



2019

Annual Report

Focus on our potential



How to read this report

Management summary

Readers looking for the highlights of 2019 are advised to read chapter 1 until 6, and the first pages of chapter 7 until 10.

Report of the Board of Management

The report of the Board of Management consists of the following sections:

- Introduction
- Business Report
- Governance, excluding the chapters:
 - Report of the Supervisory Board
 - Remuneration Report

Forward-looking statements

This Annual Report contains forward-looking statements. Readers should not put undue reliance on these statements. These provide a snapshot on the publication date of this report. In addition, future actual events, results and outcomes likely differ from these statements made. Chapter 'Non-financial statements', section 'Safeguarding report quality' provides more information on forward-looking statements.

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At a glance

Key figures (at year-end)

Letters delivered on an average day (in the Netherlands, incl. Sandd)

6.8 million



Parcels delivered on an average day (in the Benelux)

0.9 million



Employees (including Sandd)

46,303



Total kilometres transported in the Benelux (on average per calendar day)

> 1 million



Around the world by foot and bike (in the Netherlands)

> 1,000 times



Sorting centres (25 parcel, 5 mail, 1 international)

31



Letter boxes (in the Netherlands)

11,415



Retail locations (in the Benelux)

3,834



Number of solar panels on our buildings

25,208



Unique PostNL accounts

5.3 million



Online visits to PostNL.nl

481 million

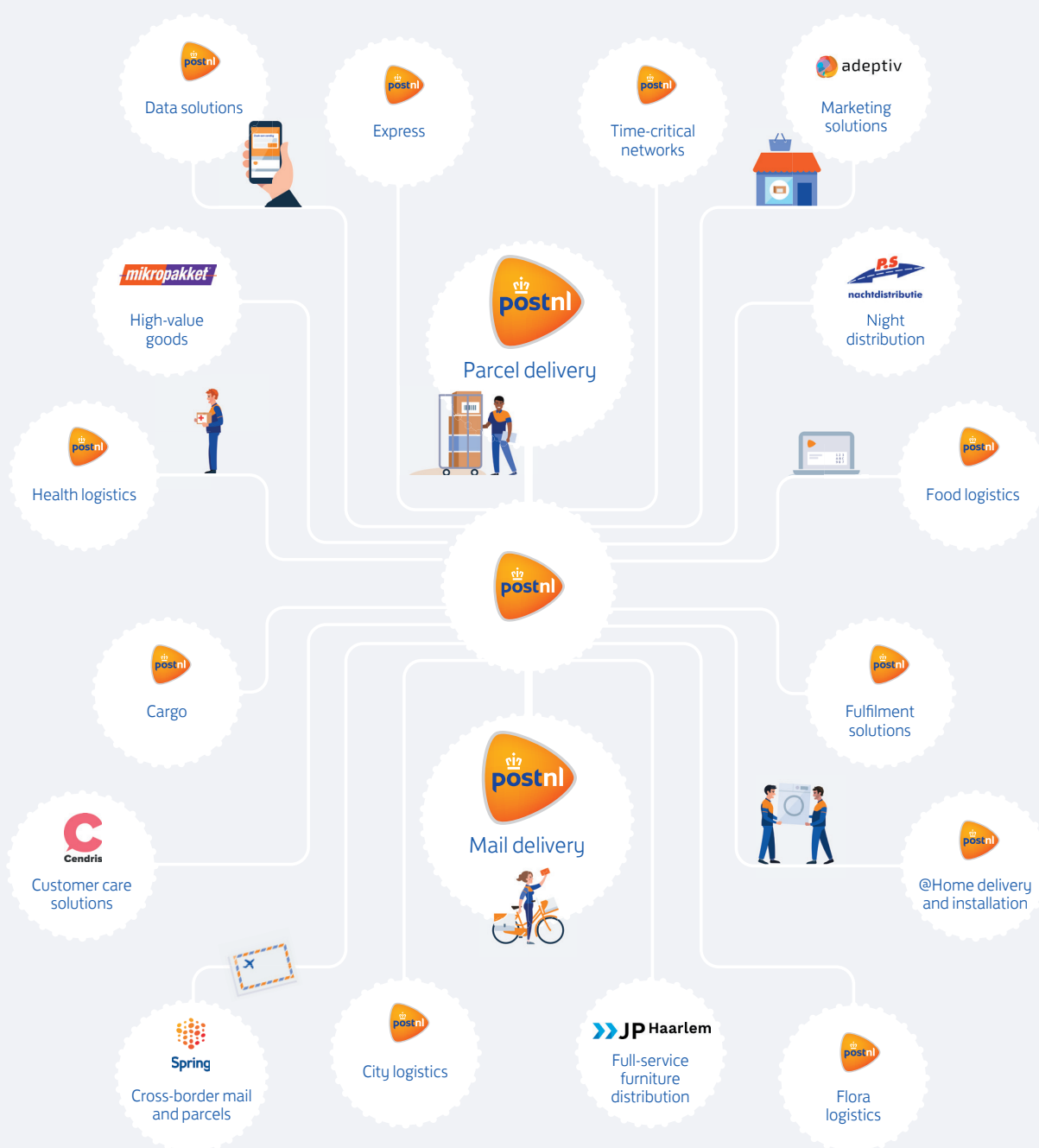


Active business customers on mypostnl.nl

75,122



Overview of our network and services



Our identity

We are proud of the identity we have built during our long history. We continue to work hard on our ambition to be the favourite deliverer for customers across society.

Delivering parcels every day and mail five days a week, we remain the indispensable link between senders and receivers, and the connection between the physical and the digital world. Below we outline four of the key elements of our Orange Compass, which help us on our journey to be the favourite deliverer.

We deliver special moments

We are continually evolving to remain relevant and innovative, optimising our delivery processes and services to benefit our customers. Yet what hasn't changed is our purpose: to deliver special moments. While we operate in a world in which everything and everyone is connected, we understand that every contact moment is a valuable moment.

We deliver for everyone

We collect, we sort, we deliver. From the delivery of mail and parcels to helping customers with innovative digital solutions and services, working together helps us realise our ambition of being everyone's favourite deliverer.

We ensure that you can send and receive anything, anywhere

We are the indispensable link between senders and receivers, and the connection between the physical and digital world in the Benelux and beyond. And we strive to do it in a more sustainable way everyday.

We keep it simple, we work smarter, and we do it together

We make things easy and we keep it simple, while working smarter to stay ahead of the curve and continually improve. And we achieve this by working together with our customers and everyone who works for or with us.

Orange Compass

Our Orange Compass, outlined in the table below, helps guide all of us within PostNL on how to put the desired customer experience first, supported by the right employee behaviour, working environment and leadership.

PostNL Your favourite deliverer

Why?

We deliver special moments

Who?

We deliver for everyone

What?

We enable you to easily send and receive anything anywhere

How?

We keep it simple. We make it smart. And we do it together

Desired customer experience

Makes it happen

Works with me

Makes me happy

Desired employee behaviour

Do what we promise

Stay one step ahead

Connect and surprise

Optimal work environment

Just deliver

Smarter every day

Look out for one another

Optimal leadership

Making it possible

Providing support and guidance

Enabling connections

Interview with Herna Verhagen



Introduction

In 2019, PostNL celebrated its 220th anniversary. An important milestone in our long-standing history of developing and transforming into the company we are today. Our purpose is to deliver special moments, and our ambition is to be “Your favourite deliverer”. Both inspire us to keep working on our strategy to become *the* logistics and postal solutions provider in the Benelux, while creating long-term value for our shareholders. In this interview, Herna Verhagen reflects on the key developments of 2019 and her views on 2020.

What were PostNL’s special moments in 2019?

“Out of the many special moments we had in 2019, I want to highlight some key developments to provide an overview of the past year. We set ourselves important targets to bend the trend in four key priority areas: employee engagement, customer satisfaction, profits and cash flow. I am proud not only of the

tremendous efforts that our people demonstrated to come up with smart, innovative ideas to help us achieve our objectives, but also of their loyalty and engagement with the company. And I am pleased that we improved on almost all our targets during the course of the year. But we are not there yet.

We have completed the divestment of Postcon (Germany) in October 2019 and announced the sale of our Nexive (Italy) today. We have trust in the future of these entities, and these transactions underpin our focus on the Benelux.

We continued to make good progress with our transformation, and now more than half of our revenues are e-commerce related. We presented an updated Parcels strategy during our Capital Markets Day in May. Our main focus is to create more leverage from Parcels in order to improve the balance between volumes, cash flow and profitability.

Through the acquisition of Sandd, we created a single, strong nation-wide postal network in the Netherlands. The additional volumes following the integration, and as a consequence the synergies that we will be able to realise, will create much more stable profits and cash flow within our mail business. This contributes to keeping mail accessible, reliable and affordable, and helps us to create more job and income security. We rolled out the first phase of our new equal-flow business model, the New mail route, during the summer. This was an important prerequisite to be able to integrate Sandd so quickly in our network. Furthermore, this helped us realising cost savings in 2019 and beyond.

And as we push the business forward, we continued to work on becoming more digital and data driven. The expansion of our digital connections with customers, such as through the PostNL app with more than 5.3 million users, is one example. Another is digitising our customer-related processes, which will lead to greater customer satisfaction and cost savings for the company. And we took real steps towards reaching our sustainability targets, successfully issuing a €300 million Green Bond that will help us become an emission-free last-mile delivery service provider in the Benelux by 2030."

8 How do you look back on the year's business performance?

"We are proud that we achieved our group financial targets in 2019, as it was a challenging and dynamic year. Revenue grew by 2.6% to €2,844 million and our UCOI of €176 million came in at the top-end of our outlook range. This was a result of our strong focus on our strategy, with a good performance in the last quarter.

The improvements we realised in our net working capital contributed significantly to the increase of our net cash flow in 2019 compared to 2018 by €188 million, and our cash conversion was 79%. In line with our dividend policy, we were able to declare an interim dividend. As already disclosed, due to the acquisition of Sandd our increased leverage ratio does not allow us to pay a final dividend. We expect that we will be able to restore our leverage ratio and recommence payment of dividend within 12 to 24 months of the acquisition date, 22 October 2019.

We achieved a 3% increase on UCOI at Parcels, realising €121 million compared to €117 million in 2018. While parcel volumes grew by a significant 12.4%, to 283 million parcels, this was beneath expectations, impacting margins. This underpins why leveraging more from our Parcels business, to capture growth as well as value while reducing costs, is so important.

Mail in the Netherlands realised an UCOI of €76 million, 18% lower than in 2018 (€93 million). Efficiency gains during the year contributed to cost savings of €48 million (2018: €48 million). And to help us continue to save costs, we rolled out the New mail route.

Our employee engagement level stabilised in 2019 at 65%, an extraordinary achievement considering the massive changes we have made in our operations. We saw an upward trend in the second half of the year, and we are continuing to work hard to increase our engagement with employees to underpin our ambition to be your favourite deliverer.

Quality levels at Parcels were slightly below target in the second quarter, adversely impacting our customer satisfaction scores. Due to our focus, however, we managed to improve quality levels after the summer, and even managed to retain them during the extremely busy peak season. While the share of highly satisfied customers was 27% in 2019, we saw an increase during the year from 26% to 28%, which gives me confidence that we are on the right track.

At Mail in the Netherlands, we delivered 94% of consumer mail by the next delivery day, while we are required to deliver 95%. The decrease in quality occurred mainly in the fourth quarter, which was when we adjusted our sorting processes to accommodate Sandd's mail volumes in our network. We also began receiving increasing mail volumes from Sandd, while the employees needed to process these volumes only started in early February 2020. The labour market shortage remains an ongoing focus point.

While 2019 was an exceptional year, we will do everything possible to improve the delivery quality figure in 2020."

How will you create more leverage from volume growth at Parcels?

"Overall, we saw a slowdown in the growth of e-commerce during 2019, with the domestic fashion and electronics segments in particular growing at a slower pace.

Key elements in optimising our revenues are an updated pricing strategy based on both size and weight, and a greater focus on customer value through better insights. To better manage peaks, we are working with customers to reduce peak pressure in volumes. At the same time, we are changing our pricing policies, for example by building in seasonality variables. Updating our pricing for large parcels is an example of how we can create better balance between revenues and cost, as the share of large parcels was increasing, taking up a disproportionate amount of sorting and delivering capacity.

Operationally, we are focusing on optimising our collection, transport and network control to increase efficiency and reduce costs. One example is the introduction of the small parcel sorting centre (SPSC), which is designed to process parcels up to the size of a shoebox. The SPSC will be fully operational in 2021 and will process a significant share of more volumes in our network. This will have positive effect on our cost per parcel and is a highly efficient

way to increase our capacity. And we are investing in our cross-dock structure, where our trucks exchange parcels across the Netherlands and Belgium, which will streamline the transport process.

We will enhance our digital interaction with customers and consumers to improve first-time right delivery and reduce time spent per stop. At the same time, we are accelerating the digitalisation of the customer journey and our logistic networks and processes, using IT and data to help customers better tailor their services to consumer wishes. These are crucial in order to provide a seamless customer journey, create new delivery options, and open up new markets.

For other logistic solutions, our focus remains on the health market, where we continued to develop new propositions and expand existing concepts within the sector throughout the year. And we continue to deliver and install a wide variety of goods and services in the @Home market, and in 2019 opened our first dedicated @Home centre in Rotterdam.

Of course, a growing market means a great deal of interest from existing and new players, and we see industry competition that remains high. And there will undoubtedly be changes to the e-commerce market in the Netherlands in 2020, with Amazon set to enter the domestic market. Together, these actions will help create more leverage and long-term value for shareholders, while we stay our customers' favourite deliverer."

What about developments at Mail in the Netherlands?

"The mail market is continuing to decline in the Netherlands, and we saw volumes drop by around 10% in 2019, excluding Sandd volumes. This, alongside substitution and regulation, is having a profound impact on the structure of our Mail in the Netherlands business. And our business performance reflects the transition we are in.

Yet for all the talk about volume decline, there is still a huge number of customers sending mail in the Netherlands. In 2019, including Sandd volumes, we delivered over 1.7 billion mail items, which is around 6.8 million on an average delivery day. While digital communications will continue to grow, physical mail continues to catch people's attention, and is always nearby and reliable. The hand-written birthday card, a voting card, your favourite magazines and medical shipments: they're all delivered by PostNL, five days a week, across the country.

And we are innovating for those customers and consumers that continue to use physical mail, for example by investing strongly in automation to help us increase delivery quality and efficiency. We are also investing in the digitalisation of both our network processes and customer journeys. And we are continually fine-tuning our

business to ensure mail remains an important part of their overall communication mix. At the same time, we continued to focus strongly on realising necessary cost savings, such as closing down locations and rebalancing our workforce, to offset the effect of volume decline.

We also introduced a new delivery model across our mail operations, the New mail route. This was a major undertaking, which involved introducing new work schedules for over 22,000 deliverers. This 'equal flow' model removes the sorting and delivery peaks that occurred previously, which will improve efficiency and is fundamental for achieving future cost savings. For customers, it means they now have their mail delivered over two consecutive days instead of one. Which means they can better manage their process flows, for example in the production of mailings.

And we welcomed Sandd to the PostNL family in October. Throughout our journey in recent years we have advocated strongly for consolidation in the mail market, explaining that it is vital if we are to maintain an accessible, reliable and affordable mail service in the Netherlands, while generating sustainable profits and cash flow in the years to come."

Why is consolidation so important?

"Combining the postal networks of PostNL and Sandd means mail in the Netherlands will be delivered by a single, strong nation-wide postal network, enabling it to be sent and received five days a week. The consolidation is also the best option to protect jobs in the postal sector, and it will help cushion the decline of the postal market in a socially responsible way.

I am proud to have welcomed over 4,300 new employees from Sandd. This includes more than 300 employees working in sorting, as drivers and in other roles, who will be joining PostNL either at Mail in the Netherlands or Parcels. We will also continue to collaborate with sheltered workplace companies, protecting 500 jobs for employees who face challenges in the labour market. And all employees who worked for Sandd until 1 February will continue to have priority when applying for jobs at PostNL.

Of course, consolidation has many other benefits. For many people and organisations physical mail remains a vital and relevant way to connect and to stay in touch with others. The integration of both networks means additional volumes in our business and creating economies of scale, which will contribute to more revenues and lower costs. We expect to achieve the financial targets that we set out earlier. We will see substantial synergies from combining the networks into one network, and operational synergies that will result from combining central functions and optimising the sorting processes. Ultimately, one strong postal network is important to generate sustainable cash flows in the years to come."

Can you give some highlights on developments in digitalisation?

"Ongoing digitalisation creates opportunities for us to increase the value we add to customers and consumers. At Mail in the Netherlands, we are able to add customer value by offering a range of digital services, such as the stamp code and Mijn Post, through our app.

At Parcels we introduced a number of new services based on our use of IT and data. One of these is the pick-up receipt, which lets receiving consumers generate a barcode in the PostNL app that can be scanned by the retailer when collecting a parcel. This gives the retailer information on as the parcel's weight, dimensions, and the consumer's name and address, helping them locate the package faster and reducing the consumer's waiting time.

And we used artificial intelligence (AI) and data to help us more accurately predict when a second parcel delivery attempt would be successful. Based on these results, we have chosen to reroute parcels directly to retail locations when the receiver is not at home on the first delivery attempt. The change will create a number of benefits, including receivers being able to collect their parcel one day faster, lower logistics costs, and a drop in CO₂ emissions."

How does PostNL view sustainability?

"We take our responsibilities within society seriously, so sustainability at PostNL covers a number of different areas. It is about lowering our CO₂ emissions, which is why we have set ourselves three ambitious goals. One is emission-free last-mile delivery across the Benelux by 2030. Another is substantially reducing our carbon emissions by 2030 in line with the Paris climate agreement. And before that, our goal is to achieve sustainable, emission and air pollution-free logistics in 25 Dutch city centres by 2025. These goals are inspiring us to find new ways to innovate sustainably. And it's these goals that inspired our decision to issue a €300 million Green Bond in 2019. We will use the proceeds to finance projects dedicated to decarbonising our fleet, increasing the sustainability of our buildings and the use of renewable energy.

Sustainability is also about caring for everyone within society. This is why we provide employment for people with a distance to the labour market. And it's why we have made the commitment to continue cooperating with 25 social workplaces following the Sandd acquisition, and continue to make use of our network to help vulnerable people. It's important that we challenge ourselves and our partners along the value chain to constantly do better and to be more sustainable. These are some of the ways in which we try to achieve this."

What is your view for the year ahead?

"There are a number of to-dos on our list for 2020. One of our first priorities is to create more leverage within Parcels from continuing volume growth. Therefore, we need to step up our initiatives, which includes further implementing our pricing strategy, improving the operational efficiency of our network and investing in smart parcel sorting. This will enable our Parcels business to achieve a better balance between volume growth, profitability and sustainable cash generation. And we adapt our planning in capacity investments to current growth projections.

Another focus area is our ongoing strategy of offsetting volume decline with cost savings and balanced pricing. For example, realising the synergies from the Sandd integration, which will help us achieve notable cost savings in 2020 and the years to come. We will also further cut costs through the implementation of the next phase of the New mail route, which has created a more flexible model for mail collection, sorting and delivery.

We will also make more money available to invest in accelerating digitalisation across the company, such as in platform integration in our supply chain or improving tracking of parcels in the app. This helps us develop every aspect of the company, from smart logistics enabling to move customers' goods quickly, efficiently and sustainably, to optimising the customer experience. And to automation in our mail operations that increase delivery quality and efficiency.

We want to strengthen our employee engagement in 2020, helping our people maintain fun and energy in their job. While our employee engagement score remained stable in 2019, we are committed to making improvements. For example, we continue to focus on attracting the right people in a tight labour market to help create sustainable operations. And we will work to make those employees who joined from Sandd feel part of the PostNL family.

And, of course, we will concentrate on adding value for our customers. Consumers are increasingly communicating with us on the go, and our digitalisation is focused on making it easier for them to send, receive or collect their mail and parcels when and where it suits them. For e-tailers and web shops we will roll out sophisticated new delivery options, and developing more complex and integrated fulfilment services. This will be supported by our operational excellence, which is a pre-requisite for providing the high-quality delivery that directly impacts customer satisfaction rates. Together, these priorities will help us achieve our ambitions in an innovative and sustainable manner."

And to our highly valued stakeholders: any final words?

"Our focus in 2019 was on implementing our strategy to improve our key targets: customer satisfaction, employee engagement, profitability and cash flow. It is a fine line and we are clearly not there yet. We performed well on profitability and cash flow in 2019 and I believe we are on the right track. But we need to remain vigilant and focused to ensure we can make further improvements in 2020. Finding a stable upward trend means accelerating digitalisation across the company, investing in our networks, continue to focus on cost savings and creating more leverage from volume growth to improve margins and cash-flow.

But we can only achieve this with the continued support and strength of our many stakeholders. Our customers, who trust us to deliver on their behalf everyday across the Benelux. Our people, who we want to be happy and motivated to do what is best for our customers and consumers, while being proud to be part of PostNL. Our shareholders and investors, who support us in our drive to produce a healthy financial position and performance, while creating long-term value. And our other partners, with whom we work to contribute to a better society, which is connected, smart and sustainable.

To each and every one of them, I would like to say thank you on behalf of PostNL."

Kind regards



Herna Verhagen, CEO

Our operating context

Our partners in the value chain, competition, regulatory requirements and trends influence the way we do business. We engage with stakeholders, including shareholders, to determine the key material topics we focus on to create long-term value.



Position and role in the value chain

With our broad range of services, we play an important role in the logistic value chain. The way we develop our company is influenced by the relationship with our partners, both suppliers and customers. The infographic below visualises the role we play in the value chain, including those services beyond our core business activities. This section provides more information about the extent of our role in the value chain.

Our broad range of products and services

While our core business activities are to collect, sort and deliver mail, parcels and other goods, we are transitioning to a full-service logistics service provider. This means offering services beyond our core activities. For example, we help senders place orders through our own channels, and consumers find the right delivery option when they order online. We also prepare shipments, such as fulfillment services for customers, arranging everything from stock management and order picking to collection and delivery services. We provide receivers with multiple delivery options to give them more flexibility during the logistics process, and help e-tailers offer these options using our data-driven and digital services. And we provide customers with return services as part of our business model.

Main markets and customers

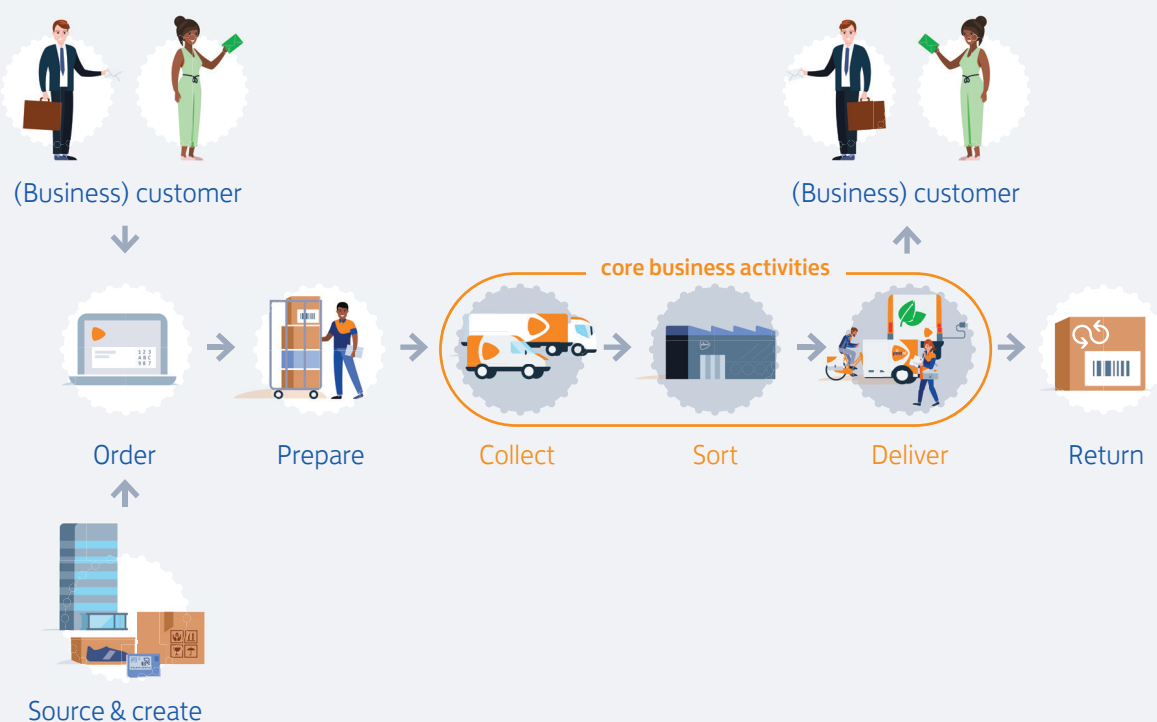
PostNL focuses on providing services in the Benelux. As the designated universal service provider in the Netherlands, we are also involved in the export and import of mail beyond the Benelux. We offer import and export services for parcels and mail, and logistic solutions outside the Benelux through our Spring brand.

We help business customers send parcels, mail and other goods to receivers in the Benelux. From corporates to small businesses, from physical companies to e-tailers, we serve a wide range of customers. And we send and deliver parcels and mail for consumers in the Benelux, while arranging logistic services for business customers globally through Spring.

Main supplier categories and purchase markets

Almost half of our supplier costs go to transport-related services, with the rest going to those providing properties and facilities, hiring and advice, information and communication services; and human resources. These suppliers are primarily located in and operate from the Benelux. For procurement of assets, such as vehicles and company clothing, we also use suppliers directly involved in sourcing and creating products. These suppliers are based both in the Benelux and beyond.

PostNL Our value chain



“ We will focus on digital innovations, enhancing customer experience to stay ahead of challengers. ”

Other key partners

PostNL is a large company and we take a pro-active approach towards strengthening the logistic value chain. We collaborate with a range of partners, including industry associations, public-private initiatives, trade unions and several benchmarking institutes. This collaboration is important to make progress on topics where we depend on others to achieve our goals, such as sustainable packaging.

Competitive landscape

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We operate in a competitive environment. Developments in this landscape influence market dynamics and may lead to a change of focus on specific topics. This provides relevant input when determining our key material topics. We face competition across our mail, parcels and international markets. Below we outline how we view this competition and our responses to it.

Increased competition in e-commerce

Ongoing market growth in our e-commerce markets continues to drive a great deal of interest from existing and new players, with industry competition remaining high. In addition, large (inter)national e-tailers are beginning to enter the delivery environment, choosing to fulfill part of the process themselves. We maintain our market-leading position in the B2C segment by providing high quality innovative services and solutions, and favourable pricing. At the same time, we continue to strengthen our position in the B2B segment, ensuring our services match or exceed those in the market. Going forward, we will focus on digital innovations, enhancing the customer experience, and competitive pricing to stay ahead of challengers.

Developments in relation to mail

The competitive marketplace for physical mail is influenced by regulation, and substitution due to digitalisation. PostNL is the designated mail provider under the universal service obligation (USP) in the Netherlands, which requires us to maintain country-wide coverage and deliver on specific quality targets, which do not apply to other postal companies. Other postal operators in the market do continue to have access to our network.

The consolidation of PostNL and Sandd will help us secure accessible and reliable postal services at affordable prices. We continue to pro-actively engage with our stakeholders, including the government, to shape the future of postal services. We also continue to invest in marketing the value of mail through marketing campaigns and highlighting its benefits to customers.

International

E-commerce growth rates in the international market exceeded domestic growth rates in 2019, signalling the speed of the market's development. We continue to face challenging competition within the cross-border arena. In 2019 we reduced our dependence on the Asian market, creating more balance between Asia and Europe. Going forward, we see that data is becoming increasingly important. We are already including some data with packages sent internationally, and this will increase as requirements change. We will adapt to changing regulations and developments within the international environment.

Regulatory environment

The Dutch postal market has changed fundamentally over the past years. Dutch mail volumes have decreased by more than half since 2005 and the decline will continue. Below we discuss the impact regulation is having on the postal sector in which we operate.

General regulatory developments

On 9 April 2019 the Ministry of Economic Affairs and Climate published its proposed amendments to the (public) consultation on the review of the Dutch Postal Law 2009. The amendments aim at keeping nationwide mail delivery affordable and reliable against the backdrop of a changing market.

On 3 June 2019 we submitted our response to the public consultation of the review. The ministry submitted the proposed amendments to the Council of State (Raad van State) for advice. It is expected that the Postal Law will be discussed in Parliament in 2020.

Significant Market Power regulation

On 24 December 2018, the Authority for Consumers and Markets (ACM) published a new draft Significant Market Power (SMP) decision after its former SMP decision was annulled by the Trade and Industry Appeals Tribunal (CBB). PostNL submitted its opinion on the draft on 14 February 2019. No SMP decision has been taken so far.

Consolidation

On 25 February 2019 PostNL and Sandd announced they had reached an agreement to merge, and PostNL consequently submitted a merger notification to the ACM.

The ACM concluded on 1 April 2019 that a further examination was required in order to obtain a licence. This second phase investigation was initiated on 4 April when PostNL filed the licence application.

After the ACM concluded on 5 September 2019 that it could not clear the intended merger, PostNL applied for a licence with the Minister of Economic Affairs. The Dutch competition act provides a possibility for the Minister of Economic Affairs and Climate to grant a license after a refusal of the Competition Authority based on strong considerations of common interest.

On 27 September 2019, the State Secretary of Economic Affairs and Climate, to whom the competence has been delegated, eventually cleared the merger between PostNL and Sandd by granting a license. This approval is under the condition that PostNL will continue to provide access to other postal operators and adheres to its commitments on re-employment. Furthermore, PostNL is subjected to a 9% rate of return ceiling concerning its mail activities (both USO and non-USO). These conditions will be supervised by the ACM.

Labour

On 19 February 2019, PostNL announced it has decided to stop contracting and will start working with temporary workers at parcel sorting centres. PostNL is committed to equal pay for all parcel sorters and wants to provide clarity in the social discussion on contracting. The wages of temporary workers will be based on PostNL's collective labour agreement (CLA).

On 8 March 2019, the FNV trade union took PostNL to court claiming that a group of parcel sorters contracted through staffing agency InPerson were hired by PostNL, not contracted. On 7 May 2019, the court agreed with the FNV and held PostNL liable for the payment of outstanding wages. PostNL held the contracting parties responsible for the subsequent payment. PostNL will appeal the court's decision.

Inspection ILT

In July 2019, PostNL received the official audit report for the qualification of system supervision by the Human Environment and Transport Inspectorate (ILT). ILT supervises the requirements for safe transport, including dangerous goods, and working conditions. These working conditions are related to working hours and regulations in loading. The audit report shows that our management system works well, meaning PostNL qualifies for system supervision by the ILT. This system supervision is a lighter audit for companies which have demonstrated business systems and control measures that manage and ensure compliance with legislation and regulations.

EU Regulation

As a consequence of the newly adopted EU directives amending value added tax (VAT) obligations for supplies of services and the distance sales of goods, the existing VAT exemption for the importation of low-value small consignments will be removed as per 2021. Additionally, the implementation of EU customs rules on safety and security leads to an obligation to provide content data on all parcels and packages in advance as per Q2 2021. These changes will have an operational and IT impact on both customs authorities and PostNL. Discussions with national authorities and the European Commission on the operational and cost impact are ongoing.

The European Commission is in the process of reviewing the EU Postal regulation, consisting of the postal services directive (2008) and the cross-border parcel delivery regulation (2018). The European Regulator Group Post believes greater competition regulation will lead to a fairer and more effective market. PostNL and the other EU postal operators support the legal obligation to provide a (flexible) universal postal service but see no need for specific market regulation. A legislative proposal is not expected from the European Commission before 2021.

UPU agreements

At the Extraordinary Congress of the UPU in September 2019 in Geneva, it was agreed that member countries will be able to set their own rates for small packages from 2021, with a transition period applied capping the maximum yearly increases until 2025. The transition period does not apply to the United States allowing them to apply self-declared rates as of July 2020 (on a reciprocal basis). The consequence of this outcome will be increased revenues for PostNL for e-commerce flows to the Netherlands that originate from Asia. However, the costs for the delivery of e-commerce items from the Netherlands to the rest of the world will also increase. Overall, PostNL expects the balance to be positive.

Brexit

The United Kingdom (UK) formally left the European Union (EU) on 31 January 2020 with a withdrawal agreement, and moved into a transition period that is scheduled to end on 31 December 2020. During this transition period the UK will effectively remain in the EU's customs union and single market awaiting a possible final deal. As a result, during this transition period no major impact is expected on the flows of mail and e-commerce to and from the UK. Although the future trade agreement after the transition period will have little impact on the exchange of mail between the EU and the UK, there is expected to be an impact on e-commerce flows. The extent of this impact will depend on the outcome of the trade negotiations, as this will guide customs policies and therefore the ease of shipping goods between the two regions. PostNL will continue to closely monitor developments regarding the negotiations for the new EU-UK trade agreement, and will prepare accordingly.

Mega and market trends

We have identified a number of mega and market trends that are shaping the lives of our customers and impacting our strategy. These trends, and the impact they will have on our business, are detailed below.

Mega trends

PostNL has identified three important mega trends that influence the world in which we operate:

- Urbanisation
- Aging population
- Climate change

Urbanisation is leading to a concentration of people living in cities, which increases the demand on logistics and puts pressure on urban infrastructure. At the same time, the population is aging and people are living longer at home. With elderly people becoming more reliant on healthcare, there is a shift towards health provision at home, which requires a range of (new) logistic solutions.

Another key issue facing society is climate change, with transport playing a significant role in the emission of greenhouse gases (GHG) and negatively impacting air quality, especially in urban areas. Society is looking for solutions and governments are set to introduce restrictions on pollution-causing transport in an effort to both combat climate change and improve health.

Market trends

We have also identified six key market trends that are shaping the needs of our customers and impact our strategy:

- Growth in e-commerce
- Consumer in control
- Digitalisation
- Automation and robotisation
- Tight logistic labour market
- Sustainable logistics

Growth in e-commerce

The continued move from offline to online is leading to rapid growth in e-commerce, with people increasingly making their purchases online. As well as solid domestic e-commerce growth, we see a strong increase in the cross-border e-commerce market. Analysts are forecasting strong annual growth in the global e-commerce market in the coming two to three years.

We are leveraging on these developments to cement our position as the leading e-commerce logistics player in the Benelux, by expanding our delivery options and increasing the number of value-added services we offer. At the same time, we believe our

comprehensive networks and coverage across the Benelux enable markets, such as food and health, to grow online. We also see a growing number of peak moments, such as Easter, Black Friday and Cyber Monday, and the annual payment of the holiday allowance. To deal with these developments, we are investing in our networks, increasing flexibility and working with sector partners to launch campaigns designed to spread peak demand over a wider period.

Consumer in control

One of the impacts of digital change is that consumers increasingly expect to see the physical world replicated in the digital world. To satisfy consumer expectations, companies have to go beyond standard last-mile delivery solutions and provide new services. Consumers want to see services traditionally offered at retail locations, such as the sale of stamps or returns solutions, available online, either through our app or website. And they want to be able to update their preferences on the go, using mobile channels to change the time or location of parcel deliveries. For PostNL, this means developing services that connect the digital and physical, so that digital transactions result in seamless physical deliveries.

Digitalisation

Another key market trend is digitalisation. A range of digital alternatives for mail, such as electronic invoicing, social media or other digital marketing services, contribute to declining mail market volumes. At the same time, ongoing digitalisation creates opportunities for us to increase the value we add to customers and consumers, both within Parcels and Mail in the Netherlands. In our Parcels segment, the use of IT and data enables us to help customers better tailor their services to consumer wishes, such as automatic programming interfaces (APIs) and multiple delivery time-frame options. And in our Mail segment, we are adding customer value by offering a range of digital services, such as digital marketing, the stamp code and Mijn Post through our app.

Rapid developments in technology impacts the way businesses operate. Current and future trends that will impact our sector include the use of data, which will help logistics companies manage demand peaks, provide insights into supply and demand forecasts, and help with route optimisation. Digitalisation will also lead to smoother ordering and better payment and delivery processes, creating a more efficient supply chain. We are using technology and data to change the way we run the company and provide our services.

Automation and robotisation

Automation is impacting the logistics industry, with collaborative robotics set to increase accuracy and efficiency within the supply chain. Driven by rapid technological change and greater affordability, robotisation will boost logistics and productivity while supporting 24-hour processes. Robots will adopt complementary

roles in the value chain, assisting workers with planning, fulfilment and last-mile deliveries.

The rise of e-commerce requires logistic service providers to operate faster and more efficiently to rapidly process all individual orders. Automation plays an essential role in this dynamic environment. With the majority of logistic solutions still being operated manually, the potential for automatisisation is high. We use automation and robotisation in a number of areas, including within our automatic fulfilment services and robotic process automation (RPA) in our administration. As the technology becomes faster, more accurate and more affordable, automation will play an even greater role in our industry in the years to come.

Tight logistic labour market

In our high volume, growing logistics business, effective staffing and planning is a key success factor. In 2019 the continuing low unemployment rate, driven by strong economic growth and an expanding e-commerce sector, made it challenging to fill company vacancies and retain people. Given the strong economic growth predictions, we expect the labour market squeeze to continue. Our commitment remains on retaining people who are well trained, passionate, and who want to make a difference for our customers, by offering training, mentoring and development opportunities.

Sustainable logistics

Sustainability is playing a key role in the way society is changing and the way companies operate. Many are increasingly focusing on the longer term impact of their businesses. PostNL is no different. We take our responsibilities seriously and are concentrating on how we can create a more sustainable company while addressing the wishes of our stakeholders. For example, we are increasingly using low- and zero-emission vehicles, and building very energy efficient sorting and delivery centres. And we have set ourselves ambitious environmental goals for 2025 and 2030, which will result in fundamental changes to the company.



Stakeholder dialogue: pragmatic and useful

The annual dialogue session that PostNL holds with stakeholders took place on 3 October. Jeroen Cox, Senior Manager Energy and Environment, was present on behalf of KPN. "By talking to each other, we can learn from different areas."

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Circular economy

"PostNL is an important link in the delivery of our products at KPN," says Jeroen. "We want to improve our impact along the value chain and PostNL is an important partner in this for us, for example in the field of the circular economy. By this we mean using less material, using products for longer and preventing waste. That's why it was so interesting to participate in the dialogue about improving our joint impact on return flows. The collaboration is also laid down in the circular manifesto that PostNL and KPN have signed together."

Common interest

Other topics in which KPN and PostNL have a common interest are city logistics and packaging. "We would like to reduce the impact of our packaging and PostNL is working hard on that. We can also join forces in making our fleets more sustainable. I find it useful that PostNL engages in an annual dialogue with stakeholders on these types of topics. I also appreciated the pragmatic approach, with a number of good ideas, that we will continue to work on in the coming months."

Stakeholder engagement and materiality

We engage with our stakeholders in different ways, on different levels and on different topics to better understand their interests and the way our activities affect their decision making process. This helps us understand which topics are most material, or are of greatest significance, to stakeholders so that we can prioritise these in our Materiality matrix. Our main stakeholder groups are summarised below and we then outline our materiality process. A more detailed overview of the stakeholder engagement process is included in the chapter 'Non-financial statements'.

Investors

It is vital that we generate sustainable cash flow, enabling us to achieve profitable growth across our operations and create value for our investors and the company. We hold many discussions and feedback sessions with shareholders and investors, including at roadshows and conferences, as well as strategy updates, the publication of our financial results, and during workshops. Discussions cover a variety of topics related to our business drivers and financial performance, including how we create value, our strategy, our investment proposition, and our short- and long-term outlook.

Customers

We identify two types of customers who make use of our logistic services. The first are business customers, ranging from one-person companies to multinational organisations, and the second are consumers. We engage with each on different types of topics. Business customers expect seamless, high quality, sustainable services that are delivered where and when promised. Consumers expect PostNL's services to be accessible, reliable, affordable, flexible and they increasingly expect to be in control. Within both types of customers we also distinguish senders and receivers. In our discussions with customers, we take the sending or receiving perspective into consideration. Our ambition is to be our customers' favourite deliverer.

Our people

PostNL is a large employer and a people company. Our people and those who work for us through partners play an essential role in providing our logistic services. We discuss a broad range of topics with our employees, from the moment they start working for us through to the moment they retire or leave the company. This includes training and development opportunities, improvements to our processes and systems, gathering feedback on the work environment, and discussions on how we can improve as an employer.

