Results PostNL Q2 & HY 2019

The Hague, 5 August 2019

Underlying cash operating income increased by €8 million to €41 million in Q2 2019

Financial highlights Q2 2019

- Revenue increased to €681 million (Q2 2018: €666 million)
- Underlying cash operating income grew to €41 million (Q2 2018: €33 million)
- Profit from continuing operations increased to €25 million (Q2 2018: €9 million)
- Net cash from/(used in) operating and investing activities improved to €21 million (Q2 2018: €(45) million)
- 51% of our revenue in HY 2019 related to e-commerce

Operational highlights Q2 2019

- 13% volume growth in Parcels
- Addressed mail volume declined by 9.0%; adjusted decline 9.8% (corrected for one extra working day)
- Delivery quality stable at 95%
- €12 million in cost savings achieved, continuing run-rate

Interim dividend announced and outlook 2019 reiterated

- 2019 Interim dividend set at €0.08 per share
- Expected full-year 2019 underlying cash operating income reiterated at between €170 million and €200 million

Postcon

- Agreement reached to sell Postcon business, closing expected before year-end 2019

Intended consolidation

- Second phase investigation by ACM in progress

CEO statement

Herna Verhagen, CEO of PostNL: “Underlying cash operating income increased to €41 million in Q2 and we confirm our outlook for 2019. In line with our dividend policy and taking into account our financial results in HY 2019, we have set the interim dividend for 2019 at €0.08 per share. In the first half of 2019, 51% of our revenue came from activities related to e-commerce.

Executing our strategy to focus on our core markets in the Benelux region, we made good progress with the divestment processes of Nexive and Postcon. This morning we announced that we have reached agreement to sell the activities of Postcon. We expect to complete the transaction before year-end 2019.

We are currently awaiting the ACM’s final decision on the intended consolidation by combining the postal networks of PostNL and Sandd. If ACM does not grant a licence for consolidation, the parties intend to ask the State Secretary for Economic Affairs for approval based on material grounds of general importance as defined in Article 47 of Dutch competition law.”

Results PostNL Q2 & HY 2019

Key figures

in € million, except where noted	Q2 2018	**Q2 2019**	% Change	HY 2018	**HY 2019**	% Change
Revenue	666	**681**	*2%*	1,340	**1,365**	*2%*
Operating income	21	**37**	*76%*	61	**59**	*-3%*
Underlying operating income	40	**39**	*-3%*	81	**69**	*-15%*
Changes in pension liabilities	3	**3**		7	**7**	
Changes in provisions	(10)	**(1)**		(23)	**(4)**	
Underlying cash operating income	33	**41**	*24%*	65	**72**	*11%*
Underlying cash operating income margin	5.0%	**6.0%**		4.9%	**5.3%**	
Profit from continuing operations	9	25		32	40	
Net cash from/(used in) operating and investing activities	(45)	**21**		(34)	**25**	

Note: underlying figures exclude one-offs in Q2 2019 (€2 million for project costs) and in Q2 2018 (€2 million for restructuring and €17 million for project costs, impairment PPE, settlements and elimination of intercompany results from discontinued operations)

Business performance Q2 2019

	Revenue		Underlying operating income		Underlying cash operating income	
in € million	Q2 2018	**Q2 2019**	Q2 2018	**Q2 2019**	Q2 2018	**Q2 2019**
Parcels	373	402	32	31	31	30
Mail in the Netherlands	400	380	18	16	6	13
PostNL Other	19	19	(10)	(8)	(4)	(2)
Intercompany	(126)	(120)				
PostNL	**666**	**681**	**40**	**39**	**33**	**41**

Note: underlying figures exclude one-offs

Segment information Q2 2019

Parcels – continued volume and revenue growth, performance impacted by Spring's declining result

PostNL's aim in Parcels Benelux is to further improve volume growth, profitability and cash conversion. The first positive developments in price/mix are visible in a better balance between volume and value. In May, we opened a new sorting centre and we plan to have two more operational later this year. We are continuing to improve utilisation at the current locations and are seeing efficiency gains due to higher drop duplication.

Volumes continued to show good growth, with 13% up compared to Q2 2018. 2B and 2C volumes in Parcels Benelux increased, benefiting from the ongoing positive trend in e-commerce, with slightly lower growth in some customer segments in this quarter.

Revenue increased to €402 million (Q2 2018: €373 million), with volume development at Parcels Benelux as the main driver for revenue growth. Additionally, we saw growth at Logistics. At Spring, the competitive landscape, especially in Asia, remained fierce and was impacted by global macroeconomic pressures.

In Q2, business performance at Parcels Benelux improved by €1 million. This reflected the impact of volume growth of €10 million, partly offset by a negative price/mix effect of €3 million. Organic cost increased, mainly relating to CLA and indexations, amounted to €4 million. We also faced additional costs of €2 million, including implementation costs for the expansion of the infrastructure, partly compensated by further operational efficiencies. Other performance was down €2 million, mainly due to a declining result at Spring of €3 million which was partly offset by an improvement at Logistics. Underlying cash operating income came in at €30 million (Q2 2018: €31 million).

