PostNL results Q1 2019

The Hague, the Netherlands, 7 May 2019

Over 50% of PostNL revenue now relates to e-commerce

Financial highlights Q1 2019

- Revenue increased to €684 million (Q1 2018: €674 million)
- Underlying cash operating income at €31 million (Q1 2018: €32 million)
- Profit from continuing operations at €15 million (Q1 2018: €23 million)

Operational highlights

- 16% volume growth in Parcels
- Addressed mail volume declined by 9.8%; adjusted volume decline 9.1% (corrected for one working day)
- Delivery quality remained stable at 95%
- €12 million cost savings realised, continuing run-rate of Q4 2018
- Final collective labour agreements reached

Outlook 2019 confirmed

- Expected underlying cash operating income 2019: €170 million - €200 million

CEO statement

Herna Verhagen, CEO of PostNL: "This year, we continue to build on a strong platform for further growth. Step by step we are realising our strategy of becoming the postal and e-commerce logistics company of choice for customers.

In Q1 2019, 51% of our revenue came from activities related to e-commerce, evidencing our transition. Underlying cash operating income was broadly in line with last year. We will stay focussed on improving the operational leverage in Parcels and continue to have attention for the realisation of our cost savings plans in Mail in the Netherlands. We confirm our outlook for 2019.

Today, we host our Capital Markets Day 'Focus on our potential'. We will explain how we will further improve the balance between continuing volume growth, profitability and cash flow in Parcels."

Key figures

Key figures

in € million, except where noted	Q1 2018	**Q1 2019**	% Change
Revenue	674	**684**	*1%*
Operating income	40	**22**	*-45%*
Underlying operating income	41	**30**	*-27%*
Underlying operating income margin	6.1%	**4.4%**	
Changes in pension liabilities	4	**4**	
Changes in provisions	(13)	**(3)**	
Underlying cash operating income	32	**31**	*-3%*
Underlying cash operating income margin	4.7%	**4.5%**	
Profit for the period	14	**6**	
Profit from continuing operations	23	**15**	
Net cash from/(used in) operating and investing activities	11	**4**	

Note: underlying figures exclude one-offs in Q1 2019 (€9 million in project costs and other and a consolidation effect of €(1) million with discontinued operations) and in Q1 2018 (€1 million).

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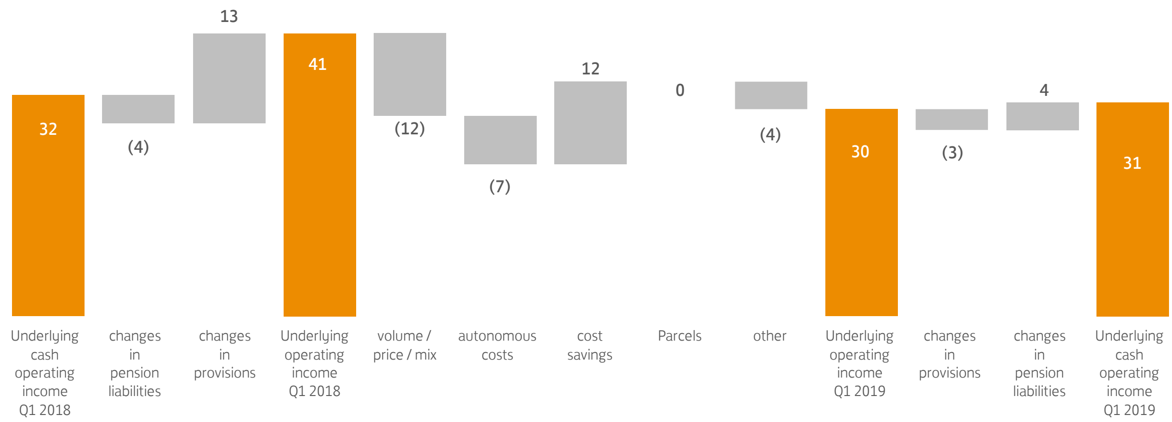
Q1 2019 business performance



	Revenue		Underlying operating income		Underlying cash operating income	
in € million	Q1 2018	**Q1 2019**	Q1 2018	**Q1 2019**	Q1 2018	**Q1 2019**
Parcels	368	398	23	23	22	22
Mail in the Netherlands	424	392	29	16	17	15
PostNL Other	18	21	(11)	(9)	(7)	(6)
Intercompany	(136)	(127)				
PostNL	**674**	**684**	**41**	**30**	**32**	**31**

Note: underlying figures exclude one-offs

Segment information

Parcels – focus on improving operational leverage

Parcelsreported a volume growth of 16% for the quarter. Domestic 2B and 2C volumes grew strongly, reflecting the trend towards increasing e-commerce.

