

# Q3 2017 Results

The Hague, 6 November 2017



# Q3 2017 Results

## **Key takeaways**

Business review

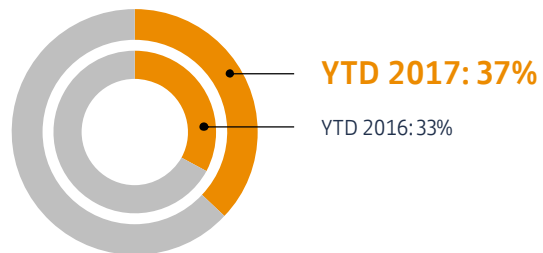
Financial review

Q&A

# Strong growth in e-commerce continues

	Revenue	Underlying cash operating income
<b>Q3 2017</b>	<b>€809m</b>	<b>€31m</b>
Q3 2016	€770m	€27m

Progress towards 45% of revenue related to e-commerce in 2020



## Key takeaways

- Q3 results above last year
  - Strong result Parcels driven by volume growth of 23%
  - Result Mail in the Netherlands supported by positive incidentals; operational performance showed impact high volume decline and ACM measures
  - Anticipated improvement International not yet visible
- Reconfirm that FY 2017 result is expected to end towards lower end of guidance range of €220m - €260m

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# Mail in the Netherlands

Higher result fuelled by positive incidentals

	Revenue	Underlying cash operating income	Total cost savings	Addressed mail volume decline
<b>Q3 2017</b>	<b>€395m</b>	<b>€7m</b>	<b>€16m</b> <small>of which €11m in Mail in the Netherlands</small>	<b>10.2%</b> <small>YTD: 9.5%</small>
Q3 2016	€412m	€5m		

## Key takeaways Q3 2017

- Volume decline driven by higher than expected substitution and loss to competition
- Accelerated impact earlier ACM measures (article 9 Postal Act): supported by these measures, postal operators collect more mail
  - partly via network access; results in pressure on average price
  - delivering more mail items than anticipated via their own networks
- Lower cash out for provisions and pensions
- Positive impact from other effects (including higher results sale of buildings and lower amortisation costs)
- Delivery quality continued to be high at 96.5%
- In-principle collective labour agreements with three trade unions; parties agreed on salary increase of 2.6% in five steps in 2017 and 2018

# Regulation

## Developments in postal market urge for well advised and considered political action

### Decision Significant Market Power (SMP)

- ACM decided that PostNL has SMP in 24-hours bulk mail segment and must grant postal operators in this segment network access; decision also stipulates requirements for network access, tariffs and transparency
- Development tariff proposal and related conditions per product requires a precise process; implementation to start on 1 December 2017
- Financial impact between €30m and €50m on annualised basis, toward the upper part of the range, with effect fully visible in FY 2019; impact subject to final implementation of SMP decision

### Analysis future of Dutch postal market (Minister Economic Affairs)

- Postal market is in structural decline and expected to shrink 30% between 2016 and 2025
- Demonstrates that regulation aimed at increasing competition does not acknowledge postal market in ongoing decline
- More network competition does not create additional value
- First discussions expected in 2018, initiated by State Secretary Economic Affairs