Mail in the Netherlands – good financial result, supported by lower cash out for pensions and provisions

Addressed mail volumes at Mail in the Netherlands declined by 9.0% in the quarter. The main driver for the decline is ongoing high substitution and, to a lesser extent, a shift of volumes to competitors. Overall, the main trends in Mail in the Netherlands continued, such as volume decline and the tight labour market, as we saw in the first quarter and also in 2018. Delivery quality remained stable at 95%.

Revenue fell 5% to €380 million although we benefited from a better product mix in the quarter. Underlying cash operating income increased to €13 million (Q2 2018: €6 million). The negative volume/price/mix effect of €8 million and autonomous cost increases of €6 million were not fully offset by cost savings of €8 million. The result was supported by significantly less cash-out for pensions and provisions (€9 million) and other effects of €4 million.

Cost savings plans: €12 million in cost savings achieved

We achieved €12 million in structural cost savings this quarter. Implementation of the "Combibundel" and the code sorting process were completed, resulting in a more efficient process. This quarter also saw further reductions in line management and overheads according to plan.

In June, implementation of the New mail route started, a step change towards adjusting our organisation to future volume decline. Sorting and delivery operations are shifting towards an equal flow model to better use resources and to enable us to provide prepared mail bags to our deliverers earlier. In the future, the routes will be extended so as to allow us to offer our people contracts with more hours. Our product portfolio for non-time-critical mail has been adapted to enable delivery of this mail over two consecutive days. Although the shift towards an equal flow model is complex, so far the transition has been well-managed and is progressing according to plan. The New mail route is expected to contribute to the cost savings from 2020 onwards.

This year's total cost savings are expected to come in at between €45 million and €65 million.

Process towards consolidation

The approval process towards the intended consolidation of networks in the Dutch postal market is in progress. The first step in the formal process ended with the decision by the Authority for Consumers and Markets (ACM) that a licence is necessary for an approval of consolidation. PostNL and Sandd have filed a request for such a licence, but ACM has not yet reached a decision. In the event that ACM does not approve the intended transaction, the parties intend to request approval in accordance with Article 47 of Dutch competition law.

PostNL Other

Revenue at PostNL Other was flat at €19 million (Q2 2018: €19 million). Underlying cash operating income came in at €(2) million mainly on the back of cost savings, offset by autonomous cost increases.

Pensions

Pension expense (excluding interest costs) in Q2 2019 amounted to €30 million (Q2 2018: €32 million) and total cash contributions were €27 million (Q2 2018: €29 million). In Q2 2019, the net actuarial loss on pensions was €3 million. At the end of Q2 2019, the main pension fund's 12-month average coverage ratio was 114.2%, well above the minimum required funding level of 104.0%. On 30 June 2019, the main pension fund's actual coverage ratio was 110.1% reflecting the impact of declining interest rates.

Discontinued operations

The result from discontinued operations was €(29) million (Q2 2018: €(10) million) and includes a fair value adjustment and a negative business result.

Financial and equity position

Total equity attributable to equity holders of the parent decreased to €(7) million as of 29 June 2019, from €46 million as the end of Q1 2019. Profit from continuing operations of €25 million was more than offset by the impact of the pay-out of final dividend over 2018, which resulted in a cash payment of €48 million, a negative result of €29 million from discontinued operations and a net actuarial loss on pensions of €3 million.

Net cash from operating and investing activities in Q2 2019 was €21 million (Q2 2018: €(45) million), an improvement of €66 million. Both capex and investments in working capital were significantly less than in Q2 2018. The improvement includes an IFRS 16 effect of €14 million. At the end of Q2 2019, the adjusted net debt position amounted to €702 million, which compares to an adjusted net debt position of €621 million at the end of Q1 2019. PostNL is monitoring capital markets for a new debt arrangement.

Outlook 2019

The e-commerce market is expected to continue its strong growth and will remain the main driver of the performance in Parcels. We focus on the growth potential of our business by improving the balance between volume, profitability and cash flow. We expect improving operational efficiency, partly offset by the impact from the tight labour and transport market. We will continue to expand our network by opening three new sorting centres in 2019. To solidify our position as the leading e-commerce logistics company in the Benelux region, we will also further develop our service propositions, for example in growth areas such as food and health.

In Mail in the Netherlands we expect our addressed mail volumes to decline by 8% to 10% in 2019 partly offset by price increases. An important project is the switch to an equal flow model, a step change in business model that enables us to adapt the organisation to future volume declines. We expect cost savings of between €45 million and €65 million. Based on the new draft decision on Significant Market Power, the expected impact from ACM measures is between €50 million and €70 million on an annualised basis, fully visible in 2021 if the draft decision becomes final. The ACM has not yet taken a decision on Significant Market Power.

For 2019, the outlook for underlying cash operating income is between €170 million and €200 million.

