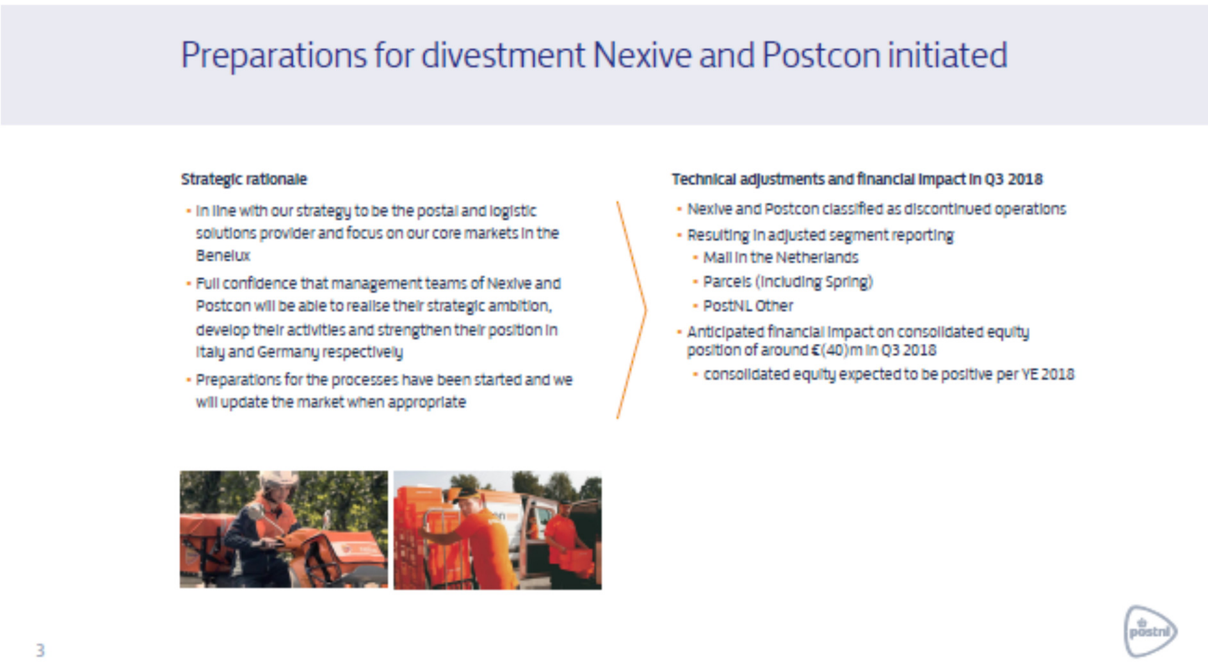

Q2 & HY 2018 Results
Focus on Benelux: preparations for divestment Nexive and Postcon initiated
The Hague, 6 August 2018

Karen Berg – Investor Relations PostNL: Good morning everyone and welcome to the analyst call for the presentation of our Q2 and half year numbers for 2018 of PostNL. I am here together with our CEO Herna Verhagen and our CFO Pim Berendsen and myself, Karen Berg.

We will start with the presentation by Herna en Pim and then we will start with questions afterwards. So, Herna, please go ahead!

Herna Verhagen – CEO PostNL: Thank you. Before I will move to the Q2 numbers I would like to start with the decision that we started preparations for the divestment of California and Nevada, which were the code names we used for the companies Postcon and Nexive.



Why did we take that decision? It is in line with the strategy to be THE postal and logistic solutions provider in our core markets in the Benelux. Secondly, we think that after three years

– it is already three years ago that we did the strategic review – they changed the profile of the company in Italy towards a postal and parcel company. In Germany we did some acquisitions to consolidate in the postal market in Germany. These companies have a strategic profile at this moment in time, so that we are able to do a well-prepared divestment process. Thirdly, as we already said, we think that the time and money needed to make Parcels further grow within the Benelux and make the changes necessary in the postal market, have led to the conclusion that we have started the divestment process.

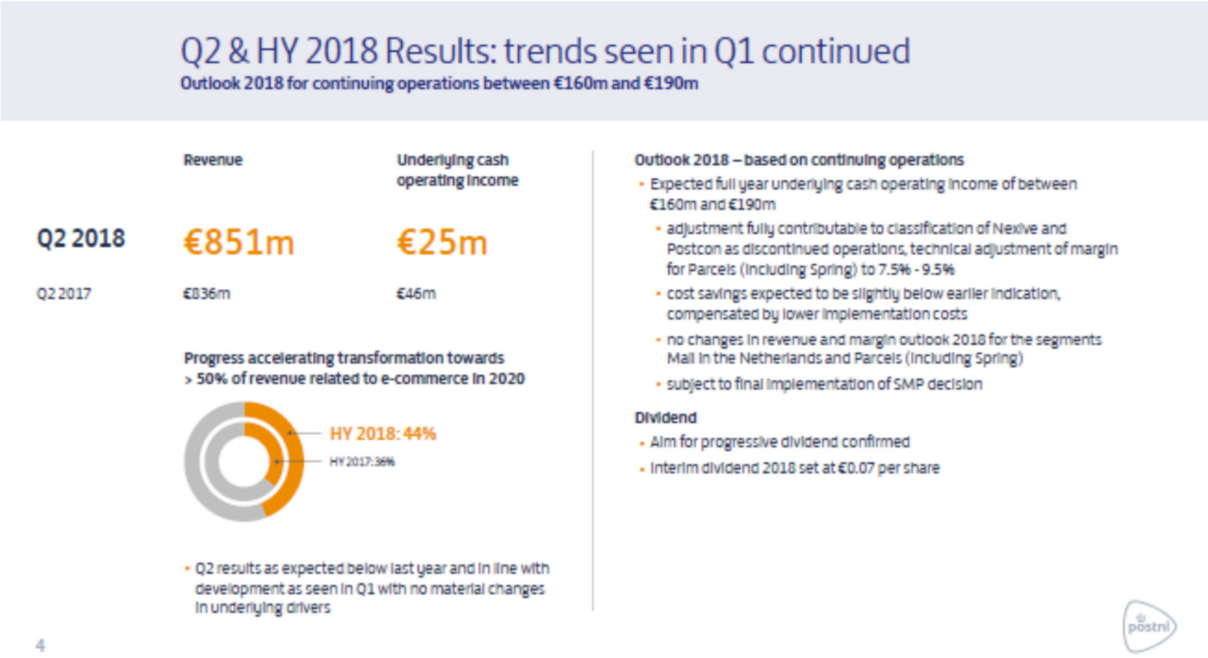
The divestment of Postcon and Nexive also leads to technical adjustments in our outlook for 2018 and also in the Ambition 2020.

Because we started the divestment process, PostCon and Nexive are classified as 'discontinued operations'. This results in a changed segment reporting. As of Q3 we will report via Mail in the Netherlands, Parcels and Spring, which remains part of PostNL and will be included in Parcels. Then you have PostNL Other.

The financial impact on our consolidated equity is around EUR 40 million, also in the third quarter of 2018. We expect again to have a positive consolidated equity by the end of 2018.

It is an important decision and it makes PostNL further focus on its core markets in the Benelux.

Let me go to the Q2 & HY 2018 results.



Revenue increased from EUR 836 million to EUR 851 million and the underlying cash operating income came down from EUR 46 million to EUR 25 million. Trends we saw in the second quarter are similar to the ones we saw in the first quarter and are in line with what we already said in the first quarter. Positive is the change we are making in our e-commerce revenue. The transformation we are making to an e-commerce logistics company is speeding up and over the first half year our e-commerce revenue was 44%, which is 8% higher than over the same half year in 2017.

Because of the divestment of Postcon and Nexive our outlook for 2018 is adjusted to EUR 160 million to EUR 190 million. This is fully contributable to the classification of Postcon and Nexive and it also means a technical change in the margin of Parcels, because we add the revenue and margin of Spring to Parcels towards a margin of 7.5% to 9.5%.

Cost savings – I will come to that in more detail in a minute – are expected to be slightly below the earlier indication of EUR 50 million to EUR 70 million, when it is also compensated by lower implementation costs. We do not expect changes in the revenue and margin outlook 2018 for Mail in the Netherlands and Parcels, including Spring. Everything is still subject to final decision in the Significant Market Power file. We still aim for progressive dividends and that is what we reconfirm, our paying an interim dividend of just EUR 0.07 per share.

If we come to our strategy, we repeat what we said in the first quarter. We have confidence in our strategy and it is a strategy which is solidifying our e-commerce logistics position in the Benelux. For Mail in the Netherlands, this means that we connect senders and receivers through our people and innovative postal networks as aimed by delivering a sustainable cash flow. Delivering a sustainable cash flow is only possible by maintaining a high-quality service as we do in The Netherlands, together with pricing and cost savings.

For Parcels, which as of Q3 includes Spring, it is to be THE logistics solution provider to make the life of our customers easy. There, we want to have profitable growth and create further profitable growth. The change we are making in the e-commerce revenue from 36% to 44% over the first half year gives a view on how we see that transformation into an e-commerce logistics company in the Benelux. So, no change in strategy, except for the fact that we will leave Postcon and Nexive at a certain moment in time, and therefore we started the divestment process.

Let me give more colour on the three segments and I will start with Mail in the Netherlands.

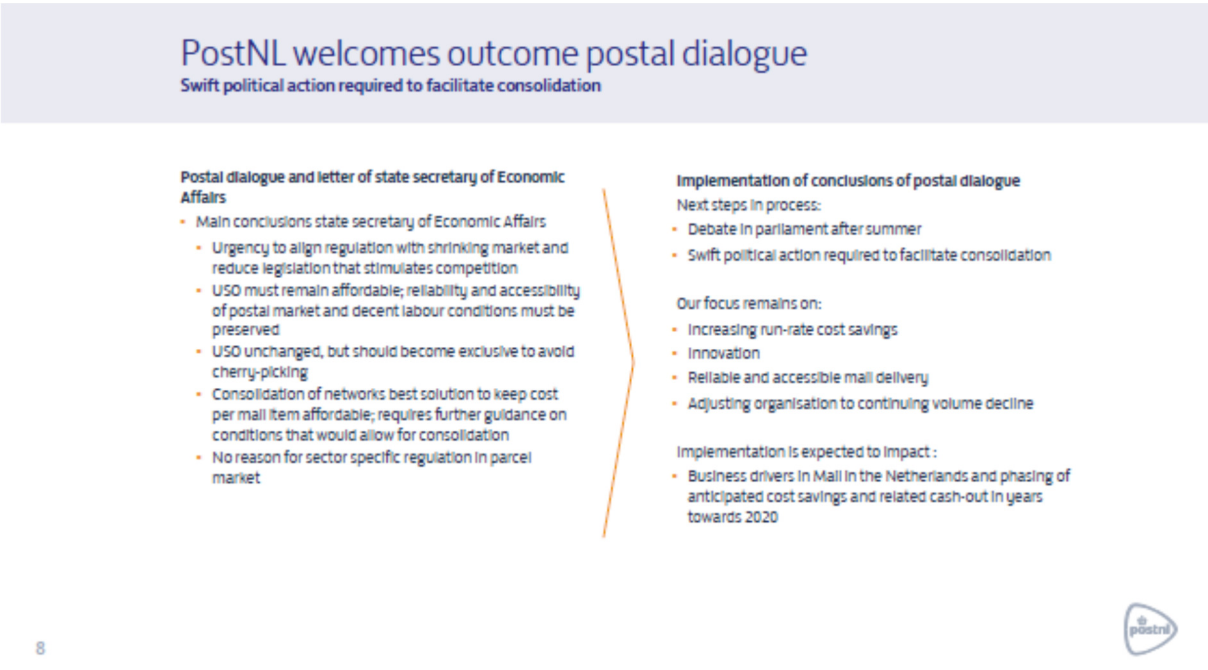
In Mail in the Netherlands revenue decreased by EUR 34 million to EUR 400 million over the second quarter. The underlying cash operating income came down from EUR 17 million last year to EUR 6 million this year in the second quarter and that is in line with the expectation we had. It is also in line with the trends we saw in the first quarter.

