

PUBLICVERSION



Financial Report Universal Service Obligation 2018

Achieved financial results on the provision of the Universal Service
Obligation

14 August 2019



Table of contents

1	Introduction	3
1.1	General	3
1.2	Universal Service Obligation	3
1.3	Foundations Financial report	4
1.4	Cost allocation system	4
2	Data on costs, revenues and return on sales	6
2.1	Achieved financial results and return on sales on the provision of the USO	6
2.1.1	<i>Overview of revenues and costs on the USO and net operating results (million euro – rounded figures)</i>	6
2.1.2	<i>Overview of the achieved return on sales on the USO provision</i>	6
2.1.3	<i>Allocation of revenues to the USO</i>	7
2.1.4	<i>Explanation of the USO result and return</i>	7
2.1.5	<i>Allocation of income taxes</i>	8





1 Introduction

1.1 General

Koninklijke PostNL B.V. ('PostNL') prepares a financial report on the provision of the Universal Service Obligation ('USO') for the Authority for Consumers and Markets ('ACM') annually. Based on this Financial report, the ACM is able to monitor the developments within the USO. The Financial report also provides the ACM with information required to determine the tariff headroom for single postal items within the USO.

This document is the public version of the Financial report 2018 which PostNL has submitted to the ACM on 21 May 2019, accompanied by an assurance statement by an independent auditor. Chapter 2 contains the financial results and the return on sales achieved in 2018 with performing the USO. The financial results are accompanied by explanatory notes. In short, this provides a clear financial insight in the balance between costs, revenues and return on sales related to the provision of the USO in the Netherlands.

This public version is published by PostNL to provide stakeholders and other interested parties insights in the development of the provision of the USO.

In case of questions, please refer to: PostNL
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1.2 Universal Service Obligation

When the Postal Act 2009¹ came into effect, the Secretary of Economic Affairs designated PostNL as the provider of the USO in the Netherlands².

This designation includes the following requirements:

1. The obligation to provide postal services at uniform and cost-based tariffs, and on conditions and tariffs that are non-discriminatory and transparent. The scope of the USO includes:

¹ Lastly amended 27 December 2018 - Staatsblad 2018, 487

² Appointment of universal service provider – Staatscourant 2009, 82





- a. all letters with a maximum individual weight of 2 kilograms;
- b. parcels with a maximum individual weight of 10 kilograms (inbound) or of 20 kilograms (outbound);
- c. postal items consisting mainly of special communication for blind people, with a maximum individual weight of 7 kilograms;
- d. registered and insured postal items;

Domestic postal services as explained in a), b) and d) are limited to single item mail.

2. The Dutch Postal Act 2009 and regulations set legal requirements on the tariffs, accessibility and frequency of the postal services, and on the quality of the overnight service of the USO.
3. The USO provider has the exclusive right to issue stamps with the reference 'Nederland'.
4. Finally, in relation to the requirements applicable to the provision of the USO, the Postal Regulation 2009 also provides for additional rules regarding the financial administration of the USO provider and cost allocation.

1.3 Foundations Financial report

The foundations of this Financial report are in line with the requirements as laid down in the Postal Act 2009 and Postal Regulation 2009. This implies that PostNL's financial accounting system, which complies with the consistently applied, objectively justified and generally accepted rules for financial accounting, while at the same time applying a cost allocation system, is also the basis for this Financial report.

In addition to the obligation as laid down in Article 23 of the Postal Act 2009, that states that costs should result from the financial administration, also the obligation as stated in Article 7 of the Postal Regulation is applicable. This article states that the costs occurred for the provision of the USO should be allocated to the USO, and that costs that are related to internal services cannot be allocated to the USO.

1.4 Cost allocation system

In compliance with Article 11, sub 1, of the Postal Regulation 2009, the Financial report is based on the financial administration in the sense of Article 8 of the Postal Regulation 2009. This article states the obligation to report on revenues, next to the costs allocated pursuant to a cost allocation system. The requirements for this cost allocation system are laid down in Articles 7a up to and including 7d of the Postal Regulation 2009.