	Revenue		Underlying cash operating income / margin			Compares to Normalised EBIT / margin
in € million	2018	Outlook 2019	2018		Outlook 2019	
Parcels	1,555	+ low teens	117	(7.5%)	7.5%-9.5%	7.5%-9.5%
Mail in the Netherlands	1,678	- mid single digit	93	(5.5%)	3%-5%	3%-5%
PostNL Other / eliminations	(461)		(22)			Δ ~(15)
Total	**2,772**	**+ low single digit**	**188**		**170-200**	**155-185**

- normalised EBIT as new key metric for profitability as of 2020 (comparative numbers for 2019)
- reflection of business performance; one-off and significant non-business related items are excluded and explained
- normalisations in EBIT equal to underlying items in UCOI for 2019 except for restructuring-related costs
- difference between UCOI and normalised EBIT visible in PostNL Other, mainly due to pensions
- closing of the intended transaction with Sandd in Q4 2019 could impact underlying cash operating income in 2019 by €25 million - €35 million, depending on timing

2019 Interim dividend

The 2019 interim dividend has been set at €0.08 per ordinary share, equalling one-third of the dividend over 2018. The dividend will be paid, at the choice of the shareholder, either in ordinary PostNL shares or in cash, which is the default option. The dividend in shares will be paid out of additional paid-in capital as part of the distributable reserves, free of withholding tax in the Netherlands. The conversion rate will be based on the volume-weighted average share price for all PostNL shares traded on Euronext Amsterdam over the period of three trading days from 21 August up to and including 23 August 2019. The value of the stock dividend, based on this VWAP, will, subject to rounding, be targeted at but not be lower than the cash dividend. There will be no trading in stock dividend rights.

2019 Interim dividend calendar

7 August 2019	Ex-dividend date
8 August 2019	Record date
9 - 23 August 2019 (3.00 PM CET)	Election period
26 August 2019	Announcement conversion rate
27 August 2019	Payment date

Financial calendar

4 November 2019	Publication of Q3 2019 results
24 February 2020	Publication of Q4 & FY 2019 results
14 April 2020	2020 Annual General Meeting of Shareholders

Working days by quarter

	Q1	Q2	Q3	Q4	Total
2018	64	61	65	64	254
2019	**63**	**62**	**65**	**65**	**255**

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Audio webcast and conference call on Q2 2019 results

On 5 August 2019, at 11.00 CET, a conference call for analysts and investors will start. This can be followed live via an audio webcast at **www.postnl.nl**.

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.

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 PostNL’s 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 PostNL operates and management's beliefs and assumptions about possible future events. You are cautioned not to put undue reliance on these forward-looking statements, which are only valid as of the date of this press release and are neither predictions nor guarantees of possible future events or circumstances. PostNL does 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 underlying cash operating income. The underlying cash operating performance focuses on the underlying cash earnings performance, which is the basis for PostNL’s dividend policy. In the analysis of the underlying cash operating performance, adjustments are made for non-recurring and exceptional items as well as adjustments for non-cash costs for pensions and provisions. For pensions, the IFRS-based defined benefit plan pension expenses are replaced by the non-IFRS measure of the actual cash contributions for such plans. For the other provisions, the IFRS-based net charges are replaced by the related cash outflow. As of 2020, 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. Aside from adjustments for restructuring-related costs, all currently adjusted non-recurring and exceptional items within underlying cash operating income are also normalisations within normalised EBIT.

Results PostNL Q2 & HY 2019

Consolidated interim financial statements

Consolidated income statement

in € million	note	Represented Q2 2018	Q2 2019	Represented HY 2018	HY 2019
Revenue from contracts with customers		663	677	1,333	1,357
Other operating revenue		3	4	7	8
Total operating revenue		**666**	**681**	**1,340**	**1,365**
Other income		3	1	7	2
Cost of materials		(14)	(16)	(32)	(33)
Work contracted out and other external expenses		(310)	(310)	(624)	(625)
Salaries, pensions and social security contributions		(255)	(255)	(507)	(520)
Depreciation, amortisation and impairments		(22)	(36)	(41)	(71)
Other operating expenses		(47)	(28)	(82)	(59)
Total operating expenses		**(648)**	**(645)**	**(1,286)**	**(1,308)**
Operating income		**21**	**37**	**61**	**59**
Interest and similar income		1	1	2	2
Interest and similar expenses		(9)	(5)	(18)	(9)
Net financial expenses		**(8)**	**(4)**	**(16)**	**(7)**
Results from investments in JVs/associates		0	0	0	0
Profit/ (loss) before income taxes		**13**	**33**	**45**	**52**
Income taxes	(9)	(4)	(8)	(13)	(12)
Profit/ (loss) from continuing operations		**9**	**25**	**32**	**40**
Profit/(loss) from discontinued operations	(4)	(10)	(29)	(19)	(38)
Profit for the period		**(1)**	**(4)**	**13**	**2**
Attributable to:					
Non-controlling interests					
Equity holders of the parent		(1)	(4)	13	2
Earnings per ordinary share (in €cents) [1]		(0.3)	(0.9)	2.8	0.4
Earnings from continuing operations per ordinary share (in €cents) [1]		1.9	5.2	7.0	8.4
Earnings from discontinued operations per ordinary share (in €cents) [1]		(2.2)	(6.1)	(4.2)	(8.0)

1 Based on an average of 473,721,190 outstanding ordinary shares (2018: 456,477,627).

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 2019 amounted to €37 million (Q2 2018: €18 million) and in HY 2019 to €58 million (HY 2018: €56 million). Likewise, excluding this effect, profit/(loss) from discontinued operations in Q2 2019 amounted to €(29) million (Q2 2018: €(7) million) and in HY 2019 €(37) million (HY 2018: €(14) million).

