Press release

The Hague, the Netherlands, 3 August 2020

PostNL reports strong performance

Normalised EBIT up 38% to €54 million in Q2 2020

Financial highlights

in € million	Q2 2019	Q2 2020	HY 2019	HY 2020
Revenue	681	789	1,365	1,490
Normalised EBIT	39	54	69	69
Free cash flow	7	93	(1)	98

Highlights Q2 2020 and outlook FY 2020

- Strong performance boosted by volume growth at Parcels
- Realisation of anticipated benefits and synergies from combined mail network ahead of plan
- Additional mail volume decline due to Covid-19
- Strong growth in free cash flow thanks to working capital management and phasing over quarters
- FY 2020 normalised EBIT expected to be strongly above previous guidance of €110 million - €130 million

CEO statement

Herna Verhagen, CEO of PostNL, said: "During the Covid-19 crisis, we've been able to play a key role in society by continuing to provide our services despite the challenges of the pandemic. At the same time, we've taken a set of comprehensive measures to ensure a safe and healthy work environment for our people, partners and customers. We are applying the social distancing guidelines and health regulations and have implemented additional measures in our operations and facilities. I'm proud of our people. Together we demonstrated the strength of our business model under challenging circumstances.

"Covid-19 has changed consumer behaviour, leading to an acceleration of online shopping. To accommodate the strong volume growth at Parcels, we scaled up capacity by 40%, proving the flexibility of our network and the skills of our logistics experts. Our capacity will be scaled up further to accommodate higher volumes towards the second half of the year. Scheduled investments of around €150 million for expansion of capacity are on track. In 2021, we expect to start operating our innovative sorting centre for small parcels as well as two new depots, one in Belgium and one in the Netherlands. At the same time, the combined mail network is keeping mail delivery accessible, reliable and affordable in an increasingly digital environment.

"Over the second quarter of 2020, we report strong business and financial performance. Building on our HY performance, we expect normalised EBIT for FY 2020 to come in strongly above the initially guided range of between €110 million and €130 million and a strong improvement in free cash flow. Although the uncertainties around the global impact of Covid-19 seem to increase, we have confidence in our ability to deliver a very solid full year performance."

Q2 2020 business performance

	Revenue		Normalised EBIT	
in € million	Q2 2019	Q2 2020	Q2 2019	Q2 2020
Parcels	402	516	29	60
Mail in the Netherlands	380	393	17	5
PostNL Other	19	26	(7)	(11)
Intercompany	(120)	(146)		
PostNL	681	789	39	54

Note: Normalised figures exclude one-offs in Q2 2020 (€1 million) and in Q2 2019 (€2 million)

- Normalised EBIT in Q2 2020 includes a €(9) million impact, as indicated before, from new labour regulation (mainly in Parcels) and higher non-cash pension expenses (PostNL Other)

Segment information Q2 2020

Parcels: 24.8% volume growth boosted normalised EBIT in extraordinary quarter

PostNL's early actions in response to the sudden change in environment worked out well. These included scaling up capacity, expanding the number of delivery routes and attracting new staff, all within the constraints of social distancing. Since the start of the Covid-19 crisis, e-commerce growth has picked up significantly and the transition from offline to online has accelerated. The number of first-time online buyers increased and the share of existing medium and heavy online shoppers grew. Part of the growth related to specific, non-recurring, consumer spending as a result of the Covid-19 situation.

This resulted in strong volume growth at Parcels of 24.8% in Q2 2020, with growth in June coming in at around 18%. Growth was visible across almost all segments and products, especially among small and mid-sized webshops.

Revenue grew strongly to €516 million (Q2 2019: €402 million), mainly driven by volume development and a positive price/mix effect, thanks to yield management measures (including improved pricing), along with favourable mix effects. Logistics and Spring also saw rising revenue, with very strong growth in e-commerce related revenue at Spring, both in Asia and Europe.

Normalised EBIT was up very substantially to €60 million (Q2 2019: €29 million). This reflected the impact of €72 million from volume growth and a positive price/mix effect of €8 million, partly offset by volume-dependent costs rising by only €48 million thanks to the almost optimum utilisation of our infrastructure resulting from the equal flow of volumes during the week. Organic costs, including higher costs as a result of new labour legislation, increased by €5 million. Operational efficiency improved but was more than offset by higher other costs, partly related to extra cross dock capacity, resulting in additional costs of €11 million. Other results were up €14 million, with improving business performance at both Logistics and Spring.

Mail in the Netherlands: result impacted by additional volume decline related to Covid-19

Performance at Mail in the Netherlands was marked by additional volume decline related to Covid-19, the impact of moderate pricing and the combination of mail networks. The latter contributed €15 million to normalised EBIT in the second quarter (YTD: €20 million) and is ahead of plan in delivering the anticipated benefits and synergies. The net contribution equals synergies minus one-off integration costs, including projected costs related to the agreement to compensate former Sandd mail deliverers. For the second half of 2020, PostNL will focus on achieving further synergies. The Dutch government has appealed the court decision that annulled the earlier approval granted for consolidation in the Dutch postal market. PostNL has also decided to appeal.

Addressed mail volumes declined by 16.2% in the quarter*, with some recovery visible in June. The Covid-19 crisis resulted in additional substitution of around 5% and impacted international mail negatively. Although people were sending more greetings cards in the first weeks of the pandemic, bulk mail volumes declined significantly in the second quarter, as direct mail campaigns were postponed. The volume decline also included 1.9% impact related to elections in 2019, while the impact from competition was limited.

Revenue was up 3% to €393 million (Q2 2019: €380 million) driven by the consolidation of Sandd (€34 million) and a volume decline impact of €(30) million, partly offset by price/mix effects of €21 million, the latter being supported by the temporary shift in product mix due to Covid-19. Other revenue was down by €12 million, mainly due to the disposal of non-core activities.