An important trend within Mail in the Netherlands is always volume decline. The volume decline in the second quarter was 10.8%. That is within the bandwidth of 10% to 12%, which we have given when we presented our Q4 numbers of 2017. The main part of the 10.8% is still substitution and a much smaller part of that is competition, which is further stimulated by regulation.

To compensate for our volume decline, we need cost savings. Cost savings in the second quarter came in at EUR 10 million, of which EUR 6 million within Mail in the Netherlands. It is lower than anticipated. It is because the delay we have in our coding, sorting codes and other adjustments we do in our delivery process. If we look into the delay we saw over the first half year, we expect to be just below the indication we have given for the full year of EUR 50 million to EUR 70 million.

The second important part within Mail in the Netherlands is always regulation and then, specifically, Significant Market Power. On Significant Market Power, ACM published its final tariff proposal and we submitted our view on that final tariff proposal. We expect the final decision from ACM after summer. We appealed against the Significant Market Power and that appeal has been discussed beginning of July. We expect a court ruling by the end of September, beginning of October.

The financial impact is still EUR 50 million to EUR 70 million on an annualised basis. This effect will be fully visible full year 2020.



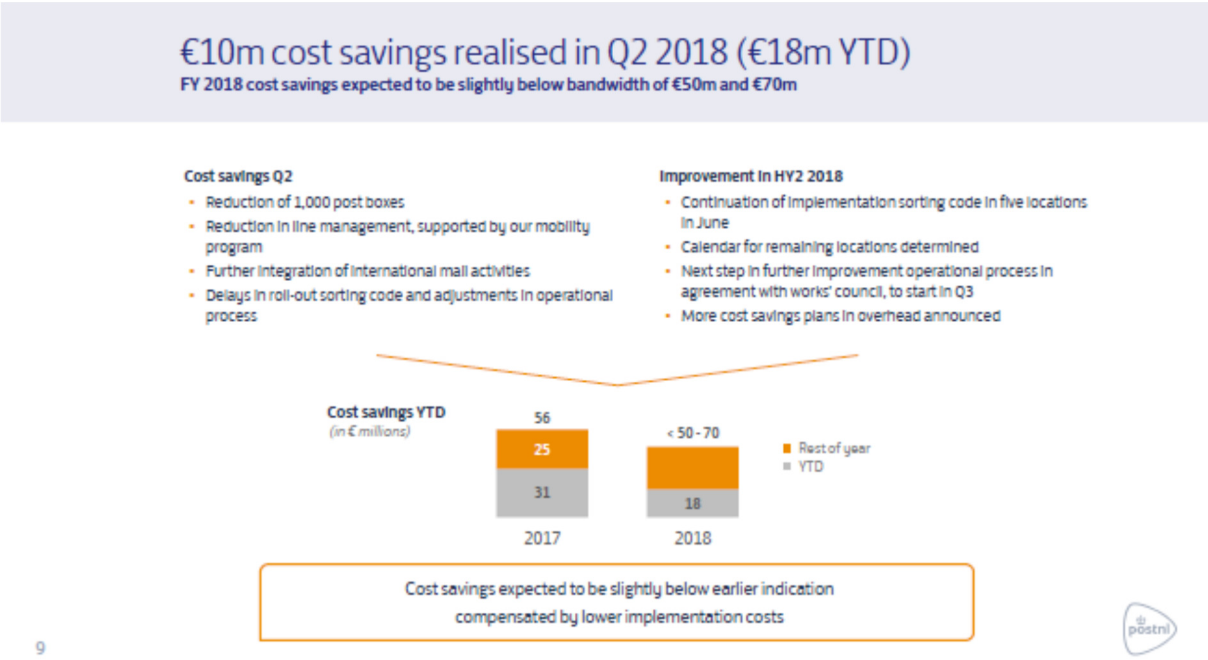
Next to cost savings, next to volume decline and cost savings and the impact of Significant Market Power, an important milestone in the second quarter was the postal dialogue. We are very happy with the results coming out of the postal dialogue. What were the main conclusions in the end, also drawn by the State Secretary of Economic Affairs?

A clear urgency to align regulation with a shrinking market and reduce legislation that stimulates competition. That is a very important conclusion. Secondly, the Universal Service Obligation must remain affordable, reliable and accessible with decent labour conditions. In other words, a healthy future for the postal market, taking into account a further decline. The unchanged Universal Service Obligation, of which the State Secretary said that she would like it to become more exclusive to avoid cherry-picking. Consolidation of networks is the best solution to keep the cost per mail item affordable. This requires further guidance on the conditions under which consolidation can take place. So for us these are important conclusions, and we warmly welcome them.

What does this mean? So what are the next steps we have to take? In our view, an important next step is the debate in parliament after summer, which will be a debate on the content of the letter of the State Secretary and a swift political action to facilitate consolidation, and then discuss conditions under which consolidation can take place.

In the meantime, our focus remains, as ever, on increasing the run rate of our cost savings, the innovation we need to further underpin our cost savings, keeping a reliable and accessible mail delivery network, and adjust the organisation to volume decline. But in the meantime, we continue to do what we always do: adjusting the organisation, increase the run rate of cost savings and keeping a reliable and accessible mail delivery network in place.

We expect that the implementation of the outcomes of the postal dialogue may impact the business drivers in Mail in the Netherlands and the phasing of the anticipated cost savings with the related cash-out in the years towards 2020. More clarity on those business drivers, and what exactly the phasing will be is expected before summer 2019.

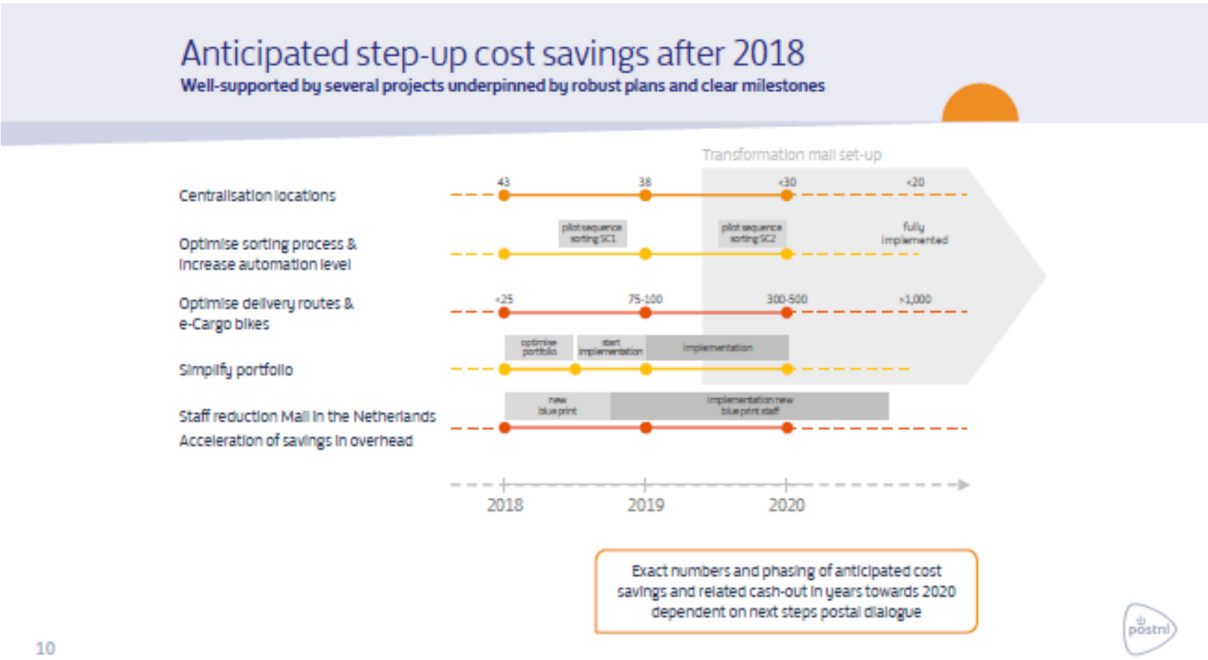


Then a little bit more detail on the cost savings. In the second quarter, we realised EUR 10 million of cost savings and EUR 18 million on a year-to-date basis. As already said, with the delay we saw in the first half year, we expect full year cost savings to come slightly below our bandwidth of EUR 50 million to EUR 70 million.

What did we do in the second quarter to deliver the EUR 10 million? A further reduction of post boxes of 1,000, a reduction in line management, supported by our mobility program, a further integration of our International Mail activities; and we saw a delay in the roll-out of our sorting codes and adjustments in the delivery process. The delay is mainly caused by the fact that we want to have a careful process before we start implementing. And a careful process for us means that we have pilots and try to learn from those pilots and bring the learnings into the real roll-out. We do that with communication with our employees and a good understanding with the works council.

Why do we believe in the step-up in the second half year? The step-up in the second half year is based on a continuation of the implementation of the sorting code, which we have restarted in June. In June already five locations have been implemented. There is a detailed calendar determined with the remaining locations. In agreement with the works' council, we will start with our next steps in a further improvement of the operational process and for the Dutch people, that is the ‘combibundel’. We have more cost savings out of overhead, which are plans already into, reality, for example rationalisation of our IT systems.

The cost savings are expected to be slightly below the earlier indication, compensated by lower implementation cost with a clear step-up in the second half year of 2018.



We will continue to adjust the organisation to volume decline with further cost savings. The expected step-up in cost savings towards 2019 and 2020 is based on robust plans with very clear milestones.

What are those plans? First of all, the centralisation of locations. In the centralisation of locations, we expect to go down in the amount of locations, and therefore become more efficient in the way we work, but also have less costs because we have less buildings, less electricity, less light, et cetera.

We further improve our sorting efficiency and automation. The new sorting code will lead to more automated sorting and on those sorting codes, we will have the next phase in the beginning of 2019 as well.

E-cargo bikes give us the opportunity to have bigger routes, and therefore create more efficiency in the mail delivery route. The implementation of those e-cargo bikes has already started and is expected to ramp up as of 2019.

