.6m.

Efficiency enhancement measures, designed to counteract the revenue decline, are the top priority for Austrian Post. Accordingly, operating costs and staff costs could be reduced in the first quarter of the current financial year. In the first three months of 2010, EBIT amounted to EUR 45.3m, only EUR 2.4m below the previous year. Cash flow remained at a stable level and free cash flow before the acquisition or disposal of securities even climbed by EUR 7.2m, to EUR 30.1m.

"The current business development confirms our outlook for the year 2010 as a whole. We continue to expect that Group revenue will decline by 1-2% compared to 2009 but we will be able to maintain an EBITDA margin between 10% and 12%", says Austrian Post CEO Georg Pölzl.

Business development - earnings in detail
The business development of Austrian Post in the first quarter of 2010 was shaped by the ongoing difficult market environment. Electronic substitution of letter mail along with the revenue and structural transformation taking place in the Branch Network Division had a negative impact, whereas a positive volume development was evident in the Parcel & Logistics Division. Accordingly, total revenue of Austrian Post during the first quarter of the 2010 financial year fell 1.6%, or EUR 9.5m, to EUR 585.6m.

In the first three months, revenue of the Mail Division was down 1.4% in a year-on-year comparison, although the Infomail and Media Post Business Areas posted gains. The most striking trend remains the electronic substitution of letters, which was counteracted by numerous elections (postal voting) and the increased dispatching of passports in the first quarter of 2010. In addition to these one-off effects, the Infomail Business Area profited from growing demand on the part of the advertising industry.

The Parcel & Logistics Division posted a 2.6% growth in revenue. The volume increase in its core business was gratifying. Adjusted for the termination of unprofitable transport logistics operations the rise in revenue in Germany, was 7% year-on-year. Revenue also climbed considerably in Austria and in South East and Eastern Europe.

The revenue and organisational structure of the Branch Network Division is undergoing change. Revenue declined by EUR 9.8m, whereas total operating expenses were reduced by EUR 11.7m.

The change in policy for reporting revenue derived from sales of prepaid phone cards, based on the new Austrian VAT regulations, also contributed to the revenue decline to the amount of EUR 2.7m. Internal sales were down 8.2% due to the increase in direct collection of letters and parcels from customers.

Revenue by division

| EUR m | Q1 2009 | Q1 2010 | Change % | Change EURm |
|---|---|---|---|---|
| Total revenue (external sales) | 595.2 | 585.6 | -1.6% | -9.5 |
| Mail | 353.0 | 348.2 | -1.4% | -4.8 |
| Parcel & Logistics | 190.9 | 195.9 | 2.6% | 5.0 |
| Branch Network | 50.7 | 40.9 | -19.2% | -9.8 |
| Other | 1.8 | 1.3 | -24.2% | -0.4 |
| Consolidation | -1.1 | -0.7 | 37.9% | 0.4 |
| Working days in Austria (Calendar) | 62 | 62 | --- | --- |

Income Statement

| EUR m | Q1 2009 | Q1 2010 | Change % | Change EURm |
|---|---|---|---|---|
| Revenue | 595.2 | 585.6 | -1.6% | -9.5 |
| EBITDA | 72.2 | 68.3 | -5.4% | -3.9 |
| EBIT | 47.8 | 45.3 | -5.1% | -2.4 |
| Profit for the period | 33.7 | 33.4 | -0.8% | -0.3 |
| Earnings per share (EUR) | 0.50 | 0.49 | -0.8% | --- |

Efficiency enhancement measures continue to be the top priority of Austrian Post as a means of counteracting the EUR 9.5m decrease in revenue. A series of measures were already initiated in 2009, which are contributing to a sustainable improvement in the Company´s cost structure.

Staff costs comprise the largest operating cost item of Austrian Post, accounting for close to 50% of total revenue. In the first three months of 2010, total staff costs were reduced by 0.7% to EUR 287.8m. A major contribution to this reduction was made by employee redundancies. The total workforce decreased by 912 employees, in year-on-year comparison, to 25,100 people.

Direct personnel expenditures were reduced by about EUR 10m. Austrian Post had to increase the allocation of staff-related provisions by EUR 7.1m for employees transferring to the Austrian federal government and for those who accepted a voluntary social plan putting them on temporary leave until they reach retirement age.

Savings in operating costs were realised in the cost of raw materials, consumables and services used as well as other operating expenses. On balance, these net cost reductions in the first three months of 2010 amounted to EUR 7.0m compared to the preceding year. The changed reporting of prepaid phone cards in the financial statements resulted in a reduction of EUR 2.7m in revenues. Further savings were achieved in the cost of retail products sold by the branch network and energy, fuel and heating costs, along with reduced consulting and communications expenditures.