Normalised EBIT fell to €5 million (Q2 2019: €17 million). This reflected the total volume and price/mix impact - a combined €25 million - partly offset by volume-related costs that were up €8 million. The increase in organic costs was €4 million. Other costs were up €15 million, and included integration costs of the mail networks and costs related to Covid-19, partly offset by cost savings and efficiency improvements. Other result was down €10 million, mainly as a result of the sale of non-core activities, and the discontinued distribution of unaddressed mail.

PostNL continues to implement cost savings initiatives, such as adjustments to the sorting and delivery process, streamlining of staff and centralising of locations. The phasing of some of these projects will be delayed due to the additional measures taken to apply social distancing guidelines in operations and facilities.

* Adjusted volume decline was 15.0% (two working days less): volume decline based on 2019 pro forma volume including a full year of Sandd volumes

PostNL Other

Revenue at PostNL Other amounted to €26 million (Q2 2019: €19 million). Normalised EBIT declined to €(11) million (Q2 2019: €(7) million), mainly as a result of higher pension expenses (an accounting impact only) as indicated earlier.

Pensions

Pension expense amounted to €37 million (Q2 2019: €30 million) and total cash contributions were €24 million (Q2 2019: €27 million). On 30 June 2020, the pension fund's actual coverage ratio was 102.5%. The fund's 12 month average coverage ratio was 105.7%, above the minimum required funding level of 104.0%. Taking into account the resilience of the fund, no top-up payment obligation is expected.

Based on the financing agreement with the pension fund, the final payment for transitional plans at year-end 2020 was determined on parameters as in Q3 2019, when interest rates were very low. Taking into account the interests of all stakeholders, PostNL initiated discussions with the pension fund on options for a solution to smooth the impact of low interest rates in determining the final payment. In June, it was agreed that the maximum final payment will be around €290 million. This is €10 million below the initially determined amount. Should interest rates develop favourably, the final payment could be lower.

As part of the agreement, PostNL will pay the pension fund around €205 million at year-end 2020. The remaining €85 million (at most) will be deferred and paid in five annual instalments between 2021 and 2025. The funding costs of soft pensions will be reduced by around €5 million during 2020. Thus, the total reduction in the cash contribution for transitional plans amounts to at least €15 million.

Discontinued operations

Result from discontinued operations came in at €3 million (Q2 2019: €(29) million) and included a positive fair value adjustment and a negative business result at Nexive. The sale of Nexive's business to Mutares was completed on 1 July 2020. As previously announced, PostNL obtained a minority interest of 20% in the entity acquiring the Nexive business.

Key figures

in € million, except where noted	Q2 2019	Q2 2020	HY 2019	HY 2020
Revenue	681	789	1,365	1,490
Operating income	37	53	59	52
Profit for the period	(4)	41	2	28
Profit from continuing operations	25	38	40	33
Total comprehensive income	(5)	37	(6)	47
Free cash flow	7	93	(1)	98
			31 December 2019	27 June 2020
Adjusted net debt			736	614

Development of financial and equity position

Total equity attributable to equity holders of the parent company increased to €28 million as at 27 June 2020. This reflected a net profit of €41 million, only partly offset by a €3 million negative impact from pension, net of tax. Total comprehensive income rose to €37 million (Q2 2019: €(5) million).

Free cash flow rose to €93 million (Q2 2019: €7 million). Aside from the improvement in result, the main driver for this favourable development was a significant improvement in working capital investments. This is explained by the continuation of the strong Q4 2019 performance and phasing effects due to cut-off dates for payment of social security invoices and related to settlement of terminal dues.

At the end of Q2 2020, the adjusted net debt position was €614 million, compared with €699 million at the end of Q1 2020.

Environmental, social and governance (ESG)

PostNL takes responsibility for the environmental impact of its operations and has set ambitious targets to reduce its environmental footprint. It has started replacing all 1,000 petrol scooters with around 600 professional electric three-wheel scooters. These sustainable e-scooters make a direct contribution to PostNL's sustainability targets and are the next step towards emission-free last-mile delivery in the Benelux region in 2030.

Outlook FY 2020

in € million	initial outlook FY 2020 (24 February 2020)	Outlook FY 2020 agreement transitional plans (2 June 2020)	Outlook FY 2020 trading update (17 June 2020)	Outlook FY 2020 (3 August 2020)
Normalised EBIT	110 - 130	110 - 130	strongly above 110 - 130	strongly above 110 - 130
Free cash flow*	(315) - (285)	(215) - (185)	better than (215) - (185)	strong improvement compared to (215) - (185)

* Cash flow before dividend, acquisitions, redemption of bonds/other financing activities; after payment of leases

As announced on 17 June, PostNL expects FY 2020 normalised EBIT to come in strongly above the initially guided range of €110 million - €130 million.

Free cash flow for FY 2020 is expected to show strong improvement. As indicated on 2 June 2020, the final agreement on determination and conditions of the final payment of transitional plans will improve free cash flow by around €100 million. Further upside is anticipated as improvement in normalised EBIT above the initially guided range will convert into cash. Working capital investments for FY 2020 should be lower than anticipated due to strict working capital management, more than offsetting the effect from higher revenue. The strong performance in the first half year of 2020 includes positive phasing effects that will revert.

Visibility for the second half of the year remains limited and will depend on possible renewed social distancing measures related to Covid-19, as well as macro-economic developments.