Consolidated statement of comprehensive income

in € million	note	Represented Q2 2018	Q2 2019	Represented HY 2018	HY 2019
Profit for the period		**(1)**	**(4)**	**13**	**2**
Other comprehensive income that will not be reclassified to the income statement					
Impact pensions, net of tax	(5)	2	(3)	11	(9)
Change in value of financial assets at fair value through OCI	(12)		3		3
Other comprehensive income that may be reclassified to the income statement					
Currency translation adjustment, net of tax		0	0	0	0
Gains/(losses) on cashflow hedges, net of tax		0	(1)	1	(2)
Total other comprehensive income for the period		**2**	**(1)**	**12**	**(8)**
Total comprehensive income for the period		**1**	**(5)**	**25**	**(6)**
Attributable to:					
Non-controlling interests					
Equity holders of the parent		1	(5)	25	(6)
Total comprehensive income attributable to the equity holders of the parent arising from:					
Continuing operations		11	24	44	32
Discontinued operations		(10)	(29)	(19)	(38)

Consolidated statement of cash flows

in € million	note	Represented Q2 2018	Q2 2019	Represented HY 2018	HY 2019
Profit/(loss) before income taxes		**13**	**33**	**45**	**52**
Adjustments for:					
Depreciation, amortisation and impairments		22	36	41	71
Share-based payments				1	1
(Profit)/loss on disposal of assets		(2)	(1)	(6)	(2)
Interest and similar income		(1)	(1)	(2)	(2)
Interest and similar expenses		9	5	18	9
Results from investments in JVs/associates		0	0	0	0
Investment income		**6**	**3**	**10**	**5**
Pension liabilities		3	3	7	7
Other provisions		(2)	(2)	(13)	(7)
Changes in provisions		**1**	**1**	**(6)**	**0**
Inventory		1	(2)		(1)
Trade accounts receivable		13	(9)	29	35
Other accounts receivable		(1)		15	(1)
Other current assets excluding taxes		8	35	9	10
Trade accounts payable		(11)	(11)	(21)	(14)
Other current liabilities excluding short-term financing and taxes		(79)	(56)	(78)	(72)
Changes in working capital		**(69)**	**(43)**	**(46)**	**(43)**
Cash generated from operations		**(27)**	**30**	**45**	**86**
Interest paid		(2)	(2)	(4)	(4)
Income taxes received/(paid)	(9)	8		(39)	(43)
Net cash (used in)/from operating activities	(10)	**(21)**	**28**	**2**	**39**
Interest received		1	1	2	2
Acquisition of subsidiairies (net of cash)					(1)
Investments in JVs/associates		(1)		(1)	
Capital expenditure on intangible assets		(9)	(8)	(14)	(14)
Capital expenditure on property, plant and equipment		(22)	(7)	(34)	(11)
Proceeds from sale of property, plant and equipment		7	2	11	5
Other changes in (financial) fixed assets			5		5
Net cash (used in)/from investing activities	(10)	**(24)**	**(7)**	**(36)**	**(14)**
Dividends paid		(47)	(48)	(47)	(48)
Repayments of short-term borrowings			(1)		(1)
Repayments of lease liabilities			(14)		(27)
Net cash (used in)/from financing activities	(10)	**(47)**	**(63)**	**(47)**	**(76)**
Total change in cash from continuing operations		**(92)**	**(42)**	**(81)**	**(51)**
Cash at the beginning of the period		**627**	**253**	**645**	**269**
Cash transfers to discontinued operations		(15)	3	(15)	(4)
Total change in cash from continuing operations		(92)	(42)	(81)	(51)
Total change in cash from discontinued operations		(11)		(40)	
Cash at the end of the period		**509**	**214**	**509**	**214**
Total change in cash from discontinued operations	(4)	**(11)**	**20**	**(40)**	**7**

