Results PostNL Q3 2014

The Hague, 3 November 2014

PostNL reports solid Q3 2014 results

Financial highlights Q3 2014

- Revenue increased to €988 million (Q3 2013: €969 million)
- Underlying cash operating income increased to €34 million (Q3 2013: €17 million)
- Tax payment of €65 million related to prior years (Q3 2013: €73 million refund) impacted net cash from operating and investing activities

Operational highlights Q3 2014

- Addressed mail volume Mail in the Netherlands declined by 11.1%
- High delivery quality at 97.1%
- Smooth execution of restructuring plans resulted in cost savings of €25 million
- Parcels volume grew by 8.1% driven by strong e-commerce market
- New stamp rates 2015 announced

Outlook 2014*

- PostNL remains on track for full year underlying cash operating income of between €260 million and €290 million

Key figures

in €millions	Q3 2014	Q3 2013	% Change	YTD 2014	YTD 2013	% Change
Revenue	988	969	*2%*	3,037	2,996	*1%*
Revenue excluding UK	*789*	*793*	*-1%*	*2,470*	*2,468*	*0%*
Operating income	40	35	*14%*	224	143	*56%*
Underlying operating income	53	59	*-11%*	244	211	*15%*
Underlying operating income margin	5.4%	6.1%		8.0%	7.0%	
Changes in pension liabilities	(9)	(24)	*62%*	(39)	(85)	*54%*
Changes in provisions	(10)	(18)	*43%*	(34)	(63)	*47%*
Underlying cash operating income	34	17		171	63	
Underlying cash operating income excluding UK	*31*	*13*		*166*	*55*	
Underlying cash operating income margin	3.4%	1.8%		5.6%	2.1%	
Profit for the period	12	218		110	(189)	
Profit for the period (excluding TNT Express)	8	2		104	39	
Net cash from/(used in) operating and investing activities	(66)	82		(48)	(53)	

Note: underlying figures exclude one-offs in Q3 2014 (€7 million for restructuring related charges and €6 million for rebranding/project costs) and in Q3 2013 (€22 million for restructuring related charges and €2 million rebranding/other). Comparative 2013 figures have been restated to reflect the effect of the adoption of IFRS11/IAS28R.

CEO statement

Herna Verhagen, CEO of PostNL: "This quarter demonstrated the ongoing improvement in PostNL's operational performance. Our results improved mainly due to strong cost savings, price increases in Mail in the Netherlands and lower cash out for pensions and restructuring. Our addressed mail volumes in Mail in the Netherlands declined by 11.1%. Reduction of our cost level remains necessary to compensate for the ongoing volume decline in Mail in the Netherlands.

Parcels saw healthy growth of volumes and revenue. Further improved operational efficiencies were offset by higher subcontractor costs and initial costs for the expansion of our service offering, with innovations like the upcoming roll-out of nine parcel lockers. International showed revenue growth, but our results were impacted by the competitive environment in Germany; we are taking further measures to improve profitability.

Based on what we achieved this year so far and taking into account the usually strong fourth quarter, I remain confident that we are well on track to deliver our full year 2014 outlook of underlying cash operating income of between €260 million and €290 million."

* Increased outlook 2014 was provided on 7 July 2014 and is excluding the result from the activities in the United Kingdom

Update Sustainable delivery 2015

Subject		Q3 2014
Operations Mail in NL	Smooth execution of restructuring plans	▪ Good progress migration and optimisation depots while keeping quality high at 97.1% ▪ Installation first new sorting machine ▪ Improvements car unit implemented in first region, preparation for other regions started
CLA	Towards sustainable labour costs	▪ New and balanced CLA mail deliverers ▪ Negotiations CLA PostNL started, with focus on adjustments pensions with regard to the new pension regulation
Cost savings	To compensate for volume decline	▪ €25 million of which €21 million in Mail in the Netherlands
Regulatory developments	Underpinning cost savings and price increases	▪ Tariff increase Mail in the Netherlands as per 1 January 2015 ▪ Postal regulation – final decision ACM on tariff headroom expected in November ▪ Postal Act – sent to Parliament ▪ Consultation paper Significant Market Power expected to be published by ACM before year end

Main developments PostNL and segments

	Revenue			Underlying operating income			Underlying cash operating income		
in €million	Q3 2014	Q3 2013	%Change	Q3 2014	Q3 2013	%Change	Q3 2014	Q3 2013	%Change
Mail in NL	442	463	-5%	36	25	42%	22	(1)	
Parcels	204	192	6%	18	21	-13%	19	20	-9%
International	420	390	8%	1	5	-78%	1	6	-85%
PostNL Other	55	64	-11%	(2)	8	-133%	(8)	(8)	3%
Intercompany	(133)	(140)	4%						
PostNL	988	969	2%	53	59	-11%	34	17	94%