Working days by quarter

	Q1	Q2	Q3	Q4	Total
2019	63	62	65	65	255
2020	62	60	65	68	255

Financial calendar

2 November 2020	Publication of Q3 2020 results
1 March 2021	Publication of Q4 and FY 2020 results
10 May 2021	Publication of Q1 2021 results
9 August 2021	Publication of Q2 & HY 2021 results
8 November 2021	Publication of Q3 2021 results

Contact information

Published by

PostNL N.V.
Prinses Beatrixlaan 23
2595 AK The Hague
The Netherlands
T: +31 88 86 86 161

Investor Relations

Jochem van de Laarschot
Director Communications & Investor Relations
M: +31 613 86 53 58
E: jochem.van.de.laarschot@postnl.nl

Inge Laudy
Manager Investor Relations
M: +31 610 51 96 70
E: inge.laudy@postnl.nl

Media Relations

Tahira Limon
Spokesperson
M: +31 610 22 82 81
E: tahira.limon@postnl.nl

Audio webcast and conference call on Q2 2020 results

On 3 August, at 11.00 am CET, the conference call for analysts and investors will start. It can be followed live via an audio webcast at **www.postnl.nl/en/about-postnl/investors/results-reports-presentations/**.

Additional information

Additional information is available at **www.postnl.nl**. This press release contains inside information within the meaning of article 7(1) of the EU Market Abuse Regulation.

Note that the numbers presented in this press release (tables and result explanations) may not sum precisely to the totals provided and percentages may not precisely reflect the absolute figures due to rounding.

Caution on forward-looking statements

Some statements in this press release are ‘forward-looking statements’. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. These forward-looking statements involve known and unknown risks, uncertainties and other factors that are outside of our control and impossible to predict, and that may cause actual results to differ materially from any future results expressed or implied. These forward-looking statements are based on current expectations, estimates, forecasts, analyses and projections about the industries in which we operate and management's beliefs and assumptions about possible future events. You are cautioned not to put undue reliance on these forward-looking statements, which only apply as of the date of this press release and are neither predictions nor guarantees of possible future events or circumstances. We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this press release or to reflect the occurrence of unanticipated events, except as may be required under applicable securities law.

Use of non-GAAP information

In presenting and discussing the PostNL Group operating results, management uses certain non-GAAP financial measures. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used in conjunction with the most directly comparable IFRS measures. Non-GAAP financial measures do not have a standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. The main non-GAAP key financial performance indicator is normalised EBIT. Normalised EBIT is derived from the IFRS-based performance measure operating income adjusted for the impact of project costs and incidentals.

PostNL Consolidated income statement in €million

	notes	Q2 2019	Q2 2020	HY 2019	HY 2020
Revenue from contracts with customers		677	784	1,357	1,482
Other operating revenue		4	4	8	8
Total operating revenue		**681**	**789**	**1,365**	**1,490**
Other income		**1**	**0**	**2**	**1**
Cost of materials		(16)	(14)	(33)	(29)
Work contracted out and other external expenses		(310)	(373)	(625)	(691)
Salaries, pensions and social security contributions		(255)	(282)	(520)	(575)
Depreciation, amortisation and impairments		(36)	(41)	(71)	(89)
Other operating expenses		(28)	(26)	(59)	(55)
Total operating expenses		**(645)**	**(736)**	**(1,308)**	**(1,439)**
Operating income		**37**	**53**	**59**	**52**
Interest and similar income		1	0	2	1
Interest and similar expenses		(5)	(4)	(9)	(8)
Net financial expenses		**(4)**	**(4)**	**(7)**	**(7)**
Results from investments in JVs/associates		**0**	**0**	**0**	**(0)**
Profit/(loss) before income taxes		**33**	**49**	**52**	**44**
Income taxes	(9)	**(8)**	**(12)**	**(12)**	**(11)**
Profit/(loss) from continuing operations		**25**	**38**	**40**	**33**
Profit/(loss) from discontinued operations	(4)	**(29)**	**3**	**(38)**	**(5)**
Profit for the period		**(4)**	**41**	**2**	**28**
Attributable to:					
Non-controlling interests			(0)		(0)
Equity holders of the parent		(4)	41	2	28
Earnings per ordinary share (in €cents) [1]		(0.9)	8.2	0.4	5.7
Earnings from continuing operations per ordinary share (in €cents) [1]		5.2	7.6	8.4	6.6
Earnings from discontinued operations per ordinary share (in €cents) [1]		(6.1)	0.6	(8.0)	(0.9)

1 Based on an average of 494,260,165 outstanding ordinary shares (2019: 473,721,190).

The results are impacted by a consolidation effect of eliminated intercompany income/charges between continuing operations and discontinued operations. Excluding this effect, operating income in Q2 2020 amounted to €53 million (Q2 2019: €37 million) and in HY 2020 to €53 million (HY 2019: €58 million). Likewise, excluding this effect, profit/(loss) from discontinued operations in Q2 2020 amounted to €3 million (Q2 2019: €(29) million) and in HY 2020 €(6) million (HY 2019: €(37) million).

PostNL Consolidated statement of comprehensive income in €million

	note	Q2 2019	Q2 2020	HY 2019	HY 2020
Profit for the period		**(4)**	**41**	**2**	**28**
Impact pensions, net of tax	(5)	(3)	(3)	(9)	20
Change in value of financial assets at fair value through OCI	(12)	3	(1)	3	(1)
Other comprehensive income that will not be reclassified to the income statement		**0**	**(4)**	**(6)**	**19**
Currency translation adjustment, net of tax		0	(0)	0	(0)
Gains/(losses) on cashflow hedges, net of tax		(1)	1	(2)	0
Other comprehensive income that may be reclassified to the income statement		**(1)**	**0**	**(2)**	**(0)**
Total other comprehensive income for the period		**(1)**	**(4)**	**(8)**	**19**
Total comprehensive income for the period		**(5)**	**37**	**(6)**	**47**
Attributable to:					
Non-controlling interests		0	(0)	0	(0)
Equity holders of the parent		(5)	37	(6)	47
Total comprehensive income attributable to the equity holders of the parent arising from:					
Continuing operations		24	34	32	52
Discontinued operations		(29)	3	(38)	(5)