### View and actions PostNL

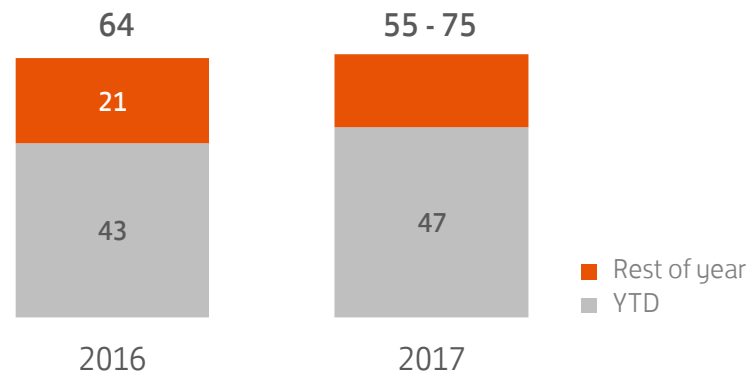
- SMP decision is based on legislation which is not aligned with realities of today's declining postal market
- Results in artificial support of competition at the expense of sustainable Dutch postal network and labour conditions
- Ultimately, SMP decision will harm quality of postal delivery and service in the Netherlands and reliability and accessibility of Dutch postal network
- Several legal actions taken to limit impact regulatory measures: preparations to challenge relevant elements of SMP decision in court started
- Current development market parties proves that consolidation in postal market is inevitable

# €16m cost savings realised in Q3 2017

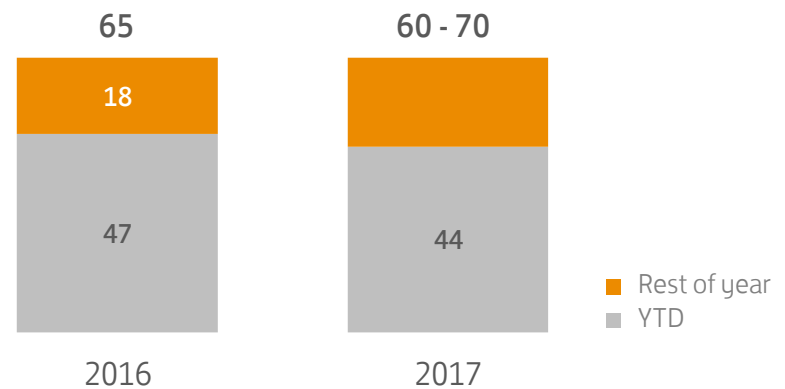
On track to realise target cost savings of €55m - €75m for 2017

Efficiency delivery process	2 depots migrated
Optimise retail network	Reduction of 30 postal offices and 30 letter boxes; opening 70 parcel points
Efficiency sorting process	New coding process went live

**Cost savings**  
(in € millions)



**Implementation costs and restructuring cash out**  
(in € millions)

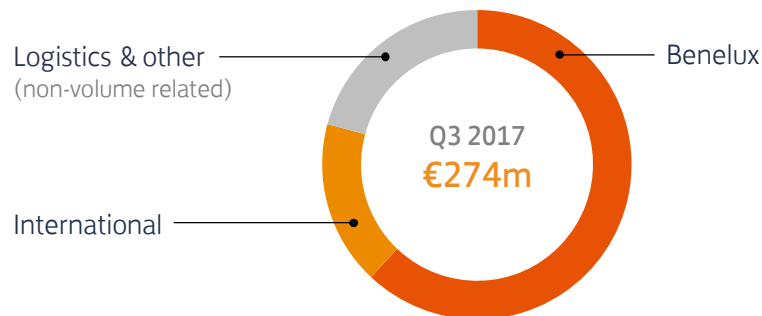


# Parcels

Strong performance driven by volume growth

	Revenue	Underlying cash operating income	Volume growth
<b>Q3 2017</b>	<b>€274m</b>	<b>€27m</b>	<b>23%</b>
Q3 2016	€227m	€22m	

## Revenue mix



## Key takeaways Q3 2017

- Strong increase in volume, driven by domestic parcels including Belgium and International volumes
- Revenue growth 21%, mainly explained by volume growth and a slightly negative price / mix effect
- Increasing demand for additional services, for example same day delivery
- Growth in logistics, both autonomous growth and acquisitions in Q2 2017 (JP Haarlem Delivery and PS Nachtdistributie)
- Solid business performance and operational efficiency
- Opening NLI Nieuwegein and new sorting centre in bol.com facilities



# Engines for transformation

Consumer services in Belgium are catching up

## E-fact #4

### Increasing footprint in Belgium

- 6 delivery days
- Evening delivery
- Returns via parcel points
- Food – five days a week

