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## **EANS-Adhoc: Österreichische Post AG / Difficult market environment in 2009 due to economic recession: revenue decline of 2.4% and EBIT down 4.3% in the first quarter of 2009**

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3-month report

19.05.2009

Austrian Post - Difficult market environment in 2009 due to economic recession: revenue decline of 2.4% and EBIT down 4.3% in the first quarter of 2009

- Difficult market environment in the recessionary year 2009; Deteriorating economic climate negatively impacts letter mail and parcel volumes - Q1 2009 featured two fewer working days than Q1 2008 - Group revenue down 2.4%, or EUR 14.7m
- Mail (-4.6%): Decline in daily business mail and direct mail items
- Parcel & Logistics (-0.1%): On balance stable development based on core business in Austria and Germany and consolidation effects
- Branch Network (+5.6%): Positive development in sales of retail products and financial services
- Measures initiated to improve efficiency and reduce costs; positive effects expected in upcoming quarters - Earnings before interest and tax decrease 4.3%, to EUR 47.8m - Balance sheet and cash flow - Free cash flow before financial investments in securities at EUR 22.9m - Cash and cash equivalents and financial investments in securities rise by EUR 15.4m in the first quarter, to EUR 356.0m

Austrian Post at a glance Against the backdrop of the international economic crisis, the year 2009 also poses a major challenge to Austrian Post. As the first quarter of 2009 demonstrated, the recession resulted in a serious downturn in the business development of many companies. In turn, this negatively impacted the business of Austrian Post, leading to reduced letter mail, direct mail and parcel delivery volumes. Accordingly, total revenue of Austrian Post fell by 2.4% or EUR 14.7m from the same period of the previous year, to EUR 595.2m. The two fewer working days compared to Q1 2008 also contributed to the decline. Earnings before interest and tax (EBIT) were down 4.3%, to EUR 47.8m. Revenue losses could not be fully compensated by cost reduction measures. In particular, the 2009 salary increases of 3.7% pushed up staff costs, the largest single operating expense item.

The first months of 2009 clearly showed that a more difficult economic environment is to be expected for the year as a whole than originally anticipated at the beginning of the year. Economic forecasts for the markets in which Austrian Post operates were recently once again revised downwards. Back in December 2008, the Austrian Institute of Economic Studies (WIFO) and Institute for Advanced Studies (IHS) predicted negative growth rates in Austria of -0.5% and -0.1% respectively. In April 2009, the EU Commission already forecast that the Austrian economy would contract by -4.0% in 2009. Post will not be immune against the consequences of this immense economic downswing. The company expects that the deteriorating economic situation will continue to have a negative effect on letter mail, parcel delivery and direct mail volumes.

For this reason, the main goal of Austrian Post's management team is to do its best to counteract impending revenue decline by implementing operational cost savings. This approach involves efficiency-enhancing measures along with a sales offensive. Austrian Post is more intensively promoting the increased use of direct mailings in the communications mix of companies as well as new services such as mailroom services and document printing.

Efficiency improvements and rationalisation measures are essential in order to compensate for a decline in revenue by means of cost reductions. In an initial step, the Management Board of Austrian Post has launched a programme to cut the cost of materials and operating expenses (excluding staff costs) in the Group by about EUR 30m over the next 12 months. In addition, planned capital expenditure (CAPEX) will be cut back by 20% in 2009, to about EUR 80m.

Efficiency improvements are also planned for operational processes. Austrian Post aims to have a cost structure in its letter mail delivery services which is appropriate for a competitive environment. In the second half of 2009, Austrian Post will start replacing 300 unprofitable company-owned branches with partner-operated postal service points. "It is enormously important to implement efficiency-enhancing measures in a timely manner as long as we are doing economically well, in order to achieve the targeted savings effects", says Rudolf Jettmar, Chairman of the Management Board and Chief Executive Officer of Austrian Post.

Business development - earnings in detail The recession arising as a consequence of the international financial crisis has clearly left its mark on the real economy, seriously dampening the economic performance of companies. This development has led to an overall decline in business mail volumes. The business development of Austrian Post in the first quarter of 2009 was not only negatively affected by the recession, but also by the two fewer working days compared to Q1 2008. Accordingly, total revenue fell by 2.4% in the first quarter of the 2009 financial year, or EUR 14.7m, to EUR 595.2m.