PostNL Consolidated statement of cash flows in €million

	notes	Q2 2019	Q2 2020	HY 2019	HY 2020
Profit/(loss) before income taxes		**33**	**49**	**52**	**44**
Adjustments for:					
Depreciation, amortisation and impairments		36	41	71	89
Share-based payments			1	1	2
(Profit)/loss on disposal of assets		(1)	(0)	(2)	(1)
Interest and similar income		(1)	(0)	(2)	(1)
Interest and similar expenses		5	4	9	8
Results from investments in JVs/associates		0	(0)	0	0
Investment income		**3**	**4**	**5**	**7**
Pension liabilities		3	13	7	20
Other provisions		(2)	(5)	(7)	(28)
Changes in provisions		**1**	**9**	**0**	**(8)**
Inventory		(2)	0	(1)	0
Trade accounts receivable		(9)	(12)	35	(15)
Other accounts receivable			2	(1)	11
Other current assets excluding taxes		35	(5)	10	(4)
Trade accounts payable		(11)	3	(14)	(53)
Other current liabilities excluding short-term financing and taxes		(56)	40	(72)	83
Changes in working capital		**(43)**	**28**	**(43)**	**22**
Cash generated from operations		**30**	**132**	**86**	**156**
Interest paid		(2)	(2)	(4)	(3)
Income taxes received/(paid)	(9)		(8)	(43)	(8)
Net cash (used in)/from operating activities	(10)	**28**	**122**	**39**	**144**
Interest received		1	0	2	1
Acquisition of subsidiairies (net of cash)			0	(1)	0
Disposal of subsidiaires			(0)		6
Capital expenditure on intangible assets		(8)	(7)	(14)	(12)
Capital expenditure on property, plant and equipment		(7)	(4)	(11)	(8)
Proceeds from sale of property, plant and equipment		2	0	5	1
Other changes in (financial) fixed assets		5	(0)	5	0
Net cash (used in)/from investing activities	(10)	**(7)**	**(11)**	**(14)**	**(10)**
Dividends paid		(48)	0	(48)	-
Changes related to non-controlling interests			(1)		(1)
Repayments of short-term borrowings		(1)	0	(1)	(1)
Repayments of lease liabilities		(14)	(17)	(27)	(35)
Net cash (used in)/from financing activities	(10)	**(63)**	**(18)**	**(76)**	**(37)**
Total change in cash from continuing operations		**(42)**	**93**	**(51)**	**97**
Cash at the beginning of the period		**253**	**485**	**269**	**480**
Cash transfers to discontinued operations		3	(4)	(4)	(4)
Total change in cash from continuing operations		(42)	93	(51)	97
Cash at the end of the period		**214**	**573**	**214**	**573**
Total change in cash from discontinued operations	(4)	**20**	**(4)**	**7**	**(11)**

PostNL Consolidated statement of financial position in €million

	notes	31 December 2019	27 June 2020
Assets			
Goodwill		224	225
Other intangible assets		140	128
Intangible fixed assets	(1)	**364**	**353**
Land and buildings		272	262
Plant and equipment		119	109
Other		13	12
Construction in progress		10	15
Property, plant and equipment	(2)	**414**	**398**
Right-of-use assets	(3)	**259**	**239**
Investments in joint ventures/associates		3	1
Other loans receivable		6	7
Deferred tax assets		65	76
Financial assets at fair value through OCI		15	15
Financial fixed assets		**89**	**99**
Total non-current assets		**1,126**	**1,089**
Inventory		4	4
Trade accounts receivable		271	287
Accounts receivable		51	33
Income tax receivable		1	1
Prepayments and accrued income		114	119
Cash and cash equivalents	(7)	480	573
Total current assets		**921**	**1,016**
Assets classified as held for sale	(4)	**91**	**70**
Total assets		**2,138**	**2,176**
Equity and Liabilities			
Equity attributable to the equity holders of the parent	(6)	(21)	28
Non-controlling interests		3	2
Total equity		**(18)**	**31**
Deferred tax liabilities		0	0
Provisions for pension liabilities	(5)	283	278
Other provisions	(8)	26	28
Long-term debt	(7)	695	695
Long-term lease liabilities	(7)	201	189
Total non-current liabilities		**1,205**	**1,191**
Trade accounts payable		197	144
Other provisions	(8)	53	23
Short-term debt	(7)	1	0
Short-term lease liabilities	(7)	63	59
Other current liabilities		110	180
Income tax payable		9	21
Contract liabilities		67	47
Accrued current liabilities		351	399
Total current liabilities		**851**	**873**
Liabilities related to assets classified as held for sale	(4)	**100**	**82**
Total equity and liabilities		**2,138**	**2,176**

PostNL Consolidated statement of changes in equity in €million

	Issued share capital	Additional paid in capital	Currency translation reserve	Hedge reserve	Financial assets at fair value OCI	Other reserves	Retained earnings	Attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at 1 January 2019	**38**	**160**	**0**	**0**	**11**	**54**	**(217)**	**46**	**3**	**49**
Total comprehensive income				(2)	3	(9)	2	(6)		(6)
Appropriation of net income						(166)	166	0		0
Final dividend previous year	1	(1)					(48)	(48)		(48)
Share-based compensation		2				(1)		1		1
Balance at 29 June 2019	**39**	**161**		**(2)**	**14**	**(122)**	**(97)**	**(7)**	**3**	**(4)**
Balance at 1 January 2020	**40**	**160**	**0**	**(2)**	**14**	**(115)**	**(118)**	**(21)**	**3**	**(18)**
Total comprehensive income			(0)	0	(1)	20	28	47	(0)	47
Appropriation of net income						(432)	432	0		0
Share-based compensation	0	1				0		2		2
Minority buy-out and other					(6)	6		0	(1)	(1)
Balance at 27 June 2020	**40**	**161**	**1**	**(2)**	**7**	**(521)**	**342**	**28**	**2**	**31**

General information and description of our business

The interim financial statements have been prepared in accordance with IAS 34 'Interim financial reporting'.