Revenue at Parcels (excluding Spring) increased by 13% to €345 million (Q1 2018: €306 million). The main driver for this growth was higher volumes, slightly offset by a negative price/mix effect. The Belgian activities continued to report strong growth and PostNL is strengthening its position as logistics service provider in the Benelux. Overall demand for additional services such as evening delivery further increased and revenue from logistics solutions also grew.

This quarter, efficiency gains, such as for example a higher drop duplication, were offset by other costs. Performance was impacted by higher labour costs due to the tight labour market and related costs for training and retention, impact from CLA increases and agreements with our distribution partners. Additional costs were incurred for the optimisation of our transportation network after the expansion of this network by three depots in 2018. This will improve gradually during the year. Finally, IT costs were higher due to further digitisation of our back-office processes. Other performance (mainly logistics solutions) improved slightly.

At Spring, revenue was 9% down to €63 million (Q1 2018: €69 million). Adjusted for FX effects, the decline was 12%. Although the competitive environment is still fierce, bottom-line performance in Spring showed a slight improvement due to tight cost control.

Total revenue at Parcels was up 8% to €398 million (Q1 2018: €368 million) while underlying cash operating income came in at €22 million (Q1 2018: €22 million).

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Mail in the Netherlands – progress in cost savings in line with expectations

Performance at Mail in the Netherlands was marked by volume decline, price increases, and a negative development in product mix. The cost savings run rate, achieved in the last quarter of 2018, continued.

Addressed mail volumes at Mail in the Netherlands declined by 9.8% in the quarter (9.1% corrected for one working day). This decline was mainly driven by substitution, particularly in single mail, and loss of volumes to competition.

Revenue fell 8% to €392 million (Q1 2018: €424 million) while underlying cash operating income decreased to €15 million (Q1 2018: €17 million). Cost savings and significantly lower cash out related to pensions and provisions were offset by the negative volume/price/mix effect, autonomous cost increases and other factors (e.g. a lower result in export).

€12 million in cost savings achieved in Q1 2019, continuing the Q4 2018 run-rate

PostNL achieved total cost savings of €12 million, in line with expectations. The cost savings plans include several initiatives, such as adjusting the sorting and delivery process, optimisation of the retail network, streamlining of staff and centralisation of locations.

Process towards intended consolidation

The process towards the intended consolidation of networks in the Dutch postal market is progressing as expected. The first step in the formal process ended with the decision by the Authority for Consumers and Markets that a licence is necessary for an approval of consolidation. PostNL and Sandd have filed a request for such a licence.

Regulation – Draft consultation Postal Act

When presenting the conclusions of the postal dialogue, the State Secretary underpinned the need for new legislation reflecting the structural decline in the postal market. Following these conclusions, a consultation document with proposed amendments on the Postal Act was recently published. PostNL will carefully review the proposed amendments and will submit its view in due time.

Collective Labour Agreements until 31 March 2020

The new CLAs for PostNL and Saturday deliverers will apply retroactively from 1 January 2019 up to and including 31 March 2020. The salary increase of 3% in total will be implemented in three steps. In addition, full-time employees will be paid a one-time compensation of €100 net in January 2020. Agreements have also been reached on pension accrual and sustainable employability.

PostNL Other

Revenue at PostNL Other amounted to €21 million (Q1 2018: €18 million). Underlying cash operating income was €(6) million (Q1 2018: €(7) million). Cost savings were offset by increases in other costs and autonomous cost increases.

Pensions

Pension expense amounted to €30 million (Q1 2018: €31 million) and total cash contributions were €26 million (Q1 2018: €27 million). In Q1 2019, the net actuarial loss on pensions was €6 million. The main pension fund's 12 month average coverage ratio was 115.3%, well above the minimum required funding level of 104.0%. On 30 March 2019, the actual coverage ratio was 113.1%.