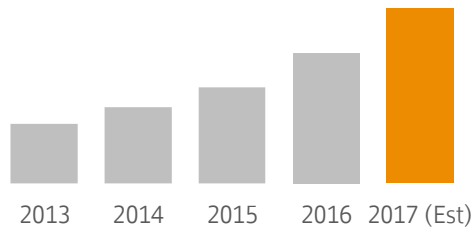


# Engines for transformation

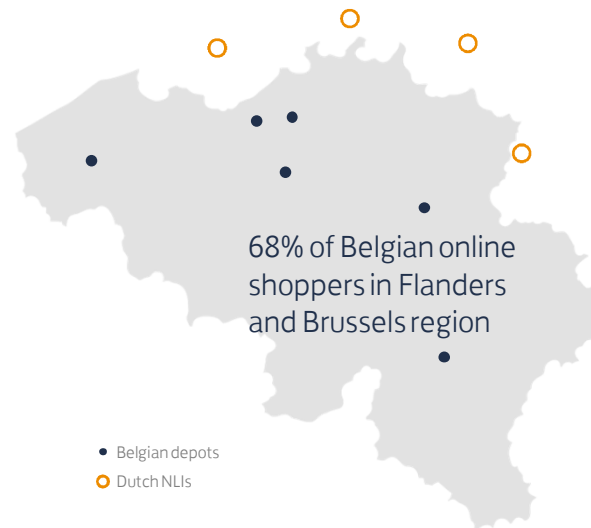
Growing with existing customers further developing into Belgium



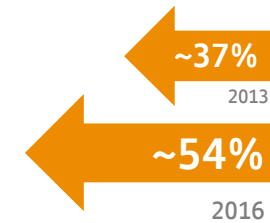
**Volume growth Belgium 2013-2017**  
CAGR >30%



**Infrastructure**



**BE e-commerce import share over 50% of online spending**

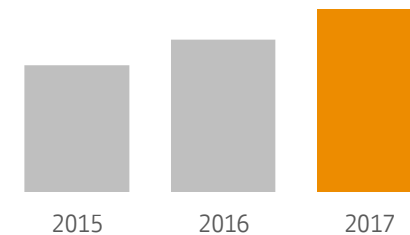


**Food delivery in Belgium**



- 5 days a week
- Growing # of customers
- Carrefour started July 2017

**Growth Belgian online spending expected to continue**



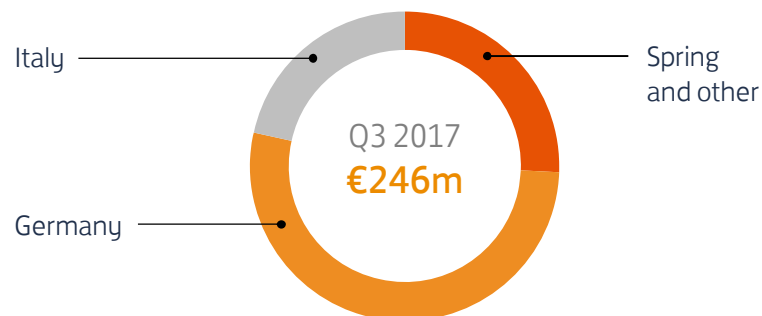
Sources: BeCommerce, Eurostat, Comeos

# International

Strategic development on track, but fierce competition impacts performance

	Revenue	Underlying cash operating income
Q3 2017	€246m +3%*	€0m
Q3 2016	€239m	€4m

## Revenue mix



\* Corrected for an adjustment in presentation of intercompany charges, revenue increased by 7%

## Spring & other

- Lower revenue: growth from global e-commerce clients offset by fierce competition, stricter rules for dangerous goods and downtrading of traditional mail clients
- Transformation towards a global e-commerce player on track