PostNL N.V. ('PostNL' or the 'company') is a public limited liability company with its registered seat and head office in The Hague, the Netherlands.

PostNL provides businesses and consumers in the Benelux with an extensive range of services for their mail and parcels needs. Through our international sales network Spring, we connect local businesses around the world to consumers globally. PostNL's services involve collecting, sorting, transporting and delivering letters and parcels for the company's customers within specific timeframes. The company also provides services in the area of data management, direct marketing and fulfilment.

Auditor's involvement

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

Basis of preparation

The interim financial statements are reported on a year-to-date basis ending 27 June 2020. The information should be read in conjunction with the 2019 Annual Report of PostNL N.V. as published on 24 February 2020.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2019 Annual Report of PostNL N.V. for the year ended 31 December 2019. There are no IFRS standards, amended standards or IFRIC interpretations taking effect for the first time for the financial year beginning 1 January 2020 that would be expected to have a material impact on the 2020 accounts of the Group.

Note that the numbers presented in the financial statements and disclosures thereto may not sum precisely to the totals provided and percentages may not precisely reflect the absolute figures due to rounding.

Classification Nexive and Postcon

In line with PostNL's strategy to become *the* logistics and postal solutions provider in the Benelux region, PostNL has decided to divest Nexive and Postcon. On 3 August 2018, the classification criteria of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' were met. Accordingly, as of Q3 2018, Nexive and Postcon have been reported as 'held for sale' and the results and cash flows have been reported as 'discontinued operations'.

Covid-19 impact assessment

In Q2 2020, management assessed the impact of Covid-19 on all material assets and liabilities. We performed a review for impairment triggers on goodwill and other intangibles, PP&E and Right-of-Use assets. We also analysed the trade accounts receivable position and customers' payment behaviour. And last we assessed the need to make adjustments to the fair value accounted financial assets and balance sheet positions related to our non-current assets held for sale. The assessment did not reveal any need for significant negative adjustments to the accounts mentioned per HY 2020. Given the uncertainties present, management will reperform their assessment in HY2 2020.

Acquisition of Sandd

On 27 September 2019 the State Secretary of Economic Affairs cleared the merger between PostNL and Sandd. Legal appeals have been filed by a number of parties against the approval. On 11 June 2020 the court (Rechtbank Rotterdam) annulled the approval for consolidation in the Dutch postal market. The government has appealed to the court decision. PostNL has also decided to appeal. Awaiting next steps, PostNL will continue to adhere to the conditions imposed in relation to the acquisition. As we have obtained control as of the acquisition date of 22 October 2019, we have fully consolidated Sandd in our financial statements as of that date going forward.

Segment information

PostNL operates its businesses through the reportable segments Parcels, Mail in the Netherlands and PostNL Other.

The following table presents the segment information relating to the income statement and total assets and total liabilities of the reportable segments for the first six months of 2020 and 2019. In HY 2020, 89% of revenue from contracts with customers was generated in the Netherlands, 6% in the rest of Europe and 5% in the rest of the world.

PostNL Segmentation in €million

HY 2020 ended at 27 June 2020	Parcels	Mail in NL	PostNL Other	Discontinued operations	Eliminations	Total
Revenue from contracts with customers	836	645	1			1,482
Intercompany sales	90	139	49		(279)	-
Other operating revenue	4	3	0			8
Total operating revenue	**930**	**788**	**51**		**(279)**	**1,490**
Other income	(0)	1	0			1
Depreciation/impairment property, plant and equipment	(11)	(13)	(2)			(27)
Amortisation/impairment intangibles	(9)	(10)	(5)			(24)
Depreciation/impairment right-of-use assets	(17)	(14)	(7)			(38)
Total operating income	**85**	**(5)**	**(29)**			**52**
Normalised EBIT	**85**	**9**	**(26)**			**69**
Total assets	723	685	707	61		2,176
Total liabilities	507	762	795	82		2,145

HY 2019 ended at 29 June 2019	Parcels	Mail in NL	PostNL Other	Discontinued operations	Eliminations	Total
Revenue from contracts with customers	701	656				1,357
Intercompany sales	94	113	40		(247)	-
Other operating revenue	5	3				8
Total operating revenue	**800**	**772**	**40**		**(247)**	**1,365**
Other income		2				2
Depreciation/impairment property, plant and equipment	(12)	(13)	(2)			(27)
Amortisation/impairment intangibles	(4)	(7)	(5)			(16)
Depreciation/impairment right-of-use assets	(14)	(7)	(7)			(28)
Total operating income	**52**	**33**	**(26)**			**59**
Normalised EBIT	**52**	**33**	**(16)**			**69**
Total assets at 31 December 2019	714	727	632	65		2,138
Total liabilities at 31 December 2019	497	832	743	84		2,156

The key financial performance indicator for management of the reportable segments is normalised EBIT. Normalised EBIT is derived from the IFRS-based performance measure operating income adjusted for the impact of project costs and incidentals. Normalised EBIT is reported on a monthly basis to the chief operating decision-makers.

Notes to the consolidated interim financial statements

1. Intangible assets

in € million	HY 2019	HY 2020
Balance at 1 January	**212**	**364**
Additions	14	13
Amortisation and impairments	(16)	(24)
Balance at end of period	**210**	**353**

At HY 2020, the intangible assets of €353 million consist of goodwill for an amount of €225 million and other intangible assets for an amount of €128 million. Goodwill resulted from acquisitions in the past in the segments Mail in the Netherlands (€192 million) and Parcels (€33 million).