We also collaborate closely with trade unions and the works council to discuss working conditions. We want to provide everyone with a safe working environment, where people feel at home, respected and enjoy a culture that stimulates innovation, diversity, new ways of working and opportunities. And we hold discussion sessions with our delivery partners, where we elicit their ideas and opinions about our collaboration together and what we can do to strengthen our partnership.

Government bodies

PostNL operates in a regulated environment. This is why it is essential we engage with local and national governments, regulators and the general political arena about policy and regulatory developments. This includes topics such as the future of the Dutch postal market, labour relations, city logistics. Internationally, we engage on customs requirements and taxation with government bodies of the various countries.

Opinion leaders and society

Local communities are important as we are visible in every street in the Netherlands, impacting the perception of the general public by our behaviour and activities. Media, academic institutions and research institutions publish views on the company and the market in which we operate. NGOs look at PostNL for different perspectives, such as Human Rights and environmental impact. We engage with these various stakeholders on a number of topics, including business activities, market trends, environmental issues and social issues.

Business partners

Suppliers and other business partners form an important stakeholder group, helping us as we work to execute our strategy. This includes delivery partners, employment agencies, suppliers of IT services, goods, vehicles, and retail shops, as well as other organisations from which we purchase services. Relevant topics of discussion with business partners include business ethics, responsible procurement practises and privacy.

“ For the Annual Report we focus our disclosures on those topics deemed most material.”

Materiality

PostNL considers all discussion topics with stakeholders relevant. For the Annual Report we focus our disclosures on those topics deemed most material. To identify what is most material, we first carry out a materiality analysis to prioritise the topics we have identified, and then rank them based on two dimensions.

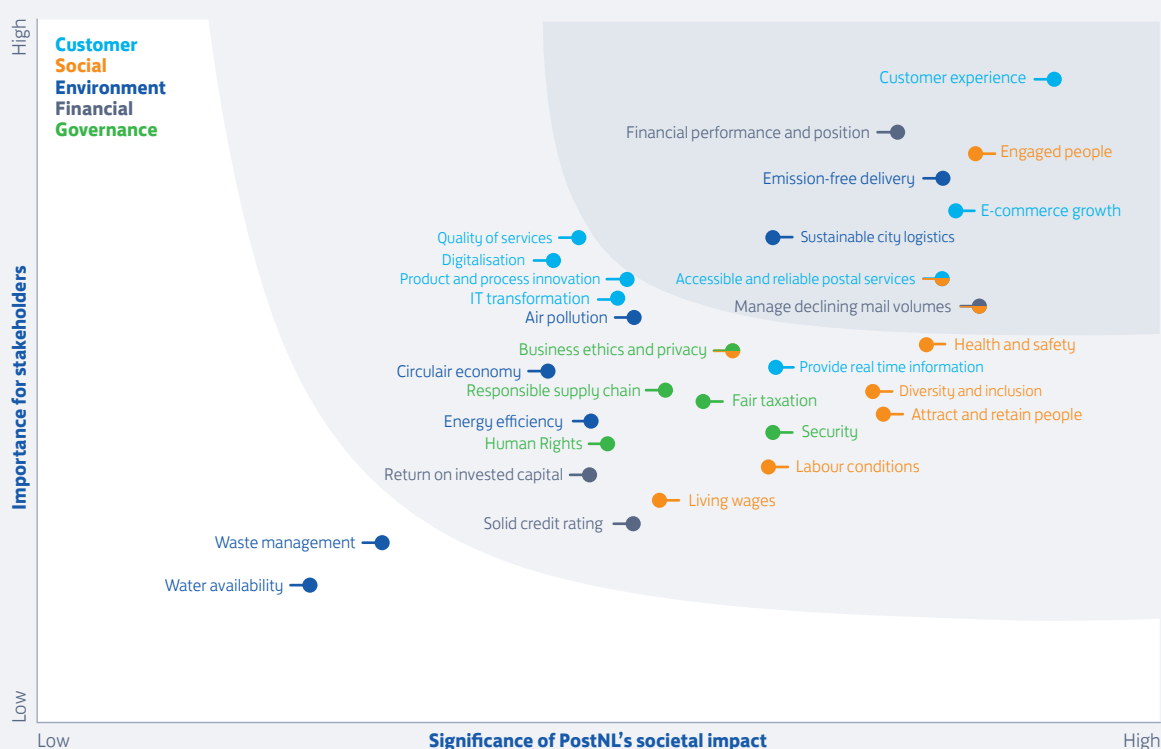
- Dimension one is what is most important to our stakeholders, influencing their assessments and decisions. This is the vertical axis on the Materiality matrix.
- Dimension two is the significance of the societal impact of PostNL with the topic. This is the horizontal axis on the Materiality matrix.

All topics in the Materiality matrix lead to direct or indirect financial impact. We categorised all topics in five domains based on the primary impact domain. The domains relate to different sections in the Business Report and Governance section of this report. The categorisation in the five domains are presented in the Materiality matrix below.

Topics ranked in the upper right-hand section of the Materiality matrix represent the key material topics for the company. These eight topics best reflect where PostNL creates long-term value.

All other topics in the matrix remain important and often contribute to the value created with our key material topics. In order to positively contribute to the material topics of our stakeholders, while optimising our impact on society, we use the key material topics as input for our value creation model. A more detailed description of our stakeholder engagement and materiality analysis is included in the paragraph Reporting criteria in the chapter 'Non-financial statements'.

PostNL Materiality matrix



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How we create value

Our value creation model illustrates our process of achieving long-term value for our customers and investors, our people, society and the company by providing logistic and postal services. We use our key material topics as input to connect our long-term impact with the UN Sustainable Development Goals.



Key material topics

We have evaluated our operating context and how it influences those topics that enable us to create value for society, including shareholders and stakeholders. From this, we defined eight key material topics for 2019.

Because everything we do has either direct or indirect short- or long-term impact on our financial value, for each key material topic we developed performance indicators to measure progress on the outcomes of our value creation model.

From the eight key material topics, we have identified three that are vital if we are to realise our strategic objectives in the short term: Customer experience, Engaged people, and Financial performance and position. The other five topics remain essential for our long-term value creation and support our main three topics.

Customer experience

We strive to better understand what our customers want, and work to improve the customer experience. Steps taken to achieve this include investing in network capacity as well as developing innovative new products and services. At the same time, we want to create simple and convenient customer interaction, and lead through business model innovations.

Engaged people

A positive working environment for everyone who works for or with us is a prerequisite if we want to engage with our people. This means ensuring there is fair compensation and respect and equal treatment for all. Attracting and retaining the right people, providing a safe place to work, by providing learning opportunities and ensuring people feel at home at PostNL, are also important drivers for our people's engagement.

Not only are engaged people happier, they also benefit the company. They are committed to their work ('I love my job') and the goals and values of the company ('I love my company'). And engaged people can increase innovation, productivity and bottom-line performance while reducing costs related to hiring and retention in tight labour markets and highly competitive talent markets.

Financial performance and position

Executing our strategy will help us generate sustainable cash flow, enabling us to achieve profitable growth across our operations and create value for our investors and the company. This value has a

number of dimensions, including revenues, margins, profits, cost efficiency, cash flow, equity, debt and taxes.

Emission-free delivery

We have set ourselves the goal of providing emission-free last-mile delivery across the Benelux by 2030, which requires working to make each kilometre we travel as efficient and sustainable as possible from today. This means investing in our business model and fleet, for example by introducing electric vehicles, energy-neutral sorting centres or e-bike delivery.

E-commerce growth

We are helping shape the e-commerce market as we transform into a logistics e-commerce company. By introducing quicker and more efficient delivery options for e-tailers and consumers, expanding our online services, and broadening our retail network, we make it easier for all of our customers to send and return parcels.

Manage declining mail volumes

We are working hard to introduce effective cost-efficiency measures in our mail business model to generate a sustainable cash flow, such as improving flexibility of costs, investing in next-generation sorting machines and through the introduction of the New mail route. Together, these measures are aimed at helping us manage declining mail volumes.

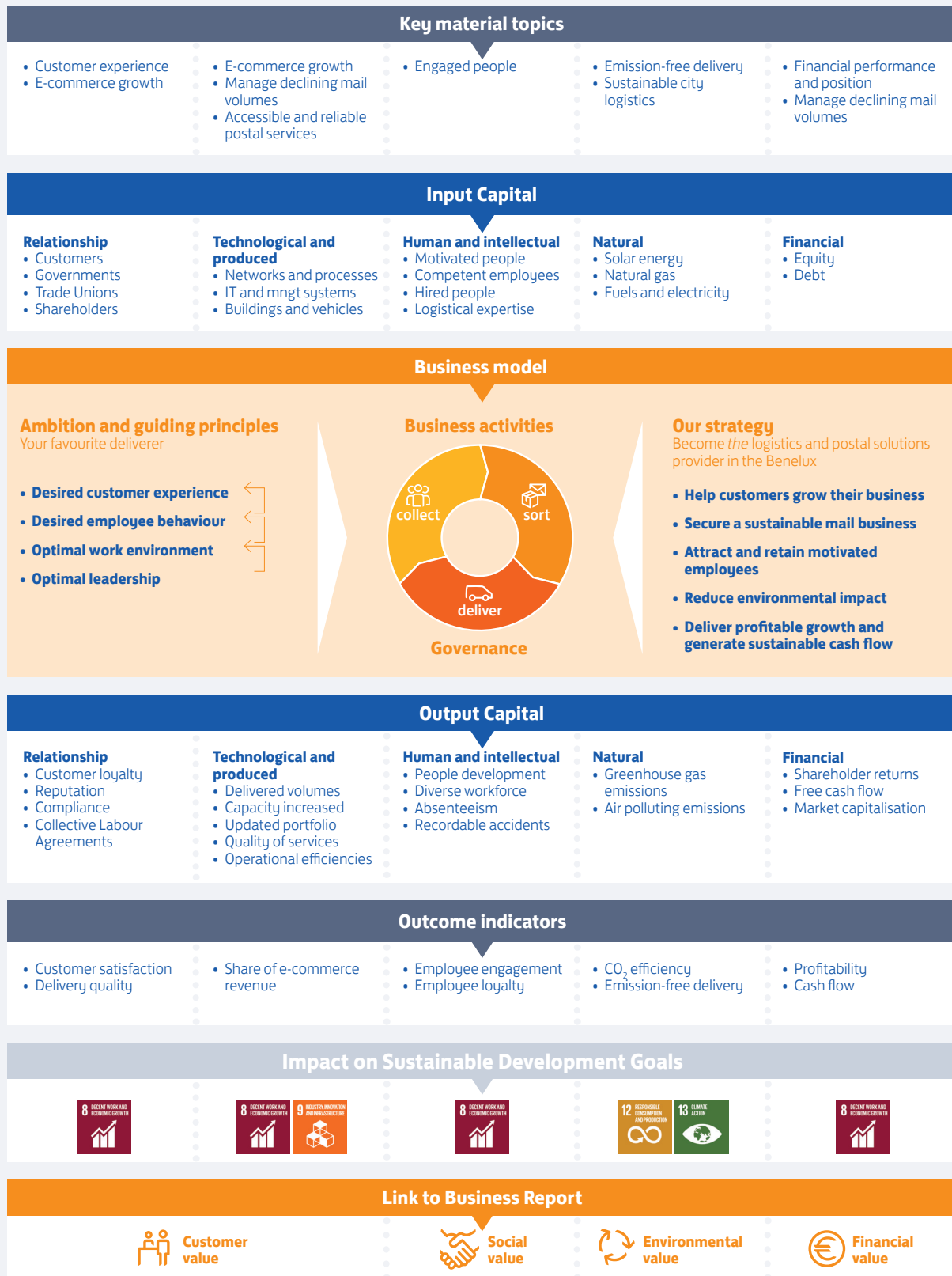
Accessible and reliable postal services

Providing accessible and reliable postal services involves being able to collect, sort and deliver physical mail, at the quality levels expected and demanded, five days a week. It also means ensuring easy access to PostNL post boxes and retail locations. We believe that consolidation is vital to maintain accessible and reliable postal services, which is why the Sandd integration is such an important step forward.

Sustainable city logistics

Logistics in the Benelux and in cities are changing, impacting livability and air quality. To accommodate future growth in collection and delivery in cities requires changes to current business models. We work together with a range of partners to reduce logistic movements by consolidating shipments at the edge of cities, and delivering from there using suitable and sustainable vehicles. This results in less traffic congestion and clean transport, which reduces air pollution in urban areas. Our objective is to realise emission-free delivery in 25 Dutch city centres by 2025: free from CO₂, NO_x and PM₁₀.

PostNL Our value creation model



Use of capital

PostNL makes use of valuable assets as input for the business model, while the model also generates valuable outputs for the company and our stakeholders. The capital categories are aligned with the International Integrated Reporting Framework of the IIRC¹. The capitals are interrelated and business activities often require the use of a mix of capitals. We aim to use our capitals effectively by maximising their potential value and minimising their negative impacts as part of our continuous drive to improve.

Relationship capital

We have deep roots in society, and through our operations connect with millions of stakeholders on a daily basis. The relations we have with our stakeholders, especially our customers and our investors, our employees, governments and trade unions, influence our ability to create value over time. We strive to build strong relationships through the way we do business and interact with our stakeholders.

Technological and produced capital

The assets that drive digitalisation, the use of data, automation and robotisation are our technological capital, and they play an increasingly important role in our business. This includes both the process and information-related technologies that we use to improve the value of our business activities. Produced capital are those goods and assets that enable us to carry out our role as a logistics and postal service provider, such as vehicles, buildings and machinery. We select these goods and assets based on our specific needs and available sustainable options.

Human and intellectual capital

PostNL is a people company. We need our people to execute our strategy and contribute to the delivery of our services. This includes our own employees and people working for us through our partners. By operating and developing an inclusive organisation, we aim to help our people to grow, while providing fair compensation, and a safe and healthy work environment.

The collective knowledge and experience of PostNL, built over the course of more than two centuries, is one of our greatest assets, our intellectual capital. As a logistics expert we have created state-of-the-art networks, smart processes and created management systems that have enabled us to become a frontrunner in our rapidly changing markets. These are created to help PostNL deliver high-quality services, optimise our operations and develop new value-added operations.

Natural capital

Natural capital is the energy we use to provide our services. We use solar energy to generate electricity and natural gas to operate our buildings and our vehicles, many of which now run on biogas or

electricity. Those that run on diesel or gasoline produce greenhouse gases (GHG) and air polluting emissions that impact air quality and contribute to climate change.

Financial capital

Shareholders and other relevant players in financial markets, such as bondholders and banks, provide PostNL with funds used to invest in our assets and operations. We use this financial capital to operate and grow our business, and our success has a direct impact on these investors.

Business model

We use our business model to achieve our ambition of becoming the favourite deliverer. Our identity gives us guidance on how we want to collaborate and interact with stakeholders. Our strategy provides management direction when making decisions. Our main business activities are influenced by our identity and our strategy and form the core of our business model. Finally, our governance structure helps us safeguard that management steers adequately on these three indispensable elements in our business model.

Ambition and guiding principles

At PostNL, we use the so-called Orange Compass to bring our identity to life. It also gives us guidance on our behaviour to demonstrate desired customer experience, as explained in the chapter 'Our identity'.

Business activities

We serve our customers by providing three essential core activities within the parcels and mail market: collecting, sorting and delivering. This is only possible because of the dense and integrated networks and state-of-the-art processes that we operate throughout the Benelux, and beyond through our cross-border solutions. We need to deliver reliably, safely, on time and conveniently to make a difference and to fulfill the promises we make to our customers. Our committed workforce makes this happen.

“ We serve our customers by providing three essential core activities: collecting, sorting and delivering. ”

¹ International Integrated Reporting Council

Parcels

Our Parcels solutions range from delivering standard parcels to more tailored solutions, such as health logistics, and from time-critical delivery to installation services. We are investing across the network, from IT and data solutions to state-of-the-art sorting centres, to help drive e-commerce growth. Our digital platforms, such as the PostNL app, enable us to launch services that give consumers greater control over their deliveries. We are also creating new IT platforms designed for business customers, which provide e-tailers with a greater range of delivery options and services. Infrastructure investments, such as in centres that can process the growing number of small parcels, will help us keep pace with market growth and further improve the efficiency of our services. Our Spring brand provides customers with international delivery solutions as it transitions towards becoming a provider of global e-commerce solutions.

Mail in the Netherlands

At Mail in the Netherlands we continue to concentrate on delivering a sustainable cash flow in a shrinking mail market. Acquiring Sandd helps us to keep postal services reliable, accessible and affordable throughout the Netherlands, while providing sustainable employment for our people and those who join us. We continue to invest in our mail network, which results in an increase in the percentage of automatic sorting, and creates more flexibility when realising delivery route optimisation. We are also introducing further efficiencies across our networks and operations to realise cost savings and strengthen our services, such as rolling out the New mail route.

Our strategy

PostNL's strategy is based on becoming *the* logistics and postal solutions provider in the Benelux. In order to achieve our strategy, we have set out strategic objectives, which are further discussed through our strategic priorities and relevant drivers, as explained in the chapter 'Our strategy'.

Governance

Pursuing opportunities and managing risks are essential in order to be in control of our strategic progress. We use a multiple layer governance structure to steer our company in the right direction. Line management, business control, internal audit, executive committee, board of management, audit committee and the supervisory board all have an important role to play make sure we are in control. Not only to safeguard our strategy execution and external reporting, but also to identify and manage areas for improvement in our business model.

Impact on Sustainable Development Goals

Our strategy is focused on creating both short- and long-term value for our stakeholders through our key material topics. The short-term value we create is expressed in the outcome indicators. We have directly linked our long-term impact, as shown in the a Value creation model, to the Sustainable Development Goals (SDGs) set by the United Nations.

Until recently we focused our long-term impact on SDG 8 (Decent work and economic growth) and SDG 13 (Climate action), and concentrated on making progress in these areas across the company.

In 2019 we carried out an SDG impact analysis, and evaluated our impact by mapping the relevant topics for PostNL (as shown in the Materiality matrix) and the SDG sub-targets. We then validated the results during the stakeholder dialogue event, and compared the results with SDG trends in our sector.

We learned from this that stakeholders want us to collaborate on our SDGs right along the value chain, which led us to add two SDGs to our long-term priorities: SDG 9 (Industry, innovation and infrastructure) and SDG 12 (Responsible production and consumption).



For each target we evaluated whether our impact is related to "doing good" or "avoiding harm". The section below outlines the challenges of each SDG and our approach. A more detailed overview of our SDG connections can be found in the paragraph Reporting principles in the chapter 'Non-financial statements'.

SDG 8 Decent work and economic growth

This is the most relevant SDG for PostNL. We are a people company and service provider in both declining and growing markets.

Decent work

Goal: Provide decent work conditions for our people. This is related to favourable working conditions, and providing full and productive employment.

Our approach: We provide sustainable employability for many and are committed to protecting human rights. We actively promote diversity and inclusion within our company. We offer our people favourable working conditions by providing the right tools, creating a safe workplace, caring for people's health and ensuring fair compensation.

Economic growth

Goal: Contribute to e-commerce growth, grow profitably, and maintain an accessible, reliable and affordable mail network.

Our approach: We use digitalisation, and product and process innovation, to realise higher levels of economic productivity. We maintain contact with stakeholders to balance these innovations with their interests and concerns, helping us to keep mail relevant, grow our e-commerce business and minimise the impact of digitalisation on our employees.

SDG 9 Industry, innovation and infrastructure

Goal: Provide accessible and reliable postal services, a resilient postal infrastructure across the Netherlands, while ensuring our Parcels and Mail in the Netherlands businesses are set up to realise sustainable innovation.

Our approach: Innovation and development within our logistic networks will enable us to manage both future volume growth in the e-commerce sector and the need for value-added features for customers. At the same time, we develop new business models such as city logistics to foster innovation and support clean and environmentally sound processes and technologies. We adapt and enhance our nationwide postal infrastructure to the declining mail volumes.

SDG 12 Responsible consumption and production

Goal: Reduce our ecological footprint by changing the way we produce and consume goods and resources in collaboration with others in our value chain.

Our approach: We take a pro-active approach by engaging with partners in our value chain to promote more sustainable alternatives, such as sustainable packaging. This includes making more sustainable and efficient use of natural resources, and minimising waste to air, soil and water. On the other hand, we increase transparency in our direct and indirect environmental impact, and take actions to make our procurement practices compliant with legal requirements and our own policy.

SDG 13 Climate action

Goal: Reduce our impact on climate change by implementing measures to reduce our greenhouse gas (GHG) emissions across all of our operations.

Our approach: We designed our emission reduction targets to contribute to limiting global warming in line with the Paris agreements on climate change. These targets, which have been validated by the Science Based Targets initiative (SBTi), include our goal to deliver all mail and parcels in the last-mile emission-free by 2030. This also involves reducing indirect GHG emissions from our delivery partners by raising awareness and promoting active engagement.

Our strategy

PostNL's strategy is to become *the* logistics and postal solutions provider in the Benelux. Through our objectives we aim to meet and exceed the needs of our customers, our employees, our investors and the environment. Achieving our strategy is vital to realise our ambition of being your favourite deliverer.



Strategic objectives

We are a people company and our people play an indispensable role in our strategy. We create a work environment in which employees have the opportunity to develop their skills and work with adequate tools, and together we deliver the right customer experience. As part of our drive to keep it simple but smart, we are accelerating the digitalisation of the customer journey and our logistic networks and processes. At the same time we continue to develop our business models and network capacity to capture growth and achieve a solid and sustainable financial performance.

Below are the strategic objectives and drivers that are helping us achieve our strategy.

Help customers grow their business

Our key drivers to achieve this are:

- Capture growth of e-commerce
- Manage capacity
- Deliver smart logistic solutions
- Enhance customer interaction
- Lead through business model innovations

As part of our journey to become the favourite deliverer, we are working to provide our customers with the best possible logistic network solutions. We are investing in and managing our network capacity, helping to support the growth in e-commerce. We are improving our service quality and operational efficiencies to exceed customers' expectations. And we are using data and digitalisation to innovate our business models, improving our services and solutions, our logistic processes and our dense networks. Together, these developments help our customers grow their business and flourish.

To increase customer value we need to solve their business needs and wishes. This means delivering smart logistic solutions, ensuring their shipments are moved swiftly, efficiently and sustainably from collection to delivery. It means enhancing our customer interaction, by developing data and digital solutions that provide them with the right solution wherever and whenever they need it. And it means leading through business model innovations, bringing innovative value propositions to the market.

PostNL Strategic overview

Strategy **Become the logistics and postal solutions provider in the Benelux**

Key material topics

- Customer experience
- E-commerce growth
- Accessible and reliable postal services
- Engaged people
- Emission-free delivery
- Sustainable city logistics
- Financial performance and position
- Manage declining mail volumes

Strategic objectives

- Help customers grow their business
- Secure a sustainable mail business
- Attract and retain motivated employees
- Reduce environmental impact
- Deliver profitable growth and generate sustainable cash flow

Outcome indicators

- Customer satisfaction
- Delivery quality
- Share of e-commerce revenue
- Employee engagement
- Employee loyalty
- CO₂ efficiency
- Emission-free delivery
- Profitability
- Cash flow

Link to Business Report



Customer value



Social value



Environmental value



Financial value

Secure a sustainable mail business

Our key drivers to achieve this are:

- Realise synergies of PostNL and Sandd networks
- Sustain accessible, reliable and affordable postal services in the Netherlands
- Adapt the organisation to volume decline with cost savings

The consolidation of Sandd helps us to safeguard the key aspects of the postal service, while preserving decent labour conditions in what is expected to remain a shrinking market. Given our history and competencies, we believe we will have a key role to play in the future postal market in the Netherlands. We actively engage with the government, regulators and other stakeholders. And we aim to further intensify engagement with our customers so that we continue to meet future needs, including all the digital solutions that our customers have at their disposal, while keeping mail attractive.

The ongoing decline in the mail market continues to impact PostNL and other postal logistic players in the market enormously. To help counter this, we are reshaping our mail business model, continuing to invest in smart technologies, and developing cost-saving measures. As the designated universal service provider (USP) in the Netherlands, we have a responsibility to maintain country-wide coverage and deliver on specific quality targets, ensuring accessible and reliable postal services at affordable prices.

Attract and retain motivated people

Our key drivers to achieve this are:

- Manage personnel capacity
- Strengthen employee engagement
- Stay healthy
- Realise change

As one of the largest employers in the Netherlands, we provide thousands of people with job security, a stable income based on fair compensation for everyone, and opportunities for personal development and growth. But in today's competitive labour market, we need to focus on employing and retaining people who want to grow and prosper with us. This means providing attractive jobs, including training and development throughout our people's career, and adapting to their changing skill requirements. It means offering jobs where safety and a healthy work environment are a top priority. And it means making people feel at home, working in an atmosphere that nurtures diversity and inclusivity, thereby helping create the long-term success of our company.

Reduce environmental impact

Our key drivers to achieve this are:

- Green innovation and energy efficiency
- Green kilometres
- Sustainable buildings
- Sustainable value chain

At PostNL, we proactively take responsibility for the environmental impact of our operations, and have set ambitious targets to reduce our environmental footprint. We want to deliver all parcels and mail emission-free in the last-mile in the Benelux by 2030. And we have set an intermediate goal to achieve emission-free delivery in 25 city centres across the Netherlands by 2025 across all our networks.

But we are not only planning to reduce the environmental impact of our own operations. We have also set targets to reduce the footprint of our delivery partners, especially in delivery services. On a consolidated level, we have set targets to reduce our absolute and relative emissions towards 2030. We have initiated concrete actions that will contribute to achieving our objectives, launching a company-wide programme called "Zero 2030" in 2019 to manage our progress. This includes engaging with our delivery partners on how we can support them in reducing their impact.

Deliver profitable growth and generate sustainable cash flow

Our key drivers to achieve this are:

- Ongoing focus on cost savings
- Operational excellence
- Synergies in networks
- Smart yield management

To create value for our investors and the company it is vital that we focus on generating sufficient profits and cash flow throughout the company. Within Parcels we want to shape the growth in the e-commerce market and concentrate on balancing volume and value, such as by developing new markets, creating new packaging solutions, or offering new delivery options. We will also invest in our operations, such as network capacity and digital solutions, increasing efficiency and improving customer service. This will include developing in-house fulfilment centres for customers, or constructing new sorting centres focused exclusively on small parcels.

In our international business we are enabling customers and consumers to tap into the growing global e-commerce market. Spring, for example, will focus on diversifying its portfolio in 2020, providing customers with more value-added options. And to maximise our operational efficiency, we will continue look for synergies across our networks and between our businesses.

Our Mail business is focusing on continually improving the customer experience in a declining market. We are strengthening operational excellence and achieving cost savings by optimising our processes and increasing flexibility, such as increasing automatic sequence sorting on our SMX (sorting machine extra) machines, and introducing a new delivery model across our mail operations. At the same time, we use data and IT to innovate. This includes further developing our digital capabilities, such as those offered in our app, which helps mail remain attractive in today's digital society.

Strategy in action

Our Board of Management takes strategic decisions throughout the year to help us realise our long-term objectives. This section outlines the main strategic decisions taken in 2019, and details some of the choices faced during the decision-making process. The Customer, Social, Environmental and Financial value chapters of the report provide a comprehensive overview of our strategy execution.

Balancing volume and value at Parcels

The continuing growth of the e-commerce market provides us with many business opportunities. We experience increased competition and cost consciousness among our customers. In 2019, the market grew at a slower pace than expected, which also impacted our projected volume growth. Our goal is to achieve a better balance between volumes, profitability and cash flow.

To create more leverage from parcels, we updated our strategy to increase revenues and reduce costs. Key elements in optimising our revenues are managing peaks in our networks, an updated pricing strategy based on both size and weight, and a greater focus on customer value through better insights. To better manage peaks, for example, we work with customers to find ways to reduce peak pressure, and we build seasonal variables into our pricing policy. We also focus on optimising our collection, transport and network control to increase efficiency and reduce costs. One example is the introduction of the small parcel sorting centre (SPSC) which we are currently developing. We are also working to enhance our digital interaction to improve first-time right delivery and reduce time spent per stop.

Consolidation in the mail market

We have long argued that the consolidation of postal networks is vital to safeguard accessible, reliable and affordable postal services in the Netherlands. And to provide thousands of employees with greater job security, while ensuring that we retain our moderate pricing policy.

The consolidation will help cushion the decline of the postal market in a socially responsible way. All Sandd's 11,000 postal deliverers

have been offered jobs with PostNL, and around 4,000 of them accepted the offer and started working for us on 1 February 2020. From that moment on, a total of 20,000 postal deliverers will deliver millions of letters a day, five days a week. In addition, over 300 other employees from Sandd, working in sorting, as drivers and in other roles, will join us at either Mail or other entities. We will continue our collaboration with sheltered workplace companies, protecting 500 jobs for employees who face challenges in the labour market. And we also invested in a variety of other areas, such as job fairs, to help Sandd employees uncover new opportunities, with multiple companies from different sectors offering Sandd employees jobs.

Cost savings in a dynamic year

We implemented the New mail route as planned in 2019, which will help us to reduce costs. Cost savings remain vital as we continue to deal with declining mail volumes. We chose to roll out the first phase of the New mail route implementation quickly to reduce the impact on employees, and we also invested heavily in employee training and communication before and during the roll out.

While we achieved strong cost savings during the first half of 2019, the integration of the Sandd and PostNL networks led to significant capacity changes, which caused some delays in other cost-saving initiatives in the second half of the year.

Focus on the Benelux

Our strategic focus is on our core markets in the Benelux, while supporting our transformation into an e-commerce logistic service provider. In 2019 we completed the sale of Postcon and PostNL Communication Services, and we made good progress with the divestment of Nexive. While the sale process of Postcon took longer than we had hoped, the goal was to find investors that we felt could support the businesses in their development. We believe the outcome justifies the time taken.

We continued to invest heavily in our infrastructure in the Netherlands in 2019, opening three new parcel sorting centres, further expanding our retail network, and adding additional self-service parcel lockers. We also began developing a small parcel sorting centre (SPSC), which is scheduled to open in 2021. The SPSC will enable us to sort small parcels more efficiently than our current sorting centres. The amount of volumes it will absorb, has the potential to save us from having to build up to five of our regular parcel sorting centres.

To strengthen our e-commerce position in Belgium, we invested in our own network of 350 parcel points across the country. We realised this in the last quarter of 2019, bringing our total number of parcel points to 447 by year end. The network will provide us with more options than collaborating with existing parcel points, and will help us to realise growth across the country.

Funding sustainable investments

We have set ourselves a number of ambitious environmental goals to combat climate change, including emission-free last-mile delivery in the Benelux by 2030. To help achieve this, in 2019 we issued a €300 million Green Bond.

We will use this bond to finance eligible green projects, including those covering green kilometres, sustainable buildings or innovation and efficiency. Initiatives such as the Green Bond is a powerful motivator for the company to take the next steps towards becoming a truly sustainable e-commerce logistics provider.

We carefully considered the green labelling of the bond during the process. As part of the external certification of our framework, we wanted to ensure those projects supporting our bond are eligible. Another important element in our decision was the alignment of the proceeds with our long-term investment strategy.

Invest in growth domains to support scale ups

We look to develop alternative growth domains which are related to our core logistic propositions to create and develop future

opportunities. In 2019 this involved continuing to explore options in two key growth markets: health and food.

We collaborate closely with small innovative companies to explore new propositions. PostNL adds value by bringing our expertise to challenge new ideas and help small companies to prepare and grow their business cases. Also, our strong brand helps open doors with investors or other stakeholders to pitch ideas to the market. This helps with finding pilot customers or partners to test ideas and bring business cases to the next level. We also chose to shut down our Stockon activities, which was heavily reliant on marketing and fulfilment in a competitive market.

Responding to opportunities and risks

We consider relevant opportunities and risks in our strategy execution. In the remainder of the business report we detail the main opportunities we pursued in 2019. Our response to the main risks can be found in the chapter 'Risk management'.

PostNL **ZERO 2030**

Anna Paulides,
City Logistics project manager

My Zero: City Logistics To Do: Emission-free and low-traffic delivery in 25 city centers



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THE ZEROS OF POSTNL

We've set ourselves the ambitious goal of providing emission-free last-mile delivery of parcels and mail in the Benelux by 2030. But how are we going to achieve it?

In 2019 we launched our Zero2030 program, which is made up of internal and external projects with both a goal and an action. We call these projects the Zeros of PostNL. In 2019 we successfully launched 42 Zeros, each of which will contribute to our sustainability ambition.

We want to create a movement with Zero2030, which will motivate and inspire our people, our partners, our suppliers and our customers to work together to make our entire value chain sustainable – benefitting us, benefitting our stakeholders, and benefitting the environment.

We're just going to do it.

**zero
2030**



Customer value

We want to be everyone's favourite deliverer, connecting the millions of senders and receivers that rely on us every day. By keeping it simple, being smart and working together, we provide our customers with services and solutions that enhance their business. From managing the ongoing growth in e-commerce to securing accessible, affordable and reliable postal services, our customers come first.



Customer value

Key performance indicators

Customer experience
Highly satisfied customers

27%

2018: 30%



Customer experience
Satisfied customers

80%

2018: 82%



Accessible and reliable postal services
Delivery quality Mail in the Netherlands

94%

2018: 95%



Manage growth in e-commerce
Progress on transformation

52%

2018: 48%



Performance summary

Business developments

In 2019 we achieved our target of 50% of revenues coming from e-commerce ahead of time, as our Parcels business continued to grow robustly to a revenue share of 52%. Volume growth was strong in the first half of the year, but below expectation in the final six months. Growth in some customer segments, mainly fashion and electronics, slowed within Parcels, due in part to a reduction in consumer spending and the rationalisation of webshops. Our operations in Belgium had a strong year, realising double-digit growth. Delivery quality at Parcels also remained high throughout the year, ahead of our internal targets, with particularly strong results during the peak end-of-year season.

At Spring, revenue development was supported by its transition to being a provider of global e-commerce solutions. Spring also focused on developing a stronger capacity within Europe, driven by significant growth in e-commerce. These efforts are aimed at decreasing the operation's dependency on Asian markets.

Mail in the Netherlands continued to face volume decline, with addressed mail volumes decreasing by 9.7% during the year, excluding Sandd (2018: 10.7%), driven by substitution and volume loss to competition. We expect volume development in 2020 to be more in line with market decline, with less impact from competition in the physical mail market following the Sandd integration.

Mail in the Netherlands achieved strong cost savings following adjustments to the sorting and delivery process, optimisation of the network, streamlining of staff and the further centralisation of locations.

However, we missed our 95% delivery target, delivering 94% of consumer mail by the next delivery day. The decrease in quality occurred mainly in the fourth quarter, which was when we adjusted our sorting processes to accommodate Sandd's mail volumes in our network. We also began receiving increasing mail volumes from Sandd, although the employees needed to process these volumes only started in early February 2020.

Creating value for customers

Across the company, the percentage of highly satisfied customers fell to 27% in 2019 (2018: 30%). While we did not meet our 2019 target of 30%, we did manage to bend the downward trend during the year, with the percentage of highly satisfied customers increasing to 28% in the fourth quarter from 26% in the second quarter. Our customer satisfaction score also decreased slightly to 80% (2018: 82%), just off our 82% target. In the first six months in particular we were operating at peak network capacity for extended periods in our Parcels business, and made a number of changes

across our logistics network. Together, these developments impacted customer satisfaction.

In the second half of 2019, increased capacity through our new sorting centres, a new cross-dock, and improvements in capacity planning with large customers, helped us to improve our highly satisfied customer scores within Parcels, and to exceed our delivery quality target for the year. Customer satisfaction levels at Mail in the Netherlands remained stable, and compared to 2018, which we are proud of given the number of operational changes that took place in 2019.

We developed and implemented new digital and data-driven solutions for customers and made good progress with the digitalisation of some important processes within our networks. Implementing these smoothly proved to be challenging in some cases, leading to valuable learning takeaways.

Providing customer value is a key driver within the company. We achieve this in many different ways, from providing webshops and e-tailers with logistic solutions that support their e-commerce business, to ensuring senders and receivers of mail they can always connect. By focusing on constantly improving our networks and investing in digitalisation and technology, we help all of our customers connect more reliably and more easily.

Strategy execution

We execute our strategy through our drivers, as explained in the chapter 'Our strategy'. In this chapter we explain how our drivers help us achieve our strategic objectives, which are to help customers grow their business and secure a sustainable mail business. For each driver we provide examples that illustrate the events, initiatives and related outputs that contributed to our performance.

Shaping the growth of e-commerce

We aim to shape the growth of e-commerce by expanding our network, while increasing the efficiency of our existing infrastructure. In 2019 we saw parcel volume growth of around 12% compared to 2018 volumes. Our focus for the last-mile is to offer innovative solutions that provide customers with a broad range of delivery options.

Expanding our parcels network

We keep pace with e-commerce growth and the changing mail market by adapting our network. In 2019 we opened three new parcel sorting centres in the Netherlands, Almere, Dordrecht and Tilburg. This enables us to better process the delivery flows resulting from the ongoing rise in parcels being sent. In addition, we managed to increase the average number of parcels sorted in sorting centre.

We also further grew our retail network in the Netherlands, making it easier for customers to collect and return parcels. By year end, we had 3,387 retail locations across the Netherlands (2018: 3,240). Including parcel and letter lockers increases the number of parcel points to over 3,500 (2018: 3,350).

In Belgium, we expanded our six distribution centres, adding over 11,000 m² of floor space. We also began preparing for our first parcel sorting centre, which we aim to open in 2021. During 2019 we rolled out our own network of over 350 parcel points across the country, which customers can use to collect, send and return packages. The new locations are on top of the existing network of collection points we already have in Belgium, bringing our total number of parcel points across the country to 447. Developing our own network means we make it easier for customers in Belgium to always be close to a parcel point, shortening journey times and increasing the likelihood that they will take advantage of the e-commerce market.

Parcel and letter lockers

During the year PostNL rolled out its 100th self-service parcel and letter locker, which lets consumers send letters as well as pick up and send parcels 24/7 at locations across the Netherlands. The lockers are part of our strategy to provide consumers with access to our services across a broad range of channels. By year-end we had 115 lockers in operation across the country, and will continue to add more at strategic locations. We also opened our first self-service parcel locker at a supermarket.

Direct to retail project

Over 94% of parcels are delivered on the first attempt. But for those that are not, a large percentage also fails to be delivered on the second attempt. To better understand this, in 2019 we launched a project that used artificial intelligence (AI) and data to help us more accurately predict when a second delivery attempt would be successful. Based on these results, we have chosen to reroute parcels directly to retail locations when the receiver is not at home on the first delivery attempt. The change will create a number of benefits, including receivers being able to collect their parcel one day faster, lower logistics costs, and a drop in CO₂ emissions.

Within our direct to retail solution, we did not provide retailers with sufficient updates on extra parcel volumes. As a result, some retail locations received volumes far above their capacity, leading to issues and the loss of some locations during the year. We resolved this through closer collaboration with retailers, and by connecting them to our decision-making process at an earlier stage.

Shorter storage period at retail locations

In 2019 we reduced the time we store parcels at our retail locations from 14 days to seven days, which will free up storage space and help our retailers keep up with rising volumes. The change was

based on data showing that over 91% of all parcels are collected within seven days. Of those that remain beyond seven days, only 3.5% are ultimately collected. The new system means e-tailers, who will receive returns earlier, will be able to provide refunds and resell their products faster. Despite the impact of this shorter storage period, both consumer and business customer satisfaction rates improved in the last quarter of 2019.

International e-commerce opportunities

The e-commerce market is growing strongly and consumers are increasingly purchasing goods from e-tailers abroad. We are ideally positioned to take advantage of this growth, providing customers in the Benelux and internationally with a 'gateway to Europe' solution through our Spring operations. This provides one hub in Europe for all cross-border parcel distribution. In 2019 we transferred our hub from Belgium to Germany, in line with developing our cross-border services beyond the Benelux. In addition, we extended our shipping options by increasing the number of collaborations with partners in our first and last-mile solutions.

As the market expands, we are increasingly using data and scale in a smart and efficient way to create operational efficiencies across our businesses and to connect with customers. In 2019, we increased data sharing with customers to make following parcels in the Track & Trace environment more accurate.