Results PostNL Q2 & HY 2019

Consolidated statement of financial position

in € million	note	31 December 2018	29 June 2019
ASSETS			
Non-current assets			
Intangible fixed assets			
Goodwill		97	97
Other intangible assets		115	113
Total	(1)	**212**	**210**
Property, plant and equipment			
Land and buildings		322	289
Plant and equipment		155	130
Other		12	13
Construction in progress		5	17
Total	(2)	**494**	**449**
Right-of-use assets	(3)		180
Financial fixed assets			
Investments in joint ventures/associates		3	3
Other loans receivable		6	6
Deferred tax assets		66	48
Financial assets at fair value through OCI		17	15
Total		**92**	**72**
Total non-current assets		**798**	**911**
Current assets			
Inventory		5	6
Trade accounts receivable		313	279
Accounts receivable		12	13
Income tax receivable		2	25
Prepayments and accrued income		99	86
Cash and cash equivalents	(7)	269	214
Total current assets		**700**	**623**
Assets classified as held for sale	(4)	200	196
Total assets		**1,698**	**1,730**
LIABILITIES AND EQUITY			
Equity			
Equity attributable to the equity holders of the parent	(6)	46	(7)
Non-controlling interests		3	3
Total		**49**	**(4)**
Non-current liabilities			
Deferred tax liabilities		31	0
Provisions for pension liabilities	(5)	296	317
Other provisions	(8)	19	20
Long-term debt	(7)	398	398
Long-term lease liabilities	(7)	22	122
Accrued liabilities		4	3
Total		**770**	**860**
Current liabilities			
Trade accounts payable		146	133
Other provisions	(8)	21	13
Short-term debt	(7)	1	9
Short-term lease liabilities	(7)	3	48
Other current liabilities		126	134
Income tax payable		3	1
Contract liabilities		80	51
Accrued current liabilities		378	336
Total		**758**	**725**
Liabilities related to assets classified as held for sale	(4)	121	149
Total equity and liabilities		**1,698**	**1,730**

Consolidated statement of changes in equity in € million	Issued share capital	Additional paid in capital	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 31 December 2017	**36**	**160**	**(1)**	**0**	**74**	**(235)**	**34**	**3**	**37**
Total comprehensive income			1		11	13	25		25
Appropriation of net income					(48)	48	0		0
Final dividend previous year	1	(1)				(47)	(47)		(47)
Share-based compensation	0	2			(1)		1		1
Balance at 30 June 2018	**37**	**161**	**0**	**0**	**36**	**(221)**	**13**	**3**	**16**
Balance at 31 December 2018	**38**	**160**	**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	0	2			(1)		1		1
Balance at 29 June 2019	**39**	**161**	**(2)**	**14**	**(122)**	**(97)**	**(7)**	**3**	**(4)**

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 region, Germany and Italy 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 and document 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 29 June 2019. The information should be read in conjunction with the consolidated 2018 Annual Report of PostNL N.V. as published on 25 February 2019.

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 consolidated 2018 Annual Report of PostNL N.V.

The measure of profit and loss and assets and liabilities is based on the Group Accounting Policies, which are compliant with IFRS as endorsed by the European Union. Apart from the changes from the adoption of IFRS 16 Leases per 1 January 2019, all other significant accounting policies applied in these consolidated interim financial statements are consistent with those applied in PostNL's consolidated 2018 Annual Report for the year ended 31 December 2018.

IFRS 16 Leases

The adoption of the standard impacted the accounting of PostNL's operating leases, mainly related to rent and lease of buildings and transport fleet. PostNL adopted the new standard per 1 January 2019, using the modified retrospective method with the lease assets set equal to the lease liabilities. As a practical expedient, PostNL elected not to apply the requirements for short term leases and leases for which the underlying asset is of low value. The comparative figures of 2018 have not been represented.

The impact on the balance sheet per 1 January 2019 is an increase in right-of-use assets and lease liabilities of €132 million within continuing operations. Further, an amount of €37 million was transferred from property, plant and equipment to right-of-use assets relating to finance leases and capitalised leasehold rights and ground rent contracts. The impact on operating income and net profit is non-material, although straight line lease expenses of approximately €26 million have been replaced by depreciation and interest expenses in HY 2019. The cash flow statement shows a shift from net cash from operating activities to net cash used in financing activities. The assets classified as held for sale and liabilities related to these assets increased by €36 million per 1 January 2019 due to the adoption of IFRS 16.

There are no other IFRS standards, amended standards or IFRIC interpretations taking effect for the first time for the financial year beginning 1 January 2019 that would be expected to have a material impact on the 2019 accounts of the Group.

Classification Nexive and Postcon

In line with PostNL's strategy to be *the* postal and logistics solution provider in the Benelux region, PostNL has decided to divest Nexive and Postcon. In Q3 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'. The comparative figures of HY 2018 have been represented for the change to 'discontinued operations'.

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 2019 and 2018. In HY 2019, 90% of the revenue from contracts with customers was generated in the Netherlands, 6% in the rest of Europe and 4% in the rest of the world. The HY 2018 figures have been represented for adjusted segment reporting and the impact of the discontinued operations.

in € million

HY 2019 ended at 29 June 2019	Parcels	Mail in NL	PostNL Other	Assets/ liabilities held for sale	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**
Underlying cash operating income	**52**	**28**	**(8)**			**72**
Total assets	658	508	371	193		1,730
Total liabilities	387	688	510	149		1,734
HY 2018 ended at 30 June 2018						
Revenue from contracts with customers	639	694				1,333
Intercompany sales	98	127	37		(262)	
Other operating revenue	4	3				7
Total operating revenue	**741**	**824**	**37**		**(262)**	**1,340**
Other income		6	1			7
Depreciation/impairment property, plant and equipment	(10)	(17)	(3)			(30)
Amortisation/impairment intangibles	(4)	(5)	(2)			(11)
Total operating income	**55**	**41**	**(35)**			**61**
Underlying cash operating income	**53**	**23**	**(11)**			**65**
Total assets at 31 December 2018	566	554	383	195		1,698
Total liabilities at 31 December 2018	299	723	506	121		1,649