First quarter revenue of the Mail Division decreased by 4.6%, led by declining business in the Letter Mail and Infomail (addressed and unaddressed direct mail items) business areas. The economic downturn and the resulting reduction in daily business mail volumes and delays in advertising expenditures had a perceptibly negative impact on revenue.

In the Parcel & Logistics Division, revenue remained largely constant. A volume decline in the premium parcel segment was opposed by consolidation effects and a stable development in standard parcels. The redimensioning measures in parcel logistics operations carried out in Austria succeeded in increasing efficiency following the loss of two major mail order customers in the previous year. Furthermore, the existing customer relationship with the competing parcel provider Hermes calls for delivery of B2C parcels by Austrian Post as of June 1, 2009, and will contribute to a further productivity improvement. The 5.6% growth in revenue generated by the Branch Network Division can be attributed to the good development in sales of retail products (mobile telephony, fixed line network) and financial services.

#### Revenue

EUR m	Q1 2008	Q1 2009	Change %	Structure Q1 2009
Revenue	609.9	595.2	-2.4%	100.0%
EBITDA	75.4	72.2	-4.2%	12.1%
EBIT	49.9	47.8	-4.3%	8.0%
EBT	52.0	48.4	-6.8%	8.1%
Profit for the period	41.9	33.7	-19.5%	5.7%
Earnings per share*)	0.60	0.50	-16.6%	-

In the light of the prevailing economic situation, the management of Austrian Post is increasingly focusing its efforts on a sales offensive as well as efficiency improvements and reducing all operating expenses. An attempt is being made to counteract declining revenue by cost-cutting measures. The wage agreements concluded at the end of 2008, which called for salary increases of about 3.7% in Austria due to the high inflation rate in 2008, pushed up staff costs. This rise will be continually counteracted by a hiring freeze as well as exploiting employee fluctuation during 2009. All operating divisions suffered from recession-related reductions in earnings. The Mail Division generated an EBIT of EUR 63.1m (- EUR 11.0m from Q1 2008), whereas EBIT at the Parcel & Logistics was EUR 0.7m (- EUR 4.0m), and the Branch Network Division posted an EBIT of EUR 0.2m (- EUR 2.4m). In contrast, an earnings improvement was achieved in the Other/Consolidation segment, which encompasses non-allocated costs for central departments, expenses in connection with unused properties and for the employee social plan as well as the change in the provision for employee under-utilisation, income from rents and leases and gains on the disposal of property, plant and equipment. The EBIT loss of the Other/Consolidation segment was reduced to minus EUR 16.2m, due to a lower change in the provision for employee under-utilisation.

The financial result declined to EUR 0.7m in the first quarter of 2009, which is related, amongst other reasons, to lower interest rates.

Earnings before tax fell by 6.8%, to EUR 18.4m. After deducting income taxes totalling EUR 14.7m, Group net profit for the period (earnings after tax) amounted to EUR 33.7m, corresponding to EUR 0.50 per share.

Solid Balance Sheet Structure Austrian Post pursues a risk-adverse business approach. This is demonstrated by the high equity ratio of 40.8%, the relatively low level of financial liabilities and the high amount of cash and cash equivalents. The analysis of the balance sheet of Austrian Post shows a considerable level of current and non-current financial resources on the assets side. Austrian Post had cash and cash equivalents of EUR 241.1m as at March 31, 2009, and financial investments of securities amounting to EUR 104.7m. Accordingly, total liquid financial resources at the disposal of Austrian Post rose from EUR 340.4m to EUR 356.0m in the first quarter of 2009, as opposed to financial liabilities of only EUR 143.8m.

Cash Flow Total operating cash flow before changes in working capital amounted to EUR 57.3m, which includes recession-related effects as well as the lower number of working days in the first quarter of 2009. Revenue decreases could not be fully compensated by cost reduction measures.