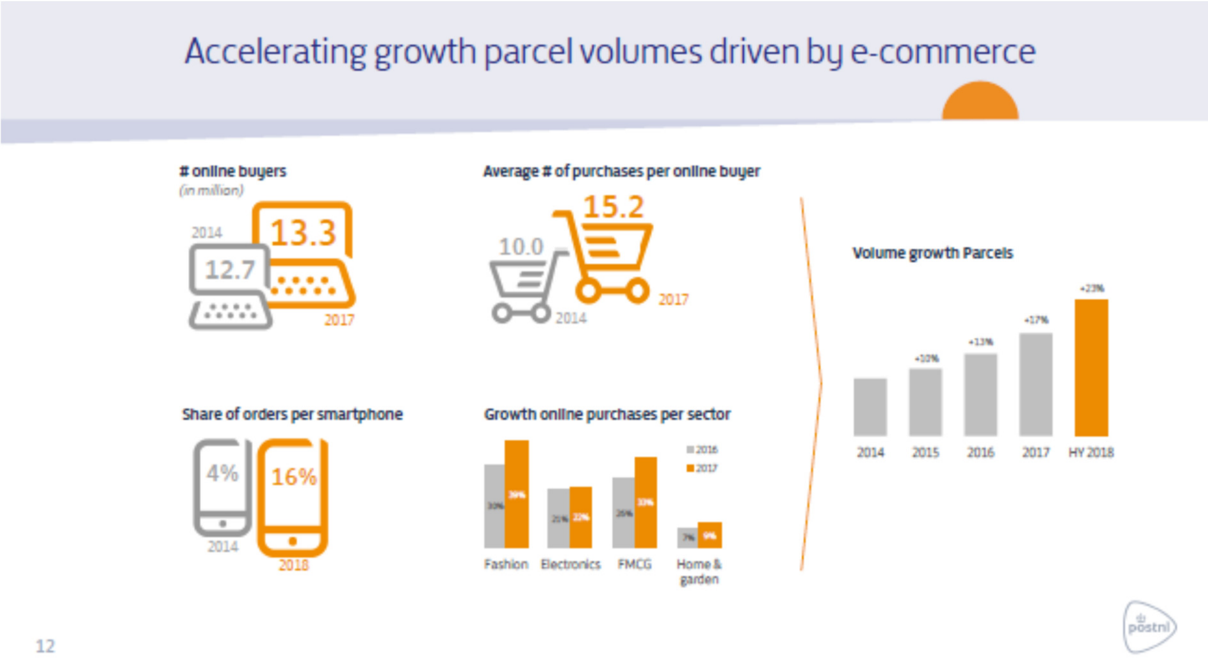
Simplification of the portfolio means that we will work towards the future with less products. That is a simplification that leads to more efficiency, not only in sales and marketing, but in the end also in administration and operation. We further reduced staff here in head office as well as in Mail in the Netherlands, and we will continue to have extra overhead savings.

An important step to take is the transformation of our mail set-up. We see change in customer requirements regarding service levels, day certainty and spread of receiving. That enables us to rearrange our collection, sorting and delivery patterns through more efficiency because of a better utilisation of machinery and equipment, really find our most efficient distribution and the creation of an optimal rate of in 5 days' certain delivery and increasing density. That transformation of our mail set-up, which is based on changing customer requirements, will start around summer 2019 and will be an important plan for further cost savings in 2020 and also after 2020.

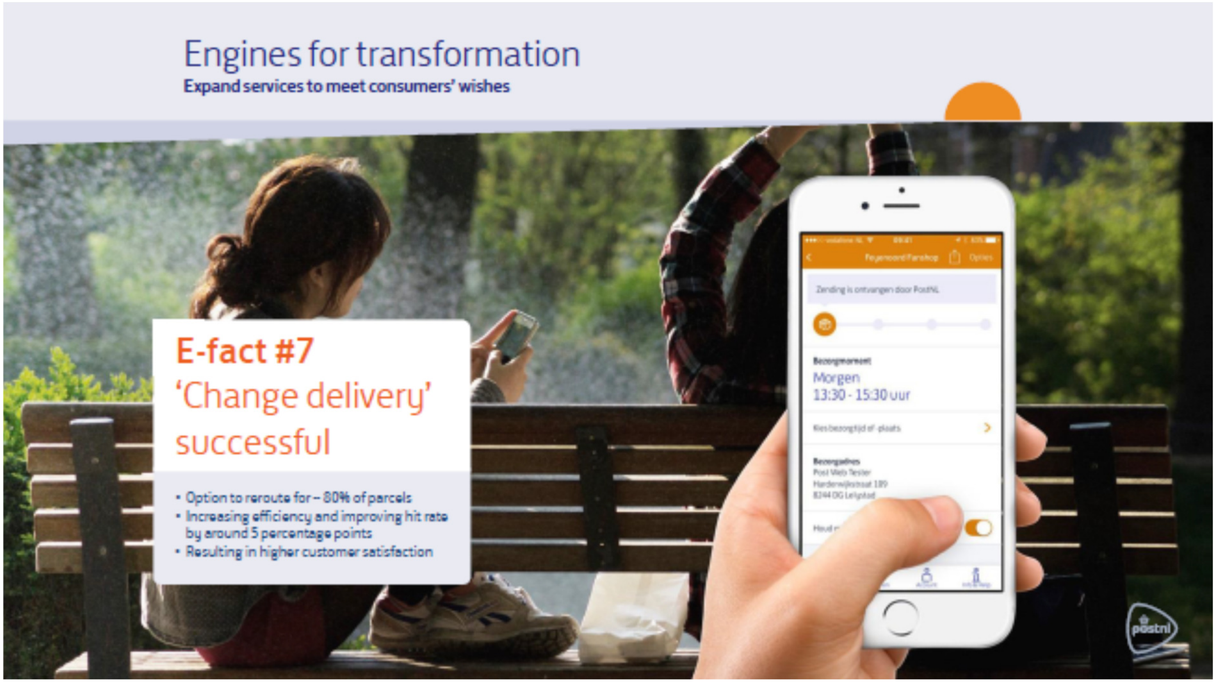
As already said, exact numbers and phasing of the anticipated cost savings and related cash-out in the years towards 2020 are dependent on the outcome of the postal dialogue.

In Parcels, we see a continuation of volume and revenue growth. Volume growth, 22% in the second quarter, leading to a revenue growth of 21% to EUR 322 million in the second quarter. The underlying cash operating income is slightly down if you compare to the second quarter of 2017.

The strong revenue growth of course follows the volume growth with volume growth in Belgium even exceeding the number of Parcels growth in The Netherlands. All that is slightly offset by negative price/mix effects. In the 44% of e-commerce revenue, we see the acceleration of the transformation, driven by ongoing growth in e-commerce. Our business performance improved, supported by volume growth. In the second quarter we saw, as expected extra cost and extra capacity cost, the impact of planned investments for the opening of three sorting centres this year, but also another three next year and another three in 2020, and higher depreciation costs.



Volume growth within Parcels continues, partly because the amount of online buyers is growing, and partly because the average amount of purchases for online buyers is growing. So we see more buyers and we see that the average amount that people buy is growing. Next to that, we see a strong growth in the share of smartphone online use. That helps us because people can order any time and any place their goods at web shops at workshops. If you translate that into the growth of the volume in Parcels, you see that in 2015 we had yearly growth of around 10%, then 13%, 17% in 2017 and 23% in the first half year of 2018 and we expect growth to continue also going forward.



To be that e-commerce logistics company, it is very important to keep innovating. One of the innovations is what you find on the page with the name 'Change delivery' successful. The option people are offered here is that they can reroute their parcel. If you are not at home at the moment we plan to come you can reroute your parcel to, for example, the next day or the day after. It does two things. It results in a much higher customer satisfaction because people want to be at home when their parcel arrives and secondly, it increases in the hit rate and hit rates in our organisation lead to more efficiency. So this is an important engine for transformation and it is one of the innovations we have implemented to make sure that we fill in wishes of consumers.

The second important one is the zero emission last mile in the 25 biggest Dutch cities in 2025. We have already started in some of those cities, for example in Amsterdam, Rotterdam, Utrecht, Leeuwarden and Breda. We will at least start in five more cities in 2018. Important here is the creation of city hubs for consolidated and green inner city logistics. It is cleaner and more efficient because in the end, when it comes to traffic jams, for these vehicles it is much easier to deliver parcels than we can do by big vans. It also means that we change the fleet with which we deliver parcels in the big cities: e-cargo bikes, and the zero-emission vehicles. In our view, sustainability is crucial and it is a license to operate for the future. Cycling has been a part of PostNL already as long as we exist, where almost 80% of our mail delivery is done on bicycle.

In International, fierce competition remains, in Germany as well as Italy as well as within Spring. The revenue of International was EUR 247 million in the second quarter. The underlying cash operating income was down to minus EUR 7 million. With the decision to start the divestment process for Nexive and Postcon, we want to reiterate that Spring is a strategic important part of PostNL because Spring is creating, via their cross-border business, filling our networks of Mail and Parcels in The Netherlands. Secondly, many of our customers value the fact that we offer or have the possibility to have cross-border delivery.

Within Spring, competition remains strong. Mail volumes continue to decline as they already have done for quarters. On the other hand, our global e-commerce customers like AliExpress are growing. The product-customer mix impacts the margin of Spring.

In Germany, we saw a slight increase in revenue due to the start of the delivery for new clients as earlier announced. This also had a positive impact on performance. We have higher costs related to more outsourcing of our final-mile delivery. In Italy, we see continuing growth in Parcels and very strong competition at this moment in time on mail volumes. That means that the overall mail volumes in Italy declined.

Outlook 2018 and ambition 2020

Outlook 2018

- Adjusted segment reporting: Mail in the Netherlands, Parcels (including Spring) and PostNL Other
- Adjustment of the expected margin in Parcels (including Spring) for outlook 2018 to 7.5% to 9.5%

	Revenue		UCOI / margin	
(in € millions)	2017	outlook 2018	2017	outlook 2018
Mail in the Netherlands	1,783	- mid single digit	125 (7.0%)	3%-5%
Parcels	1,382	+ mid teens	140 (10.1%)	7.5%-9.5%
PostNL Other / eliminations	(440)		(24)	
Total	**2,725**	+ mid single digit	**241**	160-190

Ambition 2020

- All things being equal for continuing operations: technical adjustment of €25m on ambition 2020
- Mail in the Netherlands
  - Confident that run-rate in cost savings will increase based on robustness of underlying plans
  - Implementation of conclusions of Postal dialogue may impact business drivers in Mail in the Netherlands, as well as cost saving plans: making it difficult to predict exact numbers and phasing in years towards 2020
  - More visibility on possible financial consequences expected before summer 2019
- Parcels (including Spring)
  - Remain fully focussed on achieving ambition to maintain solid underlying cash operating income margin with growing revenue towards 2020

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Let me summarise. The second quarter was in line with expectations, and the underlying trends we saw for Mail and Parcels we saw in quarter 1 and also in quarter 2. The decision to start the divestment process for Postcon and Nexive means that the outlook of 2018 will be adjusted towards an outlook of EUR 160 million to EUR 190 million.

Spring will be reported within Parcels. That means that as of Q3, we will report in three segments: Mail in the Netherlands, Parcels, including Spring and PostNL Other. The technical adjustment of the expected margin in Parcels, including Spring, for the outlook 2018 is 7.5% to 9.5%. The margin outlook for Mail in the Netherlands has not changed.

Then to the ambition 2020. If all things would be equal for continuing operations, the technical adjustment in 2020 would be EUR 25 million on our ambition. With Mail in The Netherlands, we are confident that we can increase the run rate of the cost savings. The implementation of the conclusions of the postal dialogue may impact business drivers for Mail in the Netherlands as well as the phasing of our cost-savings plan, and that makes it difficult to predict exact numbers and phasing towards 2020. For Parcels, including Spring, we remain fully focused on achieving the ambition, as earlier said, to maintain a solid underlying cash operating income margin with growing revenues towards 2020.

I would like to hand over to Pim.

Q2 & HY 2018 Results

Key takeaways

Business review

Financial review

Conclusion

Q&A

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Pim Berendsen – CFO PostNL: In the next part of the presentation I will talk you through the Q2 performance, through the lens of our different financial metrics. Then I will talk a bit about the financial consequences of the decision to initiate the sale of Postcon and Nexive, then move to some key attention points for Q3 and finish off with the summary of the key take-aways on this quarter's performance going forward.

