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EANS-News: Österreichische Post AG / AUSTRIAN POST H1 2016: SLIGHT INCREASE IN REVENUE ADJUSTED FOR TRANS-O-FLEX SALE; EBIT UP 2.2%; STABLE OUTLOOK CONFIRMED

6-month report

- REVENUE
  - Revenue development negatively impacted by the sale of trans-o-flex
  - Revenue excl. trans-o-flex rose by 0.6%

- EARNINGS
  - EBIT increase of 2.2% to EUR 98.6m
  - Q2 operating earnings (EBIT) up 11.7%

- CASH FLOW AND BALANCE SHEET
  - 1.6% rise in the cash flow from operating activities to EUR 109.3m
  - Strong cash position and low level of financial liabilities

- OUTLOOK
  - Revenue forecast 2016 of EUR 2.0bn (current business portfolio)
  - Targeted stable development of operating earnings (EBIT) for 2016 and 2017

OVERVIEW OF AUSTRIAN POST

In the first half of 2016, Group revenue of Austrian Post fell from the prior-year level of EUR 1,175.0m to EUR 1,071.1m. The revenue decrease can be fully attributed to the sale of its subsidiary trans-o-flex. Adjusted for the disposal of trans-o-flex at the beginning of April 2016, Group revenue in the first half of 2016 rose by 0.6% year-on-year and by 2.3% in the second quarter of 2016.

The mail business continues to be impacted by the structural trend towards declining letter mail volumes caused by electronic substitution. In particular, public sector customers as well as banks are reducing their mail volumes. During the reporting period, business with direct mail showed a diverging development of individual advertising customer segments. The volume of addressed direct mail items declined in contrast to the rise in unaddressed mail volumes. In spite of these difficult conditions, Austrian Post recorded a stable revenue development in the Mail & Branch Network Division in the first six months of 2016. Second-quarter revenue rose by 1.6%, driven by positive election effects including a record number of votes that were cast in the Austrian presidential elections by absentee ballot.

The trend towards increasing e-commerce is continuing in the parcel segment, leading to further growth of parcel volumes in Austria in spite of intensified competition. Adjusted for the revenue of trans-o-flex, the Parcel & Logistics Division showed solid revenue growth of 3.7% in the first half of 2016 and 4.9% in the second quarter of the year.

Thanks to the good revenue development and stringent cost discipline, operating earnings (EBIT) of Austrian Post were up 2.2% to EUR 98.6m. EBIT in the second quarter even climbed by 11.7% to EUR 47.6m. Austrian Post is continuously optimising structures and processes in its mail and parcel logistics businesses in order to further reduce costs and enhance efficiency. Moreover, Austrian Post is increasing the attractiveness of its service offering. For this reason, the company will expand its service portfolio at the beginning of 2017 in order to provide even improved and simpler shipping options for national and international online retailers. For example, it will be possible to send a so-called "Packet", an optimal solution ranging somewhere between a traditional letter and a secure parcel. The "Packet" is as easy to handle as a letter, but still offers the popular "track & trace" feature of a parcel.

"Innovative solutions as well as structural changes are necessary as a means of further developing the business model of our company", says Austrian Post CEO Georg Pölzl. "This is the only way we can generate sustainable value for the benefit of all stakeholders, especially customers, employees and shareholders and thus maintain our attractive dividend policy."

REVENUE DEVELOPMENT IN DETAIL

In the first half of 2016, Group revenue of Austrian Post fell by EUR 103.9m from the prior-year level to EUR 1,071.1m, entirely driven by the sale of trans-o-flex. Adjusted for this disposal, revenue in the first half of 2016 rose by 0.6% in a year-on-year comparison, and 2.3% in the second quarter of 2016.

Mail & Branch Network Division revenue fell slightly by 0.2% to EUR 736.8m during the period under review. However, division revenue was up 1.6% in the second quarter of 2016. The basic trend towards e-substitution, which implies the replacement of traditional letter mail by electronic forms of communication, is continuing. However, elections generated higher revenue contributions than in the previous year. In the first half of 2016, Letter Mail & Mail Solutions revenue at EUR 403.5m represents an increase of 0.7% from the prior-year level, with revenue in this business area even rising by 2.2% in the second quarter. In the first half of 2016, revenue generated by the Direct Mail business fell by 1.9% to EUR 206.2m. First-quarter revenue
declined but increased by 2.2% in the second quarter of the year due to positive revenue effects from elections. Media Post revenue rose by 1.1% year-on-year to EUR 70.4m (Q2 2016: +0.2%). In contrast, Branch Services revenue was down 1.5% to EUR 56.7m during the period under review. In the second quarter of 2016, the positive development of mobile products was offset by a change in the corresponding invoicing model. In aggregate, this led to a second-quarter revenue decline of 2.9% in this business area.