The cash flow from changes in working capital amounted to minus EUR 26.8m in Q1 2009, which relates to increased receivables from other postal companies accompanied by a simultaneous reduction in liabilities. This seasonal effect should be significantly reduced on an annual basis, similar to the situation in the year 2008. On balance, the cash flow from operating activities totalled EUR 30.5m in the first three months of 2009.

The cash flow from investing activities at minus EUR 32.3m includes the purchase of property, plant and equipment (CAPEX) amounting to EUR 14.9m, as well as financial investments in securities, at EUR 24.7m. All in all, total free cash flow reported in the first quarter of 2009 was minus EUR 1.8m, whereas the free cash flow generated before financial investments in securities was EUR 22.9m.

Employees During the period under review, the average number of full-time employees at Austrian Post fell by 2.5%, or 674 people, to 26,012. This decline can be attributed to the lower number of employees working for the Mail Division.

Most of Austrian Post's labour force (21,655 full-time equivalent employees) is employed by the parent company, Österreichische Post AG. The remaining 4,300 employees are employed at subsidiaries.

**Outlook for 2009** The first months of 2009 have already demonstrated that a more difficult economic environment is to be expected for the year as a whole than originally forecast at the beginning of the year. Economic expectations for the markets in which Austrian Post operates have been continually revised downwards. In December 2008, the Austrian Institute of Economic Studies (WIFO) and Institute for Advanced Studies (IHS) predicted negative growth rates in Austria of -0.5% and -0.1% Austria respectively. In April 2009, the EU Commission already forecast that the Austrian economy would contract by -4.0% in 2009. Austrian Post will not be immune against the consequences of this immense economic downswing. We expect that the deteriorating economic situation will continue to have a negative effect on letter mail, parcel delivery and direct mail volumes.

We anticipate that the trends manifested in the first quarter will continue for the time being. In the Mail Division, recessionary tendencies will continue to have a negative impact on business mail and direct mail volumes. In the Parcel & Logistics Division, the focus on selected branches and the positive impetus for growth provided by Internet-based businesses will contribute towards reducing the consequences of the economic downturn compared to other logistics segments. Positive effects are anticipated as a result of Austrian Post's growing B2C parcel business in Austria during the second half of the 2009 financial year. The Branch Network Division is also expected to show a stable development. Based on the uncertain economic situation, Austrian Post is not in a position to seriously provide a detailed revenue and earnings outlook for 2009 at this time. As already predicted and demonstrated by first quarter developments, revenue will be negatively impacted by the unfavourable economic situation and the accompanying decline in letter mail and parcel delivery volumes. For this reason, the main goal of Austrian Post's management team is to do its best to counteract the impending revenue decline by implementing operational cost savings and thereby keep earnings reductions at a minimum. This approach involves implementing appropriate measures to carry out a sales offensive and enhance efficiency. Austrian Post is more intensively promoting the increased use of direct mailings in the communications mix of companies as well as new services such as mailroom services or document printing.

Moreover, efficiency improvements and rationalisation measures are essential in order to compensate for falling revenue by means of cost reductions. In an initial step, the Management Board of Austrian Post has launched a programme to cut the cost of materials and all operating expenses (excluding staff costs) in the Group by about EUR 30m over the next 12 months. In addition, planned capital expenditure (CAPEX) will be cut back by 20% in 2009, to about EUR 80m.

Efficiency improvements are also planned for operational processes. Austrian Post aims to have a cost structure in its letter mail delivery services which is appropriate for a competitive environment. In the Branch Network Division Austrian Post will start replacing 300 unprofitable company-owned branches with partner-operated postal service points in the second half of 2009, which will also have a positive effect on earnings.

**Performance of divisions** Mail Division External sales of the Mail Division fell 4.6% from the comparable period of 2008, to EUR 353.0m. This decline primarily resulted from the economic slowdown as well as the two fewer working days than in the first quarter of the previous year.

Revenue generated by the Letter Mail Business Area was down by 3.9%, or EUR 7.9m. In addition to the substitution of traditional letters by electronic media, the unfavorable economic situation of many customers resulted in lower letter mail volumes. An analysis of business development on a sectoral basis does not present a unified picture. Whereas mail volumes in the financial services sector have remained relatively constant, the telecommunications and industrial segments have been subject to negative growth. In addition, the lower number of working days in the first quarter of 2009 compared to the previous year also had a detrimental effect on business.