Financial highlights Q2 & HY 2018

Result below last year as indicated

(in € millions)	Q2 2017	Q2 2018	HY 2017	HY 2018
Reported revenue	**836**	**851**	**1,706**	**1,726**
Reported operating income	52	10	118	40
Restructuring related charges	8	2	8	7
Project costs, impairment PPE and settlements	1	20	3	23
Underlying operating income	61	32	129	70
Underlying cash operating income	**46**	**25**	**96**	**54**
Net cash used in operating and investing activities	(68)	(56)	(88)	(74)

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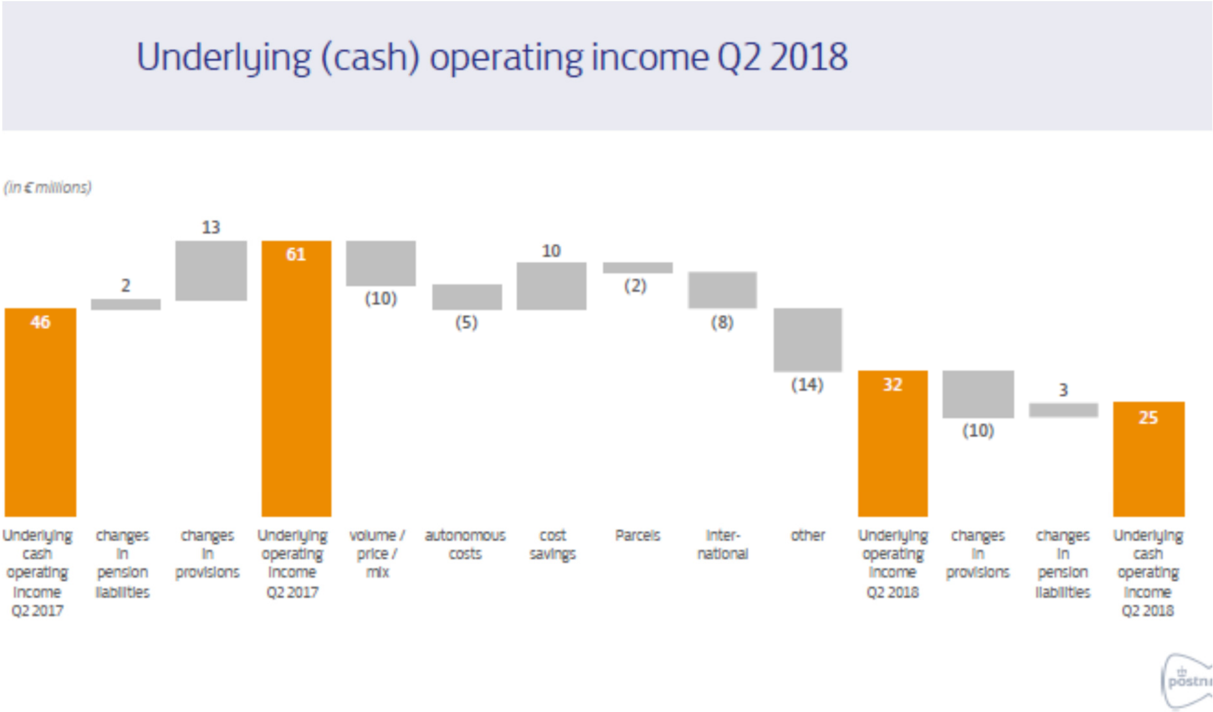
On slide 18 we present the financial highlights of this quarter. Certainly, the most important key driver that we always talk about is the underlying cash operating income. We reported EUR 25 million in this quarter compared to EUR 46 million the second quarter of last year, so a decline of EUR 21 million. As earlier said, that was based and in line with the same development of the trends that we have seen and reported only in the first quarter. So not unexpected, but anyway EUR 21 million lower than the same quarter in 2017.

The net cash used in operating and investment activities was minus EUR 56 million, which was an improvement of EUR 12 million compared to last year. That predominantly relates to non-recurring acquisition effects that we have seen in 2017 related to the acquisition of the JP Haarlem and PS Nachtdistributie.



Then I move on to the underlying cash and underlying operating income bridge for this quarter. Let's first and foremost focus on the second and third orange column, where we see the underlying operating income inQ2 2017 being EUR 61 million and for this quarter 2018, EUR 32 million.

We have seen the volume price/mix consequences of minus EUR 10 million, obviously on the back of volume decline within Mail in the Netherlands as a consequence of the ACM measures that are in place. Autonomous cost increases of EUR 5 million and the two components were partially offset by cost savings of EUR 10 million, of which EUR 6 million relates to cost savings in Mail in the Netherlands; the EUR 4 million is saved in overheads.

Subsequently, Parcels is EUR 2 million down. The volume increase is 22%, a volume increase that has resulted in increased profit from domestic operations, partially offset by negative mix effects in price and negative mix effects in our International streams. So global pack volume is down. International, Other parcel streams are up, but they contribute differently if you talk about marginality. Next to that, we have seen an increase in pension cash-out in the quarter as well as higher depreciation costs compared to last year. So all in all, the volume growth in Parcels contributes to the profit growth within Parcels but is offset by the other elements I just talked about.

On International, we see a decline of EUR 8 million. That is predominantly because of the performance within Spring and Nexive on the back of fierce competition within those businesses. The other impact of EUR 14 million relates to very many different elements like pension expenses, higher non-deductible value-added tax, higher depreciation costs. The changes in pensions and provisions result to an EUR 8 million improvement compared to last year, and that brings us to the underlying cash operating income of EUR 25 million for this quarter.

Results by segment Q2 2018

Continuation of trends seen in Q1

(in € millions)	Revenue		Underlying operating income		Underlying cash operating income	
	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018
Mail in the Netherlands	434	400	32	18	17	6
Parcels	266	322	33	31	32	30
International	247	247	1	(7)	1	(7)
PostNL Other	19	20	(5)	(10)	(4)	(4)
Intercompany	(130)	(138)				
Total PostNL	**836**	**851**	**61**	**32**	**46**	**25**

If we then go into a bit more detail on the performance within the different segments, we all in all see continuation of the trends seen in the first quarter. Mail Netherlands reported EUR 400 million of revenue, which is 7.8% down and reported underlying cash operating income of EUR 6 million, which is EUR 11 million down. The way to look at that EUR 11 million is basically EUR 10 million as a consequence of volume price/mix effects, then autonomous cost increases of EUR 4 million and higher overhead costs as a consequence of depreciation, offset by EUR 6 million of cost savings and EUR 2 million pension cash-out less. The combination of those three minus EUR 19 million plus EUR 8 million brings us to minus EUR 11 million compared to last year's results.

If we look at Parcels, you see growth of EUR 56 million in revenue on the back of 22% volume increase, and as just briefly discussed, a delta of minus EUR 2 million, a decline of EUR 2 million compared to the profit in the second quarter of 2017, obviously, also on the back of the investments we are doing to enhance the capacity by bringing live three of our parcel sorting and delivery locations ready before the peak season for the first quarter.

If you look at International revenue, flat corrected for FX effects and profit down by EUR 8 million, predominantly from Nexive and Spring.

Statement of income

(in € millions)	Q2 2017	Q2 2018	HY 2017	HY 2018
Revenue	836	851	1,706	1,726
Operating income	**52**	**10**	**118**	**40**
Net financial expenses	(11)	(8)	(21)	(16)
Results from investments in associates and joint ventures	(6)	0	(6)	0
Income taxes	(6)	(3)	(21)	(11)
Profit for the period	**29**	**(1)**	**70**	**13**

In the statement of income we see that this quarter, we ended up with the loss of minus EUR 1 million, and that is a decline of EUR 30 million compared to the profit of EUR 29 million last year. That loss obviously originates from a decline of the operating income, partially offset by lower financial expenses because of the refinancing done, improved or lower negative results from investments in associations that in 2017 related predominantly to Bruna and lower income taxes.

Net cash from operating and investing activities

(in € millions)	Q2 2017	Q2 2018	HY 2017	HY 2018
Cash generated from operations	**(14)**	**(36)**	**45**	**10**
Interest paid	(2)	(2)	(3)	(4)
Income received / (paid)	(3)	7	(63)	(40)
Net cash (used in)/from operating activities	**(19)**	**(31)**	**(21)**	**(34)**
Interest / dividends received / acquisitions / other	(23)	0	(22)	1
Capex	(29)	(32)	(52)	(52)
Proceeds from sale of assets	3	7	7	11
Net cash (used in)/from operating and investing activities	**(68)**	**(56)**	**(88)**	**(74)**

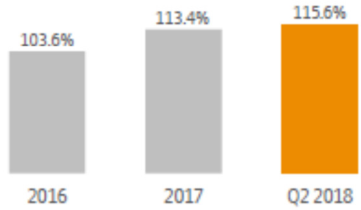
	Q2 2018	HY 2018
Base capex	14	23
Cost savings initiatives	2	3
New sorting and delivery centres	16	26
Total capex	**32**	**52**

On net cash from operating and investment activities we see the improvement of EUR 12 million, minus EUR 56 million, compared to EUR 68 million in the same quarter of last year. There are a few elements there that I would like to point out. Improvement is mostly again, as discussed earlier, because of the non-recurring acquisition effect that did not materialise in 2018 but was visible in 2017, a slightly increased level of capex, EUR 3 million more than same period last year, and an improvement of working capital of around EUR 8 million. That brings us to the minus EUR 56 million for this quarter.

Coverage ratio pension fund further improved to 115.6%

Higher pension expense balanced in Other Comprehensive Income

(in € millions)	Q2 2018
Return on plan assets in excess of interest income	137
Defined benefit obligation	(139)
Minimum funding requirement	5
Total pension	3
Net effect on equity within OCI	2



- Increase in pension expense in Q2 2018 (visible in operating income) mainly explained by higher rate of expected benefit increases, reflecting development of coverage ratio pension fund
- Compensated by actuarial gain recorded in other comprehensive income (OCI) as net pension liability related to pension fund is limited at outstanding unconditional funding obligation
- Will be also visible in second half of 2018

Let me spend a few words on pensions. The coverage ratio of the pension fund further improved. The actual position at this moment is 116% coverage ratio, and that brings the average over the last 12 months towards 115.6%. The increase in pension expense that is visible in the operating income is mainly explained by the higher rate of expected benefit increases, reflecting the development of the coverage of the pension fund. This is compensated in other comprehensive income by an actuarial gain that is recorded there. That same trend will be visible also towards the remainder of the year.

Consolidated statement of financial position

Solid financial position

(in € millions)	30 Jun 2018		30 Jun 2018
Intangible fixed assets	260	*Consolidated equity*	*13*
Property, plant and equipment	520	*Non-controlling interests*	*3*
Financial fixed assets	50	Total equity	16
Other current assets	586	Pension liabilities	355
Cash	524	Long-term debt	406
Assets classified as held for sale	9	Other non-current liabilities	65
		Short-term debt	224
		Other current liabilities	883
Total assets	**1,949**	**Total equity & liabilities**	**1,949**

- Net debt position of €99m
- Corporate equity of €2,679m, of which €310m distributable

Then let's look at how those P&L components are reflected subsequently in our balance sheet position, which you can find on slide 24. There we show the consolidated equity position to be EUR 13 million-plus and the net debt position of EUR 99 million, which is EUR 104 million lower than Q1 2018. That is partially because of the minus EUR 56 million cash used in operating and investment activities. On top of that, the EUR 47 million is from financing activities, which is obviously the reflection of the dividend paid in the second quarter.