Note: underlying figures exclude one-offs

PostNL's reported revenue in Q3 was €988 million, up 2% compared to the prior year. Adjusted for the currency effect, revenue was flat. Underlying cash operating income increased to €34 million (Q3 2013: €17 million) explained by lower pension cash out and lower cash out from provisions. Underlying operating income decreased by €6 million. This decrease is explained by cost savings of €17 million (excluding pensions) and lower implementation costs (€5 million), which were more than offset by autonomous cost increases of €7 million, the result in Parcels (€(3) million) and International (€(4) million) and other effects (€(14) million). Part of these other effects is the result of phasing of revenue to next quarter, without this phasing effect underlying operating income would have been flat compared to last year.

Addressed mail volume in **Mail in the Netherlands** declined by 11.1% in the quarter (underlying volume decline 10.9%). Revenue declined by 5% to €442 million. Underlying cash operating income improved to €22 million. The total effect of volume decline, change in mix and price increases was flat in Q3. Cost savings, lower implementation costs and lower cash out for pensions and provisions more than compensated for autonomous cost increases and other effects.

Parcels' volume in the quarter increased by 8.1%, mainly as a result of the continued growth of the e-commerce market. Revenue increased by 6% to €204 million. Better business performance was offset by higher subcontractor costs and initial costs for the expansion of our service offering. The resulting underlying cash operating income was €19 million (Q3 2013: €20 million).

International revenue increased by 8% to €420 million. Adjusted for the currency effect, revenue was up 4%. Underlying cash operating income was €1 million (Q3 2013: €6 million). The decline is mainly explained by the competitive environment in the German consolidation business.

In the United Kingdom, revenue was €200 million (Q3 2013: €179 million). Adjusted for the currency effect, revenue increased by 4%. Revenue growth was driven by higher prices and a more favourable product mix. Ofcom is currently expected to publish its consultation document about the regulatory framework before the end of the year. In September our activities in the United Kingdom were rebranded to Whistl.

In Germany, revenue decreased by 2% to €119 million (Q3 2013: €122 million). The consolidation business continued to be impacted by the fierce competitive situation, resulting both in lower volumes and lower prices. We are still awaiting rulings from Bundeskartellamt and Bundesnetzagentur, required to foster a competition-friendly market environment. The revenue decline in the consolidation business was partly compensated by new business wins and growing volumes in the other business lines. We have initiated actions in Germany to attract additional volumes and implemented further cost savings plans to improve profitability.

In Italy, revenue increased by 2% to €54 million (Q3 2013: €53 million) driven by continued volume growth of Formula Certa (+5%).

Revenue in **PostNL Other** decreased to €55 million (Q3 2013: €64 million), almost fully explained by lower internal revenue. Underlying cash operating income was flat at €(8) million.

Equity, pensions and cash flow development

Total equity attributable to equity holders of the parent decreased to €(747) million on 27 September 2014 from €(618) million as per 28 June 2014. The decrease is mainly explained by net profit for the period of €12 million more than offset by a fair value change of our stake in TNT Express of €(125) million and a negative impact from pensions of €(20) million.

The coverage ratio of the main pension fund was 110.5% at the end of the third quarter. The pension expense in Q3 2014 amounted to €31 million (Q3 2013: €33 million). The cash contributions decreased to €40 million (Q3 2013: €57 million) mainly as a result of the pension arrangement effective 1 January 2014.

Net cash from operating and investing activities was €(66) million in Q3 2014, €148 million less than the prior year, mainly explained by the impact of the income taxes paid / received related to prior years (€65 million payment in Q3 2014 and €73 million refund in Q3 2013 on preliminary tax assessments in the Netherlands relating to timing differences). At the end of Q3 2014, net debt was €861 million, which compares to €788 million at the end of Q2 2014. The increase is mainly explained by the expected tax payment as explained above.