## Germany

- Last year's acquisition of Pin Mail Berlin and Mail Alliance accounted for €21m of revenue and contributed to UCOI
- Revenue in final mile activities improved, but was more than offset by results from consolidation activities, driven by volume decline and price pressure

## Italy

- Strong growth in parcels
- Revenue growth supported by expanding client portfolio in mail where price pressure is fierce

# Q3 2017 Results

Key takeaways

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**Financial review**

Q&A

# Financial highlights Q3 & YTD 2017

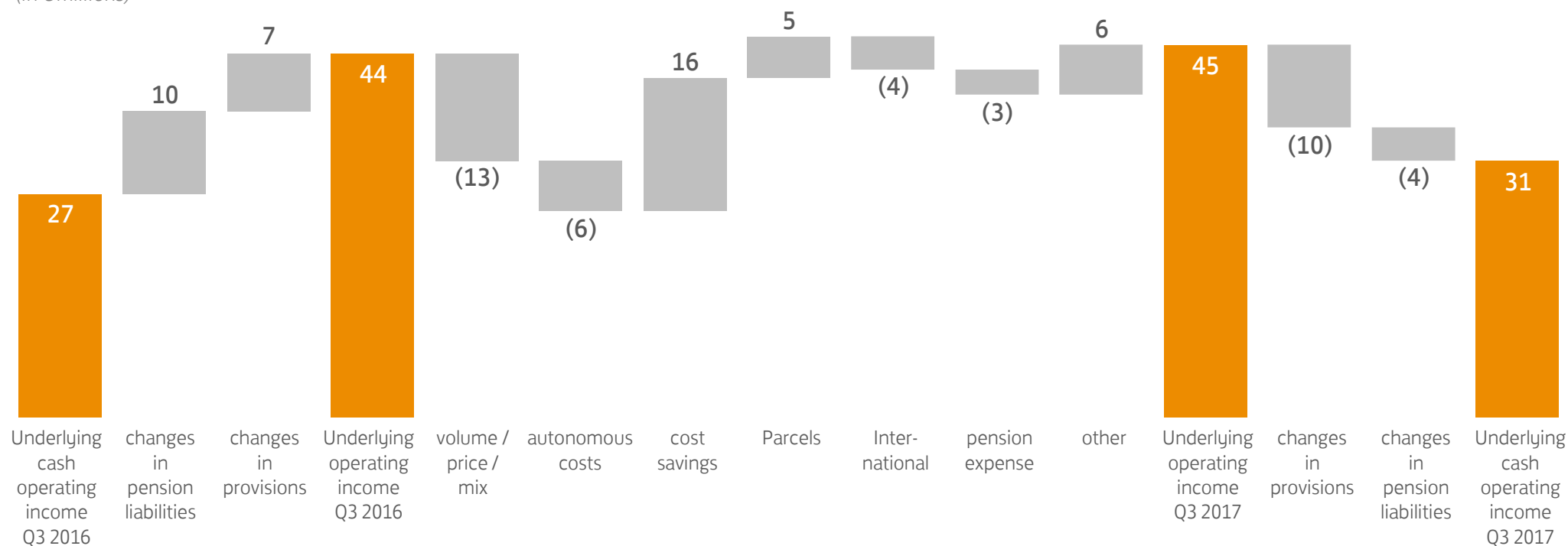
Underlying cash operating income above last year

<i>(in € millions)</i>	Q3 2017	Q3 2016	YTD 2017	YTD 2016
<b>Reported revenue</b>	<b>809</b>	<b>770</b>	<b>2,515</b>	<b>2,458</b>
Reported operating income	35	42	153	162
Restructuring related charges	9	2	17	14
Project costs and other	1	-	4	10
Underlying operating income	45	44	174	186
<b>Underlying cash operating income</b>	<b>31</b>	<b>27</b>	<b>127</b>	<b>135</b>
Net cash (used in)/from operating and investing activities	(18)	(105)	(106)	537
<b><i>Normalised net cash, excluding sale of stake in TNT Express and bond buy-back in 2016</i></b>	<b>(18)</b>	<b>(62)</b>	<b>(106)</b>	<b>(63)</b>