IFRS 16 *Leases* to replace IAS 17

Initial assessment of implications for PostNL*

Scope	Mainly related to rent/lease of buildings and transport fleet
Expected impact on 2019 numbers	
Balance sheet (per 1 January 2019)	Right-of-use assets: between €130m and €160m Lease liabilities: between +€130m and +€160m
Income statement	Operating income/UCOI: around +€1m EBITDA: around +€50m Net financial expenses: around +€2m Net profit/UNCI: around -€1m
Cash flow statement	Net cash from operating and investing activities: around +€50m Net cash used in financing activities: around -€50m
(Targeted) credit rating	No impact

* Initial assessment based on Q1 2018 data

Anticipating on the change in the accounting of leases, as per the 1st of January 2019, we have made an initial assessment of what the implications of that change in accounting from IFRS 16 could mean for PostNL. Our lease commitments mainly relate to rents, lease of buildings and transportation and we just expect limited impact on our 2019 numbers. We expect to account for approximately EUR 130 million to EUR 160 million right-of-use assets with compensating lease liabilities being the same. Operating income and UCOI will only be limited implicated by this. EBITDA will obviously increase by approximately EUR 50 million and net cash from operating and investing activities increased by EUR 50 million. Obviously, the other way around will be that the net cash used in financing activities will increase by EUR 50 million. So all in all, no material impact on our balance sheet or cash flow statements in general, and we do not expect any impact from a credit rating perspective either.

Q2 & HY 2018 Results

Key takeaways

Business review

Financial review

Conclusion

Q&A

So that brings me to the conclusions of this quarter. The outlook for 2018 for the continuing operations after the decision to start and initiate the sale of Nexive and Postcon will be EUR 160 million to EUR 190 million. The adjusted segment reporting will be Mail in The Netherlands, Parcels including Spring, and PostNL Other. The amendments of the expected margins in Parcels and Spring, down from 9% to 11% to 7.5% to 9.5% margin is solely – and I want to be very explicit here – because of the migration from Spring to that segment. No fundamental change in underlying business drivers of Parcels or Spring is reflected in this.

Expected development Q3 2018

Average UCOI split 2013 - 2017
(in %)

Working days	2017	2018
Q1	65	64
Q2	61	61
Q3	65	65
Q4	63	64
Total	**254**	**254**

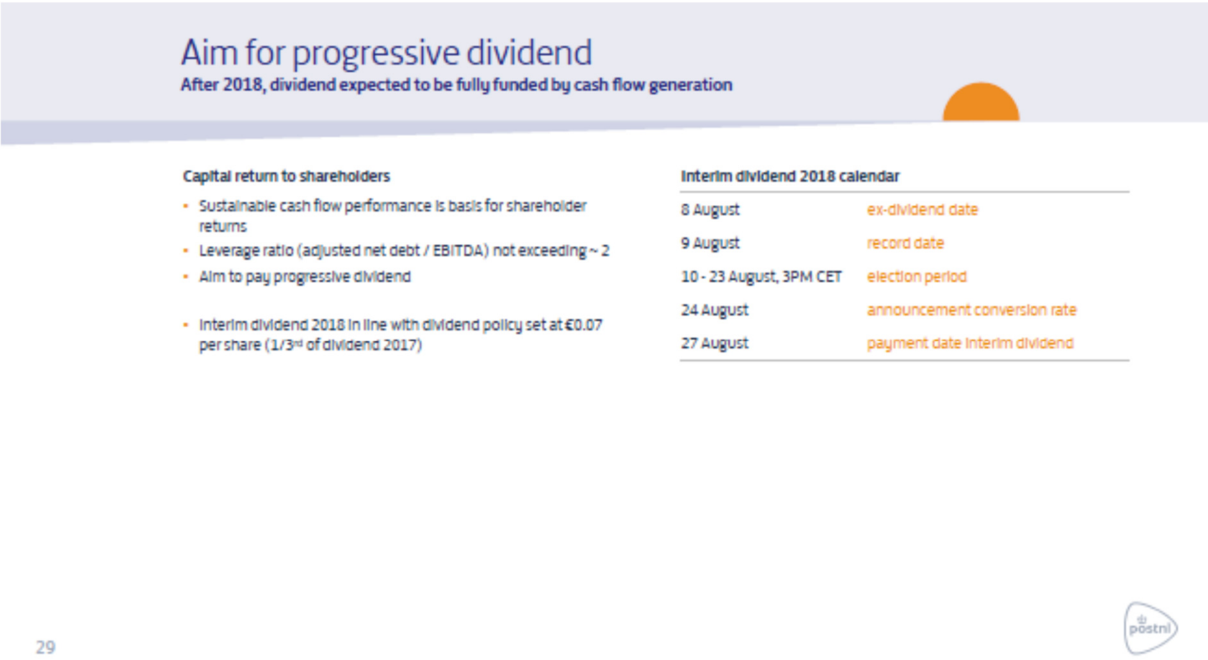
Attention points for Q3 2018 (based on continuing operations)

- Outlook underlying cash operating income 2018: between €160m and €190m (FY 2017 restated: €241m)
- Underlying cash operating income Q3 2017 restated: €35m
- No working day effect
- Cost savings 2018 back-end loaded; FY 2018 now expected to be slightly below earlier indication of between €50m and €70m
- Efficiency improvements Parcels visible towards end of year
- Dividend distribution will impact cash and equity in Q3 2018; impact decision to divest Nexive and Postcon will impact equity in Q3 2018

Then maybe some attention points for Q3. Again, Q3 will be implicated by the decision to sell Postcon and Nexive and will be based on continuing operations. On our website you will have found some Excel files where you can see the comparable number for restated or the decision to sell Postcon and Nexive and as a consequence, as said, we have amended the outlook for the continuing operations to EUR 160 million to EUR 190 million.

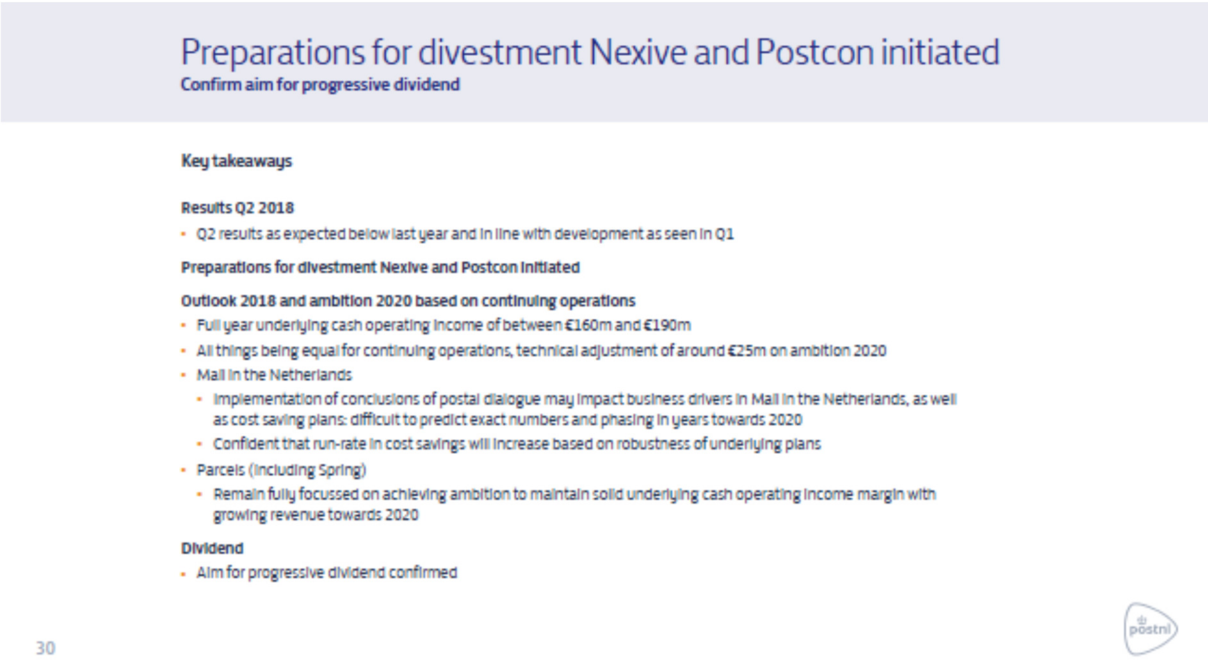
We expect the next quarter to see the same developments that we have seen in the past. There is no working day effect in Q3 in this year compared to last year. The cost savings, which we explained already a few times before, will be much more back-end loaded in 2018 and the full year is now expected to be slightly below the earlier indication of EUR 50 million to EUR 70 million. But also, implementation cost and cash-out provisions will be lower than earlier anticipated in such a way that all in all the margin of Mail in the Netherlands will remain within the bandwidth that we have guided before. We expect efficiency improvements in Parcels to be even more visible towards the end of the year, on the back of the three new parcel distribution and sorting centres to come live. We have planned for a week from now to have the first parcels sorted in Apeldoorn in October, Venlo will be live in early November and Amsterdam Zuid-Oost will be live, so in due time for the peak season.

Certainly, the interim dividend distribution will impact cash and equity in the third quarter as well. On top of that, we will see and record the impact of the decision to divest Nexive and Postcon. We anticipate having a EUR 40 million equity impact to be accounted for in the third quarter.



We reiterate and reconfirm our aim for progressive dividends. It is absolutely clear that a sustainable cash flow performance is the basis and will ever be the basis for solid shareholder returns. After 2018, we expect dividend to be fully funded by cash flow generation.

The leverage ratio remains at not to exceed the 2 and, as said, the interim dividend in 2018 will be at EUR 0.07 per share, which is in line with the dividend policy of one third of the 2017. Dividends will be again an election dividend, and the payment date will be the 27th of August.



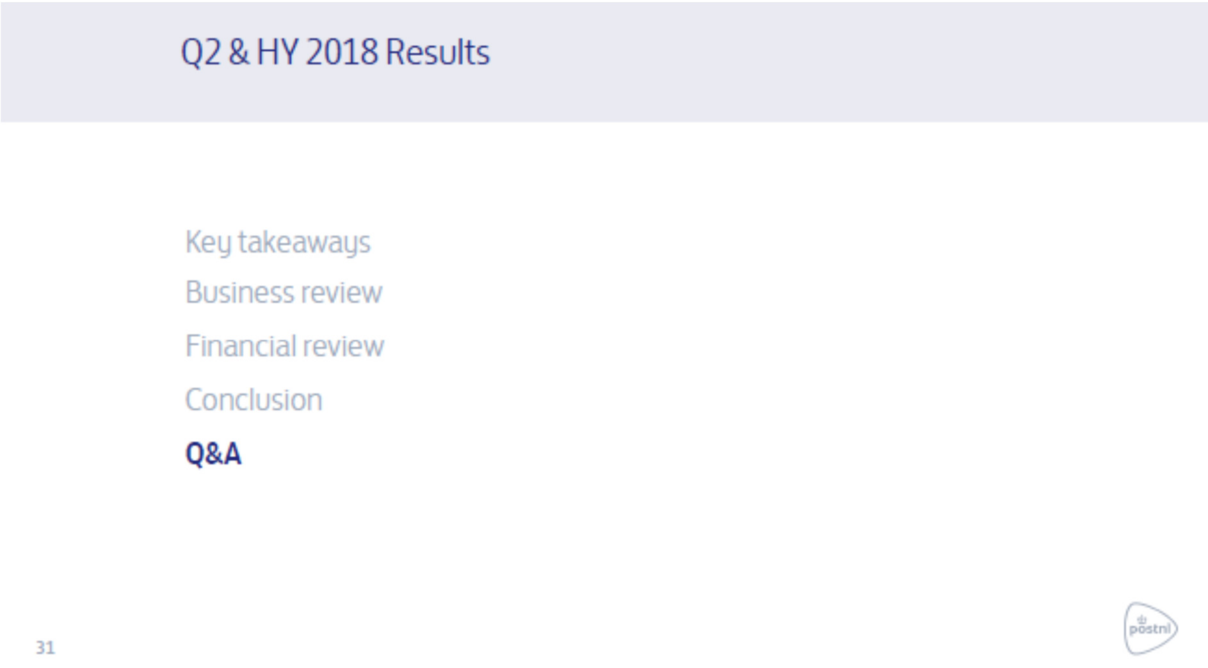
So to summarise the key takeaways of this quarter. The Q2 results are, as expected, below last year and are in line with the developments that we have seen in the first quarter. Preparations for the divestment of Nexive and Postcon are initiated and well underway.