Total revenue of the Parcel & Logistics Division fell from EUR 436.9m to EUR 334.3m in the first half of 2016 as a consequence of the previously-mentioned sale of the trans-o-flex subsidiary. Adjusted to take account of trans-o-flex revenue, the division actually generated a revenue increase of 3.7% in the first half of 2016 and 4.9% in the second quarter of the year. Business developed positively in Austria (+1.9%) despite tough competition and also expanded in the CEE markets (+3.1%), whereas Austrian Post disposed of its German subsidiary trans-o-flex on April 8, 2016.

With respect to its strategic investment in the Turkish parcel services provider Aras Kargo, Austrian Post initiated a call option process in order to acquire an additional 50% of the shares. However, there are differences of opinion with the current majority shareholder regarding implementation of the call option agreement as well as the valuation of the shares. Accordingly, as in the past, Austrian Post will continue to consolidate its 25% stake in Aras Kargo at equity until further notice.

EXPENSE AND EARNINGS DEVELOPMENT

Raw materials, consumables and services used decreased from EUR 360.0m to EUR 286.3m during the period under review, which is due to the sale of trans-o-flex. However, the costs for services used increased, particularly as a consequence of higher international business volumes.

Austrian Post's staff costs amounted to EUR 545.3m in the first half-year 2016, comprising a drop of 1.2%. The disposal of trans-o-flex reduced staff costs, whereas the adjustment of the interest rate for various staff-related provisions led to a negative earnings effect of EUR 14.6m in the first half of 2016. In the previous year, this effect amounted to EUR 3.0m. The operational staff costs for salaries and wages, which are part of total staff costs, fell by 2.4% from the prior-year level due to the sale of trans-o-flex. In addition to the ongoing operational staff costs, staff costs also encompass various non-operational costs such as termination benefits and changes in provisions, which are primarily related to the specific employment situation of civil servants in Austria. In addition to the previously-mentioned adjustment to the parameters for interest-bearing provisions, costs for termination benefits totalled EUR 10.3m during the period under review compared to EUR 11.0m in the previous year.

In the first half of 2016, other operating income at EUR 36.2m was 10.4% higher than the prior-year figure, whereas other operating expenses were down 10.8% to EUR 139.1m. In both cases, the differences can be attributed to the disposal of the trans-o-flex subsidiary.

On balance, earnings before interest, tax, depreciation and amortisation (EBITDA) of Austrian Post fell by 1.8% or EUR 2.6m to EUR 137.2m in the first half-year 2016. The corresponding EBITDA margin was 12.8%, comprising an improvement of 0.9 percentage points from the comparable prior-year level. EBITDA in the second quarter of 2016 was up 4.9% to EUR 67.8m.

Total depreciation, amortisation and impairment losses in the reporting period amounted to EUR 38.5m, a decrease of EUR 4.7m from the first six months of 2015. This difference is mainly due to the disposal of trans-o-flex. An impairment loss on goodwill for the subsidiary PostMaster s.r.l., Romania, to the amount of EUR 2.0m had the opposite effect. On balance, earnings before interest and tax (EBIT) in the first six months of the 2016 financial year reached a level of EUR 98.6m, representing an increase of 2.2% year-on-year. The EBIT margin climbed from 8.2% to 9.2%. EBIT improved by 11.7% to EUR 47.6m in the second quarter of 2016.

The other financial result fell to minus EUR 0.5m from EUR 3.4m in the prior-year period. This development is mainly attributable to the special effect totalling EUR 3.3m arising in March 2015 as a consequence of the early termination of a cross-border leasing transaction of various postal sorting facilities. Accordingly, earnings before tax (EBT) in the first half of 2016 were EUR 98.1m, compared to EUR 99.9m in the previous year. The income tax expense rose 8.3% to EUR 24.4m as a result of changes in tax laws. After deducting income tax, the Group's profit for the period (profit after tax) amounted to EUR 73.8m in the first half of 2016, down from the prior-year figure of EUR 77.4m. Accordingly, undiluted earnings per share equalled EUR 1.09 for the first six months of 2016.