Pursuant to Article 12 of the Postal Regulation 2009, the integral Financial report that is submitted to the ACM should be accompanied by an assurance statement of an independent auditor. This assurance statement should, amongst others, cover the design and the application of the cost allocation system.

In 2015, the ACM has determined that the Cost Allocation System Koninklijke PostNL 2015 is compliant with the requirements as laid down in the Postal Regulation 2009³. In letters dated 31 August 2016⁴, 15 August 2017⁵, 26 July 2018⁶ and 9 August 2019⁷ ACM concluded that there is no need to re-assess the cost allocation system.

³ Decree 14 September 2015, ACM/DTVP/2015/204888

⁴ Letter 31 August 2016, ACM/DTVP/2016/204888

⁵ Decree 15 August 2017, ACM/DTVP/2017/204844_OV

⁶ Decree 26 August 2018, ACM/18/033150

⁷ Decree 9 August 2019, ACM/19/034999





2 Data on costs, revenues and return on sales

2.1 Achieved financial results and return on sales of the USO

2.1.1 Overview of revenues and costs on the USO and net operating results (in million euro - rounded figures)

	2018	2017
TOTAL OPERATING REVENUE	796.1	853.8
TOTAL OPERATING EXPENSES	790.9	798.4
OPERATING INCOME BEFORE INCOME TAXES	5.2	55.4
Income taxes	1.3	13.8
RESULT AFTER INCOME TAXES	3.9	41.5

2.1.2 Overview of the return on sales achieved on the USO

	2018	2017
OPERATING RESULTS BEFORE INCOME TAXES - in % of revenue	0.7%	6.5%
RESULTS AFTER INCOME TAXES - in % of revenue	0.5%	4.9%





2.1.3 Allocation of revenues to the USO

The operating revenues relate to the revenues resulting from the provision of the USO as referred to in the Postal Act 2009 and further defined in the Postal Decree 2009. This is a subset of the total operating revenues in the financial statements of PostNL N.V.

The methodologies applied for revenue recognition lead to an unambiguous allocation of those revenues to the USO.

2.1.4 Explanation of the USO result and return

Development of the result and return on sales

In 2018, the result on the USO, decreased compared to 2017. The revenues decreased by approximately € 58 million in 2018. This was the result of, on the one hand, the decreased volumes and, on the other hand, the increased tariffs and product mix effects, which cannot fully compensate the volume decline.

The total costs declined by approximately € 8 million. This was caused by the lower costs of the import and export postal services as a result of lower volumes, as well as by cost saving restructuring programs. At the same time there was a cost increase due to an increase in the cost of domestic postal services because of a change in product mix, a change in relative distribution of joint costs and due to inflation.

The return on sales decreased to 0.7%. Concerning the development of costs the most important effects were the following:

- Due to the continuing decline in letter mail, PostNL has developed long term restructuring programs aimed at structural annual cost reduction. Centralisation is an important theme within these programs regarding both the postal delivery network and the overhead costs. In 2018 these restructuring programs contributed to further cost reduction for the USO.
- The adjustment of the retail network and the number of post boxes also resulted in cost savings in 2018.
- The volume of both outbound single mail items and outbound bulk mail decreased in 2018.
- Inflation and salary increases caused an increase in cost.

Basis of preparation

The Financial report 2018 concerns the period from 1 January 2018 up to and including 31 December 2018.

The 2018 financial statements of Koninklijke PostNL B.V., prepared pursuant to article 2:403 of the Dutch Civil Code, are the basis for the compilation of the overviews in 2.1.1 and 2.1.2

The recognition of revenues and costs related to the USO is determined in accordance with the basis of preparation for the results of PostNL.





The allocation of revenues and costs was determined by the standards as laid down in article 7 of the Postal regulation 2009.

2.1.5 Allocation of income taxes

The income taxes as allocated to the result of the USO are based on the applicable Dutch nominal income tax rate of 25.0%.

