

AUSTRIAN POST 2014: SLIGHT REVENUE INCREASE; EARNINGS DEVELOPMENT IMPACTED BY SPECIAL EFFECTS

- **Market environment**
 - Basic trend of e-substitution of letter mail is continuing
 - Retail sector and thus advertising customers under pressure
 - Growth in e-commerce drives parcel volumes
 - Hardly any economic impetus and strong competition in the B2B parcel market
- **Revenue**
 - Slight revenue increase of 0.2% to EUR 2,370.5m
 - Decline in the mail business (-1.5%) offset by parcel growth (+3.1%)
- **Earnings**
 - EBIT rise of 5.9% to EUR 196.9m
 - Earnings impacted by various special effects
- **Cash flow and dividend**
 - Strong cash flow secures investments and dividends
 - Proposal to the Annual General Meeting: dividend of EUR 1.95/share
- **Outlook 2015**
 - Aim to achieve revenue growth of 1–2%
 - Targeted EBITDA margin of about 12% and further EBIT improvement aspired

OVERVIEW OF AUSTRIAN POST

In the 2014 financial year, Group revenue of Austrian Post amounted to EUR 2,370.5m, comprising an increase of 0.2% from the previous year. The strong growth in the parcel business of 3.1% more than compensated for the 1.5% revenue drop in the mail business. Once again, Austrian Post succeeded in keeping the revenue decline in the Mail & Branch Network Division at a moderate level against the backdrop of a structurally shrinking market thanks to innovative ideas and sales initiatives. The Parcel & Logistics Division generated revenue growth of 3.1% during the reporting period. The parcel business developed differently, depending on the region. The ongoing trend toward increased e-commerce provided growth not only for the Austrian parcel market, but also for the parcel subsidiaries in South East and Eastern Europe, which showed exceptionally high growth rates, whereas revenue in Germany slightly declined.

On the basis of the solid revenue development and ongoing strict cost discipline, operating results (EBIT) rose 5.9% from the prior-year level to EUR 196.9m. However, in addition to the solid operational performance, earnings also included several special effects. One positive special effect is



the sale of the former corporate headquarters in Vienna which led to operating income of EUR 62.4m. In contrast, various impairment losses and structural measures in Germany had a negative impact of EUR 48.7m on earnings. In addition an impairment loss on goodwill of a mail subsidiary in Poland to the amount of EUR 9.7m was recognised. All in all, the profit for the period amounted to EUR 146.8m, corresponding to earnings per share of EUR 2.17.

In 2014, Austrian Post also decisively continued its ongoing modernisation process. The company invested a total of EUR 82.6m (CAPEX) in new customer solutions and in improving and expanding its infrastructure. “In this way, Austrian Post is fulfilling its objective of designing more efficient processes and further increasing customer benefits. Important impetus was provided in 2014, especially in the fields of customer orientation and innovation. By expanding self-service solutions such as 260 modern self-service zones and 126 pick-up stations as well as new online solutions such as the Post App, Austrian Post is able to satisfy current customer needs, which is reflected by rising customer satisfaction ratings“, says Austrian Post CEO Georg Pölzl.

On the basis of the good earnings development, solid cash flows and a strong balance sheet, the Management Board will propose the approval of a dividend of EUR 1.95 per share in respect of the 2014 financial year to the Annual General Meeting scheduled for April 15, 2015. Looking ahead to 2015, Austrian Post anticipates a rise in Group revenue of 1–2%. At the same time, the aim is to achieve an EBITDA margin of about 12% and an ongoing improvement in EBIT. “Consistent focus on our customers’ needs will remain at the core of our strategic activities. In this way, we want to continue to consolidate our market leadership in the core business, and simultaneously exploit opportunities in growth markets“, says Georg Pölzl.

REVENUE DEVELOPMENT IN DETAIL

Austrian Post’s revenue in the 2014 financial year slightly surpassed the prior-year level. On balance, revenue was up 0.2% to EUR 2,370.5m. The parcel business showed solid growth of 3.1% in the reporting period, offsetting a revenue decrease of 1.5% in the mail segment.

All in all, revenue of the **Mail & Branch Network Division** was down 1.5% year-on-year to EUR 1,487.7m. Letter Mail & Mail Solutions revenue only declined slightly from the prior-year level, falling by 0.3% to EUR 790.5m. The basic trend towards declining volumes resulting from the substitution of letters by electronic media is continuing as before. These revenue decreases were partially offset by growth in the field of Mail Solutions. Revenue in the Direct Mail business was down 2.5% in 2014 to EUR 431.0m. The Direct Mail business is generally heavily influenced by customer advertising expenditure and also by the economic environment. The pressure exerted by online business on traditional mail order companies and retail stores led to reduced advertising spending by several customers. Moreover, several retail segments were affected by market consolidation.