The additions to the intangible assets of €13 million mainly relate to software. In HY 2020, an impairment of €4 million was recorded related to the customer list of PS Nachtdistributie, triggered by a material deviation in the actual and expected revenues and EBITDA development compared to the expectations applied in the purchase price allocation valuation at acquisition in 2017. In HY 2019, an impairment of €2 million was recorded relating to software from Stockon. In HY 2020, amortisation costs included an amount of €1 million for the accelerated write-down of related assets from Sandd.

2. Property, plant and equipment

in € million	HY 2019	HY 2020
Balance at 1 January	**494**	**414**
Transfers to right-of-use assets at 1 January	(37)	
Additions	20	11
Acquisitions of subsidiaries	1	0
Disposals	(2)	(1)
Depreciation and impairments	(27)	(27)
Balance at end of period	**449**	**398**

The additions of €11 million in HY 2020 related for €4 million to new sorting and delivery centres within Parcels. The remainder relates to various other investments. In HY 2020, depreciation costs included an amount of €2 million for the accelerated write-down of related assets from Sandd.

3. Leases

As a result of the adoption of IFRS 16 an amount of €132 million of right-of-use assets and liabilities is included in the balance sheet as of 1 January 2019. Further, an amount of €37 million was transferred from property, plant and equipment to right-of-use assets of which €27 million relates to finance leases and €10 million to capitalised leasehold rights and ground rent contracts.

Right-of-use assets

in € million	HY 2019	HY 2020
Balance at 1 January		**259**
Operating leases at 1 January	132	
Finance leases transferred from PP&E at 1 January	27	
Leasehold rights and ground rents transferred from PP&E at 1 January	10	
New leases	39	19
Depreciation and impairments	(28)	(38)
Disposals		(1)
Balance at end of period	**180**	**239**

The new leases of €19 million in HY 2020 mainly relate to replacement/expansion of vans and trucks. In HY 2019, the new leases included a new sorting and delivery centre within Parcels. In HY 2020, the depreciation costs included an amount of €9 million for the accelerated write-down of related assets from Sandd.

Lease liabilities

in € million	31 Dec 2019	27 Jun 2020
Long-term lease liabilities	201	189
Short-term lease liabilities	63	59
Total	**264**	**249**

In HY 2020, repayments of lease liabilities amounted to €35 million (HY 2019: €27 million).

4. Assets classified as held for sale

At 27 June 2020, assets classified as held for sale amounted to €70 million (31 December 2019: €91 million) and related for €10 million to buildings held for sale in the Netherlands (31 December 2019: €10 million) and for €61 million to Nexive (31 December 2019: €65 million). The liabilities related to assets classified as held for sale of €82 million related to Nexive (31 December 2019: €84 million). At 31 December 2019, the remaining part of these balance sheet positions related to Spotta.

Nexive and Postcon

On 5 August 2019, PostNL announced that it had signed an agreement on the sale of Postcon's activities to Quantum Capital Partners. The transaction closed on 31 October 2019. As part of the transaction, the parties agreed on an earnout arrangement with a range of between €0 and €12 million.

On 24 February 2020, PostNL announced that it had signed an agreement on the sale of 80% of the activities of Nexive to Mutares SE & Co KGaA. PostNL obtained a minority interest of 20% in the entity acquiring the Nexive business. As part of the transaction, PostNL agreed to commit to a cash contribution. The transaction closed on 1 July 2020. The transaction value, including the cash contribution, has been appropriately reflected in the estimated fair value as at 27 June 2020.

The following table presents financial performance and cash flow information for the discontinued operations for the first half of 2019 and 2020.

Financial performance and cashflow

in € million	HY 2019	HY 2020
Revenues	373	91
Expenses	(383)	(107)
Operating income	**(10)**	**(16)**
Results from investments in JVs/associates	(1)	-
Income taxes		(0)
Profit/(loss) after taxes	**(11)**	**(16)**
Impairment to fair value less costs to sell	(27)	12
Profit/(loss) from discontinued operations	**(38)**	**(5)**
Net cash from operating activities	11	(8)
Net cash used in investing activities	2	1
Net cash used in financing activities	(6)	(3)
Changes in cash and cash equivalents	**7**	**(11)**

In HY 2020, the result from discontinued operations of €(5) million includes a negative business result, a positive fair value adjustment, increased costs of disposal and a consolidation effect with continuing operations. The fair value adjustment of €12 million includes a positive tax effect of €8 million. The fair value measurement is based on inputs not based on observable market data (level 3).

The following table presents the carrying amounts of assets and liabilities (excluding equity and intercompany balances) at 31 December 2019 and 27 June 2020, both of Nexive only.

Condensed balance sheet

in € million	31 Dec 2019	27 Jun 2020
Total non-current assets	16	16
Trade accounts receivable	7	9
Other current assets	35	35
Cash and cash equivalents	7	1
Total assets	**65**	**61**
Provisions	9	10
Long-term liabilities	15	16
Trade accounts payable	34	26
Other current liabilities	26	30
Total liabilities	**84**	**82**

At 27 June 2020, the main part of the provisions of €10 million (31 December 2019: €9 million) related to the unfunded defined benefit plan Trattamento di Fine Rapporto of €6 million (31 December 2019: €7 million).

As a specific contingent tax liability, per HY 2020 a tax dispute exists relating to the years 2012, 2013 and 2014 which can be estimated, using a probability-weighted assessment, at €11 million. Although we believe, supported by external advice, that this risk is in the low possibility range (20%-30%), the outcome of the matter will depend upon the result of any negotiations with the relevant tax authorities and the outcome of related litigation. Furthermore, it is uncertain whether comparable tax disputes will arise for the years as from 2015 onwards.