Preparing for continued growth through new sorting process

Growth in the e-commerce sector means we need to make continuous changes to our business model, ensuring that we can maintain investments in capacity and further strengthen our network. In 2019 we began preparing a new small parcel sorting centre (SPSC), which will rely heavily on robotisation, to increase the operational efficiency of our sorting processes.

Around 40% of the parcels we process have the potential to be processed within our SPSC. This number is growing as e-tailers switch to packaging solutions that contain less air. The SPSC, which will open in 2021, will take pressure off the logistic infrastructure in a number of ways.

First, with a capacity equivalent to four current parcel sorting and delivery centres, it will increase the distribution potential in our current sorting and delivery centres and lower the need for future investments. Second, it will cut sorting and overhead costs for small parcels. And finally, it will help us achieve peak absorption and provide us with additional last-mile routing options.

Keeping mail accessible, reliable and affordable

Running a national mail network comes with great responsibility. As the universal service provider (USP) in the Netherlands, it is our job to maintain country-wide mail coverage and deliver on specific quality targets, which do not apply to other postal companies. In 2019, we delivered 94% of consumer mail by the next delivery day, while we are required to deliver 95%. The decrease in quality occurred mainly in the fourth quarter, which was when we adjusted our sorting processes to accommodate Sandd's mail volumes in our network. We also began receiving increasing mail volumes from Sandd, although the employees needed to process these volumes only started in early February 2020. Delivery quality over the peak Christmas period was in line with previous years. While 2019 was an exceptional year, we will do everything possible to improve the delivery quality figure in 2020, including closer monitoring of our sorting processes and deploying additional mail deliverers.

In a declining market, one of our key challenges is securing accessible and reliable postal services at affordable prices. We continue to intensify our dialogue with customers so that we can meet their future needs, working to ensure that mail remains an attractive option alongside the digital solutions that our customers have at their disposal.

Further roll out of coding system (codeerregel)

During the year we continued to invest strongly in automation, with the aim of increasing delivery quality and efficiency. Our coding system helps us to simplify our preparation process and introduces more flexibility in our mail deliveries. We finalised the introduction of the 'codeerregel', which adds codes to envelopes, on all our mail volumes. This creates the potential for further automatic sequence sorting through our SMX (sorting machine extra) machines, which will improve delivery accuracy, save costs, and help with the integration of Sandd volumes.

Combibundel

We completed the roll out of the Combibundel in 2019, which involves sorting mail into two separate bundles: one containing small items of mail and one with larger items. This creates a more efficient sorting process as we no longer have to combine small and large mail items in the sorting centres. This, alongside the coding improvements mentioned above, are important enablers of the success of our new delivery model, the New mail route, and the integration of Sandd.

The New mail route implemented

In June 2019 we introduced a new delivery model across our mail operations. Called the New mail route, we now deliver non-time critical mail five days a week instead of three days a week. This 'equal flow' model removes the sorting and delivery peaks that occurred



More people visit retail

As an account manager, it's Rozemarijn Wildeman's job to keep in touch with the head offices of the retail chains that house PostNL's post offices and parcel points.

The customer comes first

"It's my job to keep the customers happy. That means: the retail partner, their stores and the customer who picks up a package. Every day I have one or two appointments, for example at the AKO, Primera or Bruna head office. Because every customer wants something unique, the meetings can be quite demanding. But there are around 3,400 locations with a PostNL franchise, and they are all equally important to us. Sometimes we take measures that the parcel deliverer might not be happy with, such as having to visit a store where there are only a few parcels. In such cases, the commercial interest of the retail partner outweighs practical considerations."

Changes are sometimes difficult

"The work is changing fast, but it is never boring. And sometimes things don't go the way I'd like them to for the retailers. One example is that we have started taking parcels to the retailer after one delivery attempt instead of two. This results in less work for sorting, preparation and delivery. I understand that it is nice for parcel deliverers, but for retailers it means a mountain of extra packages. I know it means more people are visiting the store who may buy something, but if the store is packed that's not attractive either."

previously, and means customers now have their mail delivered over two consecutive days, such as Tuesday and Wednesday or Wednesday and Thursday. The result is that they can better manage their process flows, for example in the production of mailings or when handling calls following a direct mailing promotion.

For PostNL, the new model allows us to spread the workflow equally over five days, meaning we can make better use of our locations and resources, while improving the efficiency of our transport, thereby cutting costs and improving sustainability. And our mail deliverers have benefited through employment contracts with longer hours, and mail that is available to deliver earlier. By the end of the year, more than 85% of PostNL's non-24-hour volume had been transferred to the New mail route.

Preparing the integration of Sandd

We began working towards the integration of Sandd in 2019, which will take effect in 2020. This involved preparing our networks, through new route planning and sorting processes, for the additional mail volumes. Ultimately, merging both networks will help us keep mail accessible, affordable and reliable for our customers.

We will keep it accessible by operating through one network, enabling us to better manage capacity and coverage across the country. We will ensure it is affordable by aligning our operational changes with mail developments and the synergies realised from the integration. And we will be able to keep it reliable by operating one network, helping us to adapt, innovate for our customers, and be more future proof. More details on the Sandd integration can be found in the chapter 'Social value.'

Deliver smart logistic solutions

From improving inner city distribution to creating new delivery options, smart logistics is the key to ensuring customers' goods are moved quickly, efficiently and sustainably from collection to delivery. We help customers and consumers by producing a convenient shopping experience, developing and bringing new delivery options to the market. At the same time, further automation in our mail operations are aimed at increasing delivery quality and efficiency.

Returns at the door option

At the beginning of 2019 we introduced our returns option in the Netherlands, which lets consumers return their parcel with a deliverer who is already at the door. As well as providing consumers, webshops and e-tailers with greater convenience, the service is also sustainable as it utilises empty van space. The returns option was used over 75,000 times in 2019.

Growth of @Home services

Our strategy within the @Home market is to be the leading logistics company that delivers and installs a wide variety of goods and services, from white goods and electronics to medical products and (garden) furniture. With the @Home market growing at around 15% per year, in 2019 we opened our first dedicated @Home centre in Rotterdam. The new centre increases our @Home capacity by 30%, which will enable us to better manage peak periods and create room for growth. It also helped us increase our @Home service quality.

Developing health logistics

More focus on moving towards health provision at home requires a range of (new) logistic solutions. By the end of 2019, over 11.000 customers were already receiving health deliveries from PostNL, and our focus is on developing solutions for a changing health market, using our existing logistic networks. This had led to improved collaboration between our networks. During the year we focused on strengthening our connection with the sector by executing a national campaign with the theme: Innovation in the health sector. We carried this out together with a number of other parties and through a wide range of online and social media channels. This increased focus on health led to the development of a number of concrete propositions and the continuation of existing propositions.

To meet increasingly stringent GDP-requirements and the demand from the pharmaceutical sector, we have developed a unique Cool Down Unit for our Pharma & Care network, specifically for medicines that have to be transported below a temperature of 2-8°C. We continued to deliver medical supplies to customers at home in a specially designed cool box, which is transported through our existing time-critical network. Our focus in 2020 will be on connecting additional pharmacies and hospitals to this service.

Roamler Care, operated as a joint venture with Roamler, is a home care platform that connects self-employed home care providers with sick or elderly people connected to care institutions. In 2019 we introduced a new venture through the Roamler Care platform, which aims to tap into unrealised work potential among pensioners, inactive caregivers, and professionals who want to work a few extra hours a week. We also developed a strategic partnership with the ANWB, Sanquin and Erasmus MC to create a Medical Drone Service. This service uses delivery drones to transport medical supplies, blood and other health products between locations. The next stage of the project is to carry out a trial.

Food sector

In 2019 we reviewed our food market strategy, leading to a number of changes. Going forward we will concentrate on providing direct-to-market logistic services, this includes developing platform solutions that reduce the number of steps in the value chain. In line with this reviewed strategy, we shut down our Stockon activities,

which was heavily reliant on marketing and fulfilment in a competitive market and for which we did not find a suitable investment partner.

We currently use a number of our networks to process customers' food deliveries, including our Parcels and Cargo networks and our specialised food delivery network. In 2020 we will begin supporting customers with the co-creation of products, and aim to develop direct-to-market food solutions as a third logistics channel for the Fast Moving Consumer Goods (FMCG) industry, in addition to retail and wholesale. We see opportunities in logistic solutions for food specialties, which we will pursue further in 2020. Finally, our Parcel networks will continue to provide delivery solutions to e-tailers who sell food.

Urban consolidation centres drive change in city logistics

Creating sustainable delivery options is vital if we are to deal effectively with the growth in e-commerce. One example of how we create smart logistics solutions for our customers is our City Logistics programme, which in 2019 opened new sustainable delivery hubs in Groningen, The Hague, Maastricht, Utrecht and Nijmegen.

The aim of these urban consolidation centres is to cut the number of journeys made within cities, thereby reducing the environmental impact and congestion. We achieve this by working with third-parties and setting up urban hubs on the edge of a city. Suppliers deliver to the urban hub, avoiding the congested city, and we sort the goods into deliveries over one or more trips.

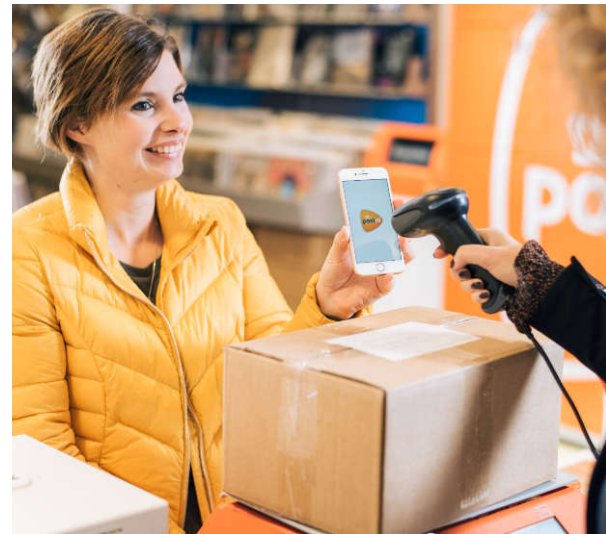
More information on our initiatives to decarbonise our networks in urban areas can be found in the chapter 'Environmental value.'

Enhance customer interaction

Customers want simplicity, reliability and control when they send and receive parcels and mail. We are helping to create seamless customer interaction in a variety of ways, such as by using data and digital solutions to create a smooth delivery process. We also utilise our broad range of capabilities to ensure that we can offer them the right solution wherever and whenever they need it. Below we outline some key developments from 2019 on the way we interact with customers.

Connecting through the PostNL app

During the year the number of customers connected digitally to PostNL through a PostNL account continued to grow, with 5.3 million unique users by year end. Of this, over 1.2 million had activated Mijn Post in the PostNL app, which means that we are on track to have two millions users by 2020.



Putting customers first

In 2019, Cordia Covens, a product owner within our e-commerce environment, helped develop a digital shipment receipt, making it faster and simpler for consumers to return parcels. "If you send a parcel from a PostNL retail location, you can now choose to receive proof of shipment digitally rather than on paper. This makes the whole process easier and smarter for the customer. Not only is the time the retailer spends on each customer cut, but we save costs. And it also provides us with data which helps us share relevant information with the customer about their shipments, and helps us offer additional services. This is a win-win-win situation."

Customer label

The receipt received the highest classification from our internal Customer Label, which rates the products we develop in terms of the impact they will have on customer satisfaction.

Cordia: "We sometimes hear that we concentrate too much on processes instead of people," says Cordia. "But our focus is also very much on thinking from the customer's perspective. Our Customer Label, which can be compared to the EU Energy Label, gives us greater insights into our product development process, and what sort of effect the product will have in the market."

The PostNL app has become a vital tool since its launch, enabling us to connect with customers and roll out services that provide them with greater independence and freedom. It also remains extremely popular with users, who gave it a 4.5/5 star rating in 2019.

Our goal in 2019 was to continue to develop digital solutions that make sending and receiving easier for customers and consumers. One of the solutions we launched is the pick-up receipt, which lets receiving consumers generate a barcode in the app that can be scanned by the retailer when collecting a parcel. The retailer immediately has access to information such as the parcel's weight, dimensions, and the consumer's name and address, helping them locate the package faster and reducing the consumer's waiting time. By year end the option had been used over 180,000 times.

Another popular new solution was the digital shipment receipt, which had been used by over 5 million consumers by the end of the year. When sending a package with PostNL, consumers can now have a QR-code scanned in the app and receive proof of shipment by e-mail. As well as reducing paper usage, this makes storing and retrieving receipts simple and efficient.

As international e-commerce continues to grow strongly, we launched a stamp code for countries outside the European Union. The stamp code is convenient and simple to use; after purchasing the stamp in the app, customers receive a nine-digit code which they write on the envelope. All they then have to do is post the letter and we take care of the rest.

The stamp code, which is a great example of how we react to our customers' needs, was purchased around 1.6 million times in 2019, almost double the number sold in 2018. We also launched the option to create and pay for your shipping label directly in the app. When you are ready to send your parcel, you simply print the label at a local PostNL retail point. In 2019, over 1 million consumers used this option to send their parcels.

Business customers can also now use the PostNL app to simplify their sending and receiving. By the end of 2019, customers could print labels, register bulk mail and view invoices directly in the app.

Enhancing Daan, the digital assistant

During the year we further rolled out Daan, our Dutch-language digital assistant that provides answers to customers' questions online. As well as being rolled out through social media and via his own video clip, we have also given Daan his own face. By year end he had spoken to more than 2 million customers, and can handle up to 20% of questions without the need for a call centre worker getting involved. For example, where is the nearest PostNL location or when will we deliver their package. Customers can now log into their PostNL account and Daan will let them know if they can change the delivery time or location of their package, and they can ask Daan

questions through Google Home, the smart assistant. Customer feedback has been extremely positive, with around 80% saying they are satisfied with their conversation.

Improved Track & Trace service

Our Track & Trace service lets senders and receivers track the status of any registered letter or parcel sent with us, so that they know when it will be delivered. In 2019 we improved the service, with the new environment providing customers with a clear overview of their most recent package and delivery information, including international shipments. Our aim is to put customers in control as much as possible, making their interaction with us as seamless as possible.

We are also working hard to make first-time deliveries successful. As well as benefitting the customer, it is also better for PostNL and the environment, cutting journey numbers and times. In 2019 we launched a live delivery tracking pilot for our food and evening delivery networks. Customers can follow the parcel on a map based on the latest delivery scan, and see how many stops remain before their package arrives. During the year we have developed this function, and managed to create a stable service by year end.

We will roll this functionality out for Sunday deliveries in 2020, and enrich the customer experience in the future by including the expected delivery time and a 15 minute 'delivery alert'. We also plan to make this service available on other days in the future.

Be prepared - Order in time

On an average day, PostNL delivers around 0.9 million packages across the Netherlands. Yet on peak days, such as Black Friday in November or in the days leading up to Sinterklaas at the beginning of December, this can rise to well over a million per day. One of our goals in 2019 was to reduce these delivery peaks, cutting the pressure on our delivery network and lowering the risk that customers' parcels were delayed.

Which is why we worked alongside other companies in the logistic sector and Thuiswinkel.org, a Dutch digital commerce network, to launch an online and radio campaign called 'Be prepared - Order on time'. The campaign was a success, and helped us achieve high delivery quality during the December period.

Customer to cash

As part of our focus on being the favourite deliverer we are creating a logistic supply chain that supports digital transformation in our business, enabling us to better serve our customers. In 2019, the largest and most challenging IT project we launched was aimed at helping us achieve precisely that.

We create customer value along our entire logistic supply chain, culminating in the millions of parcels and letters we process.

Achieving this requires a balanced Customer to Cash process, enabled by a modern IT backbone that provides efficient processing on the one hand, and flexible product configuration and insight for our customers on the other. The new PostNL Customer to Cash process introduced in 2019 enables:

- More digitised marketing, sales and service processes
- Efficient on-boarding of business customers in our customer base
- A configurable product model
- The ability to process millions of events per day in the rating and billing process
- Traceability from invoices through to unique parcel items
- Efficient and standardised accounting processes for PostNL entities

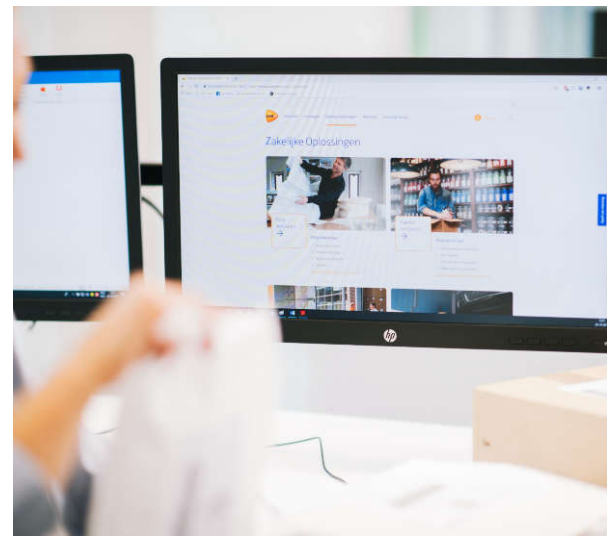
During 2019 we faced a number of challenges in this transformation, for example in relation to automatic invoicing. With the efforts of many dedicated colleagues, we managed to solve most issues by year-end. Once the process is fully integrated and running smoothly, we expect it to help increase business customer satisfaction rates and lead to substantial cost savings.

Customer care

Improving customer interaction involves providing accurate and reliable information, high-quality service, and a relevant, personalised and unique experience. In 2019, customer care ratios in our Parcels and cross-border segments improved, as we implemented data-driven changes. One example is the introduction of additional data points on our international shipments, which provides customers with more information on the progress of their package. In Mail in the Netherlands, we saw a small increase in customer contact ratios, possibly due to the implementation of several large change projects.

Another example is the introduction of a feedback button in the app, which customers can use to react on the quality of their parcel delivery. During our pilot project we gave consumers the option of sending a compliment if the delivery went smoothly and they were satisfied, or asking to be called by a customer care agent if they were unsatisfied. If they were unhappy, the customer care agent first called the deliverer and then the consumer within two hours. Normally, this would have taken up to two days.

We also established an 'orange heart' customer lab at our head office in The Hague. We are using this space to meet and talk with customers, carry out research to obtain insights into what they want and how they experience our service, and for quantitative research and 1 on 1 customer conversations.



IT innovation to benefit customers

In 2019 we upgraded our IT systems to provide a richer experience for our business customers. The project, called Customer to Cash, will lead to greater customer satisfaction and cost savings for PostNL.

Making things simpler

'The Customer to Cash chain consists roughly of four parts,' explains Jeanette van Egmond, a Digital Sales consultant at PostNL, who worked on the project with over 100 colleagues. 'Step one involves registering agreements in a new system for contracts. Step two, the customer portal, is a platform for business customers who want to send mail and parcels. Customers can now find their contracts more easily, and they can also 'pre-order' parcels and mail.

The third step, the business counter, has a more user-friendly system. We can now send a confirmation to the customer automatically, and forward all relevant information to the invoicing system. The final part involves the invoices and proved to be the most challenging. We changed both the content and the lay-out of our invoices. They are now more transparent, but the integration of systems led occasionally to inaccuracies, and the resolve of our customers was sometimes put to the test. Ultimately, the Customer to Cash project provides customers with a better overview of their products, meaning they can arrange their postal affairs quicker and more simply than before.'

“ Using artificial intelligence (AI) in data and algorithms helps us improve customer services and drives efficiency. ”

Although we have seen improvements during the course of 2019, providing customers with clear and accurate communication remains an area that we are working on. Our customers have told us that we can still do better. While our digital and data driven solutions facilitate our customer interaction, we need to continue to work hard to provide our people with the right information and tools, enabling them to prevent issues from happening, and communicate timely and adequately if they do.

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Growth of commercial customer care services at Cendris
Cendris, which is part of Mail in the Netherlands, provides customer care services for companies across the Netherlands as well as for PostNL. Cendris's goal is to increase customer satisfaction by listening carefully and being genuinely interested in its clients' problems, while proactively offering innovative solutions. In 2019 the company continued to expand its operations, adding new clients and offering additional services to current customers. To help manage future growth and due to challenges in finding new employees, the company opened an office in Valencia, Spain.

The power of direct mail

We continued to develop our direct mail offering in 2019, working to help customers make a stronger connection with their targeted consumer group. Direct mail lets customers send a letter or brochure addressed to their target consumer by name, creating more personalised communication. It remains a powerful tool, helping companies reach the maximum number of relevant consumers. The response rate can be as high as 23%, and most customers view direct mail as an indispensable link in their marketing mix.

We also saw that the Mijn Post service in the PostNL app, which provides users with a notification and digital preview of the mail that will be delivered to them that day, continued to add value for users. It creates a link between the physical and digital worlds and increases the response rate to physical mail.

Lead through business model innovations

We focus on accelerating the time to market of our innovative solutions. At the same time, we regularly develop solutions directly with customers. Our aim is to bring innovative value propositions to the market.

InnovationStudio

We operate an InnovationStudio in Amsterdam, which focuses on developing new business models and solutions to improve our core business processes, creating more certainty for our investments and helping to pass on new ideas to colleagues across the company. Currently, we concentrate on three innovation categories: increasing profitability within our current business; generating new business initiatives; and discovering future business opportunities.

New ideas are tried out during 3-month periods, with testing criteria being strategic fit, desirability for customers, feasibility of implementation, financial viability, sustainability and the 'awe factor'. After three months, we decide if we move on or stop with the idea. One example of an initiative currently being piloted is 'low-air packaging'. In this pilot, we identify the impact of low-air packages on customer satisfaction and loyalty.

Developing API connections

We continued to develop our online platforms in 2019, providing business customers and consumers with a greater range of products and delivery solutions when they want to ship their goods. One example is our automatic programme interface (API) platform, which provides customers with a set of application programming interfaces, or APIs. Online customers, such as e-tailers, can embed an application in their website and offer customers our broad selection of delivery options, such as next-day or evening delivery. One example of an API service we offer our customers is detailed below. Another is our Flora@Home initiative, which provides e-tailers with an API to connect to an international drop-shipping platform within the large, but still undeveloped, online floriculture market.

For Dutch e-tailers, we provide a number of APIs that enhances their order and delivery processing, improving service quality and customer satisfaction. One example is an API called Bulktimeframes, which helps the e-tailer better manage their subscription-only delivery options, resulting in a more reliable delivery service. Other APIs provide real-time data sharing based on consumer input and validated and correct labels and confirmations. This leads to more accurate deliveries, increases customer satisfaction, and reduces customer support calls.

Seamless network connections

We provide many thousands of customers with a broad range of services and solutions, using logistical networks that range from the very large to the small. Our Logistic Service Provider (LSP) teams focus on digitalising and improving the IT operations of order management, planning and field services, while helping to ensure customer orders are connected seamlessly with the most suitable network. As well as improving our service level, this creates efficiencies and leads to cost savings. In 2019, our LSP teams helped introducing new handheld devices within our time-critical networks, aligning the networks' IT and software with that of other parcel networks. This will help us to connect customers with the most suitable delivery network.

The strength of AI

We use artificial intelligence (AI) across the company in a number of areas, from process automation to robotics. But one of the most important applications is in data and algorithms, where AI helps us improve customer services and drive efficiency. One example is at our retail locations, which in recent years have seen a huge rise in the number of parcel deliveries and returns due to e-commerce growth. In 2019 we introduced an algorithm that forecasts when there will be a mismatch between expected parcel volume and capacity within the retail network. This helps us spread parcel distribution across retail locations meaning locations never get too busy, and consumers are served faster.

The rise in robotisation

We are increasingly using robotised operations across our fulfilment operations, helping us to store and access our products faster and more reliably than when done by hand, and providing us with greater control over deliveries. At our Houten fulfilment centre, for example, the robotised warehouse we installed in 2018 is now fully operational. In 2019 we almost doubled the number of customers who are handled using the robotic process.

We also continued our robotic automation research in 2019, aimed at using a robotic arm to move parcels from roll containers onto the sorting machine, thereby increasing efficiency and reducing the physical impact on workers who have to move the parcels manually. While the technology is currently not good enough to process the wide array of parcel shapes and sizes we deliver, we are continuing to work with partners on developing solutions that we can introduce across our operations.

In-house sorting centre

As wholesalers and retailers optimise their sales channels, they increasingly need state-of-the-art warehousing and fulfilment. In 2019 we began developing a second in-house fulfilment centre for bol.com, one of the Netherlands leading e-tailers. This will help us further improve delivery and cost efficiency for bol.com when the centre goes live in 2020.



Customised delivery solution for Dentalair

'Ordered today, delivered tomorrow' is a promise PostNL keeps millions of times every day. But it was a promise we didn't always manage to keep for Dentalair, a wholesale customer that sells to dentists and dental hygienists.

Parcel returned

"Like many dental practices, many of our customers are located in residential areas," explains David Jansen of Dentalair. "They close at 5 pm, while PostNL frequently delivers late into the evening. Parcels for customers situated in those areas would often be returned because they were delivered after closing time. Initially, PostNL provided a temporary solution, where we let them know which orders had to be delivered before 5 pm, and they would send them through their courier network. A good, but expensive and complicated solution. PostNL then adjusted their IT-systems, so that parcels going to specific areas are sent with a driver who delivers within opening hours."

No extra work

"PostNL did a great job. We're now able to send all of our parcels together, and PostNL's system automatically sorts them so that the parcels to be delivered before 5 pm are matched with the correct driver. A solution without extra work for us. Clever how PostNL managed that."

Social value

We operate in a sector undergoing profound change. From the growth in e-commerce to the transition in mail, everyone who works for or with us experiences change. Our aim is to engage our people. Together we realise their full potential and make a difference to our customers, while acting as a responsible employer.



Social value

Key performance indicators

Engaged people

Employee engagement

65%

2018: 65%

=

Engaged people

Employee loyalty

88%

2018: 88%

=



Performance summary

Main developments

We are an important employer in the Netherlands and in 2019 we began reinforcing this position by preparing for the integration of our postal network with that of Sandd. The merger will help us secure a reliable, accessible and affordable postal service, with greater job security for thousands of postal deliverers. By working together, our people will help us to become the favourite deliverer. We expect to finalise the integration during the course of 2020.

The transfer of our Parcels headquarters in Hoofddorp to our head office in The Hague was an important event for our people. Creating one headquarters stimulates cooperation between business units, leading to greater knowledge sharing and the adoption of best practices. It also helps to reduce costs. The relocation went smoothly, with Parcels' employees positive about the clear communication and warm welcome they received.

Attracting and retaining motivated people

In 2019 our two key performance indicators, employee engagement and employee loyalty, remained unchanged from 2018 at 65% and 88% respectively (excluding Sandd). Although we did not meet our target of 66% employee engagement, we were satisfied with the results. With the majority of our people working in Mail in the Netherlands, we succeeded to implement many important changes while maintaining the engagement of our people. For example, finalising the roll out of the New mail route has enabled us to offer our people contracts with extended working hours.

In 2019 we started to measure engagement twice a year as we introduced an updated methodology. We will introduce and report on an updated employee engagement key performance indicator in 2020, and we will stop measuring employee loyalty. We also worked on tackling a range of issues, such as the employee turnover rate. At both our Parcels and our Mail in the Netherlands businesses, this resulted in a relative reduction in the short-term turnover rate over the first 10 months of the year.

Measuring health and safety

Absenteeism in 2019 dropped below the levels of 2018, at 5.4% (2018: 5.9%). We believe our increased focus on employee retention and onboarding, as well as working to improve working conditions in our parcel sorting and delivery centres, has helped improve the absenteeism rate. We also saw a drop in our recordable accident ratio in 2019, to 4.2 (2018: 4.7). This was due to greater focus on initiatives that raise awareness of health and safety across the organisation.

Strategy execution

In this chapter we explain the key elements of our strategic execution based on the relevant social drivers. We have a clear strategy to help our employees develop and feel engaged with our company.

Similar to 2018, we provide direct and indirect employment to around 50,000 people, around 73% of whom are our own employees and approximately 27% of whom are employed through contracted partners. For comparison reasons, this number does not include direct and indirect employment arising from the acquisition of Sandd. We employ a relatively large number of people with a distance to the labour market.

We aim to provide favourable work conditions for our entire workforce, and in 2019 continued to focus on four pillars to make this happen:

- Manage personnel capacity
- Strengthen employee engagement
- Stay healthy
- Realise change

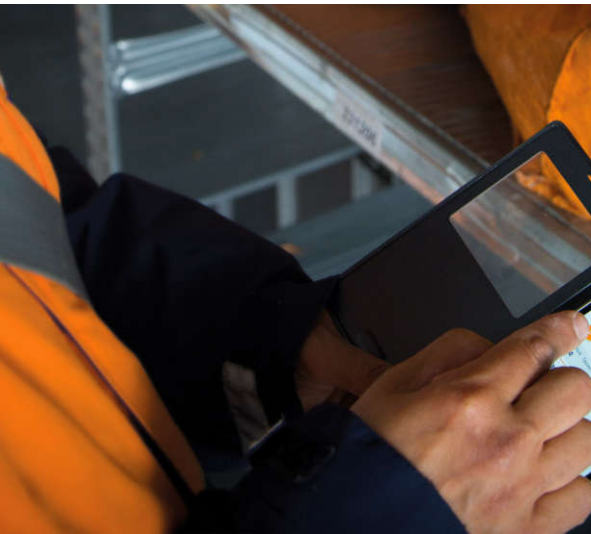
In addition to these four pillars, PostNL continues to focus on improving its human resources support function with simple, efficient processes and easy access to analytics and information.

Manage personnel capacity

We operate in a fast-changing logistics business, where being able to manage and plan your staffing requirements is a key factor for success. The tight labour market continued to contribute to a complex situation in 2019. Work and personnel planning, targeted recruitment, employee onboarding, retention and continuous improvement based on employee feedback are key to ensure we can deliver what we promise our customers.

Hiring the right people

Preparation for the integration of Sandd began in 2019 and will take effect in 2020. As part of the Sandd integration, we offered all of the company's approximately 11,000 mail deliverers jobs with PostNL, with over 4,000 having accepted a position so far. We also gave around 1,800 other Sandd employees priority when applying for other positions within PostNL, and have welcomed approximately 300 into the company. This offer remains open to those employees who have not yet applied but may wish to do so in the nearby future.



New schedules for mail deliverers

Ad van Gerwen has worked with PostNL for more than forty years, and has been a delivery team leader since 1999. We spoke to him to find out what his working life is like.

Difficult 'matching process'

"I have a lot of responsibility, but also freedom and variety. I can work from home and I deal with topics related to customers, mail and colleagues. I'm also in charge of scheduling, and the introduction of the New mail route means we've created new rosters for mail deliverers. This 'matching process' has been a challenge, as we've had to repeat the process for those Sandd deliverers who started in February. This means current deliverers were sometimes given new routes, which was frustrating for them. But I also have to consider the wishes of our new colleagues. It is important to create understanding."

Team consultation

"On Fridays, me and the other team leaders meet with our manager to discuss issues such as the number of colleagues off sick or the arrival of Sandd. As part of the preparation process, I arranged meetings with Sandd employees. On Saturday I visit different locations in my region, and then I visit people in the community to resolve their complaints. Fortunately, I can recover on Saturday evening, which is when I get to take it easy."

Those Sandd employees who chose not to apply for or accept a position, have access to a redundancy programme. This includes an outplacement programme, that provides access to specialised job events around the country, and a social plan. We are also continuing to honour the 25 social workplace agreements at Sandd, which account for 500 social work places.

We organised a number of activities to inform Sandd employees about job openings and the way of working at PostNL. These included over 175 tours of sorting sites, visits to 13 job fairs, holding over 50 open consultation hours, meetings at our head office, setting up call centres to answer questions, and taking over 30,000 calls. Our focus in 2020 will be on providing training to new employees, and making them feel welcome. More information can be found in the Sandd story box.

Managing employee turnover

In 2019 we began tackling company-wide turnover rates in a number of targeted areas, particularly among new hires in our parcels business. Our research has shown that the first two months are crucial if we are to retain employees. For mail deliverers, our onboarding process now includes a mentoring programme from day one. The mentor provides an introduction to the job and answers any questions or concerns the new employee may have. Additionally, we build up the mail deliverer's route slowly, so that they begin with lighter mail packs. This led to a relative reduction in the short-term turnover rate - within two months of joining the company - at Mail in the Netherlands over the first 10 months of 2019.

At Parcels, meanwhile, the ongoing growth in e-commerce led to the creation of new parcel delivery routes in 2019. This led to a growth in our workforce, both internally and via our delivery partners. We saw our parcel deliverer numbers grow by around 10% during the year. While the tight labour market made it challenging to attract and retain employees, we improved our retention rate in 2019, which we believe is partly due to improved vocational training, building up the delivery route of new parcels deliverers and appointing and training mentors in our sorting and delivery centres. At Parcels, we also saw a relative reduction in the short-term turnover rate over the first 10 months of the year.

Postnl.nl/werkenbij

In 2019 we introduced an improved job listings website, which presents the company in a more attractive way to potential candidates and makes it easier to apply for jobs. This involved renewing the site's look and feel and improving the search function for vacancies. The website is now mobile-friendly, more user-friendly and aligned with our employer branding. We will continue to optimise the site throughout 2020.

Strengthen employee engagement

Our deliverers are the face of PostNL in every street, every day, and they are the ones who experience the effects of changes to our processes and systems. Listening to our people and adapting to their needs is vital if we are to learn as an organisation, and help them feel appreciated.

Employee engagement

Employee engagement remained unchanged at 65% in 2019, while employee loyalty also remained unchanged at 88%. We are proud that we implemented many important changes while maintaining the engagement of our people. In 2019, we changed the way we ask our people for feedback, collaborating with a new external service provider to help us better measure and improve our employee engagement. We changed our methodology to obtain more accurate information on the drivers that keep employees engaged with the company, and those that help them maintain fun and energy in their job. This has changed over the last decade, especially on how to attract and engage younger generations, which is why we have updated our approach.

In order to be able to better steer on our employee feedback, we decided to carry out our employee surveys twice a year starting from 2019. This enables us to take follow up actions already throughout the year. This resulted in the share of engaged employees increasing from 73.5% in May to 79.8% in October, which is close to the benchmark figure in the Netherlands of 81.5%. Feedback about the new system has been positive, with employees noting that the questions are more connected to their work situation and are easier to answer.

Orange Compass: A clear direction

During the course of 2018 we redefined our purpose and the principles that guide our behaviour: what we do, the customer experience we aim for and how we work together to realise this. In 2019, we started rolling out a series of trainings and events to strengthen this message.

Senior management was coached on the behavioural elements included in the compass, so that they could create a better work environment for their teams. We ran ambassador sessions and training exercises, helping our people better connect with PostNL's goal of being our customers' favourite deliverer. And we integrated the orange compass behaviours into our business learning and leadership development programmes.

CustomerFocus awards

Every quarter we recognise colleagues from across the company who have carried out outstanding customer service by presenting them with a CustomerFocus award. As well as recognising the receiver's contribution to great customer service, the award also

helps inspire others. Two of those recognised in 2019 helped our customers in very different ways.

A mail deliverer helped ensure that funeral cards which were missing envelopes could be delivered by tracking down the sender, helping a family at a very difficult time. A customer service representative called the emergency services when a customer she was chatting with became unwell. The customer, who is recovering after a visit to the hospital, called the representative to express their gratitude.

Collaboration barometer delivery partners

Over the last few years we have evaluated collaboration between delivery partners and our parcel deliverers to identify improvement areas. In 2019, 43% (2018: 43%) of our delivery partners and almost 38% (2018: 36%) of their deliverers took part in the survey. The results showed that 52% (2018: 51%) of the delivery partners and 66% (2018: 63%) of the parcel deliverers are (highly) satisfied with the collaboration with PostNL. The main areas for improvement relate to communication (primarily on routes and compensation), workload and process improvements.

Building a diverse and inclusive workforce

Diversity and inclusion is an integral element of PostNL. We are a reflection of society and we want to be a company our customers can identify themselves with. We focus on creating a work environment where everyone feels safe and is provided with development opportunities to maximise their potential. Our diversity policy is structured around six key themes: gender equality, multicultural diversity, acceptance of the LGBTIQ+ group, age differentiation, diversity in thinking power and helping people regain access to the labour market.

In 2019, Dutch law makers voted to bring in a 30% quota for the number of women on listed companies' supervisory boards. We already comply with this, with the percentage of women in our Supervisory Board 43% at year end.

With a great variety of nationalities working at PostNL, we offer a range of training courses. These include multicultural craftsmanship, intercultural communication and the newly developed diversity dive. These courses increase mutual understanding and create greater cohesion within the company. We also look at multicultural diversity through our mobility programmes and management development programmes, with the aim of attracting more multicultural talent and better aligning the recruitment of our traineeships. When we do identify intercultural issues, internal specialists work on a case-by-case basis to address those.

Three networks are active within PostNL. The Women Inclusion Network (WIN) has a proven mentoring programme, which



48 The integration with Sandd

On 1 February 2020, the postal networks of PostNL and Sandd became one, with mail across the Netherlands being delivered by a single, strong country-wide postal network. As director of Mail in the Netherlands, Resi Becker is responsible for the integration. She talks to Annemiek van Hoek-van Overdam, who made the transition from Sandd to PostNL.

A necessary step

Resi has experienced many changes at PostNL. "I never get used to reorganisations. All of the personal stories, in this case especially from Sandd employees, continue to touch me. It was a necessary step, but this integration impacts many people. Something changed for everyone: for customers, as well as the employees of Sandd and PostNL. This required flexibility from everybody involved."

Complicated puzzle

Annemiek used to work for Sandd and started at PostNL on 1 February 2020. While she heard that a number of colleagues had problems with the schedule they were offered, for Annemiek it was not a problem. "We did our best to ensure that the integration went well," explains Resi. "But it was a complex puzzle. Internally it was mainly a lot of planning. We had to make new work schedules for so many people, not just the new colleagues from Sandd. It was not always possible to honour the individual wishes of everyone."

Customer remains central

PostNL had to consider many different interests and expectations. "But the customer remains central. The integration was needed to help us maintain a reliable, accessible and affordable postal

service to offer our customers the quality that they expect from us. So, while the integration did impact former Sandd customers, we managed to make the change as smooth as possible, while still maintaining high-quality delivery. And while customers from Sandd did see changes, we have had a lot of contact with them to discuss the impact. Despite it being a puzzle, I am happy that we have taken this step. And I am happy with all the new colleagues who now work with us."

Key figures on the integration with Sandd

- **Job offers to Mail deliverers:**
11,000 Mail deliverers (around 4,000 accepted)
- **Other employees applying with priority:**
1,800 employees (around 300 welcomed)
- **Continued agreements with social work places:**
25 social workplaces (around 500 employees)
- **Activities:**
175 tours on sorting sites, 13 job fairs, 50 consultation hours and 30,000 calls through specially designed call centre
- **New business customers:**
Close to 4,000 customers
- **Extra clients for collect and/or delivery service:**
Around 2,000 clients

includes senior management acting as mentors for talented and ambitious women. This enables them to strengthen and widen their own network, while the activities organised by the network support retention and allow women to informally discuss their ambitions, thereby helping PostNL with talented women in increasingly senior positions. A new feature is the WIN development programme, in which we help guide talented women along their career path. In 2019, we were presented with the Diamond Award based on our results in the field of gender equality. At year end, 49% of PostNL's workforce were women, while the percentage of women in management positions increased to 22% (2018: 21%). In senior management positions, this is 27% (2018: 25%).

The PRIDE network actively campaigns for greater acceptance of the LGBTIQ+ group. In 2019 PostNL participated in a number of events, including at the annual PRIDE event in Amsterdam. Each year we hold various activities and initiatives that contribute to the acceptance of 'individuality'. The Young PostNL network focuses on young talent within the company, and develops its own events aimed at developing young talent within the company.

We also believe in the importance of knowledge sharing, and actively work as a host with Diversity in Business, Talent to the Top, and Agora, which promotes cultural diversity.

Collective labour agreements

PostNL agrees on labour conditions with trade unions in three different collective labour agreements (CLAs): Mail deliverers, Saturday deliverers and other PostNL employees. In 2019, PostNL agreed a new CLA with the trade unions, which took effect retroactively from 1 January 2019. The CLA sees salaries increase by a total of 3% over 2019 and 2020, with employees also receiving a one-off payment in January 2020. In addition to the CLA, PostNL has also agreed on a Social Plan with all trade unions. This came into force in 2016 and expires at the end of 2020.