Elections and referendums also generated higher revenue contributions in the previous year, especially in the first three quarters.

Total revenue of the **Parcel & Logistics Division** rose by 3.1% in 2014 to EUR 882.0m. From a regional perspective, 55.4% of total revenue in the Parcel & Logistics Division was generated in Germany, 35.6% in Austria and 9.0% by the subsidiaries in South East and Eastern Europe. Revenue in Austria and the CEE markets developed very positively, the German subsidiary trans-o-flex suffered from a slight revenue decline of 0.1% as a consequence of the challenging competitive situation. In contrast, revenue growth in Austria reached a level of 6.5% in 2014, supported by the trend towards online shopping as well as market share increases in the business parcel segment. In total, the subsidiaries in South East and Eastern Europe posted a substantial revenue increase of 10.7%.

EXPENSE AND EARNINGS DEVELOPMENT

Raw materials, consumables and services used declined by 1.2% or EUR 8.8m in the reporting period to EUR 744.5m. This development is primarily due to the decrease in costs for external transport services in Germany. The business model of the trans-o-flex Group used to be characterised by a particularly high level of external value creation, which is currently being reduced thanks to the takeover of distribution companies and the rendering of these services internally.

Staff costs of Austrian Post totalled EUR 1,109.5m in 2014, a rise of 3.4% or EUR 36.0m. This rise can be primarily attributed to two factors. First, the previously-mentioned integration of distribution companies in Germany led to additional staff costs of EUR 14.4m offsetting the related drop in services used. Second, adjustments to the parameters for interest-bearing staff-related provisions (discount rate, salary increases and employee turnover) were carried out in the 2014 financial year. These adjustments resulted in a negative effect of EUR 22.5m as a consequence of the high level of staff-related provisions on the balance sheet of Austrian Post.

Operational staff costs for salaries and wages remained at the prior-year level, adjusted to take account of the integration of the distribution companies in the Austrian Post Group. This shows that the consistent implementation of measures designed to enhance efficiency and improve the staff structure succeeded in compensating for inflation-related cost increases. In addition to the ongoing operational staff costs, the staff costs also include non-operational staff costs such as termination benefits and various changes in provisions which are primarily related to employment rights of civil servants at Austrian Post. In 2014, these costs were higher than in the previous year mainly due to the previously mentioned adjustments to the parameters of interest-bearing provisions.

Other operating income rose in the period under review to EUR 134.4m, compared to EUR 69.7m in the previous year. This significant increase is due to the sale of Austrian Post's former headquarters in Vienna's inner city. The disposal of the property, which took place after an international bidding



process, was started in June 2014 and concluded on December 22, 2014 with the signing of a sale agreement. This resulted in a gain from deconsolidation of EUR 62.4m recognised as other operating income.

In the 2014 financial year, earnings before interest, tax, depreciation and amortisation (EBITDA) of the Austrian Post Group was up 9.6% or EUR 29.3m to EUR 333.8m. EBITDA growth was higher than revenue growth primarily due to special effects such as the sale of the former corporate headquarters. This positive effect was partly offset by negative ones such as higher staff costs and various write-downs and structural measures in connection with the trans-o-flex Group.

On balance, depreciation, amortisation and impairment losses totalled EUR 136.9m during the period under review, comprising a year-on-year increase of EUR 18.4m. This rise was mainly the result of impairment losses on goodwill of EUR 48.6m compared to EUR 32.4m in the previous year. In particular, impairment on goodwill of EUR 38.9m was reported for the trans-o-flex Group as a consequence of the highly competitive market situation and reduced earnings situation. Another significant impairment loss on goodwill totalling EUR 9.7m was reported for the Polish subsidiary PostMaster Sp.z o.o.

Taking account of depreciation, amortisation and impairments, earnings before interest and tax (EBIT) amounted to EUR 196.9m, representing a 5.9% improvement from the prior-year level. Accordingly, the EBIT margin was 8.3%. After deducting income tax, the Group's net profit (profit after tax for the period) amounted to EUR 146.8m, up from EUR 124.0m in 2013. This results in earnings per share of EUR 2.17 for the 2014 financial year. The higher increase in net profit compared to operating earnings is mainly due to a negative special effect recognised in the prior-year financial result. The prior-year included the complete write-down of loans granted to the joint venture MEILLERGHP. As of February 20, 2015 Austrian Post has disposed its stake in the company.