Discontinued operations

The disposal processes for Nexive and Postcon are progressing in accordance with communicated timelines. The result from discontinued operations was €(9) million (Q1 2018: €(9) million) and comprises, among others, a negative business result.

Development of financial and equity position

Total equity attributable to equity holders of the parent remained stable at €46 million as at 30 March 2019. The main drivers were net profit of €6 million fully offset by a net actuarial loss on pensions. Net cash from operating and investing activities was €4 million (Q1 2018: €11 million). At the end of Q1 2019, the adjusted net debt position was €621 million, compared with €614 million at the end of 2018.

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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2019 Financial calendar

7 May	Publication of Q1 2019 results
	Capital Markets Day
5 August	Publication of Q2 & HY 2019 results
4 November	Publication of Q3 2019 results

2019 Dividend calendar

Final dividend 2018	
18 April	Ex-dividend date
23 April	Record date
24 April – 8 May, 3.00 pm CET	Election period
10 May	Payment date
Interim dividend 2019	
7 August	Ex-dividend date
8 August	Record date
9 August – 23 August, 3.00 pm CET	Election period
27 August	Payment date

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Audio webcast and conference call on Q1 2019 results

On 7 May, at 11.30 am CET, the conference call for analysts and investors will start. It can be followed live via an audio webcast on **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.

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 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 speak 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 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 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 actual cash contributions for such plans. For the other provisions, the IFRS-based net charges are replaced by the related cash outflows.

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Basis of preparation

The interim financial statements are reported on a year-to-date basis ending 30 March 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 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. The comparative figures of Q1 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 €12 million have been replaced by depreciation and interest expenses in Q1 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 solutions provider in the Benelux, 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'. In Q1 2019, the result from discontinued operations of €(9) million includes a negative business result, increased costs of disposal and a consolidation effect with continuing operations. The comparative figures of Q1 2018 have been represented for the change to 'discontinued operations'.

Auditor's involvement

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

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Consolidated income statement

in € million	Represented Q1 2018	Q1 2019
Revenue from contracts with customers	670	680
Other operating revenue	4	4
Total operating revenue	**674**	**684**
Other income	4	1
Cost of materials	(18)	(17)
Work contracted out and other external expenses	(314)	(315)
Salaries, pensions and social security contributions	(252)	(265)
Depreciation, amortisation and impairments	(19)	(35)
Other operating expenses	(35)	(31)
Total operating expenses	**(638)**	**(663)**
Operating income	**40**	**22**
Interest and similar income	1	1
Interest and similar expenses	(9)	(4)
Net financial expenses	**(8)**	**(3)**
Results from investments in JVs/associates	0	0
Profit/(loss) before income taxes	**32**	**19**
Income taxes	(9)	(4)
Profit/(loss) from continuing operations	**23**	**15**
Profit/(loss) from discontinued operations	(9)	(9)
Profit for the period	**14**	**6**
Attributable to:		
Non-controlling interests		
Equity holders of the parent	14	6
Earnings per ordinary share (in €cents) [1]	3.1	13
Earnings per diluted ordinary share (in €cents) [2]	3.1	13
Earnings from continuing operations per ordinary share (in €cents) [1]	5.1	3.2
Earnings from continuing operations per diluted ordinary share (in €cents) [2]	5.1	3.2
Earnings from discontinued operations per ordinary share (in €cents) [1]	(2.0)	(19)
Earnings from discontinued operations per diluted ordinary share (in €cents) [2]	(2.0)	(19)

1 Based on an average of 469,199,776 outstanding ordinary shares (2018: 453,530,195).

2 Based on an average of 470,214,566 outstanding diluted ordinary shares (2018: 454,070,420).

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 Q1 2019 amounted to €21 million (Q1 2018: €38 million). Likewise, excluding this effect, profit/(loss) from discontinued operations in Q1 2019 amounted to €(8) million (Q1 2018: €(7) million).