From a divisional perspective, the Mail & Branch Network Division showed a stable development compared to the previous year, generating an EBITDA of EUR 161.5m in the first half-year 2016. This reflected the solid revenue development as well as strict cost discipline. EBIT of the division was down 1.5% or EUR 2.2m from the prior-year level to EUR 143.2m. This decrease is mainly due to the impairment loss on goodwill for the Romanian subsidiary PostMaster s.r.l.

EBITDA of the Parcel & Logistics Division in the first six months of 2016 amounted to EUR 22.5m, compared to the prior-year level of EUR 23.1m. EBIT of the division in the reporting period improved from EUR 12.5m to EUR 16.9m due to the disposal of trans-o-flex.

The Corporate Division (including Consolidation) accounts for all non-allocable expenses for central departments in the Group as well as staff-related provisions assigned to it. Moreover, the division includes innovation management and the development of new business models. EBIT of the Corporate Division remained stable at minus EUR 61.5m, although the previously-mentioned parameter adjustment for interest-bearing staff-related provisions resulting in expenses totalling EUR 14.6m reduced divisional earnings by EUR 9.9m.

CASH FLOW AND BALANCE SHEET

Gross cash flow totalled EUR 138.3m in the first half-year 2016, compared to EUR 151.8m in the previous year. This difference is attributable to higher tax payments. In contrast, the cash flow from operating activities of EUR 109.3m was slightly above the prior-year level of EUR 107.7m.

The cash flow from investing activities reached a level of minus EUR 39.3m in the first six months of 2016, compared to EUR 16.8m in the prior-year period. This deviation was mainly related to the sale of Austrian Post's former corporate headquarters in Vienna's first district, for which the outstanding balance of the purchase price of EUR 60.0m was paid in the first quarter of 2015. Cash outflows for the acquisition of property, plant and equipment (CAPEX) amounted to EUR 38.5m in the first half of 2016, above the level of EUR 32.0m in the previous year. CAPEX included payments of EUR 19.1m relating to the construction of Austrian Post's new corporate headquarters. In aggregate, free cash flow during the reporting period was EUR 70.0m, down from EUR 124.4m in the previous year. The difference to the prior-year is due to the above-mentioned payment of the outstanding balance of the purchase price of Austrian Post's former corporate headquarters in 2015. Adjusted to take account of this special effect as well as payments for the new corporate headquarters, operating free cash flow before acquisitions, securities and other cash flow from investing activities amounted to EUR 89.9m in the first half of 2016, compared to the prior-year figure of EUR 86.8m.

Austrian Post pursues a conservative balance sheet and financing structure. This is demonstrated by the high equity ratio, low financial liabilities and the solid level of cash and cash equivalents invested with the least possible risk. Equity of the Austrian Post Group totalled EUR 573.7m as at June 30, 2016, corresponding to an equity ratio of 39.3%. An analysis of the financial position of the company shows a high level of current and non-current financial resources of EUR 289.8m, including cash and cash equivalents of EUR 229.1m as well as financial investments in securities of EUR 60.7m. These financial resources contrast with financial liabilities of only EUR 4.8m.

EMPLOYEES

The average number of employees (full-time equivalents) at the Austrian Post Group totalled 22,092 people during the first six months of 2016, comprising a reduction of 1,252 employees from the prior-year period. The decrease is primarily due to the disposal of the German subsidiary trans-o-flex. Most of Austrian Post's staff or a total of 17,325 full-time equivalents are employed by the parent company Österreichische Post AG.

OUTLOOK 2016

Austrian Post confirms its outlook for the entire year 2016 in light of current trends and the company's solid performance in the second quarter of 2016. Accordingly, on the basis of its current business portfolio, Austrian Post continues to target revenue of EUR 2.0bn in the 2016 financial year following the sale and deconsolidation of its German subsidiary trans-o-flex as at April 8, 2016.

The volume of addressed letter mail continues to decline. In contrast, the parcel business driven by e-commerce is showing a consistently positive development. In the mail business, Austrian Post still anticipates volume declines of about 5% p.a. in the light of the increasing substitution of addressed mail items by electronic forms of communication. The volume of direct mail will show a diverging development in the individual customer segments and product groups. Overall strong market growth in the Parcel & Logistics Division will be accompanied by intensified competition and new, innovative customer solutions.