Other operating income rose slightly to EUR 17.7m during the period under review, including income from rents and leases totalling EUR 5.8m.

In the first quarter of 2010, earnings before interest and tax (EBIT) of Austrian Post were down 5.1% or EUR 2.4m, totalling EUR 45.3m. The decline is the result of the reduced revenue, although mitigated somewhat by the above-mentioned cost savings.

This year-over-year decline can be attributed to a positive one-off effect in the comparable period of the previous year. In the first quarter of 2009, proceeds derived from the sale of a 49.8% stake in Mader Zeitschriftenverlags GmbH totalled EUR 4.4m.

The Mail Division generated an EBIT of EUR 64.9m in the first quarter of 2010 (increase of EUR 1.7m versus Q1 2009), whereas EBIT at the Parcel & Logistics Division amounted to EUR 4.1m (increase of EUR 3.4m), and the Branch Network Division posted an EBIT of minus EUR 2.1m (decrease of EUR 2.3m). EBIT also fell in the Other segment, which encompasses, amongst other items, non-allocated costs for central departments, expenses in connection with unused properties and for the employee social plan as well as the change in staff-related provisions.

The provisions allocated for employees who accepted the voluntary social plan rose by EUR 3.6m. The provision for employee under-utilisation was increased by EUR 3.5m for employees transferring to the Austrian federal government. EBIT of the Other segment was down by EUR 5.3m year-on-year to minus EUR 21.5m.

The financial result of Austrian Post declined to minus EUR 1.9m in the first three months of 2010, which is related, amongst other factors, to lower interest rates.

Accordingly, earnings before tax fell by EUR 5.1m to EUR 43.4m. After deducting income taxes totalling EUR 9.9m, the Group net profit (profit after tax for the period) amounted to EUR 33.4m, corresponding to earnings of EUR 0.49 per share for the first quarter of the 2010 financial year, compared to EUR 0.50 per share in the first quarter of 2009.

Solid balance structure
Austrian Post pursues a risk-averse business approach. This is demonstrated by the high equity ratio, the relatively low level of financial liabilities and the high amount of cash and cash equivalents.

On balance, Austrian Post has a considerable amount of current and non-current financial resources on the assets side. Austrian Post had cash and cash equivalents of EUR 321.5m as at March 31, 2010, and financial assets and financial investments in securities amounting to EUR 98.9m. Total liquid financial resources at the disposal of Austrian Post amounted to EUR 350,5m, as opposed to financial liabilities of only EUR 125.6m. The equity ratio increased to 39.5%.

Cash flow
Operating cash flow before changes in working capital amounted to EUR 50.8m in the first quarter of 2010, a drop of EUR 6.5m from 2009. This decline is primarily due to the year-on-year increase in income taxes paid. The cash flow before taxes at EUR 66.9m was at the same level as in the previous year.

The cash flow from changes in working capital amounted to minus EUR 12.0m in the first quarter of 2010, primarily as the result of a lower level of liabilities. On balance, the cash flow from operating activities in the first quarter of 2010 totalled EUR 38.8m, compared to EUR 30.5m in the corresponding period of 2009.

The free cash flow was EUR 30.1m. The free cash flow before the acquisition or disposal of securities totalled EUR 30.1m and was thus EUR 7.2m above the previous year´s level.

Employees
During the period under review, the average number of full-time employees at Austrian Post fell by 3.5%, or 912 people, to 25,100. This decline can be

primarily attributed to the lower number of employees working for the Mail and Branch Network Divisions and in the Other segment.

Most of Austrian Post`s labour force (20,847 full-time equivalent employees) is employed by the parent company, Österreichische Post AG. More than 4,000 employees are employed by subsidiaries.

Outlook for 2010

Developments in the first three months of 2010 confirm the original outlook for 2010 as a whole.

In 2010, Austrian Post anticipates an ongoing revenue decline in the Mail Division, primarily attributable to electronic substitution. A contraction of between 3% and 5% would seem to be a realistic estimate based on international experience. In the Parcel & Logistics Division, parcel revenue is expected to improve in the course of the year, according to current economic forecasts. On the basis of these assumptions, Austrian Post continues to predict a Group revenue decrease of between 1% and 2% in 2010 below the comparable level of 2009.

However, a series of strategic targets and operational measures have been defined in order to take advantage of growth opportunities to drive sales and realise cost savings. The goal is to sustainably reduce overall costs, maintain the high level of profitability and achieve a continued EBITDA margin of 10-12% annually, also in 2010.