From a divisional perspective, the **Mail & Branch Network Division** reported an EBITDA of EUR 311.0m in the 2014 financial year, a drop of 3.0% or EUR 9.7m from the prior-year level, which can be attributed mainly to the overall revenue decline caused by electronic substitution and reduced revenue in the Direct Mail and Branch Services areas. The division generated an EBIT of EUR 270.0m, a drop of 4.2% year-on-year. Impairment losses on goodwill in the division totalled EUR 5.4m in 2013, whereas impairment losses on goodwill of the Austrian Post subsidiaries in South East and Eastern Europe during 2014 amounted to EUR 9.7m.

EBITDA of the **Parcel & Logistics Division** was EUR 41.4m compared to EUR 42.8m in the 2013 financial year. Negative effects relating to the trans-o-flex Group impacted the earnings situation in the previous year as well as in the current reporting period. The efficiency enhancement programme being implemented in the trans-o-flex Group includes the reintegration of external services by taking over selected distribution partners. The objective is to optimize operating costs and exploit synergies in the



field of distribution logistics. Write-downs and structural measures relating to the integration of the distribution companies totalled EUR 9.8m in 2014 (2013: EUR 7.1m of write-downs). Furthermore, as previously mentioned, an impairment loss on goodwill of the trans-o-flex Group of EUR 38.9m was recognised during the period under review, compared to an impairment loss of EUR 27.0m for this company in 2013. As a result, EBIT of the Parcel & Logistics Division was minus EUR 19.5m, compared to minus EUR 4.9m in the previous year.

The **Corporate Division** basically encompasses all expenses for central departments in the Group as well as staff-related provisions. In addition, the division encompasses innovation management and the development of new business models. The combination of positive effects described above in connection with the sale of the former company headquarters with higher staff-related costs, especially adjustments in the parameters for interest-bearing staff-related provisions, resulted in an EBIT of minus EUR 53.6m in this division, compared to minus EUR 90.9m in the previous year.

CASH FLOW AND BALANCE SHEET

The gross cash flow totalled EUR 283.3m in the 2014 financial year compared to EUR 304.8m in 2013. The cash flow from operating activities of EUR 232.2m was EUR 18.3m lower than in the previous year. The 2014 financial year included payments for wage-related contributions from previous periods to the amount of about EUR 8m. In addition, the less pronounced reduction in the level of receivables compared to the previous year decreased the cash flow.

The cash flow from investing activities at minus EUR 69.4m in 2014 was below the comparable prior-year figure. There were hardly any payments made in the reporting period in connection with acquisitions. The acquisition of property, plant and equipment of EUR 82.6m was also somewhat below the prior-year level. On balance, the free cash flow in 2014 totalled EUR 162.8m, up from EUR 60.5m in 2013. The free cash flow before acquisitions and securities was EUR 151.7m, thus remaining at a stable high level. This comprises a good basis for financing future investments and dividend payments.

Austrian Post pursues a conservative balance sheet policy and financing structure. This is demonstrated by the high equity ratio, low financial liabilities and solid cash and cash equivalent levels invested with the least possible risk. Equity of the Austrian Post Group totalled EUR 702.7m as at December 31, 2014, corresponding to an equity ratio of 42.1%. An analysis of the financial position of the company shows a high level of current and non-current financial resources of EUR 317.3m (cash and cash equivalents of EUR 264.1m as well as securities of EUR 53.1m). These financial resources are in contrast to financial liabilities of only EUR 17.7m.



EMPLOYEES

The average number of full-time employees at the Austrian Post Group totalled 23,912 people during the period under review, comprising a decrease of 299 employees from the prior-year period. Most of Austrian Post's staff (full-time equivalents) is employed by the parent company Österreichische Post AG (a total of 18,403 full-time equivalents). A total of 5,508 people (full-time equivalents) are employed by the subsidiaries.

OUTLOOK 2015

Generally speaking, the basic trends in the postal sector are set to persist in 2015. With respect to its revenue development, the business model of Austrian Post is oriented to compensating for decline in the mail segment by generating growth in the parcel business. On this basis, Austrian Post aims to achieve an average revenue growth rate of 1-2% p.a. over the near-term future. A revenue increase in this range is also expected for 2015.

The foundation for this prediction is the continuation of the basic trends shaping volume development. Revenue in the mail segment will continue to be impacted by ongoing volume decline for addressed mail due to electronic substitution. In line with international trends, the decrease in addressed mail volume is likely to amount to 3–5% per year. The market for addressed and unaddressed direct mail items will continue to be subject to differing volume trends. Several customer segments such as the traditional mail order business and retail stores are under pressure from the increasing activities of online businesses. This could lead to a further reduction in their advertising spending. The development of the parcel and logistics business is also dominated by two trends. Growth of 3-6% continues to be expected in the private customer parcel segment, depending on the region. The steadily growing field of electronic commerce is the driving force behind this increase. The positive development of the business parcel segment depends on a stable economy and the competitive situation. However, the subdued economic situation is unlikely to provide any impetus to parcel growth. In particular, the priority in the international parcel business is to exploit the company's good market position and take advantage of the resulting opportunities.