In 2019 we also changed the contracting model we use in our parcel sorting centres, to ensure that all sorting staff are paid in accordance with our CLAs. While we consider the old model to be legal, the change means we introduce greater transparency to the public debate about contracting.

During the year we also completed checks into whether our delivery partners pay their deliverers in accordance with our CLA. This was done as part of our focus on being a good employer and to reduce liability.

Developing our people

Our People Development function advises the business on individual and collective development opportunities. We develop initiatives in co-creation with the businesses to stimulate and

support learning and performance improvement in line with the critical transformation needs within the company.

In 2019, the main elements covered were agile working, customer experience and digital transformation. We changed our approach to the development of learning from a centrally-developed curriculum to a model where the business has greater control, based on their individual needs. PostNL offers learning and development opportunities for employees at all levels of the organisation, and for all skill sets. For example, we offer language training, logistics college education programmes, as well as leadership and talent programmes.

We use cyclical performance management to help us monitor the development of our employees in a collaborative and transparent way. In 2019, we ran a successful pilot with around 300 employees from different business units, and we used the results to optimise our approach during the year. Based on this, we aim to deploy the new performance management approach in 2020 for employees in scale 5 and above.

To help secure people's employability, we have created a dedicated learning environment. This online environment, called 'Mijn Leerplein', offers content from third-party knowledge providers, to ensure we have a broad and up-to-date range of training courses on offer. We currently offer our people a variety of online development opportunities, which are designed in such a way that employees are able to utilise them anytime and anyplace.

To support anytime and anyplace learning, the expectation is that mobile learning will continue to grow. In 2019 we began a pilot for all new mail deliverers using the Knowingo app, which provides a highly interactive training on mobile devices. We will roll this out for other deliverers in 2020. This will align with the broader trend across

“ We focus on creating a work environment where everyone feels safe and has development opportunities to maximise their potential. ”



From mail deliverer to truck driver

After 20 years of delivering mail, Tineke van Bloemsma-van Dijk was ready for a new challenge. She worked with HR to develop a learning path, and before long she had her heavy goods vehicle (HGV) license. Now, she delivers parcels for PostNL throughout the Netherlands.

Why a truck driver?

“My husband has an HGV licence and he suggested taking a test lesson on a truck, and a few days later I was sitting behind that big steering wheel for the first time. Then I heard through HR about a position with PostNL Transport. I applied and was hired. They even paid for my driving lessons and helped me to become a truck driver.”

How do you like it?

“In the beginning I felt a bit clumsy. It is quite something to be in charge of a 17-meter long truck. Fortunately, a colleague joined me on journeys for the first two weeks, which helped. Although I drive on my own, I don't feel lonely. Every trip I talk to different customers and if I have time, I take a break at the sorting centre where I see colleagues. I now work 32 hours a week instead of 20 and earn more, so that's also an advantage.”

Surprise!

“In the area where I mostly work there aren't many female drivers. I'm a small woman, most people expect a big man. Most customers are surprised when they see me step out of the cabin. But in a nice way.”

society where people increasingly use online platforms and apps that give them greater control over their lives. In 2020 we will also focus on developing digital skills of our workforce, to be fit for the future.

Managing personal potential

Our annual talent review process is the basis of our leadership and talent management approach. It addresses the performance and potential of our employees on an individual level. Focusing on talent management enables us to retain talent and identify areas to attract (more) talent. After identifying our talent, we develop and challenge them in new jobs and roles, while planning ahead for the needs of key positions. An example of pipeline development is our talent-pool for logistics talent. PostNL also runs traineeships to develop new leadership talent. PostNL employed almost 90 trainees in 2019, with around 25 moving into a position within the company during the year. We expect around 30 new trainees to join the programme in 2020.

Stay healthy

Healthy employees are central to a well-functioning company. At PostNL, a pre-condition is providing a work environment where our people feel safe.

Measuring health and safety

We use the absenteeism rate and recordable accidents rate to measure the health and safety of our people. Over the course of 2019, absenteeism was below the levels of 2018, at 5.4% (2018: 5.9%). We believe our increased focus on employee retention and onboarding, as well as working to improve working conditions in our parcel sorting and delivery centres, has helped to lower the absenteeism rate.

During 2019 we implemented a number of initiatives to help lower absenteeism, and help speed up the reintegration process after a period of absence. We achieved this by providing training on absenteeism prevention to our operational managers and HR business partners. We also introduced coaches at our head office to provide psychological support for anyone who needed it, and provided information sessions on psychological absenteeism.

Our recordable accident ratio declined in 2019 to 4.2 (2018: 4.7), as we focused on initiatives that raise awareness of health and safety across the organisation. While the decline is positive, we continue our work to improve it even further.

Despite our ongoing focus on safety, it is with regret that we have to report three occupational fatal accidents (2018: two). The three fatalities, which included civilians and people who work with or for us, occurred in traffic accidents, involving our own vehicles and

those of our delivery partners. These events are tragic and we remain determined to prevent fatalities.

Working under extreme heat conditions

In the summer of 2019 an orange alert was put in place across the Netherlands due to extremely high temperatures. This made it difficult for those working in operational roles across the company, which is why we introduced a number of additional measures to protect the well-being of our people.

We advised mail deliverers not to deliver between noon and 14:00, the hottest period of the day, and gave them the option to deliver in the evening from Tuesday to Friday. They were also advised to take extra drink breaks and re-usable water bottles have been provided to all mail deliverers.

At our Parcels' sorting and delivery centres, extra breaks were introduced during the hottest moment of the day, while deliverers could choose themselves when to take an extra break. We also bought over 280 new vans with air conditioning in 2019, making the delivery process more comfortable for van drivers.

New requirements on parcel weight

During the course of 2019 we made changes to our transport policy, introducing a €2.95 surcharge on parcels that weigh above 23 kg. Our aim is to cut the number of overweight parcels from our network, helping to reduce the impact heavy lifting has on our sorters and deliverers. In specific cases we have made one-on-one agreements with customers, with one now splitting their heavy parcels into two parts. This policy applies to all new contracts, with standing contracts respected until their end date.

Realise change

Our focus is on optimising our logistic processes while creating a harmonious work environment. In 2019, for example, we were again ranked highly for our social performance in the Dow Jones Sustainability Index (DJSI), showing a strong improvement of around 10% in our social dimension score compared to 2018. By investing in sustainable employability and focusing on diversity, we believe we make the organisation stronger and create an environment in which people want to work.

Moving from contracting to temporary workers

In order to provide clarity and leadership in the discussion on contracting, we have decided to stop employing workers on a contracting basis within our parcelsorting and delivery centres. This means that temporary workers will be paid based on our company's collective labour agreement. We started this change program in 2019 and expect to have this fully implemented in 2020.

“ Our aim is to cut the number of overweight parcels from our network, helping to reduce the impact heavy lifting has on our sorters and deliverers. ”

Re-matching working packages

In June 2019 we introduced the New mail route. One of the things this enabled us to do was provide employees with additional working hours (see the 'New schedules for mail deliverers' story box). We developed a process to match around 27,000 sorting and delivery employees with a new schedule, taking into account logistical changes and employees' personal circumstances. Introducing the new schedules led to only 0.2% official complaints from employees, which were discussed and resolved in close collaboration with a commission consisting of an independent chairman, deputies of the company and the works council. We believe our careful preparations and communication efforts contributed to the success of the implementation, and helped us maintain our employee engagement score year-on-year.

Focus on internal mobility

In 2019 we paid more attention to the internal mobility of our people, in particular those colleagues in Mail in the Netherlands whose work is impacted by volume decline. A key element in our approach is careful communication about the reasoning behind changes in our organisation. In the early stages of restructurings or reallocations we involve employees in our plans and start conversations on internal job or retirement possibilities. Via our own Mobility Office we give our employees an insight into internal vacancies and help them to gain the necessary knowledge. As a result of the strong growth across parts of our business, new and interesting positions are opening up. This is one of the reasons we actively stimulated voluntary internal mobility through internal recruitment campaigns.

Our commitment to respect Human Rights

At PostNL, respect for Human Rights is an important pre-condition to be a sustainable company and good employer. PostNL is committed to protect and advance Human Rights and works vigorously to protect people against infringements of Human Rights in its operations. We respect ILO's Declaration on Fundamental Principles and Rights at Work and particularly

endorse the UN Guiding Principles on Business and Human Rights. In 2019 we updated our Human Rights policy based on identified improvement areas. Adding Human Rights as an explicit topic in the annual risk assessment cycle of PostNL. Although Human Rights in such has not been identified as key risk, we take action on Human Rights for our own people and the people working for us. In addition, we assess Human Rights risks of suppliers following a risk-based approach.

PostNL Human Rights in our policy

Elements of PostNL Group Human Rights

Policy	Subject covered	Reference to UDHR ¹
Collective labour agreements	Stimulate trade union and works council participation; work conditions; equal opportunities; remuneration; working hours and rest	Art. 20; Art. 23.1; Art. 23.2; Art. 23.3; Art. 24
Business principles	Slavery; diversity	Art. 4; Art. 18
PostNL Group Statement on Slavery and Human Trafficking	Slavery	Art. 4
PostNL Procurement policy	Freedom of association, work conditions; equal opportunities; remuneration; working hours and rest	Art. 20; Art. 23.1; Art. 23.2; Art. 23.3; Art. 24
Diversity & Inclusion Policy	Freedom of thought, conscience and religion; equal opportunities	Art. 18; Art. 23.2
PostNL pride network	Stimulate LGBT acceptance	Art. 18
Woman Inclusion Network	Support women in equal opportunities	Art. 18
OHSAS 18001 certification	Work conditions	Art. 23.1
Complaints and support processes	Freedom of opinion and expression	Art. 19

¹ Universal Declaration of Human Rights



Contributing to a liveable society

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We believe in giving something back in addition to our business activities. Our sponsorship policy aims to help people who need extra support to stay connected with society. This sponsorship also means we can provide our employees with an opportunity to give greater meaning to their jobs. We choose initiatives where we can add value, making use of our people, networks and competencies. Our employees spend time on a voluntary basis and we donate the use of our materials, equipment and networks.

Free delivery - Stichting Jarige Job

In 2019 we again worked with Stichting Jarige Job, a foundation that provides very poor children in the Netherlands with a gift box on their birthday. Throughout January each year, people can give gifts they want to donate directly to the parcel deliverer, or drop them off at a retail point, and we then deliver them free of charge to Jarige Job. In 2019, we delivered over 80,000 presents.

National Elderly Fund

In 2019 we again delivered free Christmas cards to health institutions and over 6,000 primary schools across the Netherlands, asking everyone to write to a special someone who deserves a little extra attention during the festive season. This was the fifth year we have carried out the initiative, which resulted in us delivering 180,000 Christmas cards to elderly people.

National Coalition against Loneliness

We signed an agreement to join the National Coalition against Loneliness, which is a collaboration of companies, social institutions and governmental institutions focused on reducing loneliness

among elderly people. It is estimated that around 700,000 elderly people in the Netherlands feel lonely. Through our presence in the heart of society, and the growth of our health activities, we have a great deal of contact with the elderly in their homes and want to help make a difference.

Orange action week

Each year participants in the PostNL management trainee programme are asked to leave a 'footprint' following their time in the programme. Inspired by the introduction of our Orange compass, the focus in 2019 was on our connection in society, and the trainees chose to organise the Orange Action Week' in May. During the week, hundreds of PostNL employees dedicated themselves to around 20 charities, ranging from collecting for local food banks to organising a sports and culture day for children who live in an asylum seekers' centre. In addition to delivering over 2,000 special moments, participants also raised more than €12,000 for charity. The Orange Action Week will take place again in 2020, with volunteers from across the company.

King games

Once again, we delivered the King's Games Sports and Party Parcel to all primary schools that participated in the 2019 King's Games. For the seventh year in a row, we made sure that the more than 6,000 parcels made it to participating schools in the Netherlands. And in cooperation with the Foundation for Dutch Education Abroad, we also took care of the distribution to Dutch schools abroad that celebrate the King's Games.

Environmental value

As a logistics service provider, we are aware of the impact we have on the environment. Which is why we are working with our employees, our customers, our partners and our suppliers to make the supply chain more sustainable. This will help us achieve our goal of becoming an emission-free last-mile delivery service provider in the Benelux by 2030. Benefitting them, benefitting us and benefitting the environment.



Environmental value

Key performance indicators

Emission-free delivery

Reduction of CO₂ emissions per km compared to base year 2017

(8%)



2018: (2%)

Emission-free delivery

Share of emission-free delivery of parcels and mail in the last-mile (Benelux)

19%



2018: 17%



Performance summary

Main developments

In 2019 we submitted our science based targets (SBT) to the Science Based Target initiative (SBTi) for review and approval. The SBTi confirmed that our targets, which we set in 2018 with the aim of decarbonising our business towards 2030, contribute to achieving the Paris Climate Agreement. These targets include our aim to reduce CO₂ emissions across all our operations, including outsourced road and air transport.

During the year we successfully issued a €300 million Green Bond. The proceeds will be used during the seven-year bond period to support our sustainability goals of becoming an emission-free last-mile delivery service provider in the Benelux by 2030. We also introduced two new KPIs, aimed at driving our emission-free deliveries. The first measures our share of emission-free delivery of parcels and letters in the last-mile in the Benelux. The second measures the reduction of CO₂ emissions per km we have achieved, compared to our 2017 base year. We monitored our progress compared to 2018 and developed an action plan aimed at increasing the share of emission-free kilometres.

Reducing environmental impact

We have started to monitor progress on our relative CO₂ emissions per kilometre for all our own operations, compared to the baseline year 2017. And we have developed a detailed action plan to meet our long-term target of an 80% reduction in our relative impact by 2030 compared to 2017.

However, since 2017 we have faced a number of challenges in this area, mainly related to the extension of lease contracts and the lack of availability of low-emission vehicles with the right specifications for our operations. In 2019, this resulted in a 6% increase in our CO₂ emissions per kilometre compared to 2018, and an 8% increase compared to our 2017 base year.

To overcome these issues, we are initially looking into scaling up the use of sustainable fuels, which for diesel and liquefied natural gas (LNG) are only just starting to become available on a large scale. Looking further ahead, we expect to make significant steps towards the electrification of our car fleet, which we expect to result in major improvements in around five years time.

In 2019, 19% of our last-mile kilometres related to the delivery of mail and parcels were transported emission-free. This includes the relevant kilometres of our delivery partners. This is a slight improvement compared to 2018, as we started to phase in electric vehicles across our fleet on a small scale, increased our e-bike logistics and expanded our fleet of electric scooters. We foresee marginal improvements in the coming years as we prepare our infrastructure and test the use of electric vehicles in our operations.

Although we plan to scale up our electric fleet as soon as we can, we expect to see a large-scale transition across our own fleet and those of our delivery partners starting in 2025.

To support our emission-free journey, in 2019 we introduced Zero 2030, a programme consisting of specific projects that contribute to us reaching our 2030 goal. For each project, we detail the short- and long-term environmental benefits and actions. These include specific goals set for individual parts of the business and general company-wide targets. We also launched and began to develop more than 40 different initiatives covering our main networks. We monitor progress and steer on our zeros to achieve our goals.

In relation to our goals on sustainable city logistics, we operate electric distribution from three of our parcel sorting and delivery centres, and have expanded our City Logistics programme, with (e)-bike delivery taking place in 12 cities across the Netherlands. For 2020, we are introducing a KPI on sustainable city logistics linked to the percentage of city centres we deliver to emission-free, based on our goal of 25 city centres by 2025.

In 2019 PostNL was again ranked in the top-three sustainable companies worldwide in the transport and logistics sector by the Dow Jones Sustainability Index (DJSI). This benchmark evaluates listed companies on economic, social and environmental transparency and performance.

Strategy execution

We steer on our strategy through our relevant drivers, as explained in the chapter 'Our strategy'. In this chapter we explain how our drivers help us achieve our strategic objective, which is to reduce our environmental impact. For each driver we provide examples that illustrate the events, initiatives and related outputs that contributed to our performance.

Green innovations and efficiency

Creating a more sustainable delivery company means looking for new ways to cut emissions, increase efficiency, and develop fresh solutions. In 2019 we took a number of steps to improve sustainability across the company, including introducing our first Green Bond, which we will use to finance eligible green projects. We also established Zero 2030, which will help incentivise people across the company to look for ways to increase efficiency and promote sustainability.

Science Based Targets

In 2019 the Science Based Target initiative (SBTi) verified and approved PostNL's CO₂ emission reduction targets, which is a crucial step in our sustainability journey. Our SBTs are the cornerstone of our sustainability agenda, and reducing and preventing the

environmental impact of both our own and outsourced operations is vital if we are to realise a sustainable business in the long term. The targets validated by the SBTi absolute CO₂ reduction from our own operations (scope 1 and 2) of 60%, and relative reductions of 80% per kilometre driven. These scopes include all of our own operations, but not the operations of our delivery partners. They also include scope 1, 2, and 3 reductions of 18% by 2030 for all transport, including outsourced road and air transport. These reductions are a vital step in achieving our objectives.

Green Bond

In September we raised €300 million through the launch of our Green Bond, a transaction that underscores our commitment to becoming a truly sustainable e-commerce logistics provider. We will use the net proceeds towards supporting current and future green projects. These will include green kilometre initiatives, which are focused on clean transportation through investments into electric and hydrogen-based vehicles; creating sustainable buildings, which are energy efficient and have a minimum level of BREEAM NL Excellent certification or equivalent; and through innovation and efficiency measures, which will involve financing renewable energy projects, establishing direct purchasing contracts from renewable energy producers, and looking at investments into developing renewable energy technologies, specifically wind energy and solar panels.

Our Green Bond Framework will contribute to our sustainability vision, and the investments we make as a result of it will contribute not only to our own sustainability targets, but also to the Netherlands' national climate goals. Ultimately, these will help advance the United Nations' Sustainable Development Goals (SDGs), including SDG 7: Affordable and clean energy industry, SDG 9: Innovation and infrastructure; and SDG 11: Sustainable cities and communities.

Internal carbon pricing

In 2019 we implemented internal carbon pricing, which puts a monetary value on greenhouse gas emissions. This means that when submitting investment decisions, management will be required to take into account the financial impact of CO₂ emissions arising from that investment, based on an internal price per tonne of CO₂. We believe this will help us better understand and react to climate-related business risks by making sustainable initiatives more attractive than cheaper but less clean alternatives. Ultimately, this will help us achieve our CO₂ reduction targets, creating a cleaner and more sustainable company.

Sustainable packaging

A 2019 IPC study concluded that consumers are becoming increasingly concerned about sustainable packaging in the e-commerce sector. Parcels sent by our customers often contain too much air, and transporting air is inefficient and unsustainable. In

2019 we began implementing ways to reduce air in parcels sent through our network, while continuing to develop other sustainable packaging solutions.

At our fulfilment centre in Houten we worked with two customers to develop smaller packages for their products. In addition to reducing air, properly sized packaging also has other benefits. One is that it leads to greater consumer satisfaction, which is also an attractive benefit for e-tailers. Another is that it is easier for us to transport smaller packages by e-bike and other sustainable options, such as e-cargo bikes.

Based on an initiative of the Children's Council (Raad van Kinderen), we worked with primary school kids to develop a reusable parcel delivery bag called Orange Back. The bag can be reused up to 1,000 times, giving it the potential to save over 130 kilogrammes of cardboard. It is also convenient for consumers, who can return it directly to the deliverer. We began testing the bag with two sports retailers in 2019, and will continue to develop the product going forward.

Another reusable packaging solution we refined during the year is the fashion pack, a specialised packaging solution tailor-made for the fashion sector. We increased the sustainability of the material the fashion pack is made from in 2019, and aim to create renewable packaging in the near future. The fashion pack can be re-used and vacuum-sealed by the consumer if they choose to return the product, reducing packaging material and air in packaging.

Green Post

In 2019 we continued to develop our Green Post offering, which lets customers offset their carbon footprint through sustainable investment, by optimising the CO₂ credits and investments in sustainable projects we use to offset the carbon emissions.

Green Post customers can use a calculator to work out the CO₂ emissions of their mail and parcel shipments, and can then choose if they if they want to offset those emissions. Benefits include investing in sustainable projects and, for business customers, being able to include the CO₂ compensation in their sustainability report or annual report.

We double the first €50,000 that customers offset and donate our contribution to Natuurmonumenten, an organisation that buys, protects and manages nature reserves in the Netherlands.

Green kilometres

We deliver to every address across the Netherlands and Belgium. But simply delivering is not enough. Our goal is to deliver mail and parcels as efficiently and sustainably as possible. In 2019, for

example, 19% of our last-mile parcels and mail delivery in the Benelux was done with zero emissions: on foot or by bike. Elsewhere, we continue to expand our biogas and electric vehicle fleets.

With the majority of our last-mile mail delivery done on foot or by bike, and therefore emission-free, our main challenge is to grow our green credentials in our Parcels business. However, strong e-commerce growth means we sometimes have to invest in options that are not as sustainable as we would like. In 2019 we acquired transport company Mostert Verkerk, increasing our fleet of diesel trucks. We remain dependent on our delivery partners, the vast majority of whom use diesel vehicles. And we rely on manufacturers being able to produce vehicles to the correct specifications at economically viable prices if we are to electrify our fleet. Despite this, we expect a significant scale up in the electrification of our fleet in the coming years.

Sustainable delivery fleet

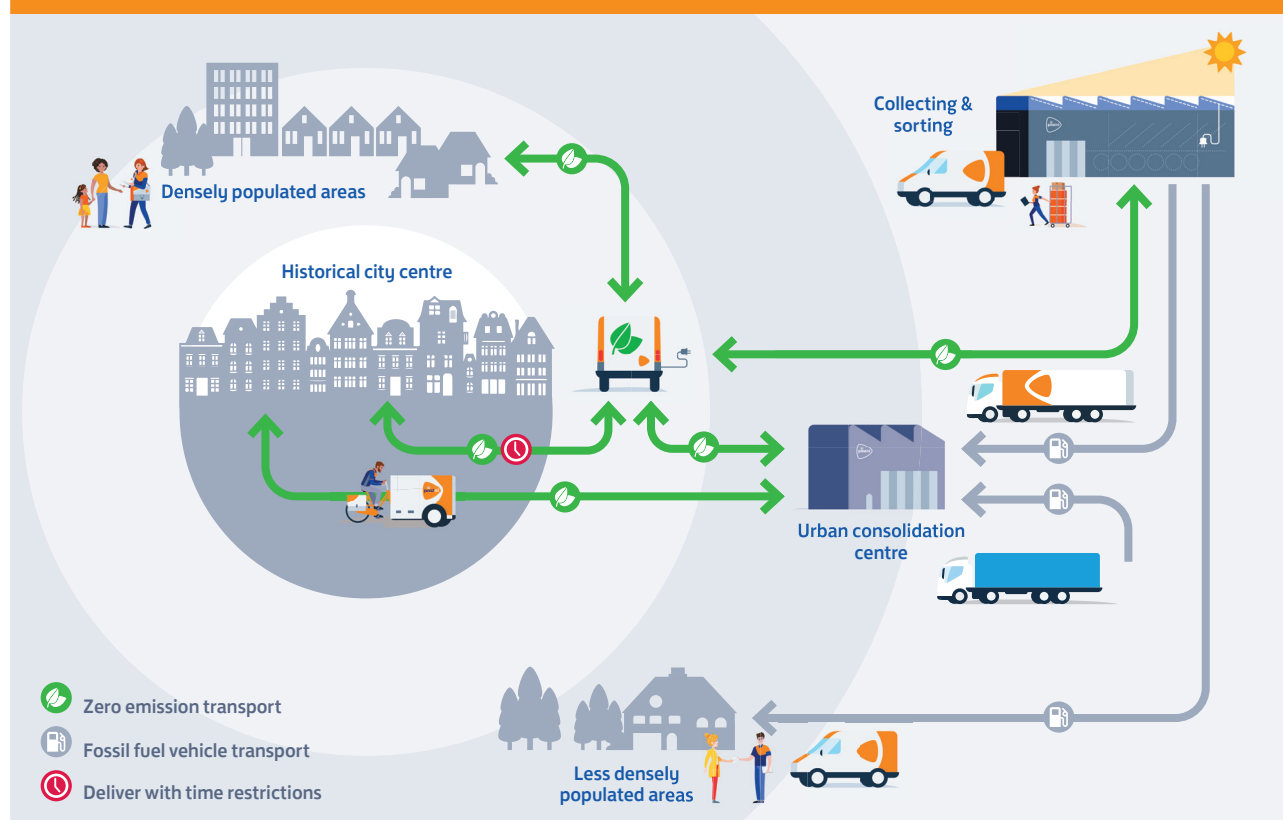
In 2019 we continued to expand our own fleet of biogas and electric vehicles, and now operate 846 biogas vans across our operations, 450 e-bikes, 214 e-cargo bikes, 235 electric scooters and 67 electric delivery vans. By year end, around 45% of our own fleet of delivery vans was running on biogas or electricity. In 2019 we decided to replace 300 scooters for cleaner versions, and began a hydrogen

vehicle pilot. Vehicles run on hydrogen fuel cells are cleaner and more efficient than their combustion engine equivalents. And by year end, we had expanded our electric delivery fleet in Almere.

As diesel and biogas vans need replacing, we aim to switch to electric vehicles. In order to meet our goal of 60% of our fleet running on electric or renewable fuels, we are looking into opportunities to use bioLNG (bio liquefied natural gas) and biodiesel, as well as biogas. Our investment programme is aimed at meeting the Science Based Targets we have set for 2030. We are also improving the sustainability of our truck fleet, as transport between our sorting centres accounts for a substantial part of our emissions. By the end of 2019, we had 22 trucks running on LNG, which has lower GHG emissions than diesel. We will add at least 25 LNG trucks to our fleet in 2020.

Increasing the sustainability of our delivery partners' fleet is more difficult, as we have less control over when or if they switch from diesel to less polluting options. However, in 2019 we worked with delivery partners to reduce the number of inefficient journeys they make, such as with half-empty vans, as we learned from data insights that 40% of CO₂ emissions come from the 20% most-inefficient journeys.

PostNL Our view on city logistics





Delivering 10,000 parcels by bike

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For Amsterdam consumers ordering from bol.com, same-day delivery, or even an extra-fast two-hour option, is becoming the norm. And if that wasn't enough, many of the parcels are now delivered sustainably. Since 2018, PostNL has run a delivery trial across the city using e-cargo bikes, and towards the end of 2019 the service delivered its 10,000th parcel. Project manager Boy van der Velden explains.

Fulfilment centre

"If you live inside the trial area in Amsterdam and place your order at bol.com between 10 am and 7 pm, you can choose to have your order delivered within two hours. Or any two-hour timeframe that same day. This super-fast delivery option applies to around 10,000 items we have stored at a joint fulfilment centre on the edge of the city. As soon as bol.com receives an order, they prepare the package and hand it over to us. We are responsible for planning and executing the delivery."

Sustainable

"The service is fast and sustainable," Boy continues. "We deliver everything using e-cargo bikes. And we see that other companies are enthusiastic about our approach. We started another trial with Nespresso, delivering capsules from a Nespresso shop using e-bikes, and delivering and returning reusable bags for used capsules. This helps PostNL and Nespresso work towards their green goals."

City Logistics

One of our objectives is to deliver emission-free in 25 Dutch city centres by 2025, which we view as an important step on our journey to achieving our 2030 science-based targets (SBTs). But how do we make sustainable city logistics a reality? Our answer is innovation and cooperation. We hold discussions with a range of interested parties, including local and national governments and citizens groups, to look into how we can avoid delivering in certain areas, such as schools, at certain times. Or how new neighbourhoods can be built to make parcel delivery as easy as possible.

Since 2017 we have been delivering business goods emission-free in Amsterdam city centre working with a partner that creates hubs for sustainable city distribution. In 2019 we expanded this partnership, opening sustainable delivery hubs in Groningen, The Hague, Maastricht, Utrecht and Nijmegen. The result is electric delivery for a range of business goods across six Dutch cities, and a total fleet of 57 electric vans. Winning the tender to operate city logistics in The Hague was an important milestone, as this tender was backed up by several important parties. We further developed our bike delivery network across the Netherlands, expanding to 12 cities by the end of the year.

Each year we look at the most relevant market developments and change our focus accordingly. Going forward, we will continue to expand the number of cities we deliver to emission free, while working to reduce congestion and transport journeys, and improve the air quality of cities. In 2020 we will begin using Amersfoort as our test marketplace for electric distribution, and will introduce testing of emission-free vans with our delivery partners, in Belgium and across our other networks.

Sustainable buildings

In the future, we want all of our buildings and sorting centres to be either CO₂ neutral or CO₂ positive. By 2019, 18 of our 25 parcel processing and distribution centres had been fitted with LED lighting, while 24 produced renewable energy through roof-fitted solar panels. Our mail sorting centres were already equipped with LED lighting before the start of 2019. We installed building management systems at two of our centres, which will enable us to reduce our energy consumption.

New parcel processing and distribution centres

The three parcel sorting and distribution centres that we opened in 2019 were awarded the BREEAM certificate 'Outstanding'. We achieved this rating by investing in the most sustainable building materials available, installing waste heat recovery systems, and placing around 950 solar panels on the roof of each sorting centre.



Making The Hague a cleaner, less congested city

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A 100% emission-free logistics hub in The Hague. That was the goal of the city of The Hague following a tender in 2019. And in September, PostNL and four other partners were awarded the contract, which they will operate under the name SimplyMile The Hague.

SimplyMile

Rianne van der Giessen is Post & Logistics category manager at the government department involved in exploring the initial options. “The government wants to contribute to a more sustainable, social and innovative Netherlands. The agreement with SimplyMile fits well with this strategy.

First, a logistics centre is created on the outskirts of the city, where goods are received, stored and bundled for delivery to the city. Next, the products are combined in one shipment and delivered by PostNL using electric vehicles. By bundling goods from different suppliers, fewer vehicles have to make the journey into the city, and so fewer kilometres are driven. This makes the city centre cleaner, more accessible and safer.”

As well as delivering emission-free, PostNL also picks up clean waste streams that can be reused as raw materials, such as coffee grounds, citrus peels, packaging materials and coffee cups, taking them back to the hub.

Just the beginning

So far, SimplyMile operates in Amsterdam, Groningen and Nijmegen, but it has the potential to grow, Rianne says. “If other cities can follow this example, it will help the Netherlands achieve its climate targets faster.”

Peter van Boven, a logistics contract manager who was involved in the tender process, agrees. “In the tender phase, I was a material expert and assessor. The SimplyMile consortium are providing services that can help with some of the environmental issues we are facing. For example, the new hub can save 3.4 kilograms of particulate matter every year. That is equivalent to a hundred delivery vans that drive around for a year. And they can also save 25,000 kilos of CO₂, which is the equivalent of flying 175 times from Amsterdam to Paris.”



Sustainable packaging

Surprised when you order a T-shirt or fitness watch and they arrive in an oversized box? Many of us are, which is why PostNL and sports chain Decathlon are working to develop customised packaging and other sustainable solutions, aimed at reducing Decathlon's environmental footprint.

A clean environment

"We want people to be able to exercise outside comfortably, which is why we want to contribute to a clean environment," says Roeland Vervloet, 'sustainability leader' at Decathlon Netherlands. Decathlon and PostNL have worked together since the sports chain launched its webshop in 2013. "PostNL has a good image, which is key to working with them. And we both agree that we can send goods in a more environmental friendly way," Roeland explains.

Smaller packaging

One way to achieve this is by sending articles in smaller boxes. Roeland: "Larger boxes don't help anyone. The consumer doesn't want the cardboard, and bigger boxes mean more journeys to our distribution centre, increasing CO₂ emissions. One of the solutions we now use is machines producing made-to-measure boxes, meaning packages that fit the order." Reusable packaging also reduces waste. Roeland: "The challenge lies in getting consumers to return the packaging after they've opened the bag, but we are looking at ways to solve this."

Switch to LED lighting

On average, LED lighting cuts energy consumption by 50% compared to halogen lights. During the year we continued to switch to LED lighting across our operations. Of our 25 parcel sorting and distribution centres, seven were fully equipped with LED lighting and 11 had LED lights fitted in the production hall by year-end. Six centres will have LED lights installed in their production hall in the first quarter of 2020.

Solar panels

In 2019 we placed over 5,500 panels on the roofs of six of our parcel sorting and distribution centres, bringing the total number of panels on our 24 parcel centres to just over 25,000 by year end. In total, these panels produced around 6 million kwh over the course of the year, equating to around 43% of the centres' total annual energy consumption on lighting. For those centres that had solar panels up and running for the entire year, this figure rose to 47% of their annual energy consumption on lighting.

Charging infrastructure for e-vehicles

Moving towards emission-free deliveries involves more than just introducing electric vehicles. We also need to update and adapt our infrastructure. Across a number of our sorting and delivery centres we have commissioned and begun constructing loading docks for e-vehicles. At our Amsterdam centre, for example, we have completed preparation for 48 docks, 24 of which are live. At our centre in Almere we have prepared 83 docks, 30 of which are live. And at our Dordrecht centre 60 docks have been prepared, with the first set to go live in 2020. Going forward, we will continue to work on bringing additional docks live, including at our centre in Tilburg where we have just completed the design phase.

Sustainable value chain

Poor sustainability performance can translate into reduced growth and unhappy stakeholders, and we know that transitioning to a decarbonised business is vital if we are to have a license to operate in the future. While part of this transition can be driven by PostNL, we are also dependent on external developments. For example, the speed with which electric trucks and vans are widely available; the implementation of a stable, Benelux-wide electric charging network; and the impact that air freight has on our scope 3 CO₂ emissions. To help solve these issues, we need to work with our customers and partners along the supply chain, looking for ways to reduce social and environmental costs while improving efficiencies. At the same time, we need to invest in developing technologies to help accelerate the rate of change.

Lean & Green logistics

One example of this is the BigMile project, which we began in 2018 and expanded in 2019. BigMile enables us to analyse how effective

our CO₂ measurements are, and then inform customers such as webshops and e-tailers of their own CO₂ impact, all the way down to the level of a single delivery. This lets us gather a range of useful data that aids us in our drive to reduce delivery inefficiency. In 2019, we focused on improving our data quality and aligning our data with the systems of BigMile. This will provide a basis for further analysis in 2020.

Measuring societal impact

While product development business cases have primarily focused on revenues to cover development costs, customers and other stakeholders are increasingly looking to measure and understand other impact areas.

In 2019, we carried out a pilot project to obtain insights into the impact of two initiatives: reverse logistics and reducing air from parcels. We worked together with specialised consultants to develop a methodology to measure broad economic, social and environmental impact, which we tested on the pilot initiatives.

Based on a prototype model, we gained valuable quantitative and qualitative insights into the potential to maximise customer value, while reducing costs and environmental impact. One of the main conclusions was that to realise our improvement potential, we need to collaborate with partners along the value chain. Going forward, we will consider how best to follow up on the pilot project, with the aim of helping the company make better decisions based on comprehensive short- and long-term impact.

Working together

We are the founding partner of Shopping Tomorrow, a network platform in which we participate in different expert groups to discuss future consumer behaviour and impact on the e-commerce sector. Another is our collaboration with customers such as bol.com in our shared local warehouse in Amsterdam, from which we offer 2-hour bike delivery on a range of goods across the city. As well as offering a better customer experience, this provides solely sustainable last-mile delivery.

In 2019 we also increased our focus on lowering the emissions from air freight, by working with our suppliers to select and purchase the most sustainable transportation option. At Spring, we began developing a CO₂-offset programme that lets customers select a sustainable option when they purchase a product, which offsets the products CO₂ footprint.

For 2020, we will start collaborating with the startup IM Efficiency, with the aim to equip some of our large delivery trucks with solar panels. The energy produced can be used in different ways, such as in the driver's cab and (un)loading the truck. The expectation is that this energy production enables us to save up to 5% of our diesel consumption per truck.



A good returns policy is essential

With 67% of consumers looking at a webshop's returns policy before they buy, and a solid policy increasing the chance of a repeat purchase, a good returns policy is essential for every e-tailer. Peter Blaas, co-owner of PerfectlyBasics.nl, likes to prevent unnecessary returns, but acknowledges that the fashion industry has an above-average percentage of returns. "It's just part of the business that we operate in," he says.

Well-informed customers

"We sell high-end women's clothing, photographed on models and beautifully presented in our webshop. And we provide a lot of information about the product. The better informed your customer is, the fewer returns you will receive."

Keep moving

It is important that returned items are sold as quickly as possible. Peter: "We process the returns through a self-built process, which gives us the freedom to develop as we want. We generate the PostNL return labels via the PostNL interface that is connected to our own systems. On our site, customers can indicate if they are interested in an article when it's in stock again. The moment we receive a return, it can immediately be on its way to the next customer. This lets us keep the clothing collection and our customers moving. Our collaboration with PostNL helps us process returns quickly and in a customer-friendly manner."

Financial value

PostNL provides short- and long-term financial value for shareholders, enabling them to obtain shareholder return. This is why PostNL focuses on realising a solid financial performance and a healthy financial position. This chapter outlines key developments that impacted our financial performance over 2019 and concludes with an outlook for 2020.



Financial value

Key performance indicators

Financial performance and position

Revenue

in € million

2,844 ⁺⁷² ↑

2018: 2,772

Financial performance and position

Underlying operating income

in € million (margin in %)

162 ^{5.7%} ↓

2018: 209 (7.5%)

Financial performance and position

Underlying cash operating income

in € million (margin in %)

176 ^{6.2%} ↓

2018: 188 (6.8%)

Financial performance and position

Cash from operating and investing activities

in € million

169 ⁺¹⁸⁸ ↑

2018: (19)



Performance summary

In this section we explain the main drivers behind our financial performance on revenue, underlying (cash) operating income and other financial indicators in 2019, beginning with a summary of the key financials on the acquisition of Sandd.

Acquisition of Sandd

On 22 October 2019, PostNL acquired 100% of the shares of Sandd, the other postal company with country-wide coverage in the Netherlands, for an amount of €65 million. After the acquisition was closed, an amount of €64 million was paid to repay debts. The acquisition fits with our goal to create a country-wide postal network in the Netherlands, to ensure that the postal market remains reliable, accessible and affordable for everyone.

The purchase price allocation resulted in intangible assets of €30 million (customer relationships, with an amortisation period of 16 years) and goodwill of €128 million. The goodwill comprises the value of expected synergies arising from the acquisition.

In 2019, Sandd's total revenue and net income till the acquisition date amounted to €39 million and €(54) million respectively. The recording of a restructuring provision of €24 million and the accelerated depreciation of assets for €25 million had a substantial negative impact on Sandd's result. These costs have been excluded from our review of Sandd's underlying (cash) operating income performance.

Revenue

In 2019, Group revenue increased by 2.6% or €72 million to €2,844 million (2018: €2,772 million). We achieved our target to generate more than 50% of our revenue from e-commerce related activities by 2020 one year ahead of plan. This share grew from 48% in 2018 to 52% in 2019. The pace of our transformation was slowed slightly by lower than expected e-commerce growth and a lower decline in mail volumes as a result of the acquired volumes and revenue of Sandd in Q4 2019.

We delivered 283 million parcels in the Benelux in 2019, a 12.4% growth compared to 2018 (2018: 252 million). Although this growth rate is still significant, compared to the last two years the pace of e-commerce growth has slowed. This is mainly explained by a decrease in e-commerce growth in more mature segments and lower consumer confidence. Additionally, we were impacted by multi-vendorship at large webshops. Due to the expansion of our network capacity, we managed to collect, sort and deliver record volumes in our peak season towards the end of the year.