5. Pensions

In HY 2020, the provision for pension liabilities decreased by €5 million.

in € million	HY 2019	HY 2020
Balance at 1 January	**296**	**283**
Operating expenses	53	67
Interest expenses	3	1
Employer contributions and early retirement payments	(46)	(47)
Actuarial losses/(gains)	11	(26)
Balance at end of period	**317**	**278**

Under IAS 19, the pension provision is updated quarterly for changes in the discount rate, long term expected benefit increases and actual return on plan assets. Compared to year-end 2019, both the IAS 19 discount rate and the long-term expected benefit increases assumption decreased from 0.9% to 0.8%. The changed financial assumptions resulted in an actuarial gain on the defined benefit obligation. The return on plan assets was lower than assumed. The total effect in HY 2020 on the net pension position was a gain of €26 million (HY 2019: loss of €11 million). Within OCI, the pension impact net of tax in HY 2020 amounted to €20 million (HY 2019: €(9) million).

During the first half of 2020 the 12-month average coverage ratio of the main fund, decreased to 105.7% from 110.6% as at 31 December 2019. The month-end coverage ratio decreased to 102.5% from 113.4% as at 31 December 2019. Taking into account the resilience of the fund, no top-up payment obligation is expected.

The expenses for defined contribution plans in HY 2020 were €7 million (HY 2019: €7 million).

6. Equity

During HY 2020, consolidated equity attributable to the equity holders of the parent increased from €(21) million at 31 December 2019 to €28 million at 27 June 2020. The increase of €49 million in HY 2020 is primarily explained by the profit for the period of €28 million and the positive impact of pensions within OCI of €20 million.

in million	HY 2019	FY 2019	HY 2020
Number of issued and outstanding shares	**485.2**	**494.0**	**495.0**
of which held by the company	0.0	0.0	0.0
Year-to-date average number of ordinary shares	**473.7**	**482.6**	**494.3**
Year-to-date diluted number of ordinary shares		0.9	-
Year-to-date average number of ordinary shares on a fully diluted basis	**473.7**	**483.5**	**494.3**

In May 2020, PostNL issued 1,038,803 ordinary shares for the settlement of its incentive schemes, increasing the issued share capital and additional paid-in capital by €1 million in total. As a result, the number of issued and outstanding shares increased from 494.0 million at 31 December 2019 to 495.0 million at 27 June 2020.

7. Adjusted net debt

in € million	31 Dec 2019	27 Jun 2020
Short- and long-term debt	**696**	**695**
Long term interest bearing assets	(6)	(6)
Cash and cash equivalents	(480)	(573)
Net debt	**210**	**116**
Pension liabilities	283	278
Lease liabilities (on balance)	264	249
Lease liabilities (off balance)	51	45
Deferred tax assets on pension and operational lease liabilities	(72)	(73)
Adjusted net debt	**736**	**614**

At 27 June 2020, the adjusted net debt position amounted to €614 million. Compared to 31 December 2019, the improvement of €122 million was mainly explained by the positive cash flow during HY 2020 (refer to note 10).

8. Provisions

Provisions consist of long term and short term provisions for restructuring, claims and indemnities and other employee benefits. In HY 2020, provisions decreased by €28 million.

in € million	HY 2019	HY 2020
Balance at 1 January	**40**	**79**
Additions	5	11
Withdrawals	(9)	(34)
Releases	(3)	(6)
Balance at end of period	**33**	**51**

The additions of €11 million in HY 2020 mainly related to cost saving programmes within operations Mail Netherlands (€2 million) and Cross Border Solutions (€2 million), Sandd related cases (€4 million) and other employee benefit obligations (€2 million).

The withdrawals of €34 million in HY 2020 related mainly to the execution of the restructuring programme and settlement of onerous contracts within Sandd (€30 million) and payment of other employee benefit obligations (€2 million).

The releases of €6 million in HY 2020 mainly related to changes in cost savings programmes (€2 million) and various other provisions.

9. Taxes

Effective Tax Rate	HY 2019	HY 2020
Dutch statutory tax rate	25.0%	25.0%
Other statutory tax rates	0.1%	-0.1%
Average statutory tax rate	**25.1%**	**24.9%**
Non/partly deductible costs	4.4%	2.5%
Exempt income	-0.1%	-1.9%
Other	-6.3%	0.4%
Effective tax rate	**23.1%**	**25.9%**

The tax expense in PostNL's statement of income in HY 2020 amounted to €11 million (HY 2019: €12 million), or 25.9% (HY 2019: 23.1%) of the profit/(loss) before income taxes of €44 million (HY 2019: €52 million).

In HY 2020, the line Non/partly deductible costs (2.5%) included costs in connection with the acquisition of Sandd. The line Exempt income (-1.9%) consisted mainly of a one-off result from a former participation. In HY 2019, the line Other (-6.3%) mainly related to the recognition of deferred tax assets in relation to tax losses.

Income taxes paid in HY 2020 amounted to €8 million (HY 2019: €43 million) and included predominantly Dutch payments and refunds related to prior years.

Per HY 2020, the deferred tax asset related to the Dutch tax credit potential upon realising (liquidation) losses in connection with the sale of the Nexive and Postcon businesses amounted to €82 million (FY 2019: €73 million).

10. Cash flow statement

Net cash from operating activities increased from €39 million in HY 2019 to €144 million in HY 2020. Cash generated from operations increased by €70 million and income taxes paid decreased by €35 million. The increase in cash generated from operations of €70 million was mainly due to a positive change in working capital (€65 million) and higher operational (cash) results, partly offset by higher cash out from other provisions (€25 million).