# Underlying (cash) operating income

Helped by positive incidentals

(in € millions)



# Results by segment

Strong performance in Parcels

(in € millions)

	Revenue		Underlying operating income		Underlying cash operating income	
	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016
Mail in the Netherlands	395	412	20	16	7	5
Parcels	274	227	28	23	27	22
International	246	239	0	4	0	4
PostNL Other	18	43	(3)	1	(3)	(4)
Intercompany	(124)	(151)				
<b>Total PostNL</b>	<b>809</b>	<b>770</b>	<b>45</b>	<b>44</b>	<b>31</b>	<b>27</b>

# Statement of income

Normalised profit Q3 2017 in line with last year

(in € millions)	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Revenue	809	770	2,515	2,548
<b>Operating income</b>	<b>35</b>	<b>42</b>	<b>153</b>	<b>162</b>
Net financial expenses*	(10)	(55)	(31)	55
Results from investments in joint ventures and associates	1	1	(5)	2
Income taxes	(7)	3	(28)	(23)
<b>Profit for the period</b>	<b>19</b>	<b>(9)</b>	<b>89</b>	<b>196</b>
<b>Normalised profit for the period</b> (excluding sale of stake in TNT Express and bond buy-back in 2016)	<b>19</b>	<b>20</b>	<b>89</b>	<b>80</b>

\* Impact sale of stake in TNT Express in YTD 2016 was €145m, impact bond buy-back in Q3/YTD 2016 was €29m



# Net cash from operating and investing activities

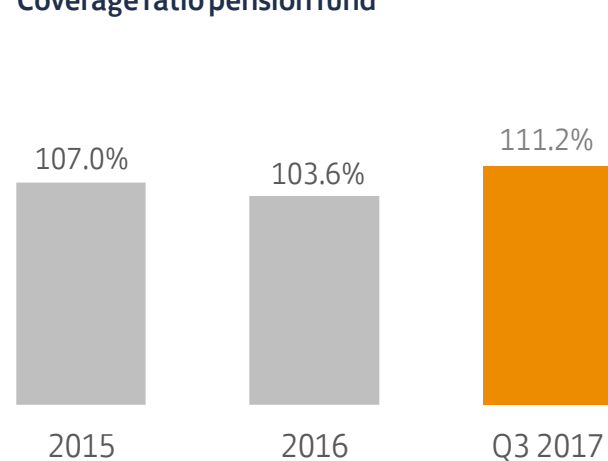
In line with expectations

(in € millions)	Q3 2017	Q3 2016	YTD 2017	YTD 2016
<b>Cash generated from operations</b>	<b>19</b>	<b>15</b>	<b>64</b>	<b>101</b>
Interest paid	(17)	(71)	(20)	(73)
Income taxes paid	(3)	(1)	(66)	(68)
<b>Net cash (used in)/from operating activities</b>	<b>(1)</b>	<b>(57)</b>	<b>(22)</b>	<b>(40)</b>
Interest / dividends received / acquisitions / other	3	(22)	(19)	620
Capex	(28)	(30)	(80)	(57)
Proceeds from sale of assets	8	4	15	14
<b>Net cash (used in)/from operating and investing activities</b>	<b>(18)</b>	<b>(105)</b>	<b>(106)</b>	<b>537</b>
<b>Normalised net cash, excluding sale of stake in TNT Express and bond buy-back in 2016</b>	<b>(18)</b>	<b>(62)</b>	<b>(106)</b>	<b>(63)</b>
	Q3 2017	YTD 2017		
Base capex	25	58		
Cost savings initiatives	1	10		
New sorting and delivery centres	2	12		
<b>Total capex</b>	<b>28</b>	<b>80</b>	around 125 (FY outlook)	