PostNL Revenue development in € million

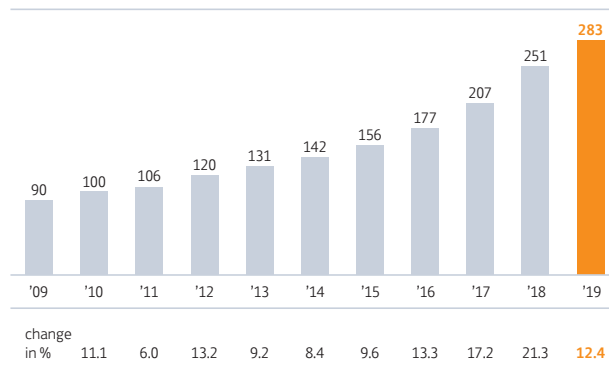


Revenue at Parcels (excluding Spring) grew by €120 million to €1,450 million in 2019 (2018: €1,330 million). Fuelled by the volume growth of 12.4%, the 9.0% growth in revenue was impacted by a negative price/mix effect. In May, we announced our strategic focus on improving margins per parcel, by increasing the revenue per parcel and decreasing the costs per parcel. We began implementing this strategy during the second half of 2019, and expect to see tangible results during the course of 2020. In 2019, we also benefitted from an increase in demand for our tailored value-adding logistic solutions.

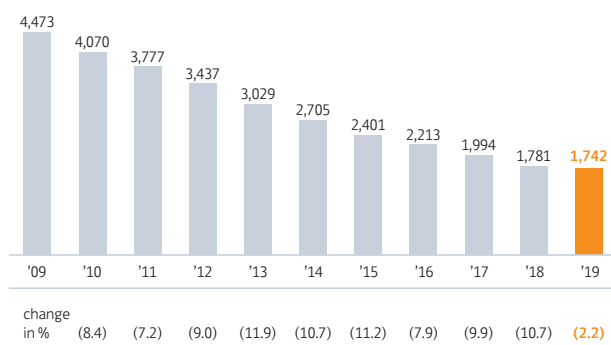
At Spring, revenue increased by 1.5% or €4 million to €263 million (2018: €259 million). Adjusted for FX effects, revenue declined by 1.4%. The competitive environment remains fierce, especially in Asia.

Total revenue at Parcels, including Spring, increased by 7.5% or €117 million to €1,672 million (2018: €1,555 million).

PostNL Volume development Parcels in million



PostNL Volume development Mail in the Netherlands in million



At Mail in the Netherlands, volume decline (excluding the acquired volumes of Sandd) was 9.7% (2018: 10.7% decline). The volume decline was driven by ongoing substitution, loss to competition due to reduced network access and loss of volumes to competition. Including the volumes of Sandd from the acquisition date, total volumes decreased by 2.2% in 2019.

In 2019, revenue decreased by 4.3% or €72 million to €1,606 million (2018: €1,678 million), with the volume decline during the first ten months of 2019 (before the acquisition of Sandd) only partly compensated by a positive price/mix effect. In addition to income from our core addressed mail volumes, revenue also includes income from related business activities. These other activities include the delivery of unaddressed mail and customer contact, print and direct marketing services.

Underlying (cash) operating income

In 2019, the Group's underlying operating income was €162 million (2018: €209 million) with a resulting margin of 5.7% (2018: 7.5%). Underlying operating income excludes exceptional items, which amounted to €43 million in 2019 (2018: €24 million). The Group's underlying cash operating income, in which underlying operating income is adjusted for non-cash costs of pensions and provisions, was €176 million (2018: €188 million) with a resulting margin of 6.2% (2018: 6.8%). As expected, this was negatively impacted by integration costs related to Sandd.

Further information on the bridge from operating to underlying (cash) operating income is included in note 2.5 to the consolidated financial statements.

Our Parcels segment (excluding Spring) benefitted from strong volume growth in 2019. New initiatives, such as the introduction of a single delivery attempt, and more evening, Sunday and same-day delivery contributed to this better performance. The strong volume growth was partly offset by a negative price/mix effect and

higher operational costs, explained by the tight labour and transport market and capacity costs to absorb the swings in daily volume.

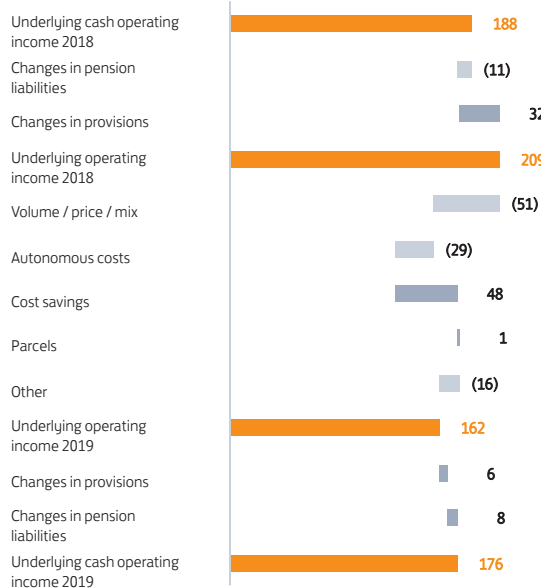
In 2019, underlying operating income at Parcels, including Spring, was €122 million (2018: €121 million) with a resulting margin of 7.3% (2018: 7.8%). Underlying cash operating income in 2019 was €121 million (2018: €117 million) with a resulting margin of 7.2% (2018: 7.5%).

Mail in the Netherlands performance in 2019 was below 2018. Lower volumes were only partly compensated by a positive price/mix effect, negatively impacting revenue. This impact could not be fully countered by lower costs. Cost savings, higher results from export and lower cash out related to pensions and provisions were offset by autonomous cost increases and other effects.

Our cost saving plans include a number of initiatives, such as adjusting our sorting and delivery process and the streamlining of staff. In 2019, we achieved total cost savings of €48 million, which, as expected, were at the lower end of our guidance of between €45 million and €65 million.

In 2019, the underlying operating income of Mail in the Netherlands was €77 million (2018: €133 million) with a resulting margin of 4.8% (2018: 7.9%). Underlying cash operating income in 2019 was €76 million (2018: €93 million) with a resulting margin of 4.7% (2018: 5.5%).

PostNL Underlying (cash) operating income development in € million

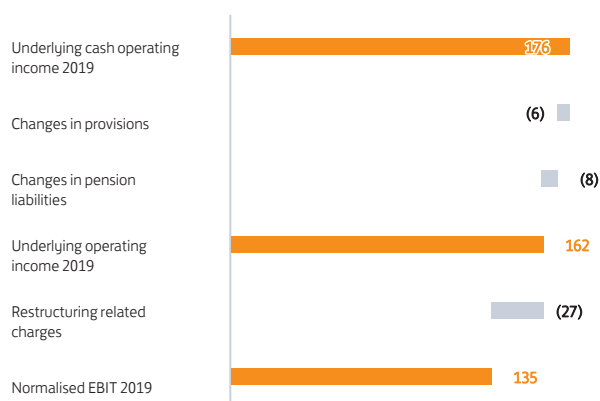


Normalised EBIT

As of 2020, management will analyse and report on the Group's profitability performance applying the key performance indicators normalised EBIT and free cash flow (as replacements to UCOI and net cash from operating and investing activities). Normalised EBIT gives a reflection of the Group's operating income performance, in which one-off and significant non-business related items are excluded and explained.

In 2019, the Group's normalised EBIT amounted to €135 million, with Parcels, Mail in the Netherlands and PostNL Other contributing €120 million, €52 million and €(37) million respectively. The normalisations in normalised EBIT for 2019 are equal to the underlying items in UCOI for 2019, with the exception of restructuring-related charges.

PostNL Normalised EBIT in € million



Other financial indicators

Profit from continuing operations

In 2019, profit from continuing operations decreased by €55 million to €72 million (2018: €127 million). Lower operating income of €66 million was only partly offset by €8 million lower net financial expenses and €3 million lower income taxes.

The decrease in net financial expenses mainly relates to lower interest on long-term borrowings of €9 million. This decrease is explained by the repayment of a bond in August 2018, which in 2019 was replaced by a new bond with a substantially lower interest rate.

Income taxes amounted to €31 million in 2019 (2018: €34 million). The effective tax rate was 30.1% in 2019 (2018: 21.1%), which is higher than the statutory income tax rate of 25% in the Netherlands, mainly influenced by the impact of non- or partly deductible costs and updated deferred tax positions.

Result from discontinued operations

In 2019, the loss from discontinued operations was €26 million lower than compared to 2018. This improvement is partly explained by a lower fair value impairment of €48 million in 2019 (2018: €59 million), reflecting the outcome of our assessment of fair value compared to the book value of the assets and liabilities held for sale. The other part of the improvement is explained by a €15 million lower net loss from regular business activities. The performance of our discontinued operations is further explained in note 3.9 to the consolidated financial statements.

PostNL Summary consolidated income statement in € million

2018, 2019

Year ended at 31 December	2018	2019
Total operating revenue	2,772	2,844
Other income	21	12
Total operating expenses	(2,608)	(2,737)
Operating income	185	119
Net financial income/(expense)	(24)	(16)
Results from investments in JVs/associates	0	0
Income taxes	(34)	(31)
Profit/(loss) from continuing operations	127	72
Profit/(loss) from discontinued operations	(94)	(68)
Profit for the year	33	4
Attributable to:		
Non-controlling interests	0	0
Equity holders of the parent	33	4
Earnings per share (in € cents) ¹	7.1	0.8
Earnings from continuing operations per share (in € cents) ¹	27.5	14.9
Earnings from discontinued operations per share (in € cents) ¹	(20.4)	(14.1)

¹ Earnings per ordinary share are in 2019 based on an average of 482,577,917 outstanding ordinary shares (2018: 462,015,866).

Net cash from operating and investing activities

In 2019, net cash from operating and investing activities was €104 million (2018: €(19) million). The increase of €123 million is the sum of €181 million higher net cash from operating activities, partly offset by €58 million higher net cash used in investing activities.

The increase in net cash from operating activities of €181 million is explained by €164 million higher cash generated from operations, €12 million lower interest paid and €5 million lower income taxes paid. Cash generated from operations increased mainly due to a favourable working capital development of €87 million, lower cash

out from provisions and, following the implementation of IFRS 16, the recording of lease payments as of 1 January 2019 as financing cash flows (2019: €62 million).

The increase in net cash used in investing activities of €58 million is mainly explained by the net cash used for acquisitions of €65 million in 2019 (2018: €0 million), almost fully related to the acquisition of Sandd (€64 million).

Net cash from financing activities

In 2019, net cash from financing activities of €99 million (2018: net cash used of €285 million) resulted from the proceeds of a new bond of €296 million (2018: €3 million), repayments of borrowings of €64 million (2018: €223 million), (interim) dividend payments of €71 million (2018: €63 million) and lease payments of €62 million (2018: €2 million).

PostNL Summary consolidated statement of cash flows in € million 2018, 2019

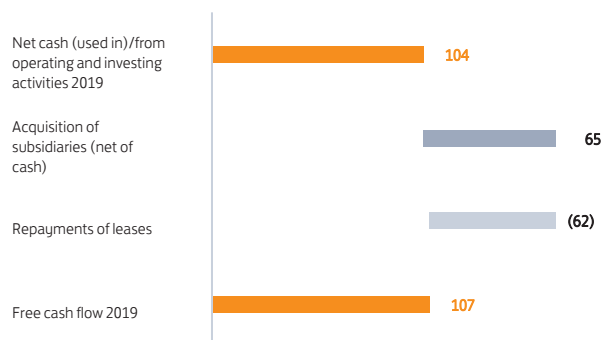
Year ended at 31 December	2018	2019
Cash generated from operations	94	258
Interest paid	(26)	(14)
Income taxes paid	(39)	(34)
Net cash (used in)/from operating activities	29	210
Net cash used for capital investments and disposals	(49)	(52)
Net cash used for acquisitions		(65)
Net cash from other investing activities	1	11
Net cash (used in)/from investing activities	(48)	(106)
Net cash from operating and investing activities	(19)	104
Net cash from debt financing activities	(220)	232
Repayments of leases	(2)	(62)
Dividends paid	(63)	(71)
Net cash (used in)/from financing activities	(285)	99
Total change in cash from continuing operations	(304)	203

Free cash flow

As of 2020, management will analyse and report on the Group's profitability performance applying the key performance indicators normalised EBIT and free cash flow (as replacements of UCOI and net cash from operating and investing activities). Free cash flow gives a reflection of the Group's ability to generate cash available for acquisitions, debt repayments and/or dividend distributions. The repayments of leases, reported as cash used in financing activities following the adoption of IFRS 16, are as such included in our calculation of free cash flow.

In 2019, the Group's free cash flow performance amounted to €107 million.

PostNL Free cash flow in € million



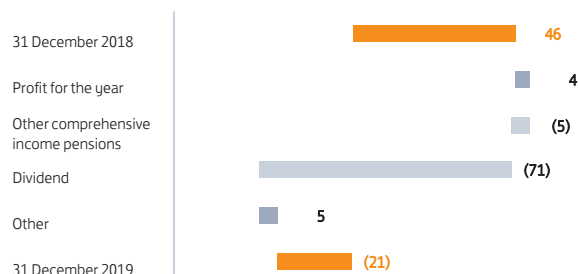
Adjusted net debt

At the end of 2019, adjusted net debt amounted to €736 million (2018: €614 million). The increase of €122 million is substantially impacted by the debt and leases from the acquisition of Sandd of €103 million. The remainder is the net impact of (interim) dividend payments and new leases, offset by positive net cash from operating and investing activities and the inclusion of related deferred tax assets. Refer to note 4.1 to the consolidated financial statements for further details.

Consolidated equity

Consolidated equity attributable to equity holders amounted to €(21) million at 31 December 2019 (2018: €46 million). The decrease of €67 million is mainly explained by (interim) dividend payments of €71 million, partly offset by €4 million net profit in 2019.

PostNL Consolidated equity development in € million



Liquidity and solvability

At year end 2019, PostNL's cash and cash equivalents amounted to €480 million (2018: €269 million) with current assets exceeding current liabilities. Furthermore, PostNL has a €400 million committed revolving credit facility, which was fully undrawn at the end of 2019 (2018: undrawn). PostNL has no material refinancing of short-term credit facilities or other debt. There are no financial covenants. Our latest S&P credit rating is BBB with stable outlook. This underpins the solid financial performance and position of our company.

Dividend proposal 2019

In accordance with our dividend policy, we target a dividend pay-out ratio of around 75% of the underlying net cash income. In 2019, PostNL's underlying net cash income amounted to €135 million (2018: €138 million). The decrease of €3 million is explained by a lower underlying cash operating income of €12 million, offset by €6 million lower net financial expenses and €3 million lower tax expenses.

PostNL Underlying net cash income in € million

2018, 2019

Year ended at 31 December	2018	2019
Underlying cash operating income	188	176
Net financial expense (adjusted) ¹	(16)	(10)
Tax expenses	(34)	(31)
Underlying net cash income	138	135

¹ Excluding interest on pensions of €6 million (2018: €8 million).

In accordance with our dividend policy applicable to the 2019 results, the condition for paying out dividend is a leverage ratio (adjusted net debt/EBITDA) not exceeding ~2. Impacted by the acquisition of Sandd, the leverage ratio at year-end 2019 amounted to 2.6. As such, the condition for paying out dividend was not met. As a result, PostNL will recommend to the Annual General Meeting of Shareholders the payment of a dividend of €0.08 per ordinary share (2018: €0.24), which is equal to the 2019 interim dividend paid in August 2019. After approval by the Annual General Meeting of Shareholders, no final dividend will be distributed. We aim to reduce the leverage ratio to below 2.0 in 12 to (at most) 24 months, and to resume paying dividends thereafter.

We refer the reader to the chapter 'PostNL on the capital markets' for a description of our dividend policy, and the chapter 'Financial statements' for more information on the appropriation of profit.

Subsequent events

On 6 February 2020, PostNL announced that it has signed a sale and purchase agreement for the acquisition of PostNL Spotta by Arcis, a consortium of three companies highly experienced in printing. The transaction is expected to be completed by the end of February 2020.

On 24 February 2020, PostNL announced that it has signed an agreement on the sale of 80% of the activities of Nexive, the number-two mail and parcels provider in Italy, to Mutares SE & Co KGaA. PostNL will obtain 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 is subject to a number of conditions and is expected to close in Q2 2020.

Outlook 2020

Parcels will continue to focus on the growth potential of the business by improving the balance between volumes, profitability and cash flow. PostNL expects to improve operational efficiency, partly offset by the impact from the tight labour and transport markets and changes in Dutch labour regulation.

At Mail in the Netherlands, the integration of Sandd into the PostNL network will be completed in 2020 and is on track to deliver the promised benefits and synergies. At the same time, the postal market is expected to decline by 8% to 10% in 2020. PostNL will continue its moderate pricing policy. To adapt the organisation to changes in structural volumes, it will continue to focus on efficiency and cost savings.

Accelerating the digitalisation of our service offering will be a key focus area for management in 2020. This also holds for our environmental impact. PostNL's long-term value creation is

connected to the global UN Sustainable Development Goals. We have set ourselves a number of ambitious environmental goals to combat climate change, including emission-free last-mile delivery in the Benelux by 2030.

For 2020, the outlook for normalised EBIT is between €110 million and €130 million (2019: €135 million). Normalised EBIT in 2020 will be negatively impacted by ~€10 million additional expenses caused by the new labour regulation and ~€25 million additional pension expenses (no cash impact).

The free cash flow outlook for 2020 is between €(315) million and €(285) million (2019: €107 million). Free cash flow in 2020 will be impacted by a ~€300 million settlement payment related to the Dutch transitional pension plan.

The following table shows our outlook for 2020 on normalised EBIT and free cash flow.

PostNL Outlook 2020 in € million

	2019	2020 like-for-like		outlook 2020
Normalised EBIT	135	145 - 165	impact new labour regulation and pension ~ (35)	110 - 130
Free cash flow ¹	107	(15) - 15	final payment transitional plans ~ (300)	(315) - (285)

¹ before acquisitions

In relation to the final payment of the transitional plans, we note that the amount and/or timing might change, pending finalisation of discussions with the pension fund. Refer to note 3.5 to the consolidated financial statements.

Other non-financial targets for 2020:

- Highly satisfied customers above the level of 2019 (2019: 27%)
- Employee engagement at the level of 2019 (2019: 76%, based on the new measurement methodology)
- Delivery quality Mail in the Netherlands at/above the minimum required level of 95% (2019: preliminary 94%)
- Delivery quality Parcels, being the share of parcels with an on-time, first-time delivery attempt, at/above 2019

Governance

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Statement of the Board of Management



Dutch Corporate Governance Code

PostNL applies the principles and best practices of the Dutch Corporate Governance Code (the Code), as referred to in article 391, paragraph 5, book 2 of the Dutch Civil Code (DCC), except for the best practice provisions below, where we also explain why we do not comply with them. Future developments might justify further deviations from the Code at the moment of occurrence. Each substantial change in the corporate governance structure of the company and in the compliance of the company with the Code shall be discussed with the General Meeting of Shareholders. The full text of the Code can be found on www.postnl.nl.

Provision 3.2.3 of the Code states that remuneration in the event of dismissal of members of the Board of Management may not exceed one year's salary (the fixed remuneration component), and that severance payments will not be awarded if the agreement is

terminated early at the initiative of a member of the Board of Management. The severance payment of Ms Verhagen in case of a change of control equals the sum of the last annual base salary and pension contribution plus the average variable remuneration received over the last three years, multiplied by two. Furthermore, in case of a change of control, Ms Verhagen may, under certain circumstances, receive a severance payment if the agreement is terminated at her own initiative. Ms Verhagen was employed by PostNL before the Code became first effective. PostNL is of the opinion that the agreed severance payment in case of a change of control is proportionate, considering that PostNL wishes to respect the agreement made in the past. Also, the Supervisory Board may decide that the performance shares vest in whole or in part.

Responsibility statement under the Code

The Code requires the Board of Management to provide a description of PostNL's main risks in relation to its risk appetite. Such risks may include strategic, operational, compliance and financial reporting risks. These risks and the relation to PostNL's risk appetite are included in the chapter 'Risk management'. The Board of Management confirms that it is responsible for PostNL's risk management, internal control, integrity and compliance systems and has reviewed the design and the operational effectiveness of these systems for the year ended 31 December 2019. The outcome of these reviews and analysis has been shared with the Audit Committee and the Supervisory Board and has been discussed with PostNL's external auditor. The same would apply in respect of material failings in PostNL's risk management, internal control, integrity and compliance systems and of material changes or improvement implemented in such systems, each if applicable. In 2019, PostNL implemented material organisational and IT changes and improvements. The sale of Postcon and the acquisition of Sandd have been completed in the second half of 2019. PostNL aims to complete the integration of Sandd during the first half year of 2020. No material failings in PostNL's risk management internal control, integrity and compliance systems were reported. Other than those described in chapter 14: Risk management, and provided for external conditions that can reasonably be expected to have an impact on a company's results, the results of PostNL are generally not sensitive for material changes in external conditions.

Based on the outcome of the PostNL-specific approach to risk management, internal control, integrity and compliance systems as outlined above, the Board of Management believes, to the best of its knowledge, that PostNL's internal control over financial reporting worked effectively over the year ended 31 December 2019, and provides reasonable assurance that the financial reporting is free from material inaccuracies or misstatements. 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 an ongoing concern basis and that it 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 report. The above, however, does not imply that PostNL can provide certainty as to the realisation of strategic business and financial objectives. Nor can PostNL's approach to internal control over financial reporting be expected to prevent or detect all misstatements, errors, fraud or violation of laws or regulations.

In view of the above and based on the outline of the main risks and risk responses described in the chapter 'Risk management', the Board of Management believes it complies with provisions 1.4.2. and 1.4.3. of the Code.

Responsibility statement under the Dutch Financial Markets Supervision Act

With reference to section 5:25c paragraph 2 under c of the Dutch Financial Markets Supervision Act, the Board of Management confirms to the best of its knowledge that:

- The annual financial statements for the year ended 31 December 2019 give a true and fair view of the assets, liabilities, financial position and profit or loss of PostNL and its consolidated companies.
- The Report of the Board of Management gives a true and fair view of the situation on the balance sheet date and of developments during the financial year of PostNL and its consolidated companies, together with a description of the main risks facing PostNL.

The members of the Supervisory Board and the Board of Management have signed the financial statements pursuant to their statutory obligation under article 2:101(2) of the DCC.

The Hague, the Netherlands, 24 February 2020

The Board of Management

Report of the Supervisory Board

This Report of the Supervisory Board sets out the manner in which the Supervisory Board fulfilled its duties and responsibilities in 2019. PostNL's organisational structure forms part of the Report of the Supervisory Board and is disclosed in the chapter Corporate governance.

Focus items 2019

The Supervisory Board believes that focus is key to achieving PostNL's strategy and to creating long-term value. This includes addressing the principal risks and opportunities related to PostNL's strategy. In exercising its task in 2019, the following topics in particular were discussed extensively.

People

As one of the largest employers in the Netherlands, PostNL offers thousands of people the certainty of having a job, a stable income, security and opportunities for personal development and growth. We aim to offer more people a contract based on PostNL's solid working terms and conditions. The people working with and for PostNL can rely on a safe, healthy and diverse work environment where they are respected and enjoy a positive and cooperative culture. A lot of attention is given to creating an atmosphere where people are passionate and proud to be part of PostNL.

OUR ROLE. The Supervisory Board and the Board of Management have had regular discussions on this topic. The new PostNL collective labour agreement and collective labour agreement for Saturday deliverers were discussed, as well as the phasing out of our contracting model to hiring temporary workers. Extensive discussions were held on the integration plan for the people of Sandd, as further mentioned below. Further items discussed were the tight labour market and organisational changes within the company, employee engagement and diversity and inclusion, and PostNL's culture. Furthermore, during 2019 several members of the Supervisory Board met with the daily management of the Central Works Council.

Consolidation

On 27 September 2019 the Deputy Minister of Economic Affairs and Climate Policy approved the merger of the PostNL and Sandd postal networks, paving the way for the full completion of the transaction between PostNL and Sandd as announced on 25 February 2019. Approval was granted under Article 47 of Dutch competition law, following a special request to this effect by PostNL and Sandd. The combination of both postal networks is necessary to ensure continuity. As a result, postal services throughout the Netherlands will continue to be reliable, accessible and affordable, while also benefiting the job security of thousands of mail deliverers. On 1 October 2019 the transaction was announced, including the expected financial consequences. In addition to the business case, PostNL has also drawn up a solid plan to help it complete the integration of both networks in the first six months of 2020.

OUR ROLE. Throughout the year the Supervisory Board extensively discussed the need for consolidation and the acquisition of Sandd with the Board of Management. A dedicated Supervisory Board committee was formed to regularly discuss the status of the process in relation to consolidation, the acquisition of Sandd and also the integration plan. The outcome of such discussions were subsequently discussed with the Board of Management, Executive Committee, project leaders and management from our Mail in the Netherlands segment during the full Supervisory Board. This has led to the Supervisory Board fully supporting consolidation, the deal terms for the acquisition of Sandd and the integration plan.

Parcels - striking the right balance

Our Parcels business aims to capture value through yield management and several other commercial and operational initiatives, as highlighted during the capital markets day held in May 2019. These initiatives will result in a better balance between volume growth, profitability and sustainable cash generation, as a

basis for value creation. During 2019 we were faced with lower volume growth rate within some customer segments. This impacted margin development at Parcels, and capacity optimisation and operational efficiency were temporarily impacted by the lower than expected volume growth. In 2019 we continued to further expand Parcels' infrastructure in order to cope with the growing volumes, and the opening of a new dedicated sorting centre for small parcels in 2021 was announced. Execution of our strategy to improve the balance between volume growth, profitability and cash conversion announced during the capital markets day is underway.

OUR ROLE. The Supervisory Board has held thorough discussions and deep-dive sessions with the Board of Management, Executive Committee and Parcels management on the strategy to improve the balance between volume growth, profitability and cash conversion presented during the capital markets day. This was discussed in conjunction with the lower than expected volume growth and competition, as well as the necessity for further expansion of the Parcels' infrastructure taking the developments into account. The Parcels' strategy has the full support of the Supervisory Board. Other important topics for discussion with the Board of Management were customer satisfaction and quality levels.

Cross Border - managing volatility

At Spring, the competitive landscape, especially in Asia, remained fierce and was impacted by global macroeconomic pressures such as the US-China trade war and the (uncertainty in relation to) Brexit. It proved to be difficult to stabilise the Asia business, leading to lower than expected results, although during the last few months of 2019 performance of Spring improved.

OUR ROLE. The Supervisory Board discussed the developments with Spring on numerous occasions. Deep-dive sessions were held with the Board of Management, Executive Committee members and Cross Border management, providing further background on the business model, the competitive landscape in which Spring operates and the added value for PostNL.

Mail in the Netherlands - continuing volume decline

Performance at Mail in the Netherlands was marked by volume decline, price increases and cost savings. Volume decline continued to be driven by substitution and loss of volumes to competition, mainly Sandd. Total cost savings ended up within the communicated bandwidth. It remains vital to combine the ongoing strategy of offsetting volume decline with balanced pricing and cost savings. As such, the transformation of our mail activities by implementing a more flexible model for mail collection, sorting and delivery (the New mail route) was an important step taken in 2019. With this model, we create synergies and cut costs in parallel with

the volume decline. And this will help us better integrate the additional volumes that result from the acquisition of Sandd.

OUR ROLE. The Supervisory Board had regular discussions with the Board of Management on the mail volume decline and the execution of the cost saving plans throughout the year. A deep-dive session was held with the Board of Management, the Executive Committee and Mail in the Netherlands' management on the implementation of the New mail route to understand the new model and its impact on the business organisation. Further points of attention were the quality of delivery, and the developments in the regulatory environment as well as consolidation, such as in relation to the consultation on a new Postal Act. Other important topics for discussion with the Board of Management were customer satisfaction and quality levels.

Value for our shareholders

Value creation for our shareholders remains a key priority. Our share price in 2019 did not develop as we had hoped, with large short positions putting it under pressure. Towards the end of the year this normalised again. We focused on improving our cash flow, since this is the basis for our dividend. This included, amongst others, improvements in our net working capital. Furthermore, it is also important to focus on long-term prospects for value creation, in addition to delivering on outlook.

While our aim continues to be to offer shareholders a sustainable dividend based on the performance of our business, the acquisition of Sandd led to the announcement that PostNL will not pay dividends during the integration period, as long as the leverage ratio exceeds the 2.0x figure. We aim to reduce the leverage figure below the 2.0x target in 12 to 24 months and to resume paying dividends thereafter. The Supervisory Board firmly believes that PostNL will continue to find a good balance between adjusting the mail operations in the challenging Dutch postal market, while expanding its footprint as an e-commerce solutions provider and creating long-term value for the company's stakeholders. In line with the strategy to be the postal and logistics solution provider in the Benelux, we divested our mail business in Germany, Postcon, and during 2019 good progress has been made with the divestment process of Nexive, our mail and parcels business in Italy, in February 2020 leading to the signing of an agreement for the divestment. Furthermore, PostNL issued a Green Bond covering our medium-term financing needs.

OUR ROLE. In depth and thorough discussions took place during the year between the Supervisory Board and the Board of Management, in particular on the strategic priorities and the development of the share price during 2019. We also regularly discussed the financial performance, the plan for improvement of working capital and subsequent results, and payment of (interim) dividend.

The issuance of the Green Bond was also discussed and the divestment of Postcon and the progress on the divestment process of Nexive were recurring items.

Digitalisation

We have to deal with continuously changing markets, with technology developing rapidly. Digitalisation and the growth in e-commerce, which are driving the transformation of our company, can be considered consequences of changing technology. Technological development is one of the key market trends that are shaping the lives of our customers and are impacting our strategy. At the same time, growing digitalisation and technical developments simultaneously lead to an increase in cyber threats. This requires continual improvement of our service proposition by developing innovative services, while ensuring our IT backbone is constantly updated and improved. Due to the attention paid to IT, further digitalisation and cyber security is required to adjust to or stay ahead of technological changes.

OUR ROLE. PostNL's IT strategy, the speed of digitalisation, online strategy, service propositions and innovation, and cyber security were discussed regularly between the Supervisory Board, the Board of Management, the Executive Committee and management. The further digitalisation of the company, and possibilities for acceleration of such digitalisation, were recurring items in the discussions, in conjunction with compliance with the GDPR. Additionally, an informal dinner was held with the Supervisory Board, the Board of Management, and the Executive Committee to further discuss digitalisation within PostNL.

Sustainability

We believe sustainability is our license to operate. As such we continue to invest in activities that make our business more environmentally sustainable. We have identified Sustainable Development Goals (SDGs) which we consider most relevant for PostNL and which are outlined in the Business Report of this Annual Report. PostNL has set ambitious goals of emission-free delivery in 25 Dutch city centres by 2025, and emission-free last-mile delivery across the Benelux by 2030. Highlighting PostNL's commitment to being a sustainable e-commerce logistics provider, we have announced the successful offering of our first Green Bond in September. The net proceeds of the offering will be used to finance and/or refinance new and existing green projects.

OUR ROLE. The Supervisory Board fully supports the commitment to being a sustainable e-commerce logistics provider, and the steps towards becoming this, including the goals set by the company, have been items of discussion with the Board of Management. We have also extensively discussed the financing needs through the issuance of a bond, and are happy this was done via a Green Bond.

Further topics discussed

In our scheduled meetings we addressed the focus items listed above, as well as topics that we address every year, including business, financial, market, and regulatory developments in PostNL's business segments. The 2018 annual results, the 2019 quarterly and half-yearly results and the 2020 budget were discussed.

Other topics discussed include PostNL's financial position, the re-appointment of EY as external auditor, IT developments, business continuity, (interim) dividend and PostNL's dividend policy, growth, the company's culture and investor feedback after management roadshows and the new proposed remuneration policies for the Board of Management and Supervisory Board. Furthermore, the Supervisory Board discussed potential acquisitions and divestments, the preparation of the AGM and the compliance with the Code. Twice a year, the Supervisory Board discusses a litigation overview, describing claims (including tax) against PostNL and litigation concerning PostNL (with a threshold of €250,000). The Supervisory Board also receives an update on integrity (including the fraud & whistle-blower report) twice a year. The outcome of the risk management process, the main risks identified, and the mitigation plans in place to manage these risks were shared with the Audit Committee and with the Supervisory Board. A description of PostNL's major risks and its risk management can be found in the chapter 'Risk management'.

The Supervisory Board performs an oversight role with respect to non-financial issues, supported by PostNL's internal audit department, which monitors the non-financial governance structure and reporting. Next to this responsibility, the Supervisory Board discussed various non-financial related issues besides the topics addressed in the focus items listed above, including pensions, career and management development, the reputation of PostNL, customer satisfaction, the rating of PostNL in the Dow Jones Sustainability Index, and the relations between the Supervisory Board and the Board of Management with the works councils and trade unions.

Additionally, the 2018 auditor's report by PostNL's external auditor EY and the 2018 Annual Report (including Financial Statements and Non-Financial Performance Statements) were discussed. For 2019 EY reported that the main areas of risk (Key audit matters) are discontinued operations (including deferred tax asset), valuation of Mail investment, terminal due position and acquisition of Sandd. Compared to the key audit matters identified in 2018, acquisition of Sandd has been added as a key matter following the acquisition. Impact of laws and regulation on the valuation of the business of PostNL is no longer included as key audit matter as this mainly related to the discussion around significant market power and tariff setting for which there were only limited developments in 2019.

Also EY updated the key audit matter deferred revenue and revenue related accruals (stamps and terminal dues) to revenue related accruals (terminal dues) since EY concluded the estimate in the deferred revenue position for stamps to be limited. In relation to the internal control framework, EY concluded that their audit approach resulted in a more substantive audit approach including the results of data analysis, instead of a full control reliance strategy. EY stressed the importance of the inclusion of sufficient preventive and automated controls including sufficient control test documentation going forward to make the internal control framework more robust. This will strengthen the internal control environment of PostNL and secondly allows EY to move towards a control based audit approach in 2020.

The Supervisory Board furthermore discussed its composition and that of its committees and the profile of the Supervisory Board. More details about the Supervisory Board can be found in the chapter 'Corporate governance'.

Also, following last year's evaluation of the Supervisory Board, an informal dinner was held with the Board of Management without agenda. In this session the most important themes for future success of PostNL were openly discussed, in order to learn from each others experiences and to further ensure alignment between the Supervisory Board and Board of Management. For 2020 a follow-up session will be held. Additionally, following last year's evaluation, the Supervisory Board has taken more time for discussion with the Supervisory Board only by making this a recurring item on the agenda of each meeting.

Number of meetings and attendance rate

The Supervisory Board met twelve times and had two meetings by telephone in 2019. All meetings were also attended by the full Board of Management, apart from the agenda item Supervisory Board

only. Nine meetings were held at PostNL's head office in The Hague, one meeting was held at the IMEC in The Hague, one at the location of Stibbe in Amsterdam and one at the location of the 2019 AGM in The Hague. Additionally, the Supervisory Board organised five informal dinners of which four took place at locations not related to PostNL, and one took place at the PostNL's head office in The Hague.

The individual attendance and overall attendance percentages per meeting can be found in the table below.

Meetings of the committees of the Supervisory Board

Audit Committee

The Audit Committee met five times in 2019. In general, all meetings are attended by the CFO, director Audit & Security, director group Finance, director Accounting & Reporting and the external auditor, EY. The CEO attends the Audit Committee meetings when the half-year and full-year results are being discussed. The chairman of the Audit Committee meets the external auditor without management regularly. Additionally, the director Audit & Security regularly meets the chairman of the Audit Committee without management, and meets the chairman of the Supervisory Board at least once a year.

At each meeting, the Audit Committee discusses the results of and developments in PostNL's business segments. In 2019, the Audit Committee discussed PostNL's full-year 2018 results, the outlook for 2019, the 2019 first quarter, half-year and third quarter results and the related press releases, and the 2020 budget. Furthermore, the Audit Committee discussed the Eumedion, VEB and VBDO focus letters, the risk paragraph and the quantity and quality of the explanatory notes in the financial reports of the 2018 Annual Report and the preparation of PostNL's 2019 Annual Report.

PostNL Attendance Supervisory Board members

2019

Name	Supervisory Board (meetings only)	Supervisory Board (incl. conference calls)	Audit Committee	Nomination Committee	Remuneration Committee
Jan Nooitgedagt ¹	12/12	14/14	-	6/6	3/3
Jacques Wallage	10/12	12/14	-	5/6	4/5
Eelco Blok	12/12	13/14	5/5	-	5/5
Marc Engel ²	10/10	11/12	3/3	-	4/4
Agnes Jongerius	11/12	13/14	-	6/6	-
Marika van Lier Lels ³	8/8	9/9	4/4	-	-
Thessa Menssen	12/12	14/14	5/5	6/6	-
Frank Rövekamp	10/12	12/14	-	6/6	-
Overall attendance rate	94%	93%	100%	97%	94%

1 Mr Nooitgedagt also attended meetings of the Audit Committee as observer.

2 Mr Engel stepped down from his position as per 1 October 2019, only meetings during his tenure are taken into account.

3 Ms Van Lier Lels was appointed as member of the Supervisory Board as per 16 April 2019, only meetings during her tenure are taken into account.

The main financial factors influencing the strategic plan and PostNL's financial performance, including volume developments, pricing, cost savings, competition, regulatory developments, economic developments, pensions, and employee conditions were discussed. The Audit Committee also discussed the issuance of the Green Bond, the plan for improvement of working capital and subsequent results, consolidation, the strategy to improve the balance between volume growth, profitability and cash conversion at Parcels as presented during the capital markets day, (interim) dividend and dividend policy, PostNL's pension obligations, the divestment of Postcon and Nexive, and the relevant 2019 tax matters, including matters such as transparency, tax planning, and tax risk management.

The Audit Committee discussed reports on internal control and risk management (reports which are, if necessary, also discussed in the Supervisory Board). Reports from the internal audit function and the external auditor, including the internal audit and EV's audit plan and EV's board reports, were discussed regularly. The Audit Committee receives and discusses half-yearly updates on integrity issues (including the fraud & whistle-blower report), claims and litigation, compliance and any actions taken by management, if applicable. Fortunately, no material fraud-related incidents were reported in 2019.

The external audit fees were discussed and approved, and the performance of EV was discussed. Furthermore contemplated changes in the laws and regulations governing financial reporting, the quality assessment and performance of PostNL's internal audit function and the development of the actions to mitigate the deficiencies reported by the external and internal audit functions over 2018 were discussed.

Nomination Committee

The Nomination Committee met five times and had one meeting by telephone in 2019. The Nomination Committee discussed the selection and nomination of new members for the Supervisory Board, and has held several interviews with potential candidates. Furthermore the overall composition of the Supervisory Board and its committees were discussed. The Nomination Committee also discussed succession planning and talent management in respect of the Supervisory Board, the Board of Management and senior management, and diversity and inclusion within the company.

Remuneration Committee

In 2019, the Remuneration Committee met four times and had one meeting by telephone. It discussed the remuneration of the members of the Board of Management and the Executive Committee and of senior management, PostNL's remuneration policy and the preparation of the discussion of the remuneration policy at the 2019 AGM. The Remuneration Committee extensively discussed the implementation of the shareholders rights directive

into Dutch legislation and the impact thereof on the remuneration policy for the Board of Management and Supervisory Board and on the remuneration report. A road show was held together with the Director of HR, with investors and other stakeholders to discuss the new proposed remuneration policies for the Board of Management and Supervisory Board. Further details on remuneration for the Board of Management and the Supervisory Board can be found in the chapter 'Remuneration report', which includes a further explanation of the remuneration policy and the actual remuneration and relationship between remuneration and performance of members of the Board of Management for 2019, and provides further insight into the new proposed remuneration policies.

Evaluation of the Supervisory Board

The Supervisory Board is responsible for the quality of its own performance. As such, the Supervisory Board discusses its functioning and that of its committees and members annually. For 2019, the Supervisory Board decided to perform an internal evaluation following last year's external evaluation. The evaluation process consisted of interviews by the chairman of the Supervisory Board with all Supervisory Board members, the members of the Board of Management and the corporate secretary. The outcome of the evaluation was discussed with the Supervisory Board only in the December 2019 meeting of the Supervisory Board.

As in 2018, the emphasis of the evaluation was put on board room dynamics / board effectiveness and not so much compliance. The Supervisory Board feels the relationship between the Board of Management and Supervisory Board is healthy. The composition of the Supervisory Board is balanced and complementary, making the way of working, its judgement and decision making powers adequate. The Supervisory Board takes due consideration of the interests of all stakeholders of the company. It is positive about the professionalism and quality of the management reports and the information provided by the Board of Management. Discussions are conducted in a way that ensures open communication, meaningful participation allowing for civil disagreement and critical thinking. All members of the Supervisory Board have demonstrated that they have enough time to fulfil their duties as members of the Supervisory Board in an adequate manner.