Financial calendar

23 February 2015	Publication of Q4 & FY 2014 results
6 May 2015	Publication of Q1 2015 results
3 August 2015	Publication of Q2 & HY 2015 results
2 November 2015	Publication of Q3 2015 results

Contact information

Published by	PostNL N.V. Prinses Beatrixlaan 23 2595 AK The Hague The Netherlands T: +31 88 86 86 161	
Investor Relations	Richard Piekaar Director Treasury & Investor Relations M: +31 619 26 94 99 E: richard.piekaar@postnl.nl	Inge Steenvoorden Manager Investor Relations M: +31 610 51 96 70 E: inge.steenvoorden@postnl.nl
Media Relations	Dick Kors Manager Media Relations & PR T: +31 88 86 88 260 E: dick.kors@postnl.nl	

Audio webcast and conference call Q3 2014 results

On 3 November 2014, at 14.00 CET, the conference call for analysts and investors will start. The conference call can be followed live via an audio webcast on www.postnl.com.

Additional information

Additional information is available at www.postnl.com.

Warning about forward-looking statements

Consolidated interim financial statements

Consolidated statement of financial position in €millions	27 September 2014	Restated 31 December 2013	Restated 1 January 2013
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	84	84	100
Other intangible assets	43	46	56
Total	127	130	156
Property, plant and equipment			
Land and buildings	353	345	303
Plant and equipment	121	127	139
Other	29	35	39
Construction in progress	14	29	51
Total	517	536	532
Financial fixed assets			
Investments in joint ventures/associates	35	36	1,403
Other financial fixed assets	8	9	7
Deferred tax assets	50	51	70
Available-for-sale financial assets	398	542	0
Total	491	638	1,480
Total non-current assets	1,135	1,304	2,168
Current assets			
Inventory	5	5	6
Trade accounts receivable	348	361	419
Accounts receivable	44	29	57
Income tax receivable	6	1	2
Prepayments and accrued income	120	104	116
Cash and cash equivalents	416	451	370
Total current assets	939	951	970
Assets classified as held for sale	210	194	62
Total assets	2,284	2,449	3,200
LIABILITIES AND EQUITY			
Equity			
Equity attributable to the equity holders of the parent	(747)	(696)	(318)
Non-controlling interests	6	6	8
Total	(741)	(690)	(310)
Non-current liabilities			
Deferred tax liabilities	37	37	41
Provisions for pension liabilities	543	542	532
Other provisions	111	128	117
Long-term debt	923	1,260	1,611
Accrued liabilities	1	1	2
Total	1,615	1,968	2,303
Current liabilities			
Trade accounts payable	116	153	222
Other provisions	61	69	83
Other current liabilities	579	209	253
Income tax payable	16	54	26
Accrued current liabilities	490	552	612
Total	1,262	1,037	1,196
Liabilities related to assets classified as held for sale	148	134	11
Total equity and liabilities	2,284	2,449	3,200

Consolidated income statement in €millions	Q3 2014	Restated Q3 2013	YTD 2014	Restated YTD 2013
Net sales	985	966	3,029	2,987
Other operating revenue	3	3	8	9
Total operating revenue	988	969	3,037	2,996
Other income	3	1	6	6
Cost of materials	(21)	(19)	(65)	(65)
Work contracted out and other external expenses	(542)	(504)	(1,580)	(1,535)
Salaries, pensions and social security contributions	(317)	(336)	(964)	(1,044)
Depreciation, amortisation and impairments	(25)	(32)	(72)	(87)
Other operating expenses	(46)	(44)	(138)	(128)
Total operating expenses	(951)	(935)	(2,819)	(2,859)
Operating income	40	35	224	143
Interest and similar income	5	4	10	5
Interest and similar expenses	(26)	(32)	(79)	(92)
Net financial expenses	(21)	(28)	(69)	(87)
Results from investments in jv's/associates		(2)		37
Reversal of/(impairment) of investments in associates		218		(263)
Profit/(loss) before income taxes	19	223	155	(170)
Income taxes	(7)	(5)	(45)	(19)
Profit for the period	12	218	110	(189)
Attributable to:				
Non-controlling interests		(1)		(1)
Equity holders of the parent	12	219	110	(188)
Earnings per (diluted) ordinary share (in €cents) [1]	2.7	49.8	25.0	(42.7)

1 Based on an average of 440,478,632 outstanding ordinary shares (2013: 439,973,297).

Consolidated statement of comprehensive income in €millions	Q3 2014	Restated Q3 2013	YTD 2014	Restated YTD 2013
Profit for the period	12	218	110	(189)
Other comprehensive income that will not be reclassified to the income statement				
Impact pensions, net of tax	(20)	19	(19)	(156)
Share other comprehensive income jv's/associates		(1)		(7)
Other comprehensive income that may be reclassified to the income statement				
Currency translation adjustment, net of tax	1	1	2	(1)
Gains/(losses) on cashflow hedges, net of tax	2	2	(3)	(2)
Share other comprehensive income jv's/associates		(5)		(16)
Change in value of available-for-sale financial assets	(125)		(144)	
Total other comprehensive income for the period	(142)	16	(164)	(182)
Total comprehensive income for the period	(130)	234	(54)	(371)
Attributable to:				
Non-controlling interests		(1)		(1)
Equity holders of the parent	(130)	235	(54)	(370)