# Coverage ratio pension fund further improved to 111.2%

5 years recovery period ended

## Coverage ratio pension fund



(in € millions)

Q3 2017

Return on plan assets in excess of interest income	81
Defined benefit obligation	(172)
Asset ceiling	88
Minimum funding requirement	
<b>Total pension</b>	<b>(3)</b>
<b>Net effect on equity within OCI</b>	<b>(2)</b>

- Coverage ratio 111.2%; actual month-end coverage ratio 115.4%
- 5-year recovery period in which top-up payments might apply has ended; no top-up payment obligation anticipated

# Consolidated statement of financial position

Consolidated equity on track to turn positive in 2017

<i>(in € millions)</i>	30 Sep 2017		30 Sep 2017
Intangible fixed assets	241	Consolidated equity	(17)
Property, plant and equipment	510	Non-controlling interests	3
Financial fixed assets	46	Total equity	(14)
Other current assets	593	Pension liabilities	393
Cash	491	Other non-current liabilities	69
Assets classified as held for sale	8	Short-term debt	553
		Other current liabilities	888
<b>Total assets</b>	<b>1,889</b>	<b>Total equity &amp; liabilities</b>	<b>1,889</b>

- Net debt position of €62m
- Monitoring capital markets for refinancing opportunities up to €400m, in line with financial strategy
- Corporate equity of €2,688m, of which €241m distributable

# Outlook 2017: UCOI between €220m and €260m

FY 2017 result expected to end towards lower end of range

	Revenue		UCOI / margin	
	2016	outlook 2017	2016	outlook 2017
Mail in the Netherlands	1,877	- mid single digit from - low single digit	160 (8.5%)	6.5%-8.5%
Parcels	967	+ low teens	106 (11.0%)	10%-12%
International*	1,017	+ mid single digit from + high single digit	14 (1.4%)	1%-3%
PostNL Other / eliminations	(448)		(35)	
<b>Total*</b>	<b>3,413</b>	<b>+ mid single digit</b>	<b>245</b>	<b>220 - 260</b>

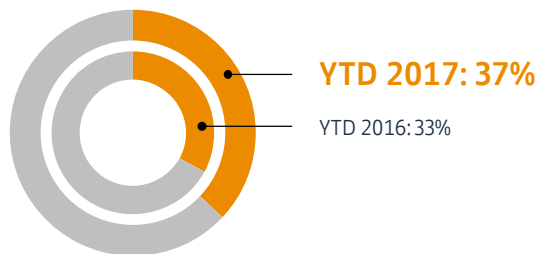
\* Note that on 30 December 2016, PostNL acquired the remaining 50% shares of HIM Holtzbrinck 25 GmbH resulting in 100% ownership of the shares in the company. For 2017, the acquisition will result in additional revenues (2016 comparative number for revenue: €80m) and underlying cash operating income within International. The acquisition is included in our outlook 2017 numbers. The outlook 2017 excludes acquisition effects in Parcels.



# Progress in our accelerating transformation strategy

Strong e-commerce growth continues

Progress towards 45% of revenue related to e-commerce in 2020



## Key takeaways

- Q3 results above last year
  - Strong result Parcels driven by volume growth of 23%
  - Anticipated improvement International not yet visible
  - Result Mail in the Netherlands supported by positive incidentals; operational performance showed impact high volume decline and ACM measures
- Expected financial impact of final decision SMP between €30m and €50m, towards upper part of range; subject to final implementation
- Call for political action, consolidation in postal sector is inevitable
- Reconfirm that FY 2017 result is expected to end towards lower end of guidance range of €220m - €260m
- Aim for progressive dividend

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## Appendix

- Results by segment YTD
- Underlying (cash) operating income YTD 2017
- Breakdown pension cash contribution and expenses