One of the outcomes of last year's evaluation was the room for improvement in acting as a sparring partner to the Board of Management, and in taking more time for reflection on business developments and strategy (rather than discussing only the contents of the meeting documents). In this regard during 2019 deep dive sessions were held on specific topics with the Board of Management and senior management. Also an informal meeting

was held with the Board of Management without agenda. In this session the most important themes for future success of PostNL were openly discussed, in order to learn from each others experiences and and to further ensure alignment between the Supervisory Board and Board of Management. For 2020 a follow-up session will be held. Also, as another follow up of last year's evaluation, the Supervisory Board has taken more time for discussion with the Supervisory Board only by making this a recurring item on the agenda of each meeting.

There is also room for further improvement, for example on following up on execution and having more market insights available in order to prevent there is too much focus on internal insights, and discussions could be held more often in the presence of the members of the Executive Committee to further increase their visibility with the Supervisory Board. Also, taking into account the rotation plan of the Supervisory Board during 2020 attention is required for the composition of the Supervisory Board for the coming years.

Concluding remarks

2019 proved to be a challenging year. We are pleased though that PostNL has delivered upon its outlook and to see that the company continues to head in the right direction. We are convinced that PostNL will continue to find a good balance between adjusting its mail operations in the challenging Dutch postal market, while expanding its footprint as an e-commerce solutions provider and creating long-term value for the company's stakeholders. We take the opportunity to reiterate our appreciation for the contributions by former Supervisory Board member Marc Engel. We also thank the current Board of Management, Executive Committee, and all of the other PostNL employees worldwide for their continued drive and great work throughout the year. We look forward to a good 2020.

The Hague, the Netherlands, 24 February 2020

On behalf of the Supervisory Board

Jan Nooitgedagt, Chairman

Corporate governance

PostNL N.V. is a limited liability company listed on Euronext Amsterdam and governed by Dutch corporate law. PostNL has a two-tier governance structure with a Board of Management entrusted with executive management under the supervision of an independent Supervisory Board. Each Board is accountable to the general meeting of shareholders for the performance of its duties. PostNL is a so-called large company (*structuurvennootschap*). The large company regime provides for a legal framework, which determines the corporate management structure as well as the powers and duties of the Boards.

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Board of Management

The Board of Management and its duties

The Board of Management manages PostNL. It is collectively responsible for setting and implementing - and continuous evaluation and where necessary adjustment of - our mission, vision, strategy, objectives and culture, the risk profile laid down in our strategy, the company's financing, the non-financial policy, external communication and compliance with all relevant legislation. It is also responsible for the continuity and management of the company as a whole and for all decisions taken in this respect.

The Board of Management acts in accordance with the interests of the company and looks after the long-term value creation of the company as a whole. To that end, it considers all relevant interests associated with the company and is committed to managing the company transparently.

The Board of Management performs its activities under the supervision of the Supervisory Board. It informs the Supervisory Board of significant developments and discusses, inter alia, risk management, internal control, integrity and compliance systems with the Supervisory Board and its Audit Committee.

PostNL's Supervisory Board evaluates the functioning of the Board of Management and that of its individual members annually. It discusses the conclusions following such evaluation, also in light of the succession of the members of the Board of Management. Furthermore, the Board of Management itself evaluates its own functioning and that of its individual members.

Specific staff departments – Internal Audit, Legal, Tax, Procurement & Services, Human Resources, Investor Relations, Treasury, Public Affairs, Communication and Finance – support the Board of Management and the business segments in the performance of their duties and ensure compliance with applicable laws and regulations.

The Board of Management incorporated the following bodies to ensure compliance with applicable corporate governance requirements: a Disclosure Committee and an Integrity Committee.

The Disclosure Committee advises and assists the Board of Management in ensuring compliance with regulations relating to the publication of price-sensitive information. The Disclosure Committee is composed of the CFO, director Legal, director Communications and Investor Relations, and the corporate secretary. The Disclosure Committee reports directly to the Board of Management. The terms of reference of the Disclosure Committee can be found on our website.

The Integrity Committee advises and assists the Board of Management in developing, implementing and monitoring Group policies aimed at enhancing integrity and ethical behaviour and at preventing irregularities, misconduct and fraud. The Integrity Committee oversees investigations based on reports of possible breaches under our Business Principles and related policies. More information on integrity and the Integrity Committee can be found in the chapter 'Risk management'.

Members of the Board of Management are appointed and can be suspended or dismissed by the Supervisory Board. A decision by

the Supervisory Board to dismiss a member of the Board of Management can only be taken after the General Meeting of Shareholders has been consulted on the intended dismissal.

Further details on the appointment and dismissal of members of the Board of Management can be found in our articles of association, which are available on our website.

The by-laws of the Board of Management can be found on our website.

The Executive Committee and its duties

PostNL has an Executive Committee, which has been installed to advise and support the Board of Management in its duties and responsibilities. The Executive Committee assists the Board of Management in achieving the company's business objectives and implementing the strategic goals, and provides support and expertise in pursuit of the company's strategic goals. The Executive Committee is also responsible for managing PostNL's senior leadership talent and to manage talent consistently at all business segments of PostNL.

In the performance of its responsibilities, the Executive Committee shall act in accordance with the interests of PostNL and the business connected with it, taking into consideration the interests of PostNL's stakeholders. The members of the Executive Committee have regular contact with the Supervisory Board, both formally (in meetings of the Supervisory Board) and informally (at the initiative of a member of the Executive Committee or of a member of the Supervisory Board). The CEO acts as the first contact between the Executive Committee and the Supervisory Board and its Chairman.

The Executive Committee consists of the members of the Board of Management and the directors of the PostNL businesses (Mail in the Netherlands, Parcels and Logistic solutions and Cross Border Solutions), Customer Excellence, HR, IT and Growth. The responsibility for day-to-day management of the PostNL business segments is decentralised within established standards, processes, requirements and guidelines. Each Executive Committee member bears responsibility for the operations and management in his or her business segment or staff function, in line with PostNL's policies, values and principles and compliance standards.

The Board of Management reviews and assesses the performance of the Executive Committee, as well as the effectiveness of the governance structure of the Executive Committee, at least once a year. In doing so, the Board of Management shall take account of the checks and balances that are part of PostNL's two-tier system, such as whether the Supervisory Board is informed adequately.

With the exception of the members of the Board of Management, Executive Committee members are appointed, suspended and dismissed by the Board of Management.

The by-laws of the Executive Committee can be found on our website.

Composition Board of Management and Executive Committee

At year-end 2019, the Board of Management consisted of two members: the chairman and chief executive officer (CEO) Ms H.W.P.M.A. Verhagen and the chief financial officer (CFO) Mr P. Berendsen. Following the Annual General Meeting of Shareholders held on 16 April 2019 Ms Verhagen was reappointed as member of the Board of Management for a period of four years.

At year-end 2019, the Executive Committee consisted of the following seven members:

- Herna Verhagen (CEO and chairman)
- Pim Berendsen (CFO)
- Liesbeth Kaashoek, responsible for Parcels and Logistic solutions
- Resi Becker, responsible for Mail in the Netherlands
- Arno van Bijnen, responsible for Customer Excellence and CBS
- Bob van Ierland, responsible for HR
- Marcel Krom, responsible for IT and Growth.

During 2019 no changes occurred in the composition of the Board of Management and Executive Committee.

Biographies Board of Management

H.W.P.M.A. (Herna) Verhagen (1966, Dutch, female) – Chief Executive Officer

Ms Verhagen became chief executive officer on 24 April 2012. She was appointed member of the Board of Management per 31 May 2011, reappointed per 14 April 2015 for a period of four years and reappointed per 16 April 2019 for another four years. Ms Verhagen started working for one of the legal predecessors of PostNL in 1991 as sales manager. Subsequent roles included marketing & sales director, coordinating managing director Mail NL in the Mail division and managing director Group HR of TNT.

Ms Verhagen is responsible for Mail in the Netherlands, Parcels and Logistic solutions, CBS, Growth and Customer Excellence. Furthermore, her portfolio includes corporate strategy, public affairs, communication, corporate responsibility, human resources, IT and internal audit.

Ms Verhagen is a member of the Supervisory Boards of Rexel S.A. (France), ING, and the Concertgebouw (Amsterdam concert hall).

She is a member of the Executive Committee of the Confederation of Netherlands Industry and Employers (VNO-NCW).

Ms Verhagen holds one position as referred to in article 2:132a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

P. (Pim) Berendsen (1973, Dutch, male) – Chief Financial Officer

Mr Berendsen was appointed chief financial officer and member of the Board of Management per 18 april 2018 for a period of four years. Mr Berendsen joined PostNL and its legal predecessors in 2000 and held various positions, including financial director and managing director Data and Document Management Unit, financial director Euromail and manager strategy and M&A of Cendris. Between 2013 and 2015 he was director corporate development of Van Gansewinkel Group, returning to PostNL in 2015 to become member of the Executive Committee, responsible for International, M&A and Growth. He started his career as international tax advisor at Arthur Andersen.

Mr Berendsen is responsible for Nexive, legal, procurement & services, investor relations, M&A, tax and finance.

Mr Berendsen is a member of the board of advice of Endeit Investment Fund and chairman of the Johan Cruijff Foundation.

Mr Berendsen holds no positions as referred to in article 2:132a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

Supervisory Board

The Supervisory Board and its duties

The Supervisory Board is charged with supervising the Board of Management and the general course of affairs of PostNL, as well as assisting the Board of Management with advice. The Supervisory Board evaluates the main organisational structure and the risk management, internal control, integrity and compliance systems established by the Board of Management, as well as the general and financial risks.

In performing its duties, the Supervisory Board acts in accordance with the interests of PostNL and considers the relevant interests of the company's stakeholders. The responsibility for proper performance of its duties is vested in the Supervisory Board as a whole. Members of the Supervisory Board perform their duties without mandate and independent of any particular interest in the company's business. Members of the Supervisory Board may take views that differ from those of the Board of Management.

PostNL's Supervisory Board is responsible for the quality of its own performance, which is reviewed annually.

The Supervisory Board performs an oversight role with respect to corporate responsibility issues supported by PostNL's internal audit function and the company's external auditors who monitor the non-financial governance structure and reporting.

The Board of Management provides the Supervisory Board with the information necessary for the proper performance of its duties in a timely manner. In addition, the Board of Management is required to provide the means to allow the Supervisory Board and its individual members to obtain all information necessary to be able to function as the supervisory body of PostNL. The Board of Management seeks full transparency in its communication with the Supervisory Board.

The by-laws of the Supervisory Board can be found on our website.

Composition of the Supervisory Board

At the Annual General Meeting of Shareholders held on 16 April 2019, the shareholders appointed Ms Van Lier Lels as member of the Supervisory Board for a period of four years. At the same time, Ms Menssen was reappointed for a period of two years. As per 1 October 2019 Mr Engel stepped down from his position as member of the Supervisory Board.

At year-end 2019, the Supervisory Board consisted of seven members: the chairman of the Supervisory Board, Mr Nooitgedagt (who is also chairman of the Nomination Committee); Mr Wallage (vice chairman of the Supervisory Board and chairman of the Remuneration Committee); Mr Blok; Ms Menssen (chairman of the Audit Committee); Ms Jongerius; Ms Van Lier Lels; and Mr Rövekamp.

At the Annual General Meeting of Shareholders in April 2020, Mr Wallage and Mr Rövekamp will not be available for reappointment as Supervisory Board member. The Supervisory Board has nominated Mr Hoencamp and Mr Melkert for appointment as Supervisory Board members for a period of four years. The nomination Mr Melkert for appointment has been made in accordance with the enhanced recommendation right of the Central Works Council.

The following table provides an overview of the composition of the Supervisory Board committees per year-end 2019.

PostNL Composition of Supervisory Board committees

2019

Committee	Audit	Remuneration	Nomination
Chair	Thessa Menssen	Jacques Wallage	Jan Nooitgedagt
Member	Eelco Blok	Eelco Blok	Jacques Wallage
Member	Marika van Lier Lels	Agnes Jongerius	Agnes Jongerius
Member		Jan Nooitgedagt	Thessa Menssen
Member			Frank Rövekamp

Members of the Supervisory Board are appointed by the General Meeting of Shareholders following nomination by the Supervisory Board. The General Meeting of Shareholders can dismiss the Supervisory Board in its entirety by an absolute majority of the votes cast representing at least one-third of the issued share capital. According to the by-laws and the profile of the Supervisory Board, a person may be appointed to the Supervisory Board for a maximum period of four years and may then be reappointed once for another four-year period. The Supervisory Board member may subsequently be reappointed again for a period of two years, and this appointment may be extended by at most two years. PostNL's articles of association provide that members of the Supervisory Board shall resign periodically in accordance with a rotation plan drawn up by the Supervisory Board in order to limit the number of simultaneous appointments or reappointments. The rotation plan is available on our website. Further details on the appointment and dismissal of members of the Supervisory Board can be found in our articles of association.

Pursuant to our articles of association, the Supervisory Board has at least three members. Taking this requirement into account, the Supervisory Board decides on the number of its members. At the date of this report, the Supervisory Board consists of seven members. The Supervisory Board prepared a profile of its size and composition, taking into account the nature of PostNL's business and activities and the desired expertise, competences, diversity and background of the members of the Supervisory Board. The Supervisory Board also adopted a diversity policy for PostNL addressing the composition of the Supervisory Board, Board of Management and Executive Committee. This policy can be found on our website. The Supervisory Board ensures that its composition meets the required profile and is as independent and diverse as possible, assuring sufficient knowledge of mail and communication, logistics, corporate responsibility, management, public affairs, IT, finance, corporate governance and the capital markets. A Supervisory Board member must be capable of assessing the broad outline of the company's overall policy and should have the specific expertise required to fulfil the duties assigned to his or her designated role within the framework of the profile. Each member should have sufficient time available for the proper performance of his or her duties.

The Supervisory Board evaluates its profile regularly and discusses the profile at the Annual General Meeting of Shareholders and with PostNL's central works council when it amends the profile. The profile of the Supervisory Board is available on our website.

Chairman

The chairman of the Supervisory Board determines the agenda and presides over meetings of the Supervisory Board. The chairman is responsible for the proper functioning of the Supervisory Board and its committees. In addition, the chairman arranges an introduction and training programme for new members of the Supervisory Board and initiates the evaluation of the performance of the members of the Supervisory Board and the Board of Management. The chairman of the Supervisory Board may not be a former member of PostNL's Board of Management.

Committees of the Supervisory Board

PostNL's Supervisory Board has an Audit Committee, Nomination Committee and Remuneration Committee. The committees have an advisory role based on a mandate from the Supervisory Board. Only the Supervisory Board has decision-making power. Each committee reports its deliberations, findings and recommendations after each meeting to the full Supervisory Board. The committees operate pursuant to terms of reference set by the Supervisory Board in accordance with the law and the Code. The terms of reference are available on our website.

Audit Committee

The Audit Committee assists and advises the Supervisory Board and prepares the decision-making of the Supervisory Board on the monitoring of the integrity and quality of the financial reporting by the company and on the effectiveness of the internal risk management and control systems of the company. The Audit Committee focuses inter alia on the supervision of the Board of Management concerning (i) the integrity of the company's financial and corporate responsibility reporting (including but not limited to the choice of accounting policies, application and assessment of the effects of new rules, information about the handling of estimated items in the financial statements and forecasts), (ii) the external auditor's qualifications and independence, remuneration and non-audit services for the company, (iii) the relationship with the external auditor and the compliance by PostNL with the recommendations from the external auditor and the internal audit function, (iv) the company's financing, (v) the company's tax policy, (vi) the application of information and communication technology by the company, including the risks related to cyber security, and (vii) compliance with relevant legislation and codes of conduct.

The Audit Committee consists of at least three members. All members of the Audit Committee are members of the Supervisory Board who are independent within the meaning of the by-laws of

the Supervisory Board and the applicable corporate governance rules. A member of the Audit Committee shall not simultaneously serve on the Audit Committee of more than two other companies unless the Supervisory Board determines that this simultaneous service would not impair the ability of such a member to serve effectively on the Audit Committee.

Each member of the Audit Committee must be financially literate and at least one member of the Audit Committee shall be a financial expert, with relevant knowledge and expertise of financial accounting and reporting for listed companies or other large companies.

Nomination Committee

The Nomination Committee assists the Supervisory Board on matters relating to the appointment procedures for members of the Supervisory Board and the Board of Management and procedures to secure adequate succession of members of the Board of Management and the assessment of such candidates, and with assessing the size and composition of the Supervisory Board and the Board of Management. The Nomination Committee prepares proposals for nominations, appointments and reappointments. At least once a year, the size and composition of the Supervisory Board and the Board of Management and the functioning of the individual members are assessed by the Nomination Committee and discussed by the Supervisory Board.

The Nomination Committee consists of at least three members, including the chairman (or vice chairman) of the Supervisory Board. All members of the Nomination Committee are members of the Supervisory Board and are independent within the meaning of the by-laws of the Supervisory Board and the applicable corporate governance rules.

Remuneration Committee

The Remuneration Committee proposes at least once every four years a clear and understandable remuneration policy for the Board of Management and Supervisory Board to be pursued (such policies to be adopted by the General Meeting of Shareholders). It proposes the remuneration of the individual members of the Board of Management, which proposal shall be prepared in accordance with the remuneration policy, proposes common targets for members of the Board of Management for the three coming years, prepares the remuneration report, reviews the granting of company shares or options for company shares to other senior management of the company pursuant to its share plans, and prepares a clear and understandable proposal for the remuneration of Supervisory Board in accordance with the remuneration policy.

The Remuneration Committee consists of at least three members. The chairman of the Remuneration Committee shall not simultaneously be the chairman of the Supervisory Board. All

members of the Remuneration Committee are members of the Supervisory Board and are independent within the meaning of the by-laws of the Supervisory Board and the applicable corporate governance rules.

Information by external parties

The Supervisory Board and its committees may hire independent advisors as it deems appropriate. There is an agreed procedure for members of the Supervisory Board to obtain independent professional advice paid for by the company, if so required.

Biographies Supervisory Board

All members of the Supervisory Board are Dutch and independent within the meaning of the Code. Their ages range from 52 to 73. The majority of the members possess a university or equivalent degree. Fields of expertise and experience range from administration/public administration and general management to experience in labour issues or a commercial background. The Supervisory Board evaluates the required competences regularly. The competences matrix of the Supervisory Board is available on our website.

J. J. (Jan) Nooitgedagt (1953, Dutch, male) – Chairman Supervisory Board

Mr Nooitgedagt was appointed member of the Supervisory Board on 17 April 2018 and chairman of the Supervisory Board on 19 June 2018. His current term expires in 2022. Mr Nooitgedagt is member of the Supervisory Board of Rabobank and chairman of the Supervisory Board of Invest-NL. Additionally, his other positions include chair of the board of VEVO (Association of listed AEX companies), and member of the advisory committee Financial Reporting and Accountancy of the Authority Financial Markets, and of the advisory committee governance, risk and compliance of the Dutch Institute of Chartered Accountants (NBA).

Mr Nooitgedagt was formerly chairman of the Supervisory Board of TMG and member of the Supervisory Board of Bank Nederlandse Gemeenten, member of the executive board and CFO of AEGON and held different positions at EY, ultimately as managing partner for the Netherlands and Belgium.

Mr Nooitgedagt holds two positions as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

J. (Jacques) Wallage (1946, Dutch, male) – Vice chairman Supervisory Board

Mr Wallage was appointed member of the Supervisory Board on 8 April 2010. His current term expires in 2020. Mr Wallage is co-chairman of the Consultative Body Infrastructure and Environment. He is a guest professor at the University of Groningen, in the Netherlands (transition in public administration).

He was a member of the Dutch Second Chamber of Parliament and served as a state secretary for Education and Sciences and as a state secretary for Social Affairs and Employment. He was mayor of the city of Groningen from 1998 until 2009.

Mr Wallage holds one position as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

E. (Eelco) Blok (1957, Dutch, male)

Mr Blok was appointed member of the Supervisory Board on 18 April 2017. His current term expires in 2021. He is a member of the Supervisory Board of Signify and VolkerWessels, non-executive director of Telstra and OTE and advisor of the Reggeborgh Groep.

Mr Blok was CEO and chairman of the management board of KPN. Before joining KPN's management board, Mr Blok held various positions within KPN (and its legal predecessors). Additionally he was co-chairman of the Cyber Security Council.

Mr Blok holds three positions as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

A.M. (Agnes) Jongerius (1960, Dutch, female)

Ms Jongerius was appointed member of the Supervisory Board on 16 April 2013. Her current term expires in 2021. She is a member of the European Parliament.

She was president of the Dutch Trade Union Confederation (FNV), a member of the Social and Economic Council (SER) and workers' chair of the Labour Foundation.

Ms Jongerius holds one position as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

M.E. (Mariuske) Van Lier Lels (1959, Dutch, female)

Ms Van Lier Lels was appointed member of the Supervisory Board on 16 April 2019. Her current term expires in 2023. She is a member of the Supervisory Board of NS, RELX and Dura Vermeer, and chairwoman of the Supervisory Board of Innovation Quarter.

She was amongst others a member of the Supervisory Board of Eneco, Imtech, KPN, USG People and Connexion, Vice-chairwoman of the Supervisory Board of TKH Group, Executive vice president and Chief Operating Officer of Amsterdam Airport Schiphol, member of the executive board Deutsche Post Euro Express and Director Van Gend & Loos Benelux.

Ms Van Lier Lels holds three positions as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

T. (Thessa) Menssen (1967, Dutch, female)

Ms Menssen was appointed member of the Supervisory Board on 25 May 2011. Her current term expires in 2021. She is a member of the Supervisory Board of the Dutch Development Bank (FMO), Alliander, and the Kröller Müller Museum.

Ms Menssen was chief financial officer and member of the Executive Board of Royal BAM Group and chief operating officer of the Port Authority of Rotterdam.

Ms Menssen holds two positions as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

F.H. (Frank) Rövekamp (1955, Dutch, male)

Mr Rövekamp was appointed member of the Supervisory Board on 24 April 2012. His current term expires in 2020. He is chairman of the Supervisory Boards of Vodafone Germany GmbH, Calco BV, Royal Theatre Carré and Kasteel de Haar.

He was a member of the Executive Committee and Chief Commercial Officer of Vodafone Group Plc, president and CEO of Beyoo and senior vice president (marketing and revenue management) of KLM Royal Dutch Airlines.

Mr Rövekamp holds one position as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

Conflict of interest

Each member of the Board of Management and the Supervisory Board must immediately report and provide all relevant information to the chairman of the Supervisory Board about any conflict of interest or potential conflict of interest, material or not to the company and/or to the relevant member. A member of the Board of Management also informs the other members of the Board of Management (as applicable).

If the chairman of the Supervisory Board has a conflict of interest or potential conflict of interest that is material to the company and/or to him, he is required to report this immediately to the vice chairman of the Supervisory Board and to provide all relevant information. In all situations, this includes information concerning a spouse, registered partner or other life companion, (foster) child or other relatives by blood or marriage up to the second degree.

The Supervisory Board is responsible for deciding how to resolve a conflict of interest between members of the Board of Management, members of the Supervisory Board and/or the external auditor on the one hand and the company on the other.

In the event of a conflict of interest between PostNL and a member of the Board of Management, the company will be represented by another member of the Board of Management or a member of the Supervisory Board appointed by the Supervisory Board for this purpose.

A decision to enter into a transaction involving a conflict of interest with a member of the Board of Management or the Supervisory Board, material or not, to the company or to the relevant member requires the approval of the Supervisory Board. No such transactions were entered into in 2019 so best practice provisions 2.7.3 and 2.7.4 of the Code did not apply.

The by-laws of the Board of Management and the Supervisory Board also include a provision that a member of the Board of Management or the Supervisory Board does not participate in any discussion or decision-making that involves a subject or transaction in relation to which the member has a conflict of interest with the company. In 2019, there were no cases whereby conflict of interest occurred.

Insider trading – share ownership

Members of the Supervisory Board, the Board of Management and PostNL's senior management are subject to the PostNL Group Policy on Prevention of Insider Trading, which sets rules to prevent insider trading in our financial instruments and in securities other than PostNL's financial instruments.

Under the current remuneration policies share ownership is not mandatory for members of the Board of Management and Supervisory Board.

The table below lists the total number of PostNL shares held by each member of the Board of Management, including shares vested under PostNL's performance share plan and variable remuneration. The table does not state the unvested shares which have been allocated to such members under PostNL's performance share plan. None of the Supervisory Board members holds any PostNL shares at the date of this Annual Report.

PostNL Shares held by Board of Management/Supervisory Board

number of shares

2018, 2019

	31 Dec 2018	31 Dec 2019 ¹
Board of Management		
Herna Verhagen	247,840	273,565
Pim Berendsen	34,851	46,142

1 This table does not include any granted rights on shares allocated to the members of the Board of Management under PostNL's participation in the variable compensation scheme. See note 5.1 to the consolidated financial statements and the chapter Remuneration report under 2019 actual remuneration. The information in this table is publicly available at www.afm.nl.

Diversity

As described elsewhere in this Annual Report, PostNL believes in the strength of diversity and inclusion. We respect and value differences between people, as they make our organisation stronger, more innovative and more appealing. This also translates into our aim for diversity in the composition of the Executive Committee, Board of Management and Supervisory Board. The Supervisory Board seeks to promote diversity among the members of the Executive Committee, Board of Management and Supervisory Board with regard to age, sex, level of expertise and experience, and nationality. We aim to create a balance, to the extent possible, in which the diversity referred to above is expressed and where the objective is to comply, at the very least, with the statutory requirements. Please be referred to our Diversity and inclusion policy which can be found on the website.

PostNL's Executive Committee has seven members, of which three are female, i.e. 42.9% of the seats filled by women. The Board of Management has one female and one male member, i.e. 50% of the seats filled by women. The Supervisory Board has seven members, of which three are women, i.e. 42.9% of the seats filled by women. Consequently, the Board of Management, the Executive Committee and Supervisory Board have a balanced representation of men and women.

As follows from PostNL's diversity policy and the profile of the Supervisory Board, diversity is taken into account when selecting candidates in case of a vacancy in the Executive Committee, Board of Management and Supervisory Board. Ultimately, the capacities of the selected candidates are assessed irrespective of the candidate's gender and the most qualified candidates will be nominated for appointment.

In 2019, Ms Menssen was up for reappointment as member of the Supervisory Board, Ms Van Lier Lels was appointed as member of the Supervisory Board and Mr Engel stepped down from his position as member of the Supervisory Board. Ms Verhagen was up for reappointment as member of the Board of Management. The

composition of the Executive Committee remained unchanged in 2019.

Corporate secretary

The Executive Committee, Board of Management and Supervisory Board are assisted by PostNL's corporate secretary. All members of the Executive Committee, Board of Management and Supervisory Board have access to the advice and services of the corporate secretary, who is responsible for ensuring that the Executive Committee, Board of Management and Supervisory Board procedures are followed and that each of these bodies acts in accordance with the law, the articles of association and the relevant by-laws.

Shareholders and their rights

General Meeting of Shareholders

PostNL is required to hold an Annual General Meeting of Shareholders within six months of the end of the financial year. The agenda for this meeting includes the adoption of the financial statements, a proposal on dividend and the release from liability of the members of the Board of Management and the Supervisory Board for the performance of their respective duties during the financial year. This release only covers liability for matters reflected in the relevant financial statements or otherwise disclosed to the General Meeting of Shareholders prior to the adoption of the relevant financial statements.

General Meetings of Shareholders are held as often as the Board of Management or the Supervisory Board deem necessary, and shall be convened in case of a decision entailing a significant change in the identity or character of PostNL or its business.

Furthermore, the Supervisory Board and the Board of Management are in principle required to convene a shareholders meeting in case one or more shareholders representing at least 10% of PostNL's issued share capital so request in writing, stating the proposed agenda in detail.

General Meetings of Shareholders may be held in Amsterdam, The Hague, Hoofddorp or in the municipality of Haarlemmermeer (Schiphol).

One or more shareholders representing at least 1% of PostNL's issued share capital are entitled to request that the Board of Management or the Supervisory Board place items on the agenda of a General Meeting of Shareholders. Such a request must be honoured by the Board of Management or the Supervisory Board, provided that the request is received in writing at least 60 days

before the date of such a meeting. In the event a request is made by one or more shareholders to either convene a meeting or to place an item on the agenda of a General Meeting of Shareholders that may result in a change of the company's strategy, the Board of Management is entitled to a reasonable period in which to respond, which shall not exceed 180 days.

The Central Works Council of PostNL has the right to form an opinion on proposals to determine or modify the policy on the remuneration of the Board of Management, proposals that entail a significant change in the identity or character of the company or its business and proposals to appoint a member of the Supervisory Board. The Central Works Council has the right to explain its position during the General Meeting of Shareholders.

General Meetings of Shareholders are convened at least 42 days in advance by a notice published on the company's website.

Each shareholder is entitled to attend a General Meeting of Shareholders, either in person or by written or electronic proxy, to address the meeting and to exercise voting rights, subject to the provisions of PostNL's articles of association. An eligible shareholder has the aforementioned rights if registered as a shareholder on the applicable record date to the extent described by Dutch law.

Each PostNL share carries the right to cast one vote. Unless Dutch law or PostNL's articles of association stipulate otherwise, resolutions are passed by a simple majority of votes cast by the shareholders present or represented at the meeting. Pursuant to PostNL's articles of association, there are no limitations to the rights of Dutch, non-resident or foreign shareholders to hold or exercise voting rights in respect of PostNL's securities.

General Meeting of Shareholders 2019

On 16 April 2019, PostNL held its Annual General Meeting of Shareholders in The Hague, the Netherlands. The attendance rate was 40.63% of the total outstanding share capital.

At the Annual General Meeting of Shareholders, the following resolutions were adopted:

- The adoption of the 2018 financial statements
- The appropriation of profit over the financial year 2018
- The release of the Board of Management and Supervisory Board from liability for the performance of their respective duties during the financial year 2018
- The appointment of Ms Van Lier Lels and the reappointment of Ms Menssen as members of the Supervisory Board
- The reappointment of Ernst & Young Accountants LLP as accountant of PostNL for the financial years 2019 and 2020

- Designation of the Board of Management to issue ordinary shares until 16 October 2020 (limited to 10% of the issued capital at the time of issue)
- Designation of the Board of Management to limit or exclude pre-emptive rights to issue ordinary shares until 16 October 2020 (limited to 10% of the issued capital at the time of issue)
- Authorisation of the Board of Management to have PostNL acquire its own shares until 16 October 2020 (limited to 10% of the issued capital at the time of the Annual General Meeting of Shareholders in 2019)

With respect to the last three bullets, see also the section 'Articles of association, share acquisition, reduction and increase of issued share capital' below.

The agenda, resolutions and voting results for each resolution, the presentations given during the meeting and a webcast of the meeting are available on our website in Dutch and English.

Minutes of the meeting are available in Dutch only.

Liquidation rights

In the event of PostNL's dissolution and liquidation, the assets remaining after payment of all debts and liquidation expenses are to be distributed in the following order of preference: firstly, to the holders of all outstanding preference shares B (if any), the nominal amount paid up on these shares plus accumulated dividends for preceding years that have not yet been paid; and secondly, to holders of ordinary shares in proportion to their shareholdings.

Changes to the rights of shareholders

Rights of shareholders may change by way of an amendment to the articles of association, a statutory merger or demerger within the meaning of book 2 of the Dutch Civil Code, or dissolution of the company. A resolution of the General Meeting of Shareholders is required to effect these changes. Under PostNL's articles of association, such a resolution may only be adopted upon a proposal by the Board of Management that has been approved by the Supervisory Board.

Major shareholders

To PostNL's knowledge, it is not directly or indirectly owned or controlled by another company or by any government. PostNL does not know of any arrangements of which the operation might, at a subsequent date, result in a change of control, except as described under 'Foundation Continuity PostNL and preference shares B' below.

The Financial Markets Supervision Act (Wet op het financieel toezicht) imposes a duty to disclose percentage holdings in the capital and/or underlying financial instruments and/or voting rights in the company when such holding reaches, exceeds or falls below

3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. Such a disclosure must be made to the Dutch Financial Markets Authority (AFM) without delay. The AFM then notifies the company.

Articles of association, share acquisition, reduction and increase of issued share capital

Amendment of the articles of association

The company's articles of association can be amended upon a proposal by the Board of Management, approved by the Supervisory Board and adopted by the General Meeting of Shareholders. A proposal to amend the articles of association must be stated in a notice convening a General Meeting of Shareholders and announced in such a manner as permitted by law at the time. The proposal shall be passed upon an absolute majority of the votes cast in the General Meeting of Shareholders. PostNL's articles of association are available on our website.

Ability of the company to acquire its own shares

Under its articles of association, PostNL may acquire its own shares, provided that they are fully paid up. If such shares are acquired for consideration, the following conditions apply:

- PostNL's shareholders' equity less the purchase price may not fall below the sum of the paid-up capital and any reserves required to be maintained by Dutch law or pursuant to the articles of association
- Following the share acquisition, PostNL may not hold shares with an aggregate nominal value exceeding half of its issued share capital.

The Board of Management is authorised to decide to acquire PostNL shares. Such a resolution requires the approval of the Supervisory Board. In addition, the Board of Management requires prior authorisation by the General Meeting of Shareholders. This authorisation may be valid for a period not exceeding 18 months and must specify:

- The number of shares that may be acquired
- The manner in which shares may be acquired
- The price limits within which shares may be acquired.

Authorisation by the General Meeting of Shareholders is not required if the PostNL shares are acquired for the purpose of transferring those shares to PostNL employees pursuant to any arrangements applicable to such employees.

Reduction of issued share capital in general

The issued share capital may be reduced by the cancellation of shares following a repurchase. PostNL's issued share capital may also be reduced if the nominal value of its shares is reduced by amendment of PostNL's articles of association. The resolution to reduce PostNL's issued share capital requires the approval of the General Meeting of Shareholders. Pursuant to PostNL's articles of association, such a resolution may be adopted pursuant to a proposal of the Board of Management that has been approved by the Supervisory Board. The latter requirement is more stringent than Dutch law.

Increase of issued share capital by issuance of shares/pre-emptive rights

PostNL's Board of Management has been designated as the body authorised to resolve on the issuance of shares and to grant rights to subscribe for shares, including options and warrants. Such a resolution is subject to the approval of the Supervisory Board. The scope and duration of this authority of the Board of Management are determined by the General Meeting of Shareholders. The Board of Management cannot be authorised to issue more shares than the number of authorised shares that have not been issued (i.e. the number of authorised shares minus the number of issued shares). The authority may not be granted for a period longer than five years.

The term of designation of the Board of Management as the body authorised to resolve on the issuance of shares may also be extended by amendment of PostNL's articles of association.

If no extension is given, the issue of shares or granting of rights to subscribe for shares requires a resolution of the General Meeting of Shareholders. Such a resolution may only be adopted pursuant to a proposal by the Board of Management that has been approved by the Supervisory Board.

In principle, each holder of ordinary shares has a pre-emptive right in case of any issue of ordinary shares or the granting of rights to subscribe for these shares.

Pursuant to PostNL's articles of association, shareholders' pre-emptive rights may be restricted or excluded by a resolution of the Board of Management, provided and as long as the Board of Management has been designated as the body authorised to resolve on the issuance of shares. Such a resolution is subject to the approval of the Supervisory Board. Pursuant to PostNL's articles of association, the provisions relating to the scope and duration of the authority to issue shares and grant rights to subscribe for ordinary shares are also applicable to the scope and duration of the authority to exclude or restrict pre-emptive rights.

Dividend

The Board of Management may determine, subject to approval by the Supervisory Board, that any dividend on ordinary shares will be paid wholly or partly in PostNL ordinary shares instead of cash, or that any dividend will be paid by giving shareholders the option to choose between PostNL ordinary shares or cash (optional dividends).

If and when dividends are declared, PostNL pays dividends out of its profits, or by exception out of the distributable part of its shareholders' equity as shown in PostNL's financial statements. PostNL is not allowed to pay dividends if the payment would reduce shareholders' equity below the sum of the paid-up capital and any reserves required by Dutch law or the company's articles of association.

The Board of Management may, subject to approval by the Supervisory Board and to provisions of Dutch law, distribute interim dividend.

No dividend shall be paid on shares held by PostNL. Such shares shall not be included for the calculation of the profit distribution, unless the Board of Management resolves otherwise. Such a resolution is subject to the approval of the Supervisory Board.

Under PostNL's articles of association, if preference shares B have been issued, PostNL must pay dividends on the paid-up portion of the nominal value of the preference shares B. Payment is made at a rate of the average 12-month EURIBOR (Euro Interbank Offered Rate), weighted to reflect the number of days for which the payment is made, plus a premium to be determined by the Board of Management, subject to approval by the Supervisory Board, of at least one percentage point and at most three percentage points.

The Board of Management then determines, subject to the approval of the Supervisory Board, the part of the remaining profits to be appropriated to reserves. The profit that remains after appropriation is at the disposal of the General Meeting of Shareholders.

More information about PostNL's dividend policy can be found in the chapter 'PostNL on the capital markets', and on our website. Any changes to these guidelines shall be explained in a separate agenda item at the Annual General Meeting of Shareholders.

Foundation Continuity PostNL and preference shares B

Stichting Continuïteit PostNL (Foundation Continuity PostNL) was formed to safeguard the interests of PostNL, the undertaking connected with PostNL and all parties involved. It does this by,

among other things, preventing any influences that could threaten PostNL's continuity, independence and identity, as far as possible. Foundation Continuity PostNL is an independent legal entity and is not owned or controlled by PostNL or any other legal person.

PostNL's articles of association provide for protective preference shares B that can be issued to Foundation Continuity PostNL. The preference shares B have a nominal value of €0.08 and have the same voting rights as PostNL's ordinary shares.

PostNL and Foundation Continuity PostNL have entered into a call option agreement, which enables Foundation Continuity PostNL to acquire a number of preference shares B not exceeding the total issued number of shares minus one and minus any shares already issued to Foundation Continuity PostNL. The call option agreement is meant as a preventive measure against influences that might threaten the continuity, independence and identity of the company. Preference shares B will be outstanding no longer than strictly necessary. As at 31 December 2019 and at the date of this Annual Report, there were no preference shares B issued. The exercise price with respect to the call option is the nominal value of €0.08 per preference share B, although upon exercise only €0.02 per preference share B is required to be paid. The additional €0.06 is due when the Board of Management, subject to the approval of the Supervisory Board, requests payment. Foundation Continuity PostNL has credit facilities in place to enable it to exercise the call option.

Six months after the issuance of preference shares B, Foundation Continuity PostNL may require PostNL to convene a General Meeting of Shareholders to discuss cancellation of these shares. However, if within these six months Foundation Continuity PostNL should receive a demand for repayment under the credit facilities referred to above, it may also require PostNL to convene a General Meeting of Shareholders. In accordance with PostNL's articles of association, a General Meeting of Shareholders must be convened no later than 12 months after the first date of issuance of any preference shares B to Foundation Continuity PostNL. The agenda for that meeting shall include a resolution regarding the repurchase and/or cancellation of the preference shares B.

PostNL has granted Foundation Continuity PostNL the right to file an application for an inquiry into the policy and conduct of PostNL's business with the Enterprise Chamber of the Amsterdam Court of Appeal (Ondernemingskamer). Should such an inquiry be granted, the Enterprise Chamber may impose immediate provisions.

At 31 December 2019, the members of the Board of Foundation Continuity PostNL were Mr J.H.M. Lindenberg (chairman), Mr W. van Vonno, Mr M.P. Nieuwe Weme and Ms Y.C.M.T. van Rooy. All members of the Board of Foundation Continuity PostNL are independent from PostNL. This means that Foundation Continuity

PostNL is an independent legal entity as referred to in section 5:71 paragraph 1 sub c of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

Shareholder dialogue

PostNL endeavours to stay in regular contact with its shareholders. The CEO, CFO and the investor relations team meet with shareholders during roadshows and conduct individual meetings and calls during the year.

Communication takes place with governance institutions representing shareholder groups before the Annual General Meeting of Shareholders and also during the year. PostNL does not have a specific policy to introduce members of the Supervisory Board to PostNL shareholders. The company has a policy on bilateral contacts with the shareholders which is included in the investor relations policy and published on PostNL's website. More information about PostNL's investor relations can be found in the chapter 'PostNL on the capital markets.'