Consolidated statement of cash flows in €millions	Q3 2014	Restated Q3 2013	YTD 2014	Restated YTD 2013
Profit/(loss) before income taxes	19	223	155	(170)
Adjustments for:				
Depreciation, amortisation and impairments	25	32	72	87
Share-based payments	1	3	3	3
(Profit)/loss on assets held for sale	(1)	(1)	(4)	(5)
Interest and similar income	(5)	(4)	(10)	(5)
Interest and similar expenses	26	32	79	92
(Reversal of) impairments and results of investments in jv's/associates		(216)		226
Investment income	20	(189)	65	308
Pension liabilities	(9)	(24)	(39)	(148)
Other provisions	(4)	4	(25)	5
Changes in provisions	(13)	(20)	(64)	(143)
Inventory	1			
Trade accounts receivable	(24)	1	(11)	6
Other accounts receivable	(13)	(12)	(4)	8
Other current assets	17	(1)	(16)	(19)
Trade accounts payable	(35)	(17)	(34)	(41)
Other current liabilities excluding short-term financing and taxes	51	45	(30)	(39)
Changes in working capital	(3)	16	(95)	(85)
Cash generated from operations	49	65	136	0
Interest paid	(45)	(42)	(60)	(59)
Income taxes received/(paid)	(65)	73	(79)	63
Net cash (used in)/from operating activities	(61)	96	(3)	4
Interest received	1	4	2	5
Dividends received	4	3	6	8
Capital expenditure on intangible assets	(6)	(5)	(18)	(13)
Capital expenditure on property, plant and equipment	(8)	(16)	(45)	(66)
Proceeds from sale of property, plant and equipment	4		10	9
Net cash (used in)/from investing activities	(5)	(14)	(45)	(57)
Changes related to non-controlling interests				(3)
Proceeds from short term borrowings	1	(2)	2	3
Repayments of short term borrowings	2		(8)	(1)
Repayments of finance leases			(1)	(1)
Net cash (used in)/from financing activities	3	(2)	(7)	(2)
Total change in cash	**(63)**	80	**(55)**	(55)
Cash at the beginning of the period	487	234	451	370
Cash included in assets held for sale	(8)		20	
Exchange rate differences				(1)
Total change in cash	(63)	80	(55)	(55)
Cash at the end of the period	416	314	416	314

Basis of preparation

The interim financial statements are reported on a year-to-date basis ending 27 September 2014. The information should be read in conjunction with the consolidated 2013 Annual Report of PostNL N.V. as published on 24 February 2014.

Apart from the changes in accounting for joint ventures (IFRS 11/IAS 28R), all other significant accounting policies applied in these consolidated interim financial statements are consistent with those applied in PostNL's consolidated 2013 Annual Report for the year ended 31 December 2013.

The measure of profit and loss and assets and liabilities is based on the Group Accounting Policies, which are compliant with IFRS as endorsed by the European Union.

Per 1 January 2014 IFRS 11 'Joint Arrangements' and the revisions in IAS 28 'Associates and joint ventures' have been adopted. PostNL recognised the investment in the joint ventures at the beginning of the earliest period presented (1 January 2013) as the net amount of the carrying value of the assets and liabilities previously proportionately consolidated by the group. This is the deemed cost of the group's investment in the joint venture for applying equity accounting. PostNL's most significant joint venture as at 31 December 2013 was the 50% interest in Postkantoren B.V. / Bruna B.V. (Mail in the Netherlands). In addition, PostNL holds a 50% interest in HIM Holtzbrinck joint ventures (International). The comparative figures of 2013 have been restated for this change. There is no impact on shareholders' equity, comprehensive income, net result and earnings per share.

Classification of stake in TNT Express
In December 2013, PostNL sold part of its stake in TNT Express. In accordance with IAS 39, the remaining 14.7% stake in TNT Express is considered an available-for-sale financial asset measured at fair value with gains and losses arising from changes in the fair value recognised in other comprehensive income. Until the start of Q4 2013, the stake in TNT Express was classified as an investment in associates accounted for using the equity method.