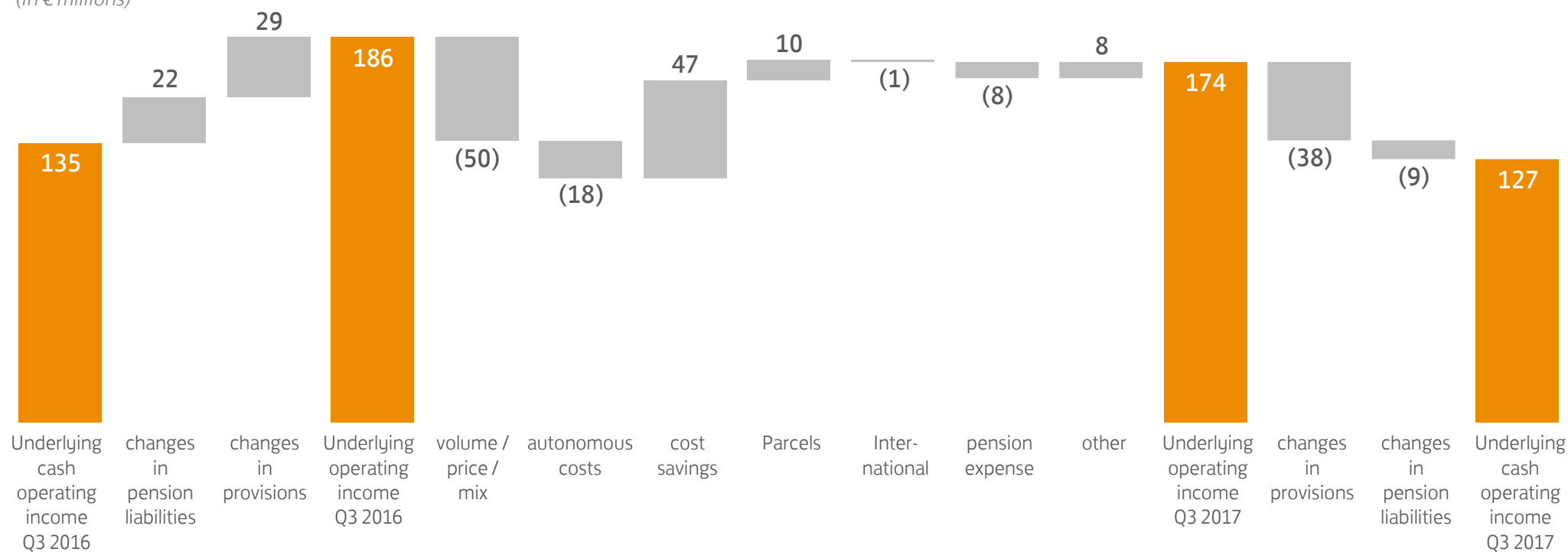
## Results by segment YTD

(in € millions)	Revenue		Underlying operating income		Underlying cash operating income	
	YTD 2017	YTD 2016	YTD 2017	YTD 2016	YTD 2017	YTD 2016
Mail in the Netherlands	1,279	1,337	93	108	52	72
Parcels	789	696	89	79	87	77
International	778	752	7	8	6	7
PostNL Other	55	132	(15)	(9)	(18)	(21)
Intercompany	(386)	(459)				
<b>Total PostNL</b>	<b>2,515</b>	<b>2,458</b>	<b>174</b>	<b>186</b>	<b>127</b>	<b>135</b>



# Underlying (cash) operating income YTD 2017

(in € millions)



## Breakdown pension cash contribution and expenses

<i>(in € millions)</i>	Q3 2017		Q3 2016	
	Expenses	Cash	Expenses	Cash
Business segments	25	32	27	35
IFRS difference	3		(2)	
<b>PostNL</b>	<b>28</b>	<b>32</b>	<b>25</b>	<b>35</b>
Interest	2		3	
<b>Total</b>	<b>30</b>		<b>28</b>	

**Published by:**

PostNL NV  
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