The key financial performance indicator for management of the reportable segments is underlying cash operating income. The underlying cash operating performance focuses on the underlying cash earnings performance, which is the basis for the dividend policy. In the analysis of the underlying cash operating performance, adjustments are made for non-recurring and exceptional items as well as adjustments for non-cash costs for pensions and provisions. For pensions, the IFRS-based defined benefit plan pension expenses are replaced by the non-IFRS measure of the actual cash contributions for such plans. For the other provisions, the IFRS-based net charges are replaced by the related cash outflows. Underlying cash operating income 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 2018	HY 2019
Balance at 1 January	**257**	**212**
Additions	16	14
Amortisation and impairments	(13)	(16)
Balance at end of period	**260**	**210**

At HY 2018, intangible assets included an amount of €62 million related to discontinued operations.

At HY 2019, the intangible assets of €210 million consist of goodwill for an amount of €97 million and other intangible assets for an amount of €113 million. Goodwill resulted from acquisitions in the past in the segments Mail in the Netherlands (€65 million) and Parcels (€32 million).

The additions to the intangible assets of €14 million relate to software. In HY 2019, an impairment of €2 million was recorded relating to software from Stockon.

2. Property, plant and equipment

in € million	HY 2018	HY 2019
Balance at 1 January	**510**	**494**
Transfers to right-of-use assets at 1 January		(37)
Additions	40	20
Additions related to financial leases	6	
Acquisitions of subsidiaries		1
Disposals	(3)	(2)
Depreciation and impairments	(33)	(27)
Balance at end of period	**520**	**449**

At HY 2018, property, plant and equipment included an amount of €18 million related to discontinued operations.

The additions of €20 million in HY 2019 related for €13 million to new sorting and delivery centres within Parcels. The remainder relates to various other investments. In HY 2018, an impairment of €3.5 million was recorded related to a building within Mail in the Netherlands.

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
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
Depreciation and impairments	(28)
Balance at end of period	**180**

The new leases of €39 million in HY 2019 mainly relate to a new sorting and delivery centre within Parcels and replacement/expansion of vans and trucks.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease off balance sheet commitments as at 31 December 2018 as follows:

in € million	
Rent & lease commitments at year-end 2018	**133**
Payments in optional extension periods not recognised as at 31 December 2018	12
Commitments relating to short term leases and leases of low-value assets	(5)
Adjustment for discounting and inflation	(8)
Lease liabilities at 1 January 2019	**132**

4. Assets classified as held for sale

At 29 June 2019, assets classified as held for sale amounted to €196 million (31 December 2018: €200 million) and related for €3 million to buildings held for sale in the Netherlands (31 December 2018: €5 million) and for €193 million to Nexive and Postcon (31 December 2018: €195 million). The liabilities related to assets classified as held for sale of €149 million related to Nexive and Postcon (31 December 2018: €121 million).

Nexive and Postcon

In line with PostNL's strategy to be *the* postal and logistics solution provider in the Benelux, PostNL has decided to divest Nexive and Postcon.

The following table presents the financial performance and cash flow information of the discontinued operations for the first half year of 2018 and 2019.

in € million	HY 2018	HY 2019
Revenues	386	373
Expenses	(407)	(383)
Operating income	**(21)**	**(10)**
Results from investments in JVs/associates	0	(1)
Income taxes	2	
Profit/ (loss) after taxes	**(19)**	**(11)**
Impairment to fair value		(27)
Profit/ (loss) from discontinued operations	**(19)**	**(38)**
Net cash from operating activities	(36)	11
Net cash used in investing activities	(4)	2
Net cash used in financing activities	0	(6)
Changes in cash and cash equivalents	**(40)**	**7**

The fair value impairment of €(27) million includes a positive tax effect of €5 million. The fair value measurement is based on inputs not based on observable market data (level 3).

Fair value represents the price that would be received when selling an asset in an orderly transaction between willing market participants. Our estimate of the fair value of Postcon per 29 June 2019 is supported by the business purchase agreement which has been signed on 4 August 2019, confirming the value.

The fair value of Nexive is based on the average of multiple inputs, representing our best estimate of the fair value as per 29 June 2019. Given the status of the process and the spread in deal terms there remains a risk that the terms & conditions of an actual sale transaction might differ substantially from management's estimate of Nexives fair value as per 29 June 2019. Management expects to effectuate the sale before year-end 2019.

By nature, measuring fair value involves risk and uncertainty because the valuation is linked to future events and circumstances and there are many factors that could cause actual results and developments to differ substantially from the expectation as included in the current valuation.

The following table presents the carrying amounts of assets and liabilities (excluding equity and intercompany balances) at 31 December 2018 and 29 June 2019.

in € million	31 Dec 2018	29 Jun 2019
Non-current assets	7	32
Trade accounts receivable	87	54
Other current assets	81	77
Cash and cash equivalents	20	30
Total assets	**195**	**193**
Non-current liabilities	11	31
Trade accounts payable	48	36
Other current liabilities	62	82
Total liabilities	**121**	**149**

The assets classified as held for sale and liabilities related to these assets increased by €36 million per 1 January 2019 (HY 2019: €30 million) due to the adoption of IFRS 16.