The revenue achieved by the Infomail Business Area (addressed and unaddressed direct mail items) was also lower than in Q1 2008, decreasing by 6.5%, or EUR 8.6m. This downward trend can be attributed to the decline in printing orders for advertising materials (meiller direct) as well as the overall volatile volume development of advertising mail. For many customer groups, for example in the retail business, direct mailings continue to represent an important weekly instrument stimulating consumer sales. In contrast, several customer segments, in particular mail order firms, are reducing or postponing advertising campaigns as a result of the economic downturn. Positive effects on mail volumes in Austria can be expected in the second and third quarters of 2009 as a result of upcoming elections.

Due to the prevailing market environment, the Media Post Business Area also posted a decline in revenue, which fell 1.2% in the first quarter of 2009.

On balance, the Mail Division generated an EBITDA of EUR 71.2m, whereas EBIT in Q1 2009 amounted to EUR 63.1m, a decrease of 14.9%, or EUR 11.0m, from the comparable period of the previous year.

**Parcel & Logistics Division** In the first quarter of 2009, external sales of the Parcel & Logistics Division declined by 0.1%, to EUR 190.9m, which is mainly related to recessionary trends in core markets. Moreover, downward pressure on prices has been perceptible in all markets.

The main contribution to total revenue was made by the premium parcel service (parcel delivery within 24 hours to private and business customers), which accounted for EUR 160m. Against the backdrop of the international recession, revenue fell in several countries. However, land transport suffered a more moderate decline than many other logistics segments, such as in the freight or express businesses. For the most part, this drop in parcel volumes was compensated by an expansion in the consolidation scope.

From a regional perspective, the subsidiary trans-o-flex focusing on pharmaceutical logistics, combined freight and temperature-controlled transport in Germany accounted for the largest revenue share in this product segment, at about 75%. This was followed by the Austrian market (9%), which featured ongoing growth in B2B parcel volumes, South Eastern Europe and Eastern

Europe (8%), and the trans-o-flex companies in the Netherlands and Belgium (8%).

Total revenue generated by the standard parcels segment in Austria totalled EUR 31m. Business development remained stable in the first quarter of 2009, following the revenue decline in the previous year resulting from the loss of two large mail order customers.

EBIT of the Parcel & Logistics Division in Q1 2009 was still positive, at EUR 0.7m, but was nevertheless considerably below the operating result achieved in the preceding year. This development is related to the perceptible price pressure, a recession-related delayed trend reversal in the Netherlands as well as reduced internal sales. As of June 1, 2009, the situation of Austrian Post will change due to a newly-concluded customer relationship with the parcel provider Hermes. An annual volume growth of several million parcels is expected as a consequence of the newly-signed contract.

Branch Network Division During the first three months of 2009, external sales of the Branch Network Division climbed by 5.6% compared to Q1 2008. Despite the current market situation, Austrian Post raised sales of retail products, particularly in the mobile telephony and fixed line segments.

The financial services segment also showed a gratifying development. The volume of savings deposited at varying interest rates increased, as did investments in securities.

The change of internal sales of the Branch Network Division, which fell minus 6.7%, is attributable to the decline in letter mail and parcel volumes in the branch network, as well as the decrease in philately sales, which climbed in the previous year as a result of UEFA EURO 2008 and a large international postage stamp exhibition.

Due to the lower internal sales, EBIT of the Branch Network Division fell to EUR 0.2m, down from EUR 2.6m in the first quarter of the preceding year.

The planned conversion of 300 unprofitable company-operated branches to partner-operated postal service points will be carried out in the second half of 2009, and thus has not yet resulted in any efficiency-enhancing effects.

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Further inquiry note:

Contact:

Austrian Post

Head of Investor Relations

Mr. Harald Hagenauer

Tel.: +43 (0) 57767 - 30400

Head of Group Communications

Mr. Marc Zimmermann

Tel.: +43 (0) 57767 - 22626

marc.zimmermann@post.at

Group Communication/Press Spokesman

Mr. Michael Homola

Tel.: +43 (0) 57767 - 32010

michael.homola@post.at

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