We have amended our outlook for 2018 based on continued operations to EUR 160 million and EUR 190 million. All things being equal for continued operations, the technical adjustment of that decision to divest Postcon and Nexive would be a EUR 25 million adjustment with 2020 numbers.

For Mail in the Netherlands, it is important that we remain focused on improving the run rates of our cost savings. We are confident that we can make that step-up, and that is on the back of robust plans with clear milestones attached to all components of those plans. We will continue to strive to improve those run rates also, obviously, towards 2019 and 2020, yet at the same time, the implementation of conclusion of the postal dialogue may impact Mail in the Netherlands business drivers as well as the cost-savings plan, particularly the phasing of those cost-savings plan. That makes it very difficult to predict exact numbers and phasing of those numbers towards 2020.

On Parcels, we remain fully focused on achieving our ambition to maintain solid underlying cash operating income margins with growing revenue towards 2020. We would like to reconfirm our aim to pay out progressive dividends.

With that, I hand over back to Karen.



Karen Berg – Investor Relations PostNL: Thank you, Herna, thank you, Pim. We will now start with questions. I will start with the people here in the room and taking the effort to come to the Hague and if you on the line have questions, please press *1. Anyone?

Maybe you can introduce yourself.

- **Wijnand Heineken – Independent Minds**

Looking at Parcels, volume growth is still very strong this time, only a very thin deviation as far as top line growth is concerned, so limited price/mix effect. Do you think that this is more structural? Or did you have just some quarter there?

Then on Spring, which basically is then the remaining part of International, you mentioned two things: results still under pressure; but on the other hand, customers appreciate the service of cross-border mail. This may be a necessary service, but it comes at a price. How do you look at that going forward?

Herna Verhagen – CEO PostNL: Just to Parcels, in the second quarter, we saw a limited price/mix effect when it comes to revenue. It is important to understand that revenue is not only parcels, but it is also our logistical solutions and our International revenue. So you cannot compare one to one growth in volume versus growth in revenue.

The limited price/mix effects we saw are more or less as strong as we saw in the other quarters, so it is not a real difference there.

Spring results are under pressure, is it a necessary service? The reason why results were under pressure in the first half year is because there was a cost increase with other postal operators we use as of January 1, which we did not put forward to our customers. We only did that as of March 1 and the reasons behind that were competition reasons. So, there is a clear reason behind the fact that we have the best underlying cash operating income than we had last year. We do not see it as a necessary service; we see it as a service with which you can earn money, although differently. That is what we discussed earlier. Spring is a consolidation business, which means that in the end we earn money on a very small part of the chain and not on the full chain. That means that margins in Spring are any way different from the margins we earn for example within Parcels.

- **Henk Slotboom – The Idea!**:

Sticking to Spring, I can imagine that when you pick up stuff in China you fly it towards the Netherlands, you are using third-party capacity to fly it in. Is that what you mean by partners or is it something else? Maybe you can elaborate about that.

AliExpress was mentioned quite explicitly about 1.5 years ago as a new client win. I do not hear a lot about AliExpress, so if you can say something more about that?

Sticking to International, I think the good thing is that I will not be asking a lot of questions anymore about International, but there is one question that burns on my mind. If I look at the revision you make for the 2020 UCOI target of EUR 25 million, and know that is placed for expected high single-digit top line growth, which we have not seen. If I do the math – I asked that to Karen and Inge this morning as well – it suggests that you expected Italy and Germany to be at the high end of 1% to 3% UCOI target range. Is that correct? Would that still be valid with the knowledge we have today?

And then on Parcels: you gave a number of reasons why the margin is under pressure. Is it mainly in the gross margin? As we have seen in the past year, you print a condensed P&L on a divisional level in your half year report but I cannot figure out what is operational or what is a gross margin at the cost of subcos for example. How do you think that as it progresses going forward? We are reading all sorts of things in the newspaper that last-mile delivery capacity is scarce, that you may have to up the compensation that you have offered already voluntarily to make more compensation to the ZMP group. Is it possible to expect turnarounds in the tariffs? We have mainly seen tariffs actually down because of mix. But you are by far the number 1 in the SME segment. Is that a valid perception?

Then about the cost savings. I understand what you are saying about the consolidation of the mail market, and that a consolidation scenario puts you in different a league when it comes to cost savings. But is the cost-savings target you set for yourself in 2020 – 2021 all being equal, still valid and still possible? You are running a little bit behind schedule now. Is that a temporary phenomenon or should we phase it a little bit out further in time?

My last question is that I get the impression you are working hard on trying to consolidate last-mile in Mail but with all the promotion you are making about green deliveries in the inner cities, you have the momentum in place, I think, with Amsterdam being ruled by centre-left coalition and Rotterdam being ruled by a centre-left coalition and having seen the plans you have in terms of making the last mile greener, is it logical to assume that you are aiming to leverage to hopefully be at a monopoly position in the last mile in Mail and in Parcels as well? It is a combination of things. How easy or how difficult is it given the fact that you have different infrastructures for both of them, the parcel centres are not at the same location as the mail centres?

Herna Verhagen – CEO PostNL: Let's start with the Spring. To your second part of the question, which was on AliExpress: indeed, the customer AliExpress came in a little bit more than a year ago, and it is a fast-growing customer. If you look into the volumes they bring into Spring, they are doing very well. We mention them quarterly but only with one sentence or maybe two words. They are a satisfied customer and we are a satisfied distributor in that sense.

Your first question was whether it was purely about partners. Of course, they make the total chain. It is not purely partners but they play a main role, that is correct.

Then the revision of International.

Pim Berendsen – CFO PostNL: So, back to the question of the EUR 25 million amendment of the ambition 2020, all other things equal. Indeed, we look at the current performance of the country as a delay in the improvement and we indeed anticipate a further improvement towards 2020. For each country that is based on different value drivers. So for instance, the parcels business in Italy currently still burns money, so to say. We are not at the scale level that the volume in the system is enough to be net profitable, but we are growing towards the pivoting point where additional volume will actually contribute to that. That is anticipated to have a very positive impact on the 2020 numbers. In Germany and in Italy, we anticipate more favourable comparative circumstances as a consequence of changing unanticipated pricing changes in Italy. But that same impact we anticipate and is already announced by DPAG, in the sense that they have guided the market towards price increases, which will also be beneficial for Postcon. The current performance of Postcon is related to the implementation of contracts that we have taken on the volumes but only gradually migrate these volumes to our own networks. That is one of the reasons why the current cost, at which we sell, is one argument for consolidation services is higher. That is a temporary effect because we will gradually move those volumes towards our own partners or our own last-mile activities. So indeed, we anticipate and have anticipated improved performance towards 2020 of both Nexive and Postcon.

Herna Verhagen – CEO PostNL: Do we expect the turnaround in tariffs for Parcels? In other words, do we expect a lesser impact of price/mix? It is not what we expect for the coming quarters and the main reason for that is that the fixed workshops are growing much faster than the smaller ones. The trends in other markets are trends you see in the Dutch market as well. That is that the big ones are taking a much bigger part of the market than the smaller ones. That is the main reason behind the fact that the average price per parcel comes down slightly.

Henk Slotboom: DHL and DPD see perhaps even more problems on the last mile. It may be difficult to tell the bol.com to pay-up – and Coolblue is already experimenting with its own delivery service in certain areas – but the lesser big ones, they have no place to go. I would argue, it is now or never, that the timing is as good as it can be, because DHL cannot handle it, DPD cannot handle it, and GLS cannot handle it. If you cannot handle it, who can?

Herna Verhagen – CEO PostNL: Fortunately, we can handle it with Parcels and Spring. We see a margin of 7.5% to 9.5% and without Spring, 9% to 11%. We do not deliver for free. We can earn a decent amount of money on the parcels we deliver, of course adjusting the network towards the growth and paying the people what we think we need them to pay to have a decent earning. That is the model we are running. We are running a model in which we can earn money, in which we can grow and in which we can treat the people the way we like to treat them and that means that they earn a decent living.

That of course is a different question from the question whether we think that free delivery – that is one of the discussions which is going on in The Netherlands – is a business model which can continue for the future. The only thing I can say on that is we are not delivering for free. We are not doing the returns for free. So in my view, I do not see it dramatically change to pricing.

Your next question was on the cost savings and in combination with consolidation. In combination with the consolidation, the phasing of the cost savings is difficult to predict. We also would like to reiterate is the fact we expect a step-up towards the second half of 2018 and a step-up towards 2019 and 2020 based on the plans, as explained on one of the slides, which are around the centralisation of locations, e-cargo bikes, transformation of our last-mile overhead, et cetera. But the consolidation will have an impact and not on the amount in the end but on the phasing of those cost-saving plan.

Would it be difficult or easy to create green delivery in the cities? I think when it comes to mail delivery, in most of the inner cities we are already almost 100% green because most of the delivery there is done via bike or by foot. When it comes to Parcels, we will change the vehicles we use to the green delivery in the city towards e-cargo bikes and towards electrical vans. So there we have to change. Is it difficult? I think such change takes time. But if you take, for example, the city of Leeuwarden, there where we have now implemented fully our zero-emission last mile in the inner city of Leeuwarden, we see it is doable.

Henk Slotboom – The Idea!: And the gross margin question?

Pim Berendsen – CFO PostNL: That is what Herna tried to address on the development of margins of Parcels. We look at two different drivers. You have a cost per parcel and the average revenue per parcel and the price/mix-effect is what we see and what we anticipate will continue. That is the price/mix-effect. Does that say we will not look at pricing strategies to optimise our price points? Certainly we will, but the price/mix-element, also as a consequence of the fact that the bigger e-tailers grow faster than others. We will certainly look at pricing strategies going forward, as we have done in the past.

On the cost side per parcel there are indeed some elements that increase the cost per parcel but at the same time, the efficiency measures we take, the increased capacity of the new sorting and distribution centres and different ways of using artificial intelligence to improve hit rates will have a positive i.e. reduction consequences on the cost per parcel. So, we are trying to maintain our competitive position and optimising the margin we can make based on those two drivers, price/mix and cost per parcel.

- **Andre Mulder – Kepler Cheuvreux**

A number of questions from my side. First, do you expect a negative impact on equity of EUR 40 million? Is that related to the outcome that you already had with probable partners of those two entities? If so, if you are explicitly saying you are going to have a negative impact on equity of EUR 40 million, should you not be taking a massive write-down?

My second question is on Spring. The combination of the international operations was a margin of 1% to 3%. Can you give us a split of those parts or what do you now expect for Spring maybe in 2018, 2020? The first half of Spring was zero in numbers, so what do you expect for the numbers for the second half and how should you look at 2020?

On the numbers also, we saw depreciation moving up 30% in Q2 to EUR 25 million. That is quite a big amount, especially if you take into account that capex in last few years has been below depreciation. So we might even expect that depreciation will go down and not go up by 30%. Was there some kind of exceptional influence there?

On the two entities: I assume that you stop depreciating them in the second half. So what will be the impact there? Then a question on consolidation. Apart from agreements between parties, what is needed in terms of regulation, both domestic and international?

Lastly, on your statement on sheet 30, you are talking about implementation of the conclusions of the postal dialogue. I assume that you are referring to this negative impact of EUR 50 million to EUR 70 million and I also assume that you would be thinking about a lower impact rather than a higher one. Can you comment on that?