Classification of Whistl (formerly TNT Post UK)
In December 2013, PostNL reached an agreement with LDC to establish a joint venture, which will allow Whistl to roll out its E2E service. At completion, PostNL will have a 40% stake in the joint venture and control will be lost. This resulted in the transfer of the assets and liabilities of Whistl to held for sale at the end of 2013.

Auditor's involvement

The content of this interim financial report has not been audited or reviewed by an external auditor.

Summary of restatements

The following tables summarise the effect of the adoption of IFRS 11 and IAS 28R on the consolidated balance sheet per 1 January 2013 and 31 December 2013 and the consolidated (comprehensive) income statement for YTD Q3 2013 and the full year 2013.

Consolidated statement of financial position	Reported	Restatements	Restated	Reported	Restatements	Restated
in €millions	31 Dec 2012		1 Jan 2013	31 Dec 2013		31 Dec 2013
ASSETS						
Total intangibles	168	(12)	156	143	(13)	130
Total property, plant and equipment	536	(4)	532	539	(3)	536
Investments in associates/jv's	1,373	30	1,403	6	30	36
Other financial fixed assets	74	3	77	603	(1)	602
Total financial fixed assets	1,447	33	1,480	609	29	638
Total non-current assets	2,151	17	2,168	1,291	13	1,304
Total current assets	1,002	(32)	970	979	(28)	951
Assets classified as held for sale	63	(1)	62	194		194
TOTAL ASSETS	**3,216**	**(16)**	**3,200**	**2,464**	**(15)**	**2,449**
EQUITY AND LIABILITIES						
Equity for shareholders of the parent	(301)	(17)	(318)	(679)	(17)	(696)
Non-controlling interests	9	(1)	8	7	(1)	6
Total equity	(292)	(18)	(310)	(672)	(18)	(690)
Total non-current liabilities	2,310	(7)	2,303	1,973	(5)	1,968
Total current liabilities	1,187	9	1,196	1,046	(9)	1,037
Liabilities related to assets classified as held for sale	11		11	117	17	134
TOTAL EQUITY AND LIABILITIES	**3,216**	**(16)**	**3,200**	**2,464**	**(15)**	**2,449**

Consolidated income statement	Reported	Restatements	Restated	Reported	Restatements	Restated
in €millions	YTD 2013		YTD 2013	FY 2013		FY 2013
Net sales	3,092	(105)	2,987	4,296	(144)	4,152
Other operating revenue	9		9	11		11
Total operating revenue	3,101	(105)	2,996	4,307	(144)	4,163
Other income	6		6	7		7
Cost of materials	(123)	58	(65)	(167)	79	(88)
Work contracted out and other external expenses	(1,552)	17	(1,535)	(2,142)	23	(2,119)
Salaries, pensions and social security contributions	(1,063)	19	(1,044)	(1,288)	28	(1,260)
Depreciation, amortisation and impairments	(89)	2	(87)	(132)	3	(129)
Other operating expenses	(134)	6	(128)	(181)	7	(174)
Total operating expenses	(2,961)	102	(2,859)	(3,910)	140	(3,770)
Operating income	**146**	**(3)**	**143**	**404**	**(4)**	**400**
Interest and similar income	5		5	10	(1)	9
Interest and similar expenses	(93)	1	(92)	(184)	1	(183)
Net financial expense	(88)	1	(87)	(174)		(174)
Results from investments in associates/jv's	36	1	37	36	2	38
Reversal of/(impairment of) investments in associates/jv's	(263)		(263)	(369)		(369)
Profit/(loss) before income taxes	**(169)**	**(1)**	**(170)**	**(103)**	**(2)**	**(105)**
Income taxes	(20)	1	(19)	(67)	2	(65)
Profit for the year	**(189)**		**(189)**	**(170)**		**(170)**
Earnings per ordinary share (in €cents)	(42.7)		(42.7)	(38.6)		(38.6)
Earnings per diluted ordinary share (in €cents)	(42.7)		(42.7)	(38.6)		(38.6)
Other comprehensive income that will not be reclassified to the income statement						
Impact pensions, net of tax	(158)	2	(156)	(230)	3	(227)
Share other comprehensive income associates	(5)	(2)	(7)	(5)	(3)	(8)
Other comprehensive income that may be reclassified to the income statement	(19)		(19)	24		24
Total other comprehensive income for the period	(182)		(182)	(211)		(211)
Total comprehensive income for the period	**(371)**		**(371)**	**(381)**		**(381)**