Austrian Post has developed a package of measures in order to achieve an ongoing performance improvement and to further increase the efficiency of the services provided. Structures and processes in both mail and parcel logistics are being consistently improved. New sorting technologies will enable Austrian Post to consistently exploit cost reduction potential. Profitability is the top priority especially in the company's international business operations. One focal point is the continuation of the efficiency enhancement programme in the trans-o-flex Group, entailing a reorganisation of process, distribution and staff structures. With respect to its earnings development, Austrian Post remains committed to its target of achieving a sustainable EBITDA margin of about 12%. The company is also pursuing this objective for the 2015 financial year, along with the goal of achieving an ongoing improvement in the earnings before interest and tax (EBIT).



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. Further investments will primarily serve the purpose of modernisation, the replacement of existing facilities and vehicles along with capacity expansion in the parcel segment. As a result, operational capital expenditure (CAPEX) is expected to reach a level of about EUR 80-90m in 2015, and will focus on sorting technologies, logistics and customer solutions. In addition, Austrian Post will commence construction of its new corporate headquarters in Vienna's third district. The project is expected to be completed in 2017. With this new building, a commercial property owned by Austrian Post will be developed in accordance with the principles of efficiency and value maximisation.

The Management Board will propose to the Annual General Meeting scheduled for April 15, 2015 to approve the distribution of a dividend totalling EUR 1.95 per share for the 2014 financial year. Thus, the company continues its attractive dividend policy on the basis of a solid balance sheet structure and the generated cash flow. Austrian Post aims to distribute at least 75% of the Group net profit to its shareholders. Assuming the company continues its successful business development, the dividend should develop further in line with the Group's results.

OVERVIEW OF KEY INDICATORS

EUR m	2013	2014	Change			
			%	EUR m	Q4 2013	Q4 2014
Revenue	2,366.8	2,370.5	0.2%	3.7	632.6	637.9
thereof Mail & Branch Network Division ¹	1,510.3	1,487.7	-1.5%	-22.6	402.9	402.0
thereof Parcel & Logistics Division ¹	855.6	882.0	3.1%	26.4	229.4	235.6
thereof Corporate/Consolidation ¹	0.9	0.8	-11.0%	-0.1	0.3	0.2
Other operating income	69.7	134.4	92.9%	64.8	19.5	84.3
Raw materials, consumables and services used	-753.3	-744.5	-1.2%	-8.8	-196.7	-199.1
Staff costs	-1,073.5	-1,109.5	3.4%	36.0	-289.2	-294.1
Other operating expenses	-298.6	-317.0	6.2%	18.4	-82.6	-96.8
Results from financial assets accounted for using the equity method	-6.6	-0.1	98.3%	6.4	-1.7	1.4
Earnings before interest, tax, depreciation and amortisation (EBITDA)	304.5	333.8	9.6%	29.3	81.9	133.6
Depreciation and amortisation	-83.5	-84.9	1.7%	1.4	-21.1	-22.2
Impairments	-35.1	-52.0	48.4%	17.0	-6.4	-47.1
Earnings before interest and tax (EBIT)	186.0	196.9	5.9%	10.9	54.4	64.2
thereof Mail & Branch Network Division	281.8	270.0	-4.2%	-11.8	73.0	74.5
thereof Parcel & Logistics Division	-4.9	-19.5	<-100%	-14.6	9.4	-38.1
thereof Corporate/Consolidation	-90.9	-53.6	41.1%	37.3	-28.1	27.9
Other financial result	-14.8	-2.8	80.7%	11.9	-12.0	-0.4
Earnings before tax (EBT)	171.2	194.0	13.3%	22.8	42.5	63.8
Income tax	-47.2	-47.2	0.0%	0.0	-23.3	-16.8
Profit for the period	124.0	146.8	18.4%	22.8	19.2	47.1
Earnings per share (EUR) ²	1.82	2.17	18.9%	0.35	0.28	0.70
Cash flow from operating activities	250.4	232.2	-7.3%	-18.3	78.7	67.6
Investments in property, plant and equipment (CAPEX)	-96.4	-82.6	-14.3%	13.8	-33.0	-29.6
Free cash flow before acquisitions/securities	153.9	151.7	-1.4%	-2.2	44.7	43.2

¹ The presentation of revenue was adjusted so that cross-segment business relationships among subsidiaries or between subsidiaries and Austrian Post are no longer included in the revenue with third parties (formerly external sales).

² Undiluted earnings per share in relation to 67.552.638 shares

The Financial Report 2014 is available on the Internet at www.post.at/ir --> Publications --> Financial Reports.

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