As a specific contingent tax liability, per HY 2019 a tax dispute exists relating to the years 2012 and 2013 which can be estimated, using a probability-weighted assessment, at €7 million. Although we believe that this risk is in the low possibility range (20%-30%), supported by external advice, 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 2014 onwards.

5. Pensions

In HY 2019, the provision for pension liabilities increased by €21 million. At HY 2018, the provision for pension liabilities included an amount of €9 million related to discontinued operations.

in € million	HY 2018	HY 2019
Balance at 1 January	**359**	**296**
Operating expenses	58	53
Interest expenses	4	3
Employer contributions and early retirement payments	(51)	(46)
Actuarial losses/(gains)	(15)	11
Balance at end of period	**355**	**317**

Under IAS 19, the pension provision is updated quarterly for changes in discount rate, long term expected benefit increases and actual return on plan assets. Compared to year-end 2018, the IAS 19 discount rate decreased from 1.8% to 1.0% and the long term expected benefit increases assumption decreased from 1.1% to 0.8%. The changed financial assumptions resulted in an actuarial loss on the defined benefit obligation. The return on plan assets was higher than assumed. The total effect in HY 2019 on the net pension position was a loss of €11 million (HY 2018: gain of €15 million). Within OCI, the pension impact net of tax in HY 2019 amounted to €(9) million (HY 2018: €11 million).

During the first half year of 2019 the 12-month average coverage ratio of the main fund, including the outstanding unconditional funding obligation of €33 million, decreased to 114.2% from 116.0% as per 31 December 2018.

The expenses for defined contribution plans in HY 2019 were €7 million (HY 2018: €5 million).

6. Equity

During HY 2019, consolidated equity attributable to the equity holders of the parent decreased from €46 million per 31 December 2018 to €(7) million on 29 June 2019. The decrease of €53 million in HY 2019 is primarily explained by the negative impact of pensions within OCI of €9 million and the dividend payment of €48 million, only partly offset by the profit for the period of €2 million.

Corporate equity

During HY 2019, corporate equity decreased from €2,593 million per 31 December 2018 to €2,515 million on 29 June 2019. Distributable corporate equity amounted to €335 million on 29 June 2019 (31 December 2018: €387 million). The decrease mainly related to the dividend payment of €48 million.

We refer to the 2018 Annual Report of PostNL N.V., as published on 25 February 2019, for detailed information on the main differences between consolidated and corporate equity.

in million	HY 2018	FY 2018	HY 2019
Number of issued and outstanding shares	**463.6**	**469.2**	**485.2**
of which held by the company	0.0	0.0	0.0
Year-to-date average number of ordinary shares	**456.5**	**462.0**	**473.7**
Year-to-date diluted number of ordinary shares		1.2	
Year-to-date average number of ordinary shares on a fully diluted basis	**456.5**	**463.2**	**473.7**

In May 2019, PostNL issued 15,105,271 ordinary shares following the pay-out of the final 2018 dividend and 852,661 ordinary shares for the settlement of its incentive schemes, increasing the issued share capital and additional paid-in capital by €2 million in total. As a result, the number of issued and outstanding shares increased from 469.2 million at 31 December 2018 to 485.2 million at 29 June 2019.

7. Adjusted net debt

in € million	31 Dec 2018	29 Jun 2019
Short- and long-term debt	399	407
Long term interest bearing assets		(6)
Cash and cash equivalents	(269)	(214)
Net debt	**130**	**187**
Pension liabilities	296	317
Lease liabilities (on balance)	25	170
Lease liabilities (off balance)	163	90
Deferred tax assets on pension and operational lease liabilities		(62)
Adjusted net debt	**614**	**702**

At 29 June 2019, the adjusted net debt position amounted to €702 million. Compared to 31 December 2018, the increase of €88 million was mainly explained by the negative cash flow during HY 2019 (refer to note 10) and the net increase in pension and lease liabilities offset by the inclusion of related deferred tax assets.

8. Provisions

Provisions consist of long term and short term provisions for restructuring, claims and indemnities and other employee benefits. In HY 2019, the provisions decreased by €7 million. At HY 2018, the provisions included an amount of €5 million related to discontinued operations.

in € million	HY 2018	HY 2019
Balance at 1 January	**63**	**40**
Additions	14	5
Withdrawals	(26)	(9)
Releases	(5)	(3)
Balance at end of period	**46**	**33**

The additions of €5 million in HY 2019 mainly related to restructuring programmes (€2 million) and other employee benefit obligations (€2 million).

The withdrawals of €9 million in HY 2019 related mainly to settlement agreements following the execution of the cost savings initiatives (€3 million), settlements for other smaller restructuring programmes (€1 million) and payment of other employee benefit obligations and claims (€2 million).

The releases of €3 million in HY 2019 mainly related to changes in the cost savings initiatives (€2 million).