The earnings forecast of Austrian Post also remains unchanged. The company expects to generate stable operating earnings in 2016 with EBIT at the prior-year level on the basis of current trends and developments. Structures and processes are being continuously optimised in both mail and parcel logistics in order to further reduce costs and enhance efficiency. Furthermore, it is crucial to increase the attractiveness of Austrian Post's service offering. For this reason, the service portfolio will be expanded at the beginning of 2017 in order to provide even better and simpler shipping options for national and international online retailers. For example, it will be possible to send a so-called "Packet", an optimal solution ranging somewhere between a traditional letter and a secure parcel. The "Packet" is as easy to handle as a letter, but still offers the popular "track & trace" feature of a parcel. Innovative solutions as well as structural changes are necessary as a means of continually further developing the business model of the company. Austrian Post not only aims to achieve stable operating earnings in 2016 but in 2017 as well.

The operating cash flow generated by Austrian Post will continue to be used prudently and in a targeted manner to finance sustainable efficiency increases, structural measures and future-oriented investments. With this in mind, operational capital expenditure (CAPEX) of EUR 70-80m is planned in 2016, focusing on sorting technologies, logistics and customer solutions. In addition, Austrian Post is making good progress with construction of its new corporate headquarters in Vienna's third district, scheduled for completion in 2017. The expected cash flow development for the entire year 2016 should also enable Austrian Post to adhere to its attractive dividend policy.

KEY FIGURES

			Change			
EUR m	H1 2015*	H1 2016	%	EUR m	Q2 2015*	Q2 2016
Revenue	1,175.0	1,071.1	-8.8%	-103.9	575.1	478.3
Revenue without trans-o-flex	930.4	936.3	0.6%	5.8	456.2	466.6
thereof Mail & Branch Network Division	738.0	736.8	-0.2%	-1.3	360.5	366.3
thereof Parcel & Logistics Division	436.9	334.3	-23.5%	-102.6	214.5	112.1
thereof Corporate	0.1	0.0	-	0.0	0.0	0.0
Other operating income	32.8	36.2	10.4%	3.4	16.4	12.7
Raw materials, consumables and Services used	-360.0	-286.3	20.5%	73.7	-177.5	-103.1
Staff costs	-551.8	-545.3	1.2%	6.5	-270.1	-258.8
Other operating expenses	-156.0	-139.1	10.8%	16.9	-79.7	-61.9
Results from financial assets accounted for using the equity method	-0.2	0.6	>100.0%	0.8	0.4	0.5
Earnings before interest, tax, depreciation and amortisation (EBITDA)	139.7	137.2	-1.8%	-2.6	64.6	67.8
Depreciation, amortisation and impairments	-43.2	-38.5	10.8%	4.7	-22.0	-20.2
Earnings before interest and tax EBIT)	96.5	98.6	2.2%	2.1	42.6	47.6
thereof Mail & Branch Network Division	145.4	143.2	-1.5%	-2.2	68.8	71.7
thereof Parcel & Logistics Division	12.5	16.9	35.4%	4.4	5.3	9.2
thereof Corporate/ Consolidation	-61.4	-61.5	-0.2%	-0.1	-31.5	-33.2
Other financial result	3.4	-0.5	<-100.0%	-3.9	-0.1	-0.3
Earnings before tax (EBT)	99.9	98.1	-1.7%	-1.7	42.5	47.3
Income tax	-22.5	-24.4	-8.3%	-1.9	-8.9	-12.2
Profit for the period	77.4	73.8	-4.7%	-3.6	33.6	35.1
Earnings per share (EUR)**	1.14	1.09	-4.6%	-0.05	0.50	0.52
Cash flow from operating activities	107.7	109.3	1.6%	1.7	48.1	49.3
Investments in property, plant and equipment						

(CAPEX)	-32.0	-38.5	-20.4%	-6.5	-16.2	-21.4
Free cash flow before acquisitions/securities	137.7	72.1	-47.7%	-65.7	33.2	29.7

* The presentation of revenue in the Parcel & Logistics Division was adjusted. Exported services are recognised according to the net method (previously reported as revenue and expenses for services used).
** Undiluted earnings per share in relation to 67,552,638 shares

The interim financial report H1 2016 is available on the Internet at www.post.at/ir --> Publications --> Financial Reports.

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