Furthermore, PostNL organises an annual dialogue with its stakeholders, in addition to the daily, ongoing contacts with customers, regulators, interest groups, et cetera. More information about PostNL's stakeholder dialogue can be found in the chapter 'Non-financial statements', section 'Basis of preparation'.

External auditor

PostNL's external auditor, Ernst & Young Accountants LLP, is appointed by the General Meeting of Shareholders. The lead partner rotates after a maximum period of five years and the key assurance partners rotate after a maximum period of seven years. Ms S.D.J. Overbeek - Goeseije has been the lead audit partner since 2017.

The Supervisory Board recommends to the General Meeting of Shareholders the appointment or replacement of the external auditor. In doing so, it considers the Audit Committee's advice regarding the external auditor's nomination for appointment/reappointment or dismissal. The Audit Committee prepares the selection of the external auditor. The Audit Committee reports annually to the Supervisory Board on the functioning of, and relevant developments in the relationship with the external auditor. The Audit Committee gives due consideration to the Board of Management's observations in this respect. At the Annual General Meeting of Shareholders held on 16 April 2019 Ernst & Young Accountants LLP was reappointed as external auditor for PostNL for another 2 years, that is for the financial years 2019 and 2020. Ms S.D.J. Overbeek - Goeseije shall remain the lead audit partner.

The Audit Committee, supported by the internal audit function, is required to pre-approve all services the external auditor provides to ensure these do not impair the auditor's independence from PostNL. The Audit Committee grants a general pre-approval for certain routine services every year. By Dutch law, the external auditor is in principle prohibited to render non-audit services.

Conflicts and potential conflicts of interest between the external auditor and PostNL are settled in accordance with the terms of reference of the Audit Committee and Dutch law. See note 2.1.5 to the consolidated financial statements of PostNL N.V. for the fees paid to Ernst & Young Accountants LLP and the distribution of fees between audit and audit-related services.

The Audit Committee requires a formal written statement from the external auditor confirming its independence.

Internal audit

PostNL's internal audit function provides independent and objective assurance to the Board of Management and the Supervisory Board on the effectiveness of the internal control framework, and performs financial, IT, and CR management systems and operational audits for the various units within the PostNL Group. Audits are scheduled in close cooperation with the business concerned and organised in such a way that the external auditor can use the internal audit activities optimally. Each audit is followed by a formal audit report to the management responsible. Adequate follow-up on audit findings is assured. A summary report of audit-related topics (findings, follow-up, and so on) is issued every quarter to the Board of Management and the Audit Committee. Audit planning, the quality and professionalism of the audit team and the effectiveness and efficiency of the execution of the audits are supervised by the Board of Management and approved by the Audit Committee. The internal audit function reports to the CEO, with open communication to the CFO and the Audit Committee.

Risk management

Doing business is, in essence, an act of balancing business opportunities with risks and control activities. That is why at PostNL we have formal and standardised processes in place to facilitate and coordinate these activities. In this chapter we will explain how we manage our risks. Additionally, we will provide an overview and a summary of the main risks that we are facing and what we are doing to mitigate them.

Risk management approach

This section provides an overview of our approach to risk management, internal control, integrity and compliance. It includes the disclosures required by the Dutch Corporate Governance Code and chapter 5.1a of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

Our enterprise risk management framework has been designed to identify and prioritise our main risks and develop appropriate responses. This framework is based on COSO ERM 2017 (2017 Enterprise Risk Management – Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission) and is in line with the principles of the Dutch Corporate Governance Code 2016.

Understanding strategic, operational, regulatory, and financial risks is a vital element of our management decision-making process. Risks are identified by means of both a bottom-up (line management) and top-down (senior management) approach, covering the entire business. For those risks deemed material, management develops and reviews comprehensive risk response plans.

Risk management and internal control is considered a line responsibility. All business segments and head office departments are engaged in this company-wide risk management process, which includes:

- Mandatory participation in risk management workshops by relevant management team members
- Assessing risks on impact, likelihood of occurrence and control effort (the additional effort required to achieve further risk mitigation).

We have built a comprehensive portfolio of Group policies and controls, ensuring discipline in our business processes. These support the Board of Management in its statutory and fiduciary obligations to stakeholders in developing and achieving its strategic, operational, compliance and financial objectives.

We operate our businesses in highly regulated markets. The responsibility for ensuring that regulatory compliance objectives are achieved, and that related decision-making is supported by transparent, accurate and relevant information, is assigned to the following head office functions: Legal, Privacy Office, Compliance, Integrity Office and Public Affairs. The Board of Management and the Supervisory Board monitor the effectiveness and efficiency of the enterprise risk management framework. They are supported by Internal Audit.

Our risk management and control systems are designed to reduce the likelihood of errors, incorrect decisions and unforeseen circumstances as much as possible. It provides reasonable, but not absolute, assurance against material misstatement or loss.

Risk appetite

Risk appetite is the level of residual risk we deem acceptable to achieve our objectives. The risk appetite is set by the Board of Management in close cooperation with the Executive Committee, based upon our strategic goals, our business principles, our policies and procedures, and taking into consideration the highly regulated markets we operate in. The risk appetite is discussed with the Audit Committee. Overall, PostNL's risk appetite in 2019 did not materially change compared to 2018. Our risk appetite differs per risk type:

Risk appetite	Behaviour towards risk				
	Averse	Prudent	Balanced	Considerable	Seeking
Strategic risks We aim to deliver on our strategic ambitions and priorities and are willing to accept balanced to considerable risks to achieve this.	○ ○ ○ ○	○ ○ ○ ○	○ ○ ● ●	● ● ● ● ● ●	● ○ ○ ○ ○
Operational risks We face operational challenges which require an appropriate level of management attention. The overall objective is to avoid risks that could negatively impact our aim to achieve operational effectiveness and efficiencies.	○ ○ ○ ○	○ ● ● ● ●	● ● ● ● ● ●	● ● ● ○ ○ ○	○ ○ ○ ○ ○
Regulatory risks We strive to be fully compliant with our business principles as well as national and international laws and regulations in relation to the markets in which we operate and we do not accept deviations.	○ ○ ● ●	● ○ ○ ○ ○	○ ○ ○ ○ ○	○ ○ ○ ○ ○	○ ○ ○ ○ ○
Financial risks Our financial strategy is focused on a strong financial position and creating long-term value for our shareholders. Our aim is to have a leverage ratio of adjusted net debt / EBITDA not exceeding 2.0 and only accept risks that do not threaten this.	○ ○ ○ ●	● ● ● ● ●	○ ○ ○ ○ ○	○ ○ ○ ○ ○	○ ○ ○ ○ ○

Internal control over financial and non-financial reporting

In 2019, we continued to invest the resources required to document and evaluate the design of internal controls over financial and non-financial reporting. Also, we continued to test the operational effectiveness of these internal controls. The effectiveness of internal controls is tested by management. Management is required to follow up on risks deemed to be inadequately mitigated by internal controls, which might result from, for example, a major organisational or IT change. This requires additional actions, including performing and evaluating compensating controls and activities, to reduce the risks of a misstatement in the financial and non-financial reporting.

Performance of our internal control environment is regularly measured and monitored, and the results are discussed in the Internal Control Committee (ICC) meetings. The ICC is composed of the CFO, the director Audit & Security, the director Group Finance, and the director Accounting & Reporting. The external auditor also attends the ICC meetings. The ICC met five times in 2019.

Risk management and internal control reports are also discussed with the Board of Management and the Audit Committee of the Supervisory Board.

Integrity

We are committed to sound business conduct. We therefore manage our business according to applicable laws and regulations and according to the PostNL Business Principles, which provide guidance on interaction with colleagues, customers, business partners and society in general. A company-wide integrity programme ensures that the Business Principles are applied consistently throughout the organisation.

The Integrity Committee advises and assists the Board of Management in developing, implementing and monitoring Group policies and procedures aimed at enhancing integrity and ethical behaviour and preventing fraud, corruption and bribery. The Integrity Committee is composed of the director Audit & Security, the manager Integrity Office, the Corporate Security Officer, the director Legal, the manager People Development, the director Communication & Investor Relations and the director Logistic solutions.

The Integrity Committee oversees investigations based on reports of possible breaches filed under the PostNL Business Principles, the PostNL Group procedure on whistleblowing and the PostNL Group procedure on fraud prevention, anti-bribery and anti-corruption.

PostNL recognises the need to have detailed fraud prevention and anti-bribery and anti-corruption policies, procedures and reporting mechanisms in place to protect our business integrity and to comply with all applicable laws and regulations. Anti-bribery and anti-corruption legislation, both in our home country and the countries we operate in, is very important for PostNL to conduct its business globally. All reported incidents of actual or suspected corruption or bribery will be promptly and thoroughly investigated and dealt with appropriately.

The Integrity Committee advises the Board of Management and line management on the mitigation of fraud risks and on ethical, anti-bribery and anti-corruption matters. The Integrity Committee reports regularly to the Board of Management and every six months to the Supervisory Board.

The focus of our integrity approach is to regularly ensure our employees are familiar with the PostNL Business Principles. Our company-wide e-learning module on integrity is mandatory for management and for office workers, and voluntary for production staff. The module is part of our regular onboarding programme. In 2019, we launched a new version of the e-learning module. Through this e-learning module on integrity we aim to educate management and employees about our Business Principles, and the desired behaviour based on these principles.

In accordance with the requirements of the Corporate Governance Code, we also performed an assessment connected to the organisational awareness with our business principles. The 'Employee engagement monitor 2019' addressed employees' familiarity with the PostNL Business Principles, and their perception whether we work according to the PostNL Business Principles. The main outcome of this assessment in 2019 showed that 81% (2018: 84%) of the responders are (partly) familiar with the PostNL Business Principles. Of this 81%, in total 70% (2018: 68%) perceive that PostNL partly works according to the PostNL Business Principles and 28% (2018: 26%) perceive this as continuously. We use the outcome of the monitor as input for our integrity approach and our activities at the PostNL Group companies.

During the year we started 724 investigations in response to integrity-related issues. These investigations covered issues such as theft of mail or parcels, bribery and corruption, or failure to follow workplace practices. This resulted in 258 discontinued work relationships. At year-end 2019, 44 investigations were ongoing. To the best of our knowledge, we had no cases of bribery or corruption that had a significant impact on our business.

Although not identified as key risks, we have identified risks of bribery and corruption in the area of procurement, where breaches to our policies could occur between suppliers and PostNL employees.

Compliance

PostNL's Group policies and procedures reflect and define the view of the Board of Management and the way we conduct our business.

Performance and compliance are integral parts of our ERM approach and are monitored regularly in discussions between the appropriate line management and the Board of Management via dedicated compliance reviews, internal audits, through the monitoring duties of PostNL committees and through the internal letter of representation. For the purposes of issuing the letter of representation, all managing directors and finance directors of PostNL's Group entities and company-level management reporting directly to the Board of Management perform a self-assessment of their responsibilities in the risk assessment process, effectiveness of internal controls procedures and financial and non-financial reporting process. The signed internal letters of representation are the basis for the letter of representation that the Board of Management signs off as part of the audit by the external auditor.







Risk profile

The key risks we face in executing our strategy and business processes are described in the following tables. The identified risks are related to our strategic objectives, which are described in the chapter 'Our strategy' and have been used as input for the stakeholder materiality matrix as described in the chapter 'Our operating context'. We start with the table on our strategic risks below, followed by the operational, regulatory and financial risks we identified.

For each risk, we determine the risk level based on impact and likelihood of occurrence, using a three-point system classifying risks as low, medium and high (1-3). In addition, we have indicated for each risk whether the risk trend is decreasing, increasing or remained stable compared to 2018. Management reviewed the risk profile regularly throughout 2019 and will continue to do so during 2020.

Risk mitigation as described below is meant to provide a high-level overview of potential and initiated action items in response to the risks identified and is not to be interpreted as a comprehensive list of risk responses within PostNL. The risks related to unforeseeable events are very difficult to quantify, and while we organise comprehensive risk mitigation techniques, we are not always able to anticipate the consequences these types of events may have, if any, on our financial performance and position.

Strategic risks

Risk description	Risk level (1-3)	Trend	Link to key material topic
Competition			Financial performance and position
Substitution			Manage declining mail volumes
Climate change and air pollution			Emission-free delivery Sustainable city logistics

Competition

Description: Competition continues to put pressure on our market share, volumes and prices, which could have an adverse effect on revenues and profitability. We are faced with increasing competition particularly in our traditional parcels and international businesses as markets become more dynamic and volatile. In this area we see that new functionality, driven by the speed of IT developments, is increasing. Next to this we see the impact of the platform businesses, which has an effect on the concentration of volumes and increases purchasing power for these platforms. In addition, customer satisfaction is increasingly a decisive factor for maintaining competitive advantage. As a result, we may have to lower our prices in specific segments to protect our volume or may decide to exit certain businesses or markets in the future. In the markets where we decide to protect our position, we may have to focus on margin management by increasing efficiency and leveraging on economies of scale.

Mitigation: Commercial initiatives are in place, such as differentiating service levels, (new) products and adequate pricing, as well as initiatives aimed at improving our customer satisfaction and quality, including investments in our network coverage and projects related to operational excellence. Further information regarding competition can be found in the chapter 'Our operating context'. Our customer & quality management department continuously monitors our customer satisfaction metrics and oversees related improvement initiatives.

Substitution

Description: The ongoing digitalisation trend amongst consumers to move to online alternatives is leading to a decline in physical mail. As a result, the volume of mail is decreasing and there is a risk that this decrease will accelerate faster than anticipated. This decrease in volume requires us to adapt our infrastructure and delivery processes. Substitution or alternatives to our delivery services may reduce revenues and profitability. A decline in the addressed mail

volume mix of one percent results, on average, in a decrease of approximately €7 million in underlying cash operating income.

Mitigation: We continuously and consistently take commercial initiatives to slow down or adapt to substitution, leading to the introduction of a range of new services and solutions and the abolishment of existing services and solutions. Furthermore, we develop operational processes to be able to adapt more flexibly to future volume declines. More information can be found in the Business Report.

Climate change and air pollution

Description: As a logistics and postal service provider we produce GHG emissions from our national and international operations. In addition, we produce nitrogen oxides (NOx) and particulate matter (PM) emissions that negatively impact air quality. We are committed to understanding and reducing the impact of our organization on climate change, and related economic and social effects. This commitment is supported by our objectives to realise emission-free last-mile delivery in 25 city centres in the Netherlands by 2025, and across the Benelux by 2030. Achieving these objectives will involve multiple complex changes in our business operations and reporting processes. Not being able to achieve these objectives may have an adverse material impact on our reputation and our financial performance.

Mitigation: In 2019 we developed a long-term roadmap toward emission reduction. Specifically for all relevant emission sources, we developed a concrete action plan to achieve our emission reduction towards 2030. These actions are directly linked to the four pillars in our environmental strategy: green innovations and efficiency, green kilometers, sustainable buildings and sustainable value chain. We monitor, report and evaluate the results of our strategy execution against short- and long-term targets in our planning and control cycle and review our long-term roadmap annually.

Operational risks

Risk description	Risk level (1-3)	Trend	Link to key material topic
Information Technology			E-commerce growth
Execution of cost saving initiatives			Engaged people Manage declining mail volumes
Implementation of strategic change programme			E-commerce growth
Network peak capacity			Customer experience
Labour related developments			Engaged people

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Information technology

Description: Information technology (IT) is vitally important to our business and we are increasingly dependent on it. Threats to the availability, confidentiality or integrity of our IT networks, systems or (customer) data caused by IT disturbances, cyberattacks or lack of appropriate security and infrastructure measures may damage our ability to provide timely delivery, or result in loss/theft of customer data, higher costs, penalties and damage to our reputation. We experienced post implementation issues in the second half of 2019 related to the completion of major IT transformation projects in our Customer to Cash process. These issues have been addressed and the IT environment is stabilising.

Mitigation: Cyber security is centrally governed, managed by a central Cyber Security Office with decentral cyber security coordinators. Given our full (public) cloud strategy, management of our cloud suppliers is one of our most important processes and subject to a strict control framework (so-called CRA methodology). Appropriate attention to cyber security at all stages of the IT development process is secured via the Security by Design principle and as such is explicitly addressed in architecture and design documents, testing and implementation plans, and awareness programmes, and so on. All critical applications are frequently measured and tested against our resilience criteria and actions are taken to keep the application up to date and at the required levels.

Execution of cost saving initiatives

Description: Cost saving initiatives, including streamlining our workforce, introducing greater efficiencies across our

infrastructure, and reducing costs at our head office, may be delayed or not achieve the results intended. Additionally, they could cause labour unrest. This could result in the deterioration of our employee engagement. Furthermore, this could have an adverse impact on the quality of services we provide. For example, it could lead to a drop in the delivery quality of our mail business. Other adverse results could be an impact on our reputation and financial performance.

Mitigation: Cost savings projects are executed via enhanced programmes and are monitored continuously by a programme office. Mechanisms to adjust to changing circumstances have been implemented and are reviewed periodically. Execution via pilots and in close collaboration with the Works Council enables smooth implementation on a larger scale.

Implementation of strategic change programme

Description: Implementation of the business strategy is supported by a change programme. We are implementing an increased number of growth initiatives, restructuring and IT projects, as well as undertaking acquisitions and divestments. These all require significant change and stakeholder management, as well as project management expertise. Executing the broad range of projects and operational activities in parallel may cause delays in successfully implementing all projects to initiate growth and to realise cost savings, and therefore may have an adverse material effect on our mid- and long-term targets. We may lack resources in terms of quantity and quality to execute these projects. The strategic change

projects inherently increase the risk that internal controls are ineffective for a short period.

The sale of Postcon and PostNL Communicatie Services, and the acquisition of Sandd, we completed in the second half of 2019. PostNL aims to complete the integration of Sandd in early 2020 and may experience operational disturbances during the implementation process.

Mitigation: All critical projects have been prioritised and are supervised by the Board of Management to ensure an aligned and integrated vision, and commitment of senior management to the change agenda. The agenda is monitored by adequate programme management. Priorities within the critical implementation projects are reviewed during our planning events every three months to ensure alignment with PostNL's strategic priorities on the tactical level. We also employ and develop in-house expertise, including talent management. We mitigate the increased risk that internal controls are ineffective for a short period by performing compensating controls and activities.

Network peak capacity

Description: We are facing the risk of operational failures and disruption in logistics processes due to the growing volumes in our parcel business, especially during peak periods when our networks operate at full capacity. In case of such major business disruption we may not be able to fall back on our regular business continuity measures. Structurally operating at full capacity may also lead to negative effects on our employees, such as employee motivation, commitment and eventually absenteeism. In addition, we foresee that while the e-commerce market will continue to grow in the coming years, the infrastructure capacity may not be able to keep up at the same pace. With the current business models of logistic service providers, this may result in more traffic congestion, which imposes a risk on our ability to deliver a growing number of parcels

on time. This may have a material effect on our business as customers increasingly look for fast delivery options.

Mitigation: We continuously look for initiatives that increase our operational efficiency in our sorting centres in order to increase the capacity of our networks. In order to manage expected growth, we continue to invest in new sorting centres and vehicles, and we also invest in recruitment, development and retention of our personnel. Over the long term, we are investigating the future logistical model for Parcels.

Operational efficiency in road transport is an ongoing focus area. This includes, for example, optimisation of packaging and route planning to increase the occupancy rate of our road transport. Furthermore, we have launched a programme called "city logistics" to explore the potential of future parcel delivery business models in cities. This includes city hubs, zero emission transport and other sustainable solutions.

Labour-related developments

Description: People are at the heart of the services we provide to our customers. We face the risk of not being able to attract, develop and retain qualified personnel. This risk concerns people in our operations, specialists and management. Key drivers for this risk are the overall scarcity of resources in the labour market and the overall attractiveness of PostNL as employer.

Mitigation: We make use of innovative online recruitment techniques and are continuously improving the employee experience. In addition, we continue to invest in training, development and employee retention. For example, we have added various new development programmes and learning tools and invest more in PostNL employer branding in addition to recruiting for individual jobs.

Regulatory risks

Risk description	Risk level (1-3)	Trend	Link to key material topic
Regulatory requirements			Accessible and reliable postal services

Description: We are confronted with complex legal and regulatory requirements in the countries in which we operate. These include, but are not limited to, tariff regulation, competition law, regulation related to dangerous and prohibited goods, customs regulations, labour regulation, data protection, environmental and privacy requirements. In addition, we must comply with the relevant preconditions connected to the acquisition of Sandd. Changes in legal and regulatory requirements, and the interpretation thereof,

had and may continue to have, an adverse material impact on our business operations, our reputation and on our financial performance.









In the Netherlands, a specific regulatory circumstance is that PostNL is appointed as the designated operator to provide services under the universal service obligation (USO). This is the basic postal service that ensures that nationwide postal services remain

accessible, affordable and reliable for all. Possible changes in the USO regulation, or adverse decisions of the Ministry of Economic Affairs or the ACM in relation to the USO, could have an adverse impact on our ability to adapt to market developments and changes in customer demand in a timely and effective way. New legislation is being developed, for which drafts have been communicated in 2019, while the implementation is expected in 2021. However, the related uncertainty and potentially negative financial consequences remain a risk.

Mitigation: We implement appropriate policies, processes and internal control procedures, which limit exposure to complex legal

and regulatory requirements, such as competition law and anti-bribery acts, and operate a robust integrity programme that includes business principles. We have a continual dialogue with governmental and non-governmental stakeholders about complying with regulation. We are constantly adapting our operations to changes in the legal and regulatory requirements. In addition, we continue dialogue with governmental and non-governmental stakeholders about the development of USO regulations at both EU and national levels.

Financial risks

Risk description	Risk level (1-3)	Trend	Link to key material topic
Total cost of employment			Financial performance and position
Volatility of financial performance due to pensions			Financial performance and position
Financial risk management			Financial performance and position
Liability of loss or damage			Financial performance and position

Total cost of employment

Description: Being a good employer is vitally important to us. One aspect of this is the terms and conditions under which we hire our personnel and employ outsourced labour. These terms and conditions, including salaries and other secondary benefits, represent a substantial expense for our company and is an important component of our operating model. Our financial performance could be affected by higher than anticipated total cost of labour and/or other related losses. In addition, opportunity costs due to operational disruptions as a result of action from trade unions and/or media could further undermine our financial performance.

Mitigation: We maintain good relations with trade unions and social partners based on mutual recognition of shared interests. We agreed to a Social Plan in 2015, which remains in place until 31 December 2020. On 4 March 2019, we reached a final agreement regarding the PostNL CLA and the Saturday deliverers CLA. Both apply to the period 1 January 2019 to 31 March 2020 and include agreements on salary increases. The CLA covering deliverers at Mail in the Netherlands expired on 30 September 2019. Negotiations

with trade unions have started and we aim to agree on the new CLA in the first quarter of 2020.

Volatility financial performance due to pensions

Description: Actuarial assumptions, such as discount rates and demographic variables, have an impact on the valuation of employee benefit plans. A decrease in equity returns or interest rates may negatively affect the funding ratios of our pension fund, which may lead to an increase in the pension provision, or in multi-year additional funding obligations.

Mitigation: We hold open and regular discussions with the pension fund trustee board, which is independent of PostNL. We have reduced the volatility risk of pension provision in recent years by revising our finance agreement with the pension fund. Analysis shows comfortable headroom for further interest rate declines before our financial position is materially impacted by pensions, substantiating the significance of our de-risking steps. However, our pensions still retain an element of vulnerability. A materially bad economic climate, combining lower interest rates, declining

pension fund assets and material increases in life expectancy, could still negatively impact cash and equity.

Financial risk management

Description: We are exposed to a variety of financial risks, such as currency risk, interest rate fluctuations, credit risk, liquidity risk, price risk and cash flow risk. These risks can have an adverse effect on our financial position and results. This also impacts the valuation of the pension provision.

Mitigation: Such risks arise in the normal course of business and we use various techniques and financial derivatives to mitigate them. For example, we hedge both currency and interest rate risks in accordance with the relevant Group policies. In November 2017, PostNL refinanced its debt by issuing a new bond loan amounting to €400 million, with a fixed interest rate of 1.0% and an expiration in 2024. In September 2019, PostNL issued a new 'green' bond amounting to €300 million, with a fixed interest rate of 0.625% and an expiration in 2026, to finance its sustainability initiatives. This lowered our interest expenses and improved our ratios. For more information, see note 4.4 to the consolidated financial statements.

Liability of loss or damage

Description: We are exposed to claims for loss or damage. Some of these exposures are covered under conventions such as the United Postal Union, the Warsaw Convention or the Convention on the Contract for the international Carriage of Goods by Road, as well as PostNL's general terms and conditions. Claims for loss or damage not covered under these conventions or PostNL's general terms and conditions may negatively affect our financial performance. Our exposure to this risk is increasing as a result of the growing volume of e-commerce parcel deliveries in our portfolio, which on average are higher in value.

Mitigation: We maintain insurance policies in relation to our business and assets with reputable underwriters and/or insurance companies against claims for loss or damage to the extent not covered by conventions, and to the extent that is usual for companies like ours.

Main risk related events that occurred in 2019

Some elements of the risks described in our risk profile section occurred in 2019. Below is a summary of the main events. No unforeseen significant events, which were not included in our risk profile 2018, occurred in 2019.

Competition

Within Parcels in the Benelux, where competition is already strong, we continue to experience competition from both established

logistics players and new entrants, attracted by growth in the e-commerce market. Our largest competitors are investing heavily in their network capacity. In addition, our largest customers achieve high growth leading to a change in market dynamics. The slowdown in volume growth during the second half of 2019 in our Parcels segment is mainly attributed to a slower growth in the e-commerce market, rather than to the effects of competition. Performance in our Cross Border Solutions business did not show the expected improvement in 2019, which was due to fierce price competition, as other major European players offer similar propositions at a lower cost. In Europe, international mail volume is declining faster than expected. This can partly be explained by substitution, while the remaining effect is a result of competition. We are continuously assessing the impact of the Brexit decision on our UK cross-border business activities.

Information Technology

Cyber-attacks and online fraud attempts have become more attractive for criminals in recent years and the likelihood of this risk materialising is increasing. Cyber security is an essential element in our IT strategy, which ensures appropriate attention to cyber risks in all stages of the IT development process. We continuously monitor external developments for potential threats and cyber security incidents and strive to improve our monitoring capabilities. In addition, we are collaborating with governmental institutions, businesses and research bodies to combat internet crime and closely follow technological developments in this area. We also organise attack simulations and awareness programmes on phishing, hacking and social engineering. Furthermore, we aim to increase the resilience of our IT environment in Operations, also called Operation Technology (OT). In 2019, appropriate measures were taken to implement the same process and standards in our OT as with the rest of our IT infrastructure. Despite these efforts, it is impossible to completely eliminate this risk. These are the main events related to cyber-security that took place in 2019:

- Ransomware infection. One of our suppliers was affected by ransomware. Due to this incident they had to reinstall their applications. The effect on our operations was relatively small.
- Credential stuffing. An attacker received login information from PostNL customers. We were able to reset the passwords quickly, which minimised the impact of the attack. We informed our customers about the incident immediately.

Execution of cost-saving initiatives

A number of important changes were successfully implemented in 2019 that help us realise our cost-saving initiatives, such as the implementation of the new coding system and the combibundel as part of the New mail route delivery model. The project has a considerable impact on our customers, operations and our employees. Additional information on these initiatives can be found in the chapter 'Customer value.'

Implementation of strategic change programme

The sale of Postcon and PostNL Communicatie Services and the acquisition of Sandd were completed in 2019 and we aim to complete the integration of Sandd in the first half of 2020. These events played a major part in the realisation of our strategic change programme in 2019. The operational integration of Sandd required extraordinary commitment and effort from our employees, and put considerable pressure on our change and operating capacity. The risks related to this operational integration have been successfully managed as part of the integration project. For this project we had to utilise most of our remaining change capacity, which may result in delays in other ongoing or new change initiatives.

Network peak capacity

The volume growth in our Parcels business continues to put pressure on our network, especially during peak periods. However, we have exceeded our target for parcel delivery quality as a result of multiple improvements in the second half of 2019. These include the increased capacity through our new sorting centres, a new cross-dock, and better capacity planning with large customers. For Mail in the Netherlands, the final four months of 2019 proved very challenging, which mainly coincided with the first mail volumes from Sandd delivered through our network.

Labour related developments

In 2019 we experienced scarcity in the labour market and ability to retain qualified personnel. To increase PostNL's attractiveness as an employer, we are investing in branding as well as training and development of our staff. In addition, we make use of innovative online recruitment techniques and are continually improving the employee experience.

Total cost of employment

An overview of the most important developments related to the total cost of employment can be found in the chapter 'Social value'. In 2019 the main events related to this risk were:

- In February, PostNL decided to stop contracting and start working with temporary workers at parcel sorting centres to provide clarity in the social discussion on contracting. In addition to the many permanent employees at PostNL, flexible staffing remains a necessity at the sorting centres. The wages of temporary personnel are based on the collective bargaining agreement for temporary workers (ABU collective labour agreement) and - accordingly - the user company remuneration under the PostNL collective labour agreement. A number of PostNL's parcel sorting centres already work with temporary workers and the last parcel sorting centres will make the switch in 2020.
- PostNL and trade unions Bond van Post Personeel (BVPP), CNV Publieke Diensten and VHP2 reached agreements regarding a new PostNL collective labour agreement (CLA) and a new CLA

for Saturday deliverers following consent from their members. The members of FNV did not agree with the outcome of the collective bargaining consultation.

- At year end 2020 all remaining conditional soft pension benefits of our CLA employees have to be funded towards the pension fund. Based on the financing agreement with the fund, the costs are based on Q3 2019 parameters. Interest rates were at a multi-year low during Q3 2019 and negatively impacted the amount of the final payment, which would amount to approximately €300 million. Taking into account the interests of all stakeholders, PostNL has initiated discussions with the fund on options for a solution smoothing the impact of the low interest rate in the determination of the final payment. A possible solution might be to apply pricing based on expected returns in combination with a mark-up to the actuarial costs per 31 December 2020 capped at a maximum amount. This could lead, should interest rates develop beneficially, to an outcome that the required overall payment can come down and/or phased differently. The entitlements of the employees will not be affected, as payments will be based on a cost effective premium. We aim to conclude on this process in Q1 2020.

Future risks

Climate change is an emerging risk that we are monitoring closely, and relate to our ability to anticipate and mitigate the risks stemming from extreme weather conditions such as extreme heat or flooding. Such risks are addressed through specific measures as part of our regular business continuity process. For instance, during the periods of extreme heat we have taken steps to improve ventilation, improve availability of fresh water, introduced longer pauses and adjusted working times.

We also closely monitor potential national or global outbreaks of a pandemic, such as the recent coronavirus outbreak in China. We have existing business continuity plans as well as occupational health & safety procedures in place to mitigate such risks, should they escalate. The crisis management team of our international Spring business in Hong Kong has been activated, which evaluates the situation on a daily basis and provides guidance to our employees. The measures taken include dissemination of relevant information about the disease and its symptoms, action protocols in case symptoms are experienced, and a travel ban to China.

Remuneration report

The Remuneration Committee of the Supervisory Board is responsible for assessing and preparing the remuneration policy for the members of the Board of Management. The Supervisory Board assesses the proposals and submits, in the event of policy changes, the proposed remuneration policy to the Annual General Meeting of Shareholders (AGM) for adoption.

Remuneration report 2019

Remuneration Committee

The Remuneration Committee has overseen the execution of the remuneration policies as approved by the shareholders at the AGM in 2005 and 2013 and continued to ensure that decision making is in line with those policies, PostNL's performance and strategic priorities.

The Remuneration Committee consists of:

- Chairman: Jacques Wallage
- Member: Eelco Blok
- Member: Marc Engel (stepped-down as per 1 October 2019)
- Member: Jan Nooitgedagt (joined per 13 December 2019)
- Member: Agnes Jongerius (joined per 13 December 2019)

The main responsibilities of the Remuneration Committee are:

- Make a proposal for a clear and understandable remuneration policy for the Board of Management and the Supervisory Board to be pursued
- Make a proposal for the remuneration of the individual members of the Board of Management
- Prepare the remuneration report
- Make a proposal for targets on performance measures included in the remuneration policy and measure achievements against those targets for variable remuneration components
- Make a proposal for the grant of (conditional) company shares

Message from Jacques Wallage

Dear reader,

On behalf of the Supervisory Board, I am pleased to present our 2019 remuneration report. This report includes a brief summary of our current remuneration policies for the Board of Management and Supervisory Board. In addition, it includes an overview of the execution of the remuneration policies in 2019.

The 2019 remuneration report is our first report under the new EU Shareholders Rights Directive which is transposed into Dutch national law. Since a final set of EU guidelines on the standardised presentation of the remuneration report is not yet available, we have decided to draft this report in the spirit of the latest version

of the draft guidelines. We intend to further update our report next year, when we expect the final EU guidelines have been published.

The 2019 remuneration report will be subject to an advisory vote at our AGM on 14 April 2020.

Highlights of 2019

In 2019 we acquired Sandd and divested Postcon and PostNL Communicatie Services. Furthermore, we updated our strategy for the parcels business and presented a new financial framework as from 2020. PostNL will manage its financial performance based on normalised EBIT and free cash flow (FCF). These new key financial metrics have been chosen in order to improve the visibility and comparability of PostNL's financial performance.

Financial performance

2019 was a challenging and dynamic year. Our underlying cash operating income of €176 million came in at the top-end of our outlook range. This was the result of strong focus on our strategy with a solid performance in the last quarter and several one-off impacts throughout the year.

The improvements we realised in our net working capital contributed significantly to our net cash flow in 2019 compared to 2018. Adjusted net cash from operating & investing activities exceeded target level and amounted to €202 million.

Non-financial performance

Considering the magnitude of the changes that were implemented in 2019, particularly within the mail organisation and the impact this has had on the daily work of tens of thousands of employees, we are pleased with the promising uplift of employee engagement scores in the second half of 2019 compared to early 2019. In addition, the previously downward trend was stabilised at 65%.

At Mail in the Netherlands, we missed our delivery quality target (95%) with around 1%, ensuring that 94% of consumer mail was delivered the next day. The implementation of the New mail route and preparations for the integration of Sandd temporarily impacted our quality levels. In addition, the continuing tight labour market in the Netherlands made it challenging to attract sufficient qualified people in certain areas of the business.

Across the company, the percentage of highly satisfied customers was 27% in 2019. Whilst we did not meet our 2019 target of 30%, we did manage to bend the downward trend during the year, with the percentage of highly satisfied customers increasing to 28% in the fourth quarter from 26% in the second quarter. In the first six months in particular we were operating at peak network capacity for extended periods in our Parcels business, and made a number of changes across our logistics network. Together, these developments impacted customer satisfaction.

We implemented our new CO₂ emission reduction targets and monitoring on our new indicators. 2019 was the last year we monitored our CO₂ efficiency index, a combined metric for our CO₂ efficiency of buildings and fleet. Limitations in availability of biogas vehicles and strong growth in large truck transport resulted in a performance of 39.3 versus a target of 37.3.

We are very pleased with the progress made with respect to growth initiatives, particularly the introduction of new (digital) services to make online shopping easy and various initiatives in the growth sectors health and food.

Remuneration Supervisory Board

Remuneration levels for the Supervisory Board remained stable compared to 2018.

Decisions made in 2019

In 2019, we reviewed the remuneration policies for the Board of Management and Supervisory Board to ensure both are compliant with the new EU Shareholders Rights Directive and the implementation thereof in Dutch national law as per 1 December 2019.

We have further aligned the remuneration policy of our Board of Management with the long-term interests of all stakeholders taking into account our new financial framework as of 2020 and included share ownership guidelines. In addition, we have simplified the remuneration structure for the Supervisory Board.

During this process, we consulted multiple internal and external stakeholders and took their feedback into account. The new remuneration policies will be subject to binding votes at the AGM on 14 April 2020.

Looking forward to 2020

In 2020 we expect to finalise the integration of Sandd and conclude the divestment of Nexive.

Upon approval by the AGM, 2020 will be the first year the new remuneration policies will be effective. We intend to update our 2020 remuneration report in line with the final EU guidelines and taking into account the advisory vote of shareholders regarding this remuneration report on 2019.

The Hague, the Netherlands, 24 February 2020

On behalf of the Remuneration Committee

Jacques Wallage, Chairman

Summary of our remuneration policies in 2019

The remuneration of the Board of Management is based on the remuneration policy as adopted by the AGM on 16 April 2013. The remuneration of the Supervisory Board is based on the remuneration policy as adopted by the AGM on 7 April 2005. More detailed information can be found in the chapter 'Remuneration' of the 2018 Annual Report.

Remuneration policy of the Board of Management

The objective of the remuneration policy is to attract, retain and motivate qualified members in the Board of Management of the highest calibre essential for the successful leadership and effective management of a large company.

The main principles of PostNL's current remuneration policy are:

- sobriety
- a base salary based on median market levels
- moderate variable remuneration with focus on both short-term and long-term objectives
- long-term compensation supportive to the attainment of PostNL's strategy
- transparency
- alignment with multi-stakeholder interests
- responsible and risk-controlling
- performance-related for reasonable variable remuneration with payout in cash and in shares

The main elements of the remuneration policy are as follows:

PostNL Main elements of remuneration policy

Element	Purpose	Operation
Base salary	Provides a fixed level of earnings to attract and retain the Board of Management to execute PostNL's strategy	<ul style="list-style-type: none"> • Base salaries based on median market levels • In 2013 these have been set at €625,000 for the CEO and €475,000 for the CFO. Since 2013, base salaries have not changed
Short-term Incentive (STI)	Rewards the delivery of short-term performance and takes the interest of multiple stakeholders into account	<ul style="list-style-type: none"> • The STI represents a potential reward of 37.5% of the annual base salary, which is based on annual performance measures representing a multi-stakeholder perspective • A performance measure can only contribute to the STI payout if it is fully met, which means there is no stretch and no threshold • The STI plan provides a cash payment reflecting the realised achievement of targets set on each of the performance measures
Long-term Incentive (LTI)	Rewards long-term value creation to PostNL's strategy and reinforces alignment with shareholders interest by granting shares	<ul style="list-style-type: none"> • The LTI represents a potential reward of 37.5% of the annual base salary • It is a conditional share plan based on a three-year performance period, supportive to the attainment of PostNL's strategy • Shares are conditionally allocated to Board of Management members. A conditional dividend equivalent is added to the conditional shares equal to the dividend rights of ordinary shares, if applicable • Vesting is subject to the achievement of targets set on each of the long-term performance measures. The conditional shares and their conditional dividend equivalents will vest after a performance period of three years • Vested shares will remain restricted for a period of two years following the three-year performance period
Pension and benefits	Remain competitive with the market	<ul style="list-style-type: none"> • A career average pension scheme is in place • The retirement age is set at 68 • Pensionable income is capped at the statutory maximum salary (2019: €107,593), offset for state pension (2019: €14,771) • The annual accrual rate for old age pension for 2019 is 1.652%, benefits are conditionally indexed during the accrual • Employee contribution amounts to 6% of the pensionable base • Structural annual allowance of 19% of gross base salary above the statutory maximum salary. For the CEO a temporary allowance of - currently - 1% of the gross salary above the statutory maximum is in place (final year: 2019)

Remuneration policy of members of the Supervisory Board

The remuneration of the members of the Supervisory Board reflects the time spent and the responsibilities of their role. The remuneration of the members of the Supervisory Board comprises base pay and a meeting fee linked to attendance of the meetings of the committees of the Supervisory Board. The members of the Supervisory Board receive no compensation related to

performance and/or equity and accrue no pension rights with the company. The members of the Supervisory Board receive no severance payments in the event of termination. PostNL does not grant loans, including mortgages loans, advance payments, guarantees and options or shares to any member of the Supervisory Board.

PostNL Remuneration of Supervisory Board in €

2019

		Annual base fee
Chairman		55,000
Member		40,000
Committees		Meeting fee
Audit and remuneration	Chairman	2,500
	Member	1,500
Nomination	Chairman	1,500
	Member	1,000

2019 actual remuneration

The following section provides insight in how our remuneration policy was implemented in 2019 for both our Board of Management and Supervisory Board. The presented figures are at market value, unless stated otherwise. For IFRS based figures on the remuneration see note 5.1 of the 'Consolidated financial statements'. Scenario analyses have been performed in conformity with the Code.