9. Taxes

Effective Tax Rate	Represented HY 2018	HY 2019
Dutch statutory tax rate	25.0%	25.0%
Other statutory tax rates	-0.2%	0.1%
Average statutory tax rate	**24.8%**	**25.1%**
Non/partly deductible costs	3.5%	4.4%
Exempt income	-0.3%	-0.1%
Other	0.9%	-6.3%
Effective tax rate	**28.9%**	**23.1%**

The tax expense in PostNL's statement of income in HY 2019 amounted to €12 million (HY 2018: €13 million), or 23.1% (HY 2018: 28.9%) of the profit/(loss) before income taxes of €52 million (HY 2018: €45 million).

In HY 2019, the line Other (-6.3%) mainly related to the combined impact of the recognition of deferred tax assets in relation to tax losses (to be) recognised in the Netherlands and the recognition of previously unrecognized tax losses in other countries. In HY 2018, the line Other (0.9%) mainly related to several prior year adjustments predominantly regarding irrecoverable losses for which no deferred tax assets have been recognised.

Income taxes paid in HY 2019 amounted to €43 million (HY 2018: €39 million) and included predominantly Dutch payments for the full year 2019.

The inclusion of Parcels and Real Estate entities in the Dutch fiscal unity PostNL NV as per 1 January 2019 resulted in increased offsetting of deferred tax assets and liabilities. Per HY 2019, the deferred tax asset related to the Dutch tax credit potential upon realising (liquidation) losses in connection with the intended sale of the Nexive and Postcon businesses amounted to €60 million.

10. Cash flow statement

Net cash from operating activities increased from €2 million in HY 2018 to €39 million in HY 2019. Cash generated from operations increased by €41 million and was partly offset by an increase in income taxes paid of €4 million. The increase in cash generated from operations of €41 million was mainly due to the adoption of IFRS 16 which causes a shift from net cash from operating activities to net cash used in financing activities (repayments of lease liabilities) and lower cash out from other provisions (€17 million).

Net cash used in investing activities decreased by €22 million to €(14) million in HY 2019 from €(36) million in HY 2018, mainly caused by lower capital expenditure of €23 million in HY 2019.

Net cash used in financing activities amounted to €(76) million in HY 2019 (HY 2018: €(47) million) and mainly related to the payment of the 2018 final dividend of €48 million (HY 2018: €47 million) and repayments of lease liabilities of €27 million following the adoption of IFRS 16 per 1 January 2019.

11. Labour force

Headcount	31 Dec 2018	29 Jun 2019
Parcels	5,722	6,486
Mail in the Netherlands	30,753	28,628
PostNL Other	1,310	1,320
Total	**37,785**	**36,434**

The number of employees working at PostNL at 29 June 2019 was 36,434, which is a decrease of 1,351 employees compared to 31 December 2018. This decrease is mainly the result of extra temporary employees that were hired in December 2018 within Mail in the Netherlands to handle Christmas mail and outflow relating to cost savings initiatives. In HY 2019, around 310 employees from PostNL's international sorting centre were transferred from Mail in the Netherlands to Parcels.

Average FTE's	Represented HY 2018	HY 2019
Parcels	4,551	5,310
Mail in the Netherlands	14,525	13,796
PostNL Other	1,142	1,228
Total	**20,218**	**20,334**

The average number of full time equivalents (FTE) working at PostNL during the first six months of 2019 was 20,334. The increase of 116 FTE compared to the same period last year is mainly related to business growth within Parcels, partly offset by reductions within operations in Mail in the Netherlands. In HY 2019, around 260 FTE from PostNL's international sorting centre were transferred from Mail in the Netherlands to 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 €398 million per 29 June 2019 (31 December 2018: €398 million). The fair value of the outstanding Eurobonds amounted to €407 million per 29 June 2019 (31 December 2018: €389 million). The outstanding Eurobonds are all at fixed interest rates.

The investments in financial assets at fair value through OCI of €15 million per 29 June 2019 (31 December 2018: €17 million) relate to investments in equity shares of non-listed companies. In HY 2019, PostNL divested part of its share in Whistl, which transaction 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 2019, purchases of PostNL from and sales to joint ventures and associated companies amounted to €0 million (HY 2018: €0 million). The net amounts due to joint ventures and associated companies amounted to €0 million (HY 2018: €0 million).

14. Subsequent events

On 5 August 2019, PostNL announced to have signed an agreement on the sale of the activities of Postcon to Quantum Capital Partners. The transaction is subject to a number of conditions, including regulatory approval, and is expected to close before the end of 2019. The transaction value has been appropriately reflected in the estimated fair value per 29 June 2019.

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 29 June 2019 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, 5 August 2019

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 2019 and will continue to do so during 2019. 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 2018 PostNL N.V. Annual Report (pages 70 – 77) have been updated and will continue to require focused and decisive management attention in the second half of 2019. With reference to the disclosure in the Annual Report 2018, the risks which have the highest risk level are: competition, substitution, regulatory requirements, and execution of cost savings initiatives. A significant new development in the first half year of 2019 is the announced intended consolidation of the PostNL and Sandd networks. Combining the two postal networks is essential, in order to ensure that the Dutch postal market remains reliable, accessible and affordable for everyone.

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 2018 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 2018, Chapter 14 Risk management.