Pim Berendsen – CFO PostNL: I will take the first one on how the minus EUR 40 million equity impact has been determined. Is that on the back of the discussions already done with potential buyers? No, the EUR 40 million is based on an independent valuation that we have done as part of the process. On the back of current performance and future outlooks of these businesses we have done a careful process of independent valuation. That leads to this minus EUR 40 million equity impact per the end of Q3. Where are we in the process? We are not engaging at this moment with potential buyers. We have identified a potential buyer's landscape. We are comfortable that we can do a transaction within a year. That is one of the criteria that you have to meet to be able to report these entities going forward as discontinued operations, which we will do as per Q3. We anticipate engaging with potential buyers towards the end of September. So today is the announcement of the decision to initiate that and we will use the remainder of August and September to be fully prepared. The first step is already made. We are fully prepared and then we will start engaging with potential buyers in both countries. That is basically how the EUR 40 million has been determined.

Andre Mulder – Kepler Cheuvreux: But there is no need of a direct asset write-down as of this moment?

Pim Berendsen – CFO PostNL: No, the decision to sell has been taken and we report it as a subsequent event, also after the half-year results. The way to value the business from discontinued operations is to look at the expected sales proceeds, net of cash and transaction cost. That is what we have done. At the end of the half year, there was no reason for an asset write-down for a still continuing use of these businesses.

Andre Mulder – Kepler Cheuvreux: Will there be cash remaining in these two entities?

Pim Berendsen – CFO PostNL: Of course we will have a valuation discussion that will be on the back of enterprise value and equity value and although we now represent a negative equity value, certainly we expect a significant cash in as proceeds from these divesting processes.

On the Spring margin developments, basically, what you can find in the restated figures is that, for the half year, it is a zero result but a slight improvement in Q2 compared to Q1, from minus EUR 1 million to plus EUR 1 million. We anticipate that in the second part of the year will further see an improvement in that result also. Clearly, the first quarter was heavily impacted by our decision not to pass on increasing terminal dues towards our customers. That has been done. As said, volumes of AliExpress have grown and are growing. So, we expect Spring's performance towards the end of the year to increase. We have never given any indications of Spring being part of International, nor will we do that specifically for Spring when it is going to be part of Parcels, but based on these numbers, you can hopefully follow the step-down in margins towards 7.5% to 9.5% only being a dilutionary impact. So, we anticipate Spring to improve towards 2018 and continue to improve towards 2019 and 2020 and beyond that.

Andre Mulder – Kepler Cheuvreux: Last year, you have made around 8%. You will not see a return to that?

Pim Berendsen – CFO PostNL: We will not see a return to that on short notice, given the fierce competitive circumstances in Asia, particularly in the trade lanes from Asia to Europe. I cannot be more specific, I am afraid.

One of the points related to the decision was related again to Postcon and Nexive. The consequence of the decision to initiate the sale is that they will be represented as discontinued. That means that we will only report the combination of those two as a net financial result and will not depreciate the assets of these businesses in the same way or at least not reporting them in the same way we did before. Not reporting Postcon and Nexive throughout the remainder of the year also has had its implications on the outlook for the remainder of the year, and that is the reason why it brings to EUR 160 million and EUR 190 million.

Herna Verhagen – CEO PostNL: Regarding the postal dialogue, let's start with your last question first, which was on the impact of EUR 50 million to EUR 70 million because of the actions taken by the regulator. We do not expect this amount to come down. The reason for that is, as we already said when we came with the EUR 50 million to EUR 70 million, the biggest part of this is front-end loaded and not back-end loaded. That means that our expectation is that the full impact or almost the full impact is already seeable before there will be a final conclusion on the postal dialogue. So, that is not what we expect and therefore, we reiterate that the expected impact will be EUR 50 million to EUR 70 million.

What is needed for consolidation? As I said in my presentation, we are very happy with the conclusions drawn by the State Secretary. One of her conclusions is that consolidation might be the best option in a sharply declining market. What is necessary now is that the rules or the framework within consolidation can take place become clear. That is what the State Secretary together with politicians in Parliament have to do and in our view preferably sooner than later because that makes clear whether we can consolidate and if so, how we can consolidate.

Andre Mulder – Kepler Cheuvreux: If you are combining two big entities, is it possible to make an exception just for the postal network? Normally, that will not be allowed?

Herna Verhagen – CEO PostNL: That is one of the main reasons. We have regulation in place at this moment in time that stimulates competition. Consolidation feels contrary to stimulating competition. So there, clear guidance needs to be taken by the State Secretary together with the Parliament. If they give clear guidance on how they see consolidation and under which circumstances or conditions then a following step is possible. But that is exactly why a discussion is necessary.

Andre Mulder – Kepler Cheuvreux: Do you expect any objections from the EC on this? Should the two come together in a full merger?

Herna Verhagen – CEO PostNL: We think that in the end it will be a Dutch matter. In our view that political discussion is a necessity before we can even come to a discussion like that.

- **Marc Zwartsenburg – ING**

Let's take my questions one by one, otherwise you might forget one. First of all, to start on the dividend, can you confirm that the progressive dividend commitment for 2018 is also beyond 2018, also given the condition, whatever the equity position is. Do you expect equity to be possible already by year-end? But even in the case that the equity is negative – maybe you have to do an additional write-down – would you still then confirm that the dividend is progressive in 2018 onwards?

Herna Verhagen – CEO PostNL: The aim has not changed, so the aim is to pay progressive dividend. For 2018 we always said that we can pay a progressive dividend because for one year we have a higher pay-out ratio than the 75% of underlying net cash income. We expect our consolidated equity to be positive by the end of 2018. For 2019 and 2020 we also reiterate the ambition to pay a progressive dividend and that can be paid out – as Pim already said – out of our normal earnings in cash.

Marc Zwartsenburg – ING: Not from free cash flow, that is clear. But also in case that in 2019 or in 2020 equity is negative? That is not a condition itself to prevent that the dividend is still progressive and payable?

Herna Verhagen – CEO PostNL: It is not a condition. One of the conditions we have today is that our -- the net debt versus EBITDA then will higher than 2.

Marc Zwartsenburg – ING: Okay, then on the new guidance for 2020. Pim explained that the EUR 25 million correction is purely driven by Germany and Italy. Can I conclude that nothing has changed to the expectations for Spring for 2020? And then linked to that, because Spring is now in the Parcel division, should we now assume that your margin guidance for Parcels of 9% to 11%, now 7.5% to 9.5%, is now also the margin guidance towards 2020?

Pim Berendsen – CFO PostNL: The answer is yes on that last point. Certainly, it is. So, the adjustment for the 2020 ambition of EUR 25 million is solely related to the decision to initiate the sale of Postcon and Nexive.

Marc Zwartsenburg – ING: If you take the guidance from International and you strip out the EUR 25 million, then in the end also the margin for Spring was in that range that you gave for the whole division. That means that it has marginal impact on the margin of Parcels, except for the mix. Should we see it like that?

Pim Berendsen – CFO PostNL: Yes, exactly. That is why we say the adjustment from 9% - 11% to 7.5% - 9.5% is only because of that dilutive effect of Spring earning lower margins than Parcels. So again, no fundamental change in the underlying business drivers of either Parcels or Spring.

Marc Zwartsenburg – ING: Then, Herna, maybe on the ACM impact. There is still the final outcome we should have from the ACM on the tariffs. But as it stands now, would they confirm or they guided for or what they initially indicated in spring of this year? Is that is the final decision as well? That means that we will not see any changes to the EUR 50 million to EUR 70 million. Is that correct?

Herna Verhagen – CEO PostNL: The final decision is not yet fully final, Marc. So they gave a final decision proposal. A proposal means that every market party had the opportunity to give his or her views. That is at least done by us, but as we expect that is also done by others. That will lead to a final proposal and only then you can say if it impacts the EUR 50 million to EUR 70 million or not. So, we have to wait for that final proposal, which is expected in September or by the end of September.

Marc Zwartsenburg – ING: But the question is if the final is in line with the proposal, then nothing would change?

Herna Verhagen – CEO PostNL: I understand the question. We said that neither the postal dialogue nor where we are at this moment in time in our phase of Significant Market Power lead to a change in the EUR 50 million to EUR 70 million of impact. That is what we said, Marc.

Marc Zwartsenburg – ING: Then you made the remark that most of the EUR 50 million to EUR 70 million is front-loaded. But government have basically said that cherry-picking has had a negative impact in the USO and maybe regulations have gone too far. Is my understanding correct that there would be a positive impact on the EUR 50 million to EUR 70 million in case government decide that some regulation has gone too far, and they would revert part of the regulation that is basically leading only to arbitrage and not to any efficiency to the network.

Herna Verhagen – CEO PostNL: We find it difficult to believe, because the main impact of regulation until now is lower tariffs. Getting those tariffs back to the old level is probably not that easy to do. But that is the reason why we say that most of the impacts we already have in our numbers.

Marc Zwartsenburg – ING: But the impact on volumes and the market share losses would then be a positive, I assume. So, there should be some positive if they revert some of it.

Pim Berendsen – CFO PostNL: Marc, volume loss is there. Part of volume loss is because of loss to competition on the back of this change in regulation. At the same time, those other postal operators can access our network against much lower tariffs. What they are distributing themselves is also more than what they have done in the past. It is not easy to understand why that would be a reversible element. They will continue to do their business given their business model. So those consequences have materialised and I do not see how they can easily be reversed.

Marc Zwartsenburg – ING: Then I have a final question, on the divestment of Germany and Italy. Pim, can you help me a bit with the cash flow impact going forward? If it would be out, how much capex goes into that business and working capital is linked to the business, that will be freed up?

Pim Berendsen – CFO PostNL: You have to wait for a bit more guidance for Q3. Then you will see the consequences when we have accounted for the third quarter on continuing operations. There you can see it. We will also give more guidance on the capex numbers going forward, excluding those two companies.

Marc Zwartsenburg – ING: Can you give any indication on the capex because there is a capex guidance also towards 2020 as part of the 2020 guidance.

Pim Berendsen – CFO PostNL: No, not right now.

Marc Zwartsenburg – ING: But it would be positive, I assume?

Pim Berendsen – CFO PostNL:

Yes. We spent some capex there, certainly. We will not do that going forward.

Marc Zwartsenburg – ING: But it is not that there is a positive working capital involved here and then would reverse the whole thing?

Pim Berendsen – CFO PostNL: No. Let's wait and see for the end of Q3.

Marc Zwartsenburg – ING: I am not so patient.

Pim Berendsen – CFO PostNL: I know and I understand that. But that is it.

Herna Verhagen – CEO PostNL: Sometimes, it is a fact of life.

- **Edward Stanford – HSBC**

I have three questions. First, if I have understood comments Herna made and comments about mail, are you considering the possibility of having what we would call a first and second-class postal delivery, introducing that in the coming years as a means of efficiency?

Secondly, I am just trying to get my head around the negative impact on equity and whether or not there is going to be a write-down. You have or need a write-down of the businesses for sale this quarter. Is that because they are still valued on a continuing basis and will therefore a write-down be likely triggered in Q3 when you change the status?

Finally, just understanding if I have my math right: I guess the reduction in the guidance of this year implies that the businesses for sale would make a profit of EUR 10 million later on this year but their losses have got worse in the first half relative to the first half of last year. I was trying to work out what is going to change in your expectations in the second half there.

Herna Verhagen – CEO PostNL: Let's start with your first question whether we are thinking about implementing first and second-class mail? The answer is no, absolutely not. We think that in the end we are able to come step by step to a more equal flow over the days, which helps us to use our machinery and the equipment much more efficient. It also helps us to have a routing which is more efficient than it is today and that is mainly based on customer wishes. They of course have different requirements when it comes to day certainty and when it comes to how they want things to be delivered. It has nothing to do with first and second class.