Net cash used in investing activities decreased by €4 million to €(10) million in HY 2020 from €(14) million in HY 2019, mainly due to lower capital expenditure of €5 million in HY 2020.

Net cash used in financing activities amounted to €(37) million in HY 2020 (HY 2019: €(76) million) and mainly related to repayments of lease liabilities of €35 million (HY 2019: €27 million). In HY 2019 the payment of the 2018 final dividend amounted to €48 million.

11. Labour force

Headcount	31 Dec 2019	27 Jun 2020
Parcels	7,027	7,369
Mail in the Netherlands	37,966	32,186
PostNL Other	1,310	1,255
Total	**46,303**	**40,810**

The number of employees working at PostNL at 27 June 2020 was 40,810, is a decrease of 5,493 compared to 31 December 2019. This decrease is mainly the result of the restructuring programmes within Sandd within Mail in the Netherlands, partly offset by an increase due to business growth within Parcels.

Average FTE's	HY 2019	HY 2020
Parcels	5,310	5,914
Mail in the Netherlands	13,796	15,386
PostNL Other	1,228	1,187
Total	**20,334**	**22,488**

The average number of full time equivalents (FTEs) working at PostNL during the first six months of 2020 was 22,488. The increase of 2,154 compared to the same period last year is mainly related to the acquisition of Sandd and business growth within Parcels.

12. Financial instruments

The fair value of financial instruments is based on foreign exchange and interest rate market prices, if applicable. PostNL uses derivative financial instruments solely for the purpose of hedging currency and interest exposure. PostNL uses commonly practised fair value valuation methods for its derivatives. The valuations represent a best approximation of the trading value of these derivatives at their valuation moment. The derivatives within the financial instruments are grouped within level 2 of the fair value measurement hierarchy.

The carrying value of PostNL's outstanding Eurobonds is measured at amortised cost and amounted to €695 million at 27 June 2020 (31 December 2019: €695 million). The fair value of the outstanding Eurobonds amounted to €700 million at 27 June 2020 (31 December 2019: €711 million). The outstanding Eurobonds are all at fixed interest rates.

The investments in financial assets at fair value through OCI of €15 million at 27 June 2020 (31 December 2019: €15 million) relate to investments in equity shares of non-listed companies. In HY 2019, PostNL divested part of its stake in Whistl, a transaction that positively impacted the fair value of the remaining share by €3 million recorded in OCI.

The fair value of the other financial instruments approximates the carrying amount of these assets and liabilities.

13. Related parties

During HY 2020, purchases by PostNL from and sales to joint ventures and associated companies amounted to €0 million (HY 2019: €0 million). The net amounts due to joint ventures and associated companies amounted to €0 million (HY 2019: €0 million).

14. Subsequent events

On 2 July 2020, PostNL announced it had completed the sale of 80% of the activities of Nexive, the number-two mail and parcels provider in Italy, to Mutares SE & Co KGaA. PostNL has obtained a minority interest of 20% in the entity acquiring the Nexive business. As part of the transaction, PostNL has agreed to commit to a cash contribution. The transaction value, including the cash contribution, has been appropriately reflected in the estimated fair value at 27 June 2020.

Reporting responsibilities and risks

Board of Management compliance statement

In conjunction with the EU Transparency Directive as incorporated in the Dutch Financial Markets Supervision Act (Wet op het Financieel Toezicht) the Board of Management confirms to the best of its knowledge that:

- The consolidated interim financial statements for the six months ended 27 June 2020 give a true and fair view of the assets, liabilities, financial position and profit or loss of PostNL N.V. and its consolidated companies, and
- The interim report of the Board of Management gives a true and fair view of the information required pursuant to section 5:25d(8)/(9) of the Dutch Financial Markets Supervision Act (Wet op het Financieel Toezicht).

Herna Verhagen – Chief Executive Officer

The Hague, 3 August 2020

Pim Berendsen – Chief Financial Officer

Risks

Understanding strategic, operational, legal and regulatory, and financial risks, including risks relating to corporate responsibility, is a vital element of our management's decision-making process. Management reviewed the risks regularly throughout the first half year of 2020 and will continue to do so during 2020. PostNL's risk management and control programme is to be considered as a process to further support management. No matter how comprehensive a risk management and control system may be, it cannot be assumed to be exhaustive, nor can it provide certainty that it will prevent negative developments from occurring in its business and business environment or that risk responses will be fully effective.

It is important to note that new, unknown and/or unforeseen risks may be identified and/or occur. PostNL will react to changes in our risk profile and/or risk responses with due care and we will continuously analyse possible alternatives that may be included in our risk management and control framework.

Notwithstanding the above, any of the disclosed risks both individually and/or in aggregate, could have a material adverse effect on PostNL's financial position, results of operations, liquidity, solvency and the actual outcome of matters referred to in the forward-looking statements contained in this half year report.

The Board of Management has reviewed PostNL's risk profile and confirms that the key risks originally disclosed in Chapter 14 of the 2019 PostNL N.V. Annual Report (pages 90 - 98) have been updated and will continue to require focused and decisive management attention in the second half of 2020. With reference to the disclosure in the Annual Report 2019, the risks which have the highest risk level are: competition, substitution, regulatory requirements, and execution of cost savings initiatives.

Additionally, the Board of Management is of the view that considering the annually updated strategic plan and forecasts, in the current situation, it is justified that PostNL's financial reporting has been prepared on a going concern basis and that the Annual Report 2019 states those material risks and uncertainties that are relevant for the expectation of PostNL's continuity for the period of twelve months after the preparation of the Annual Report. This, however, does not imply that PostNL can provide certainty as to the realisation of strategic business and financial objectives.

More details on how PostNL deals with risk management can be found in our Annual Report 2019, Chapter 14 Risk management.