Performance of divisions

Mail Division

External sales of the Mail Division fell 1.4% in the first quarter of 2010 from the comparable period of 2009, to EUR 348.2m. This development is mainly related to the ongoing substitution of letters by electronic media. This downward trend was counteracted by positive one-off effects in the first quarter of 2010, such as municipal council elections in four federal provinces, Austrian Federal Economic Chamber elections and a referendum held in Vienna, as well as the seasonal increase in the number of passports being mailed.

Revenue generated by the Letter Mail Business Area in the current financial year was down by 3.5%, or EUR 6.7m. The unfavourable cyclical situation has led many companies to implement cost saving measures. Accordingly, the trend towards the substitution of letters by electronic media is continuing, for example in the customer segments of financial services and telecommunications. A decline was also evident in the public sector, which cut back on the number of registered letters it posted. In contrast, numerous elections with the option of casting absentee ballots had positive one-off effects on first-quarter mail volumes.

In the first quarter of 2010, the revenue achieved by the Infomail Business Area (addressed and unaddressed direct mail items) rose by 1.3%, or EUR 1.7m, compared to the low prior-year level. This can be attributed to the good volume development on the part of many direct mail customers in Austria as well as at Austrian Post´s international subsidiaries.

Revenue of the Media Post Business Area increased by 0.7%, to EUR 33.6m, based on the growing business volume generated by company magazines.

On balance, the Mail Division posted an EBIT of EUR 64.9m, a rise of 2.7%, or EUR 1.7m, from the comparable period of the previous year. This improvement in earnings is primarily related to efficiency increases enabling a reduction in operating expenses and staff costs.

Parcel & Logistics Division

In the first quarter of 2010, external sales of the Parcel & Logistics Division climbed by 2.6%, to EUR 195.9m as a consequence of the positive volume development. The parcel and logistics market showed an overall trend towards volume growth in the first three months of 2010, although price pressure continued.

The premium parcel product segment (parcel delivery within 24 hours) generated total revenue of EUR 153.2m in the first quarter. The revenue decline by 4%, or

EUR 6.4m, is primarily due to the termination of loss-making transport logistics operations in Germany (revenue of about EUR 10m in Q1 2009) in the meantime. Adjusted revenue in this German product segment actually rose 7% year-on-year. The subsidiary trans-o-flex in Germany accounts for 74% of premium parcel revenue, followed by the Netherlands and Belgium with a share of 7%. Austria (10% share of premium parcel revenue) and South East and Eastern Europe (9% share of premium parcel revenue) also registered a positive volume development.

Revenue of the standard parcels segment in Austria developed more gratifyingly, rising by around 30%, to EUR 40.2m. The main reasons for this positive development were organic growth, the increase in mail order business since June 2009 as well as migration of parcel volumes from the premium to the standard segment.

EBIT of the Parcel & Logistics Division in the first quarter of 2010 amounted to EUR 4.1m, an increase of EUR 3.4m from the comparable level of the previous year. These results can be attributed to the revenue increase combined with improved cost efficiency. Subsidiaries also generated a positive earnings contribution.

Branch Network Division
The organisation of the Branch Network Division is undergoing change, with respect to both revenue and the cost structure. Revenue declined by EUR 9.8m, whereas total operating expenses were reduced by EUR 11.7m. Part of the decline, EUR 2.7m, is due to the changed reporting of revenue from prepaid phone cards as the result of new Austrian VAT regulations. During the 2009 financial year, the nominal value of prepaid phone cards was still recognised as revenue, whereas the related costs of the goods sold were reported as raw materials, consumables and services used. Since January 1, 2010, only the commission derived from prepaid phone card sales is recognised. Moreover, sales of retail products declined in the first quarter. In particular, telecommunications products in the field of mobile telephony are subject to increasing market saturation. Financial services and the related commissions earned also showed a downward trend, which is attributable to reduced margins and the current low interest rate environment.

Internal sales decreased further by 8.2%. There has been a fundamental reduction in the volume of letters and parcels posted and subsequently transported by the branch network. Moreover, letters are increasingly being collected directly from customers. The service level and cost structure of the branch network are being continually improved. Unprofitable company-operated branches in Austria are being converted by Austrian Post into partner-operated postal service points.

Following long delays linked to procedural regulations in implementing the new Postal Market Act, public authorities formally approved the conversion of a further 59 post offices as at the end of April 2010. The conversion of an additional 123 company-operated branches is in progress.

EBIT of the Branch Network Division amounted to minus EUR 2.1m in the first quarter of 2010, down from minus EUR 0.2m in the comparable period of 2009. The planned structural improvement programme and the related savings will be realised in future.

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The interim report Q1 2010 is available in the internet: www.post.at/ir/en -> Publications --> Financial Reports

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