Pim Berendsen – CFO PostNL: Your second question relates to the write-down. Yes, at the end of Q2 the businesses are valued as continuing operations. I am afraid it is a technical answer. From a technical point of view that is a different valuation than the valuation related to direct sale proceeds or sale minus net cost to sell. From that purpose on we will report it as discontinued business from Q3 onwards. It is already indicated also as a subsequent event that we anticipate that decision to have a net effect of around minus EUR 40 million on equity.

Regarding the reduction of guidance, we indeed anticipate an improvement of Postcon and Nexive results in the remainder of this year, and that is on the back of one of the elements I have already talked about and that is the fact that will gradually take on additional national volume in Postcon. That will route it much more towards the end of the year towards our local delivery partners and towards our own regional networks, rather than DPAG, which will have positive effects like the continuation of our productivity improvements in our own last-mile activities. Also, in Italy we predict and expect cost-saving measures to be beneficial and contribute to an improvement of the results in the second part of the year. In the valuation that we just discussed leading up to the equity impact of EUR 40 million, we have taken into account run-rate numbers, including the half year results. Those have been the basis for the independent valuation, the management and the local plans that gives us the value resulting in that EUR 40 million equity impact.

- **Tobias Sittig – MainFirst**

Two questions from me remaining. First, could you elaborate a little more on why the exit of Germany is now happening? From the business trend you are elaborating, it should be turning around. You put a lot of money and effort into it over the past couple of years and just management attention does not seem to be a pretty strong reason to sell it now. Also, there is a change at Deutsche Post. There is probably a big price increase coming next year. So, the business environment should be getting better for Germany, and so selling that at a loss now seems like a bad timing to me.

Secondly on your comments on Mail. Maybe I have not followed your argumentation fully, but can you elaborate a little more why a positive change in regulation would prevent you or be an excuse for not delivering the cost savings and efficiency gains that you promised to the market and, therefore, leaving headway to reduce your Mail guidance for 2019 with what you say today?

Herna Verhagen – CEO PostNL: First, I want to elaborate on why we exit at this moment in time. It has to do with a few things. It has to do with the fact that in our view we have reached a certain point with Postcon and also Nexive that they are well equipped to be on their own feet under a new parent, which in Germany has to do with the consolidation we organised over the last few years and in Italy because of the fact that we changed the portfolio of the company. That is together with the fact that, as Pim already said, in our view there is a good buyers landscape available in Germany as well as in Italy. In combination with the fact that if we look into the opportunities we have in the Benelux and with the enormous growth we foresee also for Parcels going forward, we think it is a wise moment to make the step to divest the countries and focus fully on the Benelux and the things we can do there, the growth we can create for Parcels in the Benelux together with the time and investments necessary to be dedicated towards that.

Tobias Sittig – MainFirst: Can you maybe put that in numbers? From a return on investment, you are implying probably a sale price of EUR 100 million for an entity that you expect to generate EUR 25 million of EBIT, which sounds like 25% return on investment that you are giving up by selling those divisions, if you really believe in those plans. And from your Parcels investments, I struggle to see you delivering with a kind of flat margin guidance, similar returns on investments in the Dutch market. Maybe you can elaborate on the business plan behind these moves there.

Pim Berendsen – CFO PostNL: I understand your question but you are cutting a few corners. We have done an independent valuation based on the business plans we have and the current run rate. The equity impact is a consequence of the equity value, and there is always a step between enterprise value, cash, debt free and what have you, to end up with an equity value and its implications. As said, we are finalising the preparations throughout August and September and then will we engage with the buyers landscape, of course with the objective to get the best possible deal for PostNL out of those transactions. We truly believe that taking this decision right now adds value, contributes value to PostNL both by creating or getting the cash in that we anticipate on these transactions and, as Herna said, focusing even more than before on our key activities in the Benelux to facilitate further growth in Parcels and to adjust and continue to adjust our Mail business towards that volume decline. So, I am not going to speculate much more about what potential transactions it could bring in. This is where we are. We certainly expect a significant cash in. That is what I can tell you.

Herna Verhagen – CEO PostNL: On your second question, why a positive change via consolidation leads to uncertainty around cost savings, we do not think it leads to uncertainty of the cost savings, but it leads to uncertainty of the phasing of the cost savings. If we will be able to consolidate you will add volume to a current system. That needs to be absorbed, together with a lot of people and that takes time. That means that if you have more volume you have to postpone those cost savings. Otherwise, it is different for your sorting and distribution system. So, it is not that we say we are not able to do cost savings, the only thing we say is that the phasing of the cost savings could be different and is difficult to predict for us at this moment in time.

Tobias Sittig – MainFirst: Thank you.

- **Mark McVicar – Barclays**

I just have one question. Your exceptional items between underlying operating income and reported were quite large this quarter, larger than usual, of which you have got EUR 20 million projects, cost impairment PPE and settlements. Could you just explain a bit more about practically what is in there? Would you expect further large numbers in the second half of the year or should that be it?

Pim Berendsen – CFO PostNL: It is indeed a relatively big number this quarter compared to other quarters and also not the level we expect to continue towards the remainder of the year. So basically, EUR 20 million one-off also as a consequence then is one of the drivers of why we ended up with a net loss of minus EUR 1 million. The EUR 20 million composes of project costs also partially related to the initiated sale of Postcon and Nexive. There are also some impairments of real estate buildings that will be demolished and built up again. And it contains settlement costs related to settlements with postal operators on discussions originating before Significant Market Power regulations that came into place. So certainly, a big one-off in this quarter, but definitely will not continue on this trend in Q3, nor Q4. We anticipate just to go back to the normal levels of one-off costs that you can see also in our previous quarters.

Mark McVicar – Barclays: Thank you.

- **Marc Zwartsenburg – ING**

Yes, a quick follow-up and maybe you can help me with this. I do not know if it is already possible, but is there already a date set for the Parliamentary discussions?

Herna Verhagen – CEO PostNL: Not yet, Marc. Therefore, you will find in the press release also our question to do it as quickly as possible. But it is not yet set.

Marc Zwartsenburg – ING: Okay. Clear, thank you.

- **Andre Mulder – Kepler Cheuvreux**

I have a question on pricing. You were quite open in saying that you are absolutely not going to introduce dual pricing. Already, I think two thirds of postal operators in Europe use that. What is the reason behind your 'no' in that respect?

Herna Verhagen – CEO PostNL: The main reason is that if consolidation takes place you can deliver first class service in a country like the Netherlands, which is a relatively small country, for a good price and of high quality.

Karen Berg – Investor Relations PostNL: This is my final call. Fortunately, I have a good successor, so next time, you will have Jochem on the line.

I would like to thank you all for your very good cooperation over the past few years and I would like to thank Herna and Pim, specifically. So, see you around. For the callers who are there every quarter, have a great call in November.

Thank you.

Herna Verhagen – CEO PostNL: Thank you, Karen! You did a great job over many of the quarters, so thanks for that. Guiding us through the presentations and all the questions, giving everyone the proper amount of time to ask their questions and hopefully to get the answers expected. So, thanks a lot for all you did. All the best for what you are going to do.

Jochem, welcome. For the ones on the line, Jochem is on my left side, so welcome Jochem. As of Q3 you will be the speaking voice.

Bye bye!

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End of call

Q2 & HY 2018 Results

Appendix

- Results by segment YTD
- Breakdown pension cash contribution and expenses
- Upcoming accounting changes – IFRS 16 *Leases* to replace IAS 17

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Results by segment HY 2018

(in € millions)	Revenue		Underlying operating income		Underlying cash operating income	
	HY 2017	HY 2018	HY 2017	HY 2018	HY 2017	HY 2018
Mail in the Netherlands	884	824	73	47	45	23
Parcels	515	628	61	55	60	53
International	532	517	7	(11)	6	(11)
PostNL Other	37	39	(12)	(21)	(15)	(11)
Intercompany	(262)	(282)				
Total PostNL	**1,706**	**1,726**	**129**	**70**	**96**	**54**

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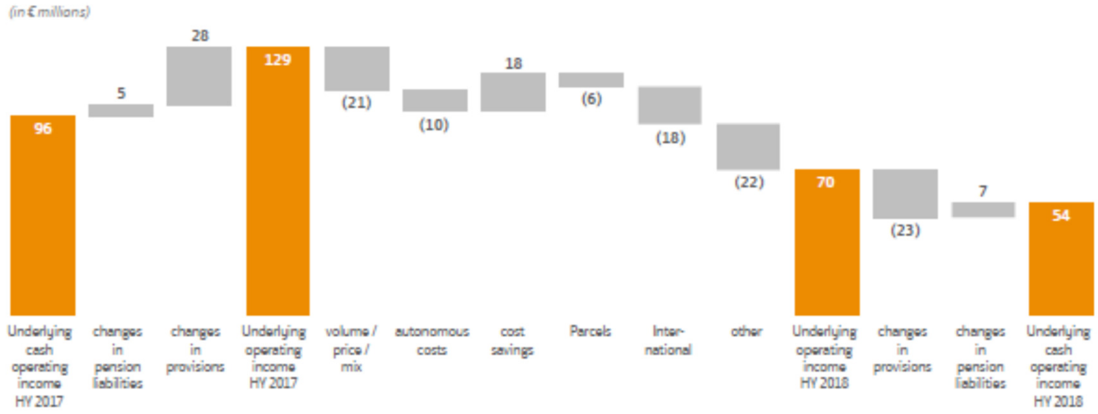
Underlying (cash) operating income HY 2018



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Breakdown pension cash contribution and expenses

(in € millions)	Q2 2017		Q2 2018	
	Expenses	Cash	Expenses	Cash
Business segments	26	30	26	30
IFRS difference	2		7	
PostNL	**28**	**30**	**33**	**30**
Interest	2		2	
Total	**30**		**35**	

Upcoming accounting changes

IFRS 16 *Leases* to replace IAS 17

	Balance sheet	Income statement	Notes in Annual Report	
IAS 17 (current)				
Finance leases	Asset Liability	Depreciation Finance cost	- Maturities	• Operating leases not reflected on balance sheet • Operating leases accounted for as straight line expense • Rating agencies take off balance sheet commitments and P&L charge operating lease into account
Operating leases	N/A	Rent and lease expenses	Maturities / Total amounts	
IFRS 16 per 1 January 2019				
Leases	Asset Liability	Depreciation Finance cost	Maturities	• Vast majority of leases to be accounted for on balance sheet • Recognize assets and liabilities • Exemption for short-term leases and low-value assets possible • No change in treatment rating agencies

Implications income statement
IFRS 16 *Leases* to replace IAS 17

Revenue	No impact
Work contracted out	Decrease: lease expenses replaced by depreciation and interest expenses
Depreciation, amortisation and impairments	Increase: additional depreciation of lease assets
Operating income/ underlying cash operating income (UCOI)	Increase: interest leases to financial expenses
Net financial expenses	Increase: interest expense component recorded in financial expenses
Income taxes	No material changes
Profit for the period/ underlying net cash income (UNCI)	Neutral over time, but timing effect due to higher interest during first years

Increase in operating income / UCOI, long term neutral effect to net profit / UNCI

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Implications cash flow statement
IFRS 16 *Leases* to replace IAS 17

Profit before tax	No material changes
Depreciation, amortisation and impairments	Increase: additional depreciation of lease assets
Net cash from operating activities	Increase: depreciation costs
Repayment of leases	Increase: lease payments
Net cash from financing activities	Decrease: lease payments
Total change in cash and cash equivalents	No changes

Increase in net cash (used in)/from operating and investing activities
No effect on full cash flow statement

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