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Consolidated statement of comprehensive income

in € million	Represented Q1 2018	Q1 2019
Profit for the period	**14**	**6**
Other comprehensive income that will not be reclassified to the income statement		
Impact pensions, net of tax	9	(6)
Other comprehensive income that may be reclassified to the income statement		
Currency translation adjustment, net of tax	0	0
Gains/(losses) on cashflow hedges, net of tax	1	(1)
Total other comprehensive income for the period	**10**	**(7)**
Total comprehensive income for the period	**24**	**(1)**
Attributable to:		
Non-controlling interests		
Equity holders of the parent	24	(1)
Total comprehensive income attributable to the equity holders of the parent arising from:		
Continuing operations	33	8
Discontinued operations	(9)	(9)

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Consolidated statement of cash flows

in € million	Represented Q1 2018	Q1 2019
Profit/(loss) before income taxes	**32**	**19**
Adjustments for:		
Depreciation, amortisation and impairments	19	35
Share-based payments	1	1
(Profit)/loss on disposal of assets	(4)	(1)
Interest and similar income	(1)	(1)
Interest and similar expenses	9	4
Results from investments in JVs/associates	0	0
Investment income	**4**	**2**
Pension liabilities	4	4
Other provisions	(11)	(5)
Changes in provisions	**(7)**	**(1)**
Inventory	(1)	1
Trade accounts receivable	16	44
Other accounts receivable	16	(1)
Other current assets excluding taxes	1	(25)
Trade accounts payable	(10)	(3)
Other current liabilities excluding short-term financing and taxes	1	(16)
Changes in working capital	**23**	**0**
Cash generated from operations	**72**	**56**
Interest paid	(2)	(2)
Income taxes received/(paid)	(47)	(43)
Net cash (used in)/from operating activities	**23**	**11**
Interest received	1	1
Acquisition of subsidiairies (net of cash)		(1)
Capital expenditure on intangible assets	(5)	(6)
Capital expenditure on property, plant and equipment	(12)	(4)
Proceeds from sale of property, plant and equipment	4	3
Net cash (used in)/from investing activities	**(12)**	**(7)**
Repayments of lease liabilities		(13)
Net cash (used in)/from financing activities	**0**	**(13)**
Total change in cash from continuing operations	**11**	**(9)**
Cash at the beginning of the period	**645**	**269**
Cash transfers to discontinued operations		(7)
Total change in cash from continuing operations	11	(9)
Total change in cash from discontinued operations	(29)	
Cash at the end of the period	**627**	**253**
Total change in cash from discontinued operations	**(29)**	**(13)**

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Consolidated statement of financial position

in € million	31 December 2018	30 March 2019
ASSETS		
Non-current assets		
Intangible fixed assets		
Goodwill	97	97
Other intangible assets	115	112
Total	**212**	**209**
Property, plant and equipment		
Land and buildings	322	295
Plant and equipment	155	135
Other	12	12
Construction in progress	5	9
Total	**494**	**451**
Right-of-use assets		160
Financial fixed assets		
Investments in joint ventures/associates	3	3
Other loans receivable	6	6
Deferred tax assets	66	75
Financial assets at fair value through OCI	17	18
Total	**92**	**102**
Total non-current assets	**798**	**922**
Current assets		
Inventory	5	4
Trade accounts receivable	313	269
Accounts receivable	12	13
Income tax receivable	2	35
Prepayments and accrued income	99	122
Cash and cash equivalents	269	253
Total current assets	**700**	**696**
Assets classified as held for sale	200	236
Total assets	**1,698**	**1,854**
LIABILITIES AND EQUITY		
Equity		
Equity attributable to the equity holders of the parent	46	46
Non-controlling interests	3	3
Total	**49**	**49**
Non-current liabilities		
Deferred tax liabilities	31	35
Provisions for pension liabilities	296	309
Other provisions	19	19
Long-term debt	398	398
Long-term lease liabilities	22	102
Accrued liabilities	4	3
Total	**770**	**866**
Current liabilities		
Trade accounts payable	146	143
Other provisions	21	16
Short-term debt	1	4
Short-term lease liabilities	3	47
Other current liabilities	126	139
Income tax payable	3	1
Contract liabilities	80	63
Accrued current liabilities	378	372
Total	**758**	**785**
Liabilities related to assets classified as held for sale	121	154
Total equity and liabilities	**1,698**	**1,854**