Implementation of the remuneration policies

In 2019, we have overseen that all decisions made on Board of Management and Supervisory Board remuneration are in line with the remuneration policies as approved by the AGM in 2013 and 2005.

Decision making process

No deviations took place from the decision-making process for the implementation of the remuneration policies.

Temporary deviations from the remuneration policies

No temporary deviations took place from the remuneration policies.

Remuneration grant by subsidiaries or other companies

No remuneration has been granted and allocated by subsidiaries or other companies whose financials are consolidated by PostNL N.V. since all members of the Board of Management and the Supervisory Board are paid directly by PostNL N.V.

Severance payments

No severance payments were granted to members of the Board of Management and the Supervisory Board.

Claw-back variable remuneration

No variable remuneration has been clawed-back.

Total remuneration of the Board of Management

External perspective

In line with our remuneration policy, we periodically review and benchmark all remuneration elements for the members of the Board of Management against a peer group. The peer group has not changed compared to 2018.

Internal perspective

Furthermore, we take the internal perspective into account in the execution of the remuneration policy in order to ensure internal consistency with the remuneration of our employees. In 2019, we monitored the development of our internal pay ratios. The ratio between the annual total remuneration for the CEO and the average annual total remuneration for an employee (on a full-time basis) was 24.8 for 2019. The ratio between the annual total remuneration for the CFO and the average annual total remuneration for an employee (on a full-time basis) was 18.8 for 2019.

We provide more detailed information on the development of Board of Management remuneration versus wider workforce remuneration in the section 'Information on the change of remuneration and company performance'.

Base salary

The base salaries for both members of the Board of Management remained unchanged in 2019 compared to 2018 (CEO: €625,000; CFO: €475,000). Since 2013, the base salaries have not changed.

The total remuneration of the Board of Management in 2019 (and 2018) is outlined in the following table:

PostNL Remuneration Board of Management in €

2018, 2019

Name of Director - position	Reported Year	Fixed remuneration			Variable remuneration		Total remuneration	Fixed-variable remuneration
		Base salary	Other benefits ¹	Pension costs ²	One year variable	Multi-year variable		
Herna Verhagen - CEO	2019	625,000	185,135	46,614	140,625	107,742	1,105,116	78%-22%
	2018	625,000	196,006	47,670	93,750	111,846	1,074,272	81%-19%
Pim Berendsen - CFO	2019	475,000	115,002	44,566	106,875	47,293	788,736	80%-20%
	2018	333,819	77,039	28,405	50,073	47,431	536,767	82%-18%

1 Other benefits include company costs related to tax and social security, pension allowances, company car and other compensation.

2 Pension costs represent the cash out for defined benefit scheme (net of employee contributions), risk premium for a net pension plan and the unconditional indexation for pension benefits accrued before 1 January 2001.

PostNL Short-term Incentive

2019

Name of Director - position	Performance measure	Link to strategic objective	Relative weight of performance measure	Minimum threshold of performance measure	Actual performance	Actual remuneration (% of base salary)
Herna Verhagen - CEO	Underlying cash operating income	Deliver profitable growth and	30%	€173m	€176m	11.25%
Pim Berendsen - CFO	Adjusted net cash from operating & investing activities	generate sustainable cash flow	30%	€144m	€202m	11.25%
Total Financial performance measures						22.50%
	Employee engagement	Enhance sustainable employability	10%	66%	65%	0%
	Customer satisfaction	Help customers grow their business	10%	30%	27%	0%
	Quality score	Secure accessible and reliable postal services	10%	95.3%	94.3%	0%
	CO ₂ reduction	Reduce environmental impact	10%	37.3	39.3	0%
Total Non-financial performance measures						0%
Total						22.50%

Short-term Incentive (STI) 2019

STI payout for the Board of Management is based on actual performance (against the 2019 targets on each of the performance measures) as assessed by the Remuneration Committee and summarised in the table above.

The financial targets have been adjusted for the impact of the acquisition of Sandd.

Long-term Incentive (LTI) 2019

The performance measures in our remuneration policy contain financial performance measures.

The Remuneration Committee assessed the achievements of the Board of Management over the three-year performance period. Targets on each performance measure versus actual performance are summarised in the table below.

PostNL Long-term Incentive

2019

Name of Director - position	Performance measure	Link to strategic objective	Relative weight of performance measure	Minimum threshold of performance measure	Maximum threshold of performance measure	Actual remuneration (% of base salary)	Actual remuneration (% of base salary)
Herna Verhagen - CEO	Underlying net cash income	Deliver profitable growth and generate sustainable cash	33.33%	€480m	€540m	€410m	0%
Pim Berendsen - CFO	Cost savings	flow	33.33%	€380m	€420m	€301m	0%
	New growth initiatives	Help customers grow their business	33.33%	Reasonable	Very Good	Very Good	12.50%
Total						12.50%	

The applicable number of performance shares will vest in 2020 and are subject to a two year holding period which enhances the alignment of long-term interest of the Board of Management members and our shareholders.

The market value of shares granted, vested and those shares subject to a holding period are presented in the table below.

The market value of the shares is determined by multiplying the number of shares by the five-day volume weighted average share price of PostNL prior to 1 January 2020 ad €2.0208 (2018: €1.9597). For the number of shares we refer to note 5.1 in the chapter 'Financial Statements'.

PostNL Shares (market value) in €

Name of Director - position	Specification of plan	Value of shares held at 1 Jan 2019 ¹	Value of shares granted during 2019 ²	Value of dividend shares ³	Value of shares settled during 2019	Value of shares forfeited during 2019	Value of	
							Value of net shares under a holding period at 31 Dec 2019	Value of shares subject to a performance condition at 31 Dec 2019
Herna Verhagen - CEO	PSP 2019		204,519	9,154				213,673
	PSP 2018	153,243		19,923				173,166
	PSP 2017	112,930		14,683				127,613
	PSP 2016	140,300		11,450	(107,742)	(44,007)	51,985	
	PSP 2015	55,416					55,416	
	PSP 2014	77,804						
	Total	539,693	204,519	55,210	(107,742)	(44,007)	107,401	514,452
Pim Berendsen - CFO	PSP 2019		155,436	6,958				162,394
	PSP 2018	116,465		15,142				131,607
	PSP 2017	51,302		6,671				57,973
	PSP 2016	61,582		5,026	(47,293)	(19,315)	⁴	
	Total shares	229,349	155,436	33,796	(47,293)	(19,315)		351,973
Total Market value		769,042	359,955	89,006	(155,035)	(63,322)	107,401	866,425

1 The shares held by Pim Berendsen up to and including 2017 reflect the number of shares that were granted in his duty as member of the Executive Committee.

2 The number of conditional shares granted is based on 37.5% of the annual base salary divided by the five-day average Euronext Amsterdam share price of PostNL prior to the date of publication of the Q1 2019 results (€2.3158).

3 Conditional dividend shares were granted following the final dividend 2018 and interim dividend 2019.

4 The shares of PSP 2016 were granted to Pim Berendsen in his role as member of the Executive Committee and are not subject to a holding period.

PostNL Shares held by Board of Management in shares

2018, 2019

Board of Management		31 Dec 2018	31 Dec 2019
Herna Verhagen - CEO	Conditional shares	201,145	254,579
	Unconditional shares under a holding period	57,623	53,148
	Unconditional shares not subject to a holding period	190,217	220,417
		448,985	528,144
Pim Berendsen - CFO	Conditional shares	113,494	174,175
	Unconditional shares under a holding period		
	Unconditional shares not subject to a holding period	34,851	46,142
		148,345	220,317

Shares held by the Board of Management

The conditional shares, unconditional shares under a holding period and unconditional shares not subject to a holding period are presented in the table above.

Information on the change of remuneration and company performance

The table below provides an overview on the change of remuneration, company performance, average remuneration per FTE and internal pay ratios over the last 5 financial years (IFRS based).

In line with the Code, the remuneration of the Supervisory Board is not related to the company performance and paid in cash only.

Therefore, the Supervisory Board is excluded from this table. For an overview of the total remuneration of the Supervisory Board over the last five years, we refer to tabel 'Five year overview total remuneration Supervisory Board'.

Internal pay ratios

The ratios between the annual total remuneration for the CEO and CFO and the average annual total remuneration for an employee was 24.8 for the CEO in 2019 and 18.8 for the CFO in 2019. The average remuneration per FTE in 2019 decreased due to the acquisition of Sandd. The table below shows the ratio development over the last 5 years.

PostNL Performance/remuneration/internal pay ratio

(IFRS based)

		2015	2016	2017	2018	2019
Underlying cash operating income	in € million	305	254	241	188	176
	Delta in %		-17%	-5%	-22%	-6%
Underlying net cash income	in € million	165	108	154	138	135
	Delta in %		-35%	43%	-10%	-2%
Revenue PostNL	in € million	2,751	2,723	2,725	2,772	2,844
	Delta in %		-1%	0%	2%	3%
Total remuneration CEO	in €	1,514,384	1,406,648	1,127,609	1,204,669	1,095,078
	Delta in %		-7%	-20%	7%	-9%
Total remuneration CFO	in €	1,153,617	1,020,880	822,655	1,020,581 ¹	831,273
	Delta in %		-12%	-19%	24%	-19%
Average remuneration per FTE ²	in €	46,606	46,292	45,939	48,998	44,108
	Delta in %		-1%	-1%	7%	-10%
Internal pay ratio						
CEO ³		32.5	30.4	24.5	24.6	24.8
CFO ¹		24.8	22.1	17.9	20.8	18.8

1 Jan Bos stepped down as CFO on 17 April 2018 and acted as advisor to the Board of Management until 1 June 2018; Pim Berendsen was appointed as CFO on 18 April 2018.

2 Based on the total salaries, pensions and social security contributions (excluding the CEO and CFO) divided by the average number of FTE's minus two as reported in the chapter 'Financial Statements' of the relevant years.

3 Herna Verhagen was CEO over the presented years.

PostNL Total remuneration Supervisory Board in €

2018, 2019

Supervisory Board member	Base compensation	Committee meeting fees			Total remuneration
		Nomination	Remuneration	Audit	
J. Nooitgedagt	55,000	9,000	4,500		68,500
J. Wallage	40,000	5,000	10,000		55,000
E. Blok	40,000		7,500	7,500	55,000
A.M. Jongerius	40,000	6,000			46,000
F.H. Rövekamp	40,000	6,000			46,000
M.E. Van Lier Lels ¹	28,242			6,000	34,242
T. Menssen	40,000	6,000		12,500	58,500
Total current members	283,242	32,000	22,000	26,000	363,242
J.W.M. Engel ²	30,000		6,000	4,500	40,500
Total 2019	313,242	32,000	28,000	30,500	403,742
Total 2018	283,283	18,000	16,500	30,000	347,783

¹ Ms Van Lier Lels was appointed as per 17 april 2019² Mr Engel stepped down as per 1 October 2019**Total remuneration of the Supervisory Board in 2019**

The total remuneration of the Supervisory Board in 2019 (per individual member) and 2018 (as a total) is presented in the table above.

In line with our remuneration policy, the Supervisory Board members are only entitled to a base compensation and an attendance fee per committee meeting. The members of the Supervisory Board receive no compensation related to

performance and/or equity and accrue no pension rights with the company. As such, their total remuneration is 100% fixed. The members of the Supervisory Board receive no severance payments in the event of termination. PostNL does not grant loans, including mortgage loans, advance payments, guarantees and options or shares to any member of the Supervisory Board.

A five year overview of the total remuneration of the Supervisory Board is presented in the following table.

PostNL Five year overview total remuneration Supervisory Board in €

2015-2019

Supervisory Board member	2015	2016	2017	2018	2019
J. Nooitgedagt				43,736	68,500
J. Wallage	51,000	47,500	66,750	57,547	55,000
E. Blok		23,000	49,000	53,000	55,000
A.M. Jongerius	53,500	51,500	51,500	45,500	46,000
F.H. Rövekamp	51,000	51,500	52,000	44,500	46,000
M.E. Van Lier Lels					34,242
T. Menssen	58,500	56,500	58,500	49,500	58,500
Total current members	214,000	230,000	277,750	293,783	363,242
J.W.M. Engel	47,500	52,000	51,000	54,000	40,500
M.A.M. Boersma	55,000	60,625	16,042		
P.C. Klaver	65,500	19,042			
Total former members	168,000	131,667	67,042	54,000	40,500
Total remuneration	382,000	361,667	344,792	347,783	403,742

Proposed revision of the Board of Management and the Supervisory Board remuneration policies from 2020

(Representing bodies of) several internal and external stakeholders have been consulted in drafting the 2020 remuneration policies. The following section summarises our adjustments to the remuneration policies for the Board of Management and the Supervisory Board, which will be put forward for a binding shareholder vote at the 2020 AGM. Subject to shareholder approval, both policies will take effect from January 2020 onwards and intended to remain in place for a period of four years, in line with applicable legislation.

On 3 March 2020 the agenda for the AGM will be made public including the remuneration policies of the Board of Management and the Supervisory Board.

The remuneration policy for the Board of Management contains the following adjustments compared to the previous (2013-2019) policy:

- **Guiding principles:** In order to attract, reward and retain qualified Board of Management members to set and implement our purpose, ambition, strategy, objectives and culture, we updated our guiding principles to: alignment, transparent, compliant, simple and sustainable.
- **Base salary:** The possibility for a regular annual base salary increase is introduced. Which is capped at the salary increase of the broader PostNL workforce as agreed upon in the PostNL collective labour agreement to ensure alignment and transparency.
- **Variable remuneration:** Variable remuneration levels used to be defined as 'moderate'. For reasons of clarity, variable

remuneration levels are now set with a reference to the 25th percentile of the peer group (the lower quartile).

- **LTI termination provision:** Contrary to the previous policy, in case of termination, LTI performance is determined upon actual performance at the end of the respective performance period and is made payable thereafter. This way PostNL recognises and rewards a member of the Board of Management both for the contribution during the period in service, while ensuring an aligned, transparent and simple settlement.
- **LTI for new Board of Management members:** As opposed to the previous policy, new Board of Management members will directly participate in the running LTI plans to achieve immediate shareholder alignment. Conditional shares under the running LTI plans will be granted pro rata in time, with the same performance measures and targets as applied to other Board of Management members.
- **Share ownership guidelines:** Minimum shareholding requirements apply to all members of the Board of Management. This fosters the identification of the Board of Management members with PostNL's strategy and its shareholders and aims to ensure a sustainable link to the performance of the company. Minimum shareholding requirements for the CEO and CFO are equivalent to 75% of base salary to be built up over a period of 7 years.
- **Derogation:** In the previous policy, one-off payments could be granted in special circumstances. Now, for compliance and alignment purposes, temporary derogation from the policy is only allowed in 'exceptional circumstances', whereby 'exceptional circumstances' is defined in the Dutch Civil Code.

PostNL Short-term Incentives (STI) performance measures (incl. weighting)

Current Policy	Proposed Policy	Rationale
Underlying cash operating income (30%)	Profitability (30%)	Aligned with new externally communicated financial framework, closer to the income statement and improves comparative analysis with peers.
Adjusted net cash flow from operating and investing activities (30%)	Cash generation (30%)	Aligned with new externally communicated financial framework.
Employee engagement (10%)	Employee engagement (10%)	Unchanged
Customer satisfaction (10%)	Customer satisfaction (10%)	Unchanged
Quality Mail (10%)	Quality Mail (10%)	Unchanged
CO ₂ reduction (10%)	Quality Parcels (10%)	Ensures focus on operational excellence to support sustainable growth and complements the Quality Mail performance measure.

PostNL Long-term Incentives (LTI) performance measures (incl. weighting):

Current Policy	Proposed Policy	Rationale
Underlying net cash income (33.33%)	Earnings attributable to shareholders (25%)	To ensure consistency and alignment with the new, externally communicated financial framework, earnings attributable to shareholders is a proxy for dividend pay-out and therefore aligned with shareholders interest.
Costs savings (33.33%)	Cash generation Parcels (25%)	Since cash generation is an important indicator for long term value creation and to realise margin improvement, better cash conversion and expansion of infrastructure.
New growth initiatives (33.33%)	Cash generation Mail in NL (25%)	Cash generation is an important indicator for long term value creation and to realise synergy-effects of Sandd following the consolidation, while continuing to implement cost savings initiatives.
	Climate impact (25%)	Strongly linked to our long-term strategic commitment to reduce our impact on the climate.

The remuneration policy for the Supervisory Board contains the following adjustment compared to the current policy:

- In order to increase transparency, predictability, simplicity and align the policy with current market practice, fixed committee fees replace attendance-based fees for committee meetings. The remuneration level of these fixed committee fees are aligned with observed market levels. This change can be observed as cost neutral.

Our tax policy and principles

In this chapter we provide an overview of our tax policy, its underlying principles, and its application.

General

The Board of Management views tax (meaning all taxes that we face in our businesses) as an important matter for PostNL and its stakeholders. As such, a coherent, responsible and compliant approach towards tax is considered an integral part of doing business. Based on a group policy approved by the Board of Management, the head-office department Group Tax is mandated to oversee this approach towards tax. In that role, Group Tax, *inter alia*, defines the tax strategy and related policy and principles for the PostNL Group, advises and supports the Board of Management on tax, and acts as the central business partner on tax towards all stakeholders whilst maintaining the following principles and ensuring that they are adhered to.

Compliance

We strive to be compliant with the relevant tax laws and regulations in countries where we conduct our business and are guided by the relevant international standards (such as OECD guidelines). We aim to comply with the letter as well as the spirit of the laws mentioned. At the same time, we endeavor to be compliant with the (tax) accounting laws and regulations in countries where we do business.

Transparency

We view transparency as an integral part of sound tax governance, and consider this as key in our approach towards tax authorities. As to other stakeholders, we make our disclosures in accordance with relevant reporting requirements and standards (such as IFRS). In addition, we assess at least annually our position on tax disclosures with respect to transparency.

Relationship with tax authorities

We have built our relationship with the Dutch tax authorities on the basis of horizontal monitoring. This means that this relationship is based on mutual trust, understanding and transparency. In such a relationship we pro-actively disclose issues and the Dutch tax authorities deal with such issues in an efficient and constructive way. We strive to build relationships with tax authorities in other countries in a similar fashion, where and when applicable and feasible.

A multi-disciplinary approach towards corporate and business projects and tax matters

We take a multi-disciplinary stance when working on corporate and business projects, tax planning and transfer pricing, involving relevant representatives of the businesses as well as representatives of our tax, treasury, legal and finance departments. Oversight is carried out by the CFO.

Guiding principles on tax planning

Our tax planning requires opportunities in this area to have a substantial level of robustness taking into account the principle of business rationale. This means that aside from factors such as financial impact, complexity and reputation, solid business and/or commercial reasons have to exist. In addition, this means that we do not use (i) contrived or abnormal structures or (ii) secrecy jurisdictions or so-called tax havens for tax avoidance. Considering these principles, we view our tax risk appetite as moderate.

Governance and accountability

We have mechanisms in place to be able to adhere to these tax principles. We acknowledge that a robust governance framework is required to maintain control over tax matters and related risks. Our tax control framework has been built and developed accordingly. In this respect, a set of key controls on tax matters have been defined, controlling certain inherent risks, which periodically have been executed and whereby oversight is kept and specific review procedures performed by the Internal Audit department.

As an important topic, also foreseen to remain important for the coming years, Group Tax has increasing attention for tax technology (data analytics and more automated compliance and reporting in particular) to further enhance its control framework.

We operate a Group Tax department to ensure that tax matters are dealt with according to the mandate given to it by the Board of Management. Part of the mandate is a roles and responsibilities matrix on the basis of which it is clear how these roles and responsibilities are allocated over the different areas within the PostNL Group. We report periodically to the Board of Management on adherence to the tax policy and underlying tax principles.

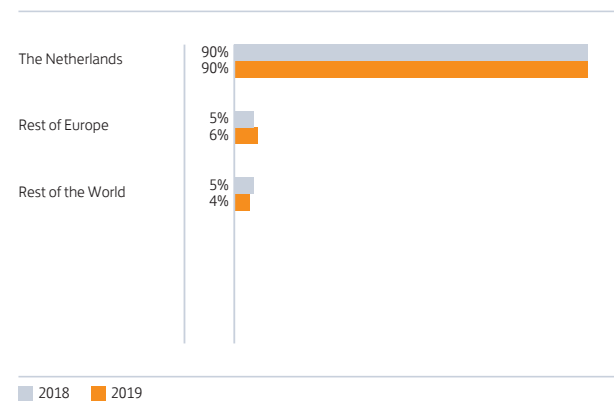
Tax payments in more detail

Given the different activities we operate across our business segments, we pay a number of different types of tax. In addition to corporate income tax, VAT & sales tax (borne and collected) and wage tax & social security contributions (borne and collected) are the most material ones. In 2019, we paid €478 million (2018: €511 million) in tax. A breakdown of these by type and region is shown in the charts below. Our revenue breakdown is included for comparison.

We monitor (inter)national developments (in particular developments in the OECD and EU context) to improve tax transparency. Complying with the legislation in the countries in which we operate our activities, we have filed a country-by-country report in the Netherlands and our notifications in other countries to the extent required. Also in 2019, these (inter)national developments were discussed on several occasions to assess whether our stance towards these developments should be adjusted. In terms of the outcome of these discussions, we continue to strive for optimal tax transparency, which includes taking the aforementioned developments, as well as competition considerations, into account.

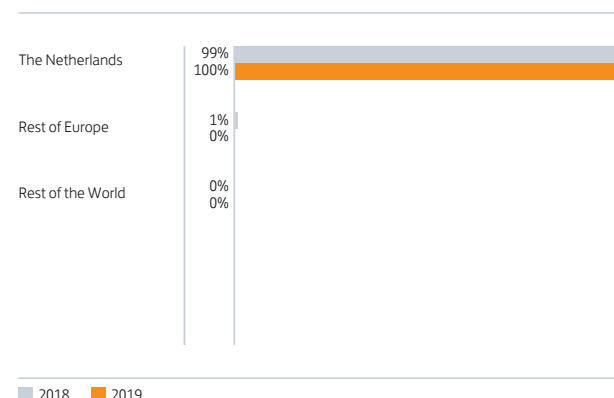
PostNL Revenue by region

2018, 2019



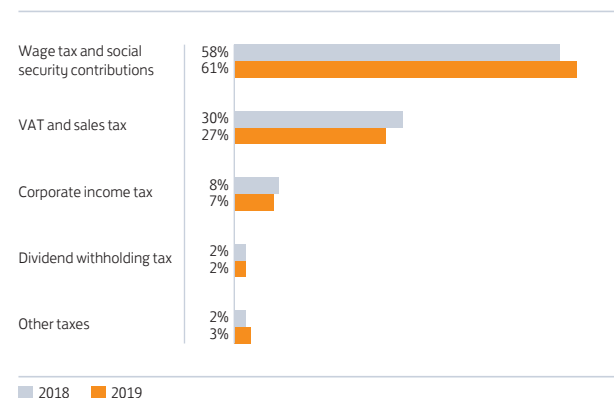
PostNL Total taxes by region

2018, 2019



PostNL Total taxes by type

2018, 2019



PostNL on the capital markets

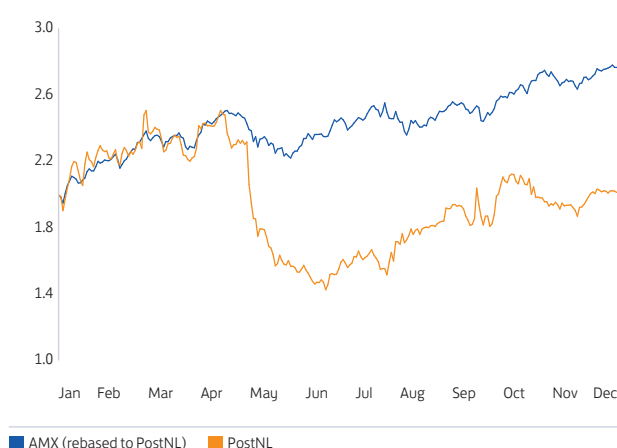
In this chapter we provide information about our capital structure, the role of investor relations, our dividend and our financial calendar for the year ahead.

Shares and share ownership

Ordinary shares in PostNL N.V. (ticker: PNL, ISIN code 0009739416) are listed on Euronext Amsterdam and included in the AMX index. Options on PostNL shares are traded on Euronext Derivatives Amsterdam and on the European Options Exchange in Amsterdam.

In 2019, 1,378 million PostNL shares were traded on Euronext Amsterdam (2018: 1,048 million). The average daily number of shares traded was 5.3 million (2018: 4.1 million). The market capitalisation of PostNL was €946 million at the end of 2019 (2018: €937 million).

PostNL Relative performance PostNL compared to AMX-index 2019



PostNL's authorised share capital is divided into 1,500,000,000 shares of €0.08 each and consists of 750,000,000 ordinary shares and 750,000,000 preference shares B. The number of issued and outstanding ordinary shares was 493,952,586 on 31 December 2019 (2018: 469,199,776 shares). All shares in issue are fully paid.

In 2019, 23,900,149 shares were issued as stock dividend (2018: 15,165,535) and 852,661 for the share plan for employees (2018: 504,046). No preference shares B were issued and outstanding. For more information on PostNL's equity, see note 4.6 to the consolidated financial statements.

Major shareholders

Pursuant to the Financial Markets Supervision Act (Wet op het financieel toezicht), shareholders must disclose percentage holdings in the capital and/or voting rights in the company when such holding reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

Such disclosure must be made to the Dutch Financial Markets Authority (AFM) without delay. Our substantial shareholders are listed in the table below.

PostNL Overview of substantial shareholders and their relative ownership (>3%)

31 December 2019

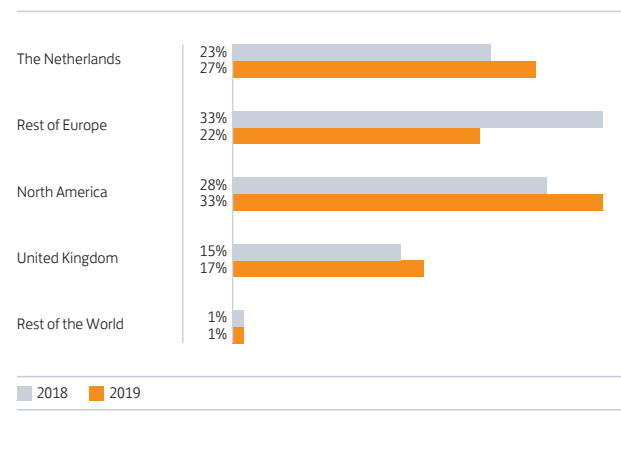
Date of notification	Company	(Indirect and/or potential) Holding	Holding of (indirect and/or potential) voting rights
16 December 2019	Norges Bank	3.08%	3.08%
29 November 2019	Edinburgh Partners	4.17%	4.17%
12 November 2015	J.H.H. de Mol	5.04%	5.04%

Shareholder base

The distribution of our shares between retail (15%) and institutional shareholders (85%) did not change compared to 2018. PostNL has a broad base of international shareholders.

PostNL Institutional shareholders by region

2018, 2019 (in %)



Bonds and credit rating

In September 2019, PostNL issued a Green Bond with an outstanding amount of €300 million and a coupon of 0.625%, maturing September 2026. The transaction highlights the company's commitment towards becoming a truly sustainable e-commerce logistics provider. The net proceeds will be used to finance and/or refinance new and/or existing eligible green projects. This enables the company to contribute meaningfully to the United Nations Sustainable Development Goals 'Decent work and economic growth' and 'Climate action'. The eligible green projects focus on green kilometres, sustainable buildings and innovation and efficiency.

PostNL currently has two Eurobonds outstanding, listed on Euronext Amsterdam:

- POSTNL 1.0% 2024 (ISIN XS1709433509), nominal value outstanding €400 million
- POSTNL 0.625% 2026 (ISIN XS2047619064), nominal value outstanding €300 million

We are committed to a leverage ratio (adjusted net debt/EBITDA) not exceeding 2.0. Currently, PostNL is rated by Standard & Poor's (S&P) at BBB with stable outlook.

Investor relations

PostNL endeavours to stay in regular contact with our shareholders. The main goal of our investor relations' activities is to build our financial brand. To achieve that, we strive to inform the financial community about relevant developments in our company in a transparent, consistent and timely way. The Board of Management

and the investor relations team maintain an active dialogue with the financial community, and we comply with applicable laws and rules and regulations of Euronext Amsterdam and the AFM.

Our investor relations' programme consists of meetings with analysts and investors, conference calls, roadshows, investor conferences and other events. In addition, PostNL communicates with the financial community through press releases, the publication of the Annual Report, General Meetings of Shareholders and the company's website. In 2019, PostNL visited investors in major financial cities in Europe and North America. We meet with (potential) investors regularly to ensure they receive a balanced and complete view of the company's strategy, performance and the issues faced by the business, and to listen to their feedback, while always observing applicable rules concerning selective disclosure, equal treatment of (potential) shareholders and insider trading. In the period preceding the publication of quarterly results, PostNL will be in a 'closed period'.

Explanation by the Board of Management of quarterly results is given either at group meetings and/or conference calls which are accessible by phone and via the website (audiocast). Additionally, General Meetings of Shareholders are broadcast via audiocast. Our website provides all relevant information with regard to publication dates and procedures to attend or listen in to presentations.

Contact between the Board of Management, the financial community and the press is carefully handled and structured. The company will not compromise the independence of analysts in relation to the company and vice versa. Analysts' reports and valuations are not assessed, commented upon or corrected, other than factually, by the company. PostNL does not pay any fees to parties for carrying out research for analysts' reports or for the production or publication of analysts' reports, with the exception of credit rating agencies. Contact with our financial stakeholders is taken care of by the members of the Board of Management and PostNL's investor relations' professionals.

The Board of Management has adopted investor relations and media guidelines that PostNL employees abide by.

For the latest and archived press releases, presentations, share price information and other company information, such as our online Annual Review 2019 and interim reports, please visit PostNL's website.

Dividend

In accordance with our dividend policy, we aim to pay a progressive dividend which develops substantially in line with the development of our operational performance. The condition for paying out

dividend is a leverage ratio (adjusted net debt/EBITDA) not exceeding ~2. We target a dividend pay-out ratio of around 75% of the underlying net cash income. This pay-out ratio reflects a healthy balance of dividing the free cash flow between investing in growth and allowing our shareholders to benefit from our business performance. Shareholders are offered the choice to opt for cash or for shares.

In financing the transaction with Sandd and the additional integration costs, PostNL expects to temporarily exceed the leverage ratio target. In line with its dividend policy, PostNL will not pay dividend during the integration period and as long as the leverage ratio exceeds ~2. PostNL aims to reduce the leverage ratio below the 2.0x target in 12 to maximum 24 months and to resume paying dividends thereafter.

Following the acquisition of Sandd that closed on 22 October 2019, the leverage ratio at the end of 2019 amounted to 2.6. PostNL proposes a dividend of €0.08 per ordinary share for 2019 (2018: €0.24), which is equal to the interim 2019 dividend that was paid in August 2019. This will be proposed to the Annual General Meeting of Shareholders to be held on 14 April 2020. No final dividend will be distributed.

At 21 February 2020, the Board of Management, with the approval of the Supervisory Board, adopted a new dividend policy that is to be applied on any profits over the financial year 2020 and subsequent years thereafter (until adjusted). This policy is available on PostNL's corporate website and will be discussed during the Annual General Meeting of Shareholders.

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Important dates in 2020

PostNL Financial calendar

2020

24 February	Results fourth quarter and full year 2019
14 April	Annual General Meeting of Shareholders
4 May	Results first quarter 2020
3 August	Results second quarter and half year 2020
2 November	Results third quarter 2020

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Consolidated primary statements

PostNL Consolidated income statement in € million

2018, 2019

Year ended at 31 December	Notes	2018	2019
Revenue from contracts with customers	2.1.1	2,758	2,829
Other operating revenue		14	15
Total operating revenue		2,772	2,844
Other income		21	12
Cost of materials		(63)	(67)
Work contracted out and other external expenses	2.1.2	(1,308)	(1,330)
Salaries, pensions and social security contributions	2.1.3	(1,003)	(1,059)
Depreciation, amortisation and impairments	2.1.4	(83)	(180)
Other operating expenses	2.1.5	(151)	(101)
Total operating expenses		(2,608)	(2,737)
Operating income		185	119
Interest and similar income		3	3
Interest and similar expenses		(27)	(19)
Net financial income/(expense)	2.2	(24)	(16)
Results from investments in JVs/associates	3.7	0	0
Profit/(loss) before income taxes		161	103
Income taxes	2.2	(34)	(31)
Profit/(loss) from continuing operations		127	72
Profit/(loss) from discontinued operations	3.9	(94)	(68)
Profit for the year		33	4
Attributable to:			
Non-controlling interests		0	0
Equity holders of the parent		33	4

PostNL Earnings per share in € cents

2018, 2019

		2018	2019
Earnings per ordinary share ¹	2.2	7.1	0.8
Earnings per diluted ordinary share ²	2.2	7.1	0.8
Earnings from continuing operations per ordinary share ¹		27.5	14.9
Earnings from continuing operations per diluted ordinary share ²		27.4	14.9
Earnings from discontinued operations per ordinary share ¹		(20.4)	(14.1)
Earnings from discontinued operations per diluted ordinary share ²		(20.3)	(14.1)

1 Earnings per ordinary share are in 2019 based on an average of 482,577,917 outstanding ordinary shares (2018: 462,015,866).

2 Earnings per diluted ordinary share are in 2019 based on an average of 483,484,286 ordinary shares on a fully diluted basis in the year (2018: 463,179,101).

PostNL Consolidated statement of comprehensive income in € million

2018, 2019

Year ended at 31 December	Notes	2018	2019
Profit for the year		33	4
Actuarial gains/(losses) pensions, net of tax	3.5	32	60
Pension asset ceiling/minimum funding requirement, net of tax	3.5	(2)	(65)
Impact tax rate change related to OCI pensions		(3)	3
Change in value of financial assets at fair value through OCI	4.2	11	3
Other comprehensive income that will not be reclassified to the income statement		38	1
Currency translation adjustment, net of tax		0	0
Gains/(losses) on cashflow hedges, net of tax		1	(2)
Other comprehensive income that may be reclassified to the income statement		1	(2)
Total other comprehensive income for the year		39	(1)
Total comprehensive income for the year		72	3
Attributable to:			
Non-controlling interests		0	0
Equity holders of the parent		72	3

PostNL Consolidated statement of cash flows in € million

2018, 2019

Year ended at 31 December	Notes	2018	2019
Profit/(loss) before income taxes		161	103
Adjustments for:			
Depreciation, amortisation and impairments		83	180
Share-based payments		3	1
(Profit)/loss on disposal of assets		(19)	(7)
(Profit)/loss on sale of Group companies			(5)
Interest and similar income		(3)	(3)
Interest and similar expenses		27	19
Results from investments in JVs/associates		0	0
Investment income		5	4
Pension liabilities		(22)	(25)
Other provisions		(14)	30
Changes in provisions		(36)	5
Inventory		0	0
Trade accounts receivable		(40)	55
Other accounts receivable		15	(19)
Other current assets		2	(18)
Trade accounts payable		(24)	20
Other current liabilities excluding short-term financing and taxes		(75)	(73)
Changes in working capital		(122)	(35)
Cash generated from operations		94	258
Interest paid		(26)	(14)
Income taxes paid		(39)	(34)
Net cash (used in)/from operating activities	2.3.1	29	210
Interest received		3	3
Acquisition of subsidiaries (net of cash)			(65)
Disposal of subsidiaries			3
Investments in JVs/associates		(2)	(1)
Disposal of JVs/associates			1
Capital expenditure on intangible assets		(40)	(32)
Capital expenditure on property, plant and equipment		(55)	(34)
Proceeds from sale of property, plant and equipment		46	14
Changes in other loans receivable		1	0
Other changes in (financial) fixed assets		(1)	5
Net cash (used in)/from investing activities	2.3.2	(48)	(106)

Year ended at 31 December	Notes	2018	2019
Dividends paid		(63)	(71)
Proceeds from long-term borrowings		3	296
Repayments of short-term borrowings		(223)	(64)
Repayments of leases		(2)	(62)
Net cash (used in)/from financing activities	2.3.3	(285)	99
Total change in cash from continuing operations		(304)	203
Cash and cash equivalents at the beginning of the year		645	269
Cash transfers to/from discontinued operations		(72)	8
Total change in cash from continuing operations		(304)	203
Cash and cash equivalents at the end of the year		269	480
Total change in cash from discontinued operations	3.9	(52)	(3)

PostNL Consolidated statement of financial position in € million

2018, 2019

	Notes	At 31 December 2018	At 31 December 2019
Assets			
Goodwill		97	224
Other intangible assets		115	140
Intangible fixed assets	3.3	212	364
Land and buildings		322	272
Plant and equipment		155	119
Other		12	13
Construction in progress		5	10
Property, plant and equipment	3.2	494	414
Right-of-use assets	3.4		259
Investments in joint ventures/associates	3.7	3	3
Other loans receivable	4.1	6	6
Deferred tax assets	3.8	66	65
Financial assets at fair value through OCI	4.2	17	15
Financial fixed assets		92	89
Total non-current assets		798	1,126
Inventory		5	4
Trade accounts receivable	3.1.1	313	271
Accounts receivable	3.1.1	12	51
Income tax receivable		2	1
Prepayments and accrued income		99	114
Cash and cash equivalents	4.1	269	480
Total current assets		700	921
Assets classified as held for sale	3.9	200	91
Total assets		1,698	2,138

	Notes	At 31 December 2018	At 31 December 2019
Equity and liabilities			
Equity attributable to the equity holders of the parent		46	(21)
Non-controlling interests		3	3
Total equity	2.4	49	(18)
Deferred tax liabilities	3.8	31	0
Provisions for pension liabilities	3.5	296	283
Other provisions	3.6	19	26
Long-term debt	4.1	398	695
Long-term lease liabilities	3.4	22	201
Accrued liabilities		4	0
Total non-current liabilities		770	1,205
Trade accounts payable		146	197
Other provisions	3.6	21	53
Short-term debt	4.1	1	1
Short-term lease liabilities	3.4	3	63
Other current liabilities	3.1.2	126	110
Income tax payable		3	9
Contract liabilities	3.1.3	80	67
Accrued current liabilities	3.1.4	378	351
Total current liabilities		758	851
Liabilities related to assets classified as held for sale	3.9	121	100
Total equity and liabilities		1,698	2,138

PostNL Consolidated statement of changes in equity in € million

2018, 2019

	Issued share capital	Additional paid-in capital	Other reserves ¹	Retained earnings	Attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at 1 January 2018	36	160	73	(235)	34	3	37
Total comprehensive income			39	33	72	0	72
Appropriation of net income			(48)	48	0		0
Final dividend previous year	1	(1)		(47)	(47)		(47)
Interim dividend current year	1	(1)		(16)	(16)		(16)
Share-based compensation		2	1		3		3
Balance at 31 December 2018	38	160	65	(217)	46	3	49
Total comprehensive income			(1)	4	3	0	3
Appropriation of net income			(166)	166	0		0
Final dividend previous year	1	(1)		(48)	(48)		(48)
Interim dividend current year	1	(1)		(23)	(23)		(23)
Share-based compensation		2	(1)		1		1
Balance at 31 December 2019	40	160	(103)	(118)	(21)	3	(18)

¹ The other reserves include the currency translation reserve, the hedge reserve and the reserve relating to financial assets at fair value through OCI. Reference is made to note 2.4.

Section 1: Basis of preparation

1.1 General information

PostNL N.V. 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.

The consolidated financial statements include the financial statements of PostNL N.V. and its consolidated subsidiaries (hereafter referred to as 'PostNL', 'Group' or 'the company'). The consolidated financial statements were authorised for issue by PostNL's Board of Management and Supervisory Board on 24 February 2020 and are subject to adoption at the Annual General Meeting of Shareholders on 14 April 2020.

1.2 Accounting principles applied

The consolidated financial statements of PostNL:

- have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), including International Accounting Standards (IAS) and related interpretations of the IFRS Interpretations Committee (IFRICs), and Dutch law,
- have been prepared under the historical cost convention, except for financial instruments, and
- have been prepared assuming a going concern.

The significant accounting policies applied in the preparation of these consolidated financial statements are included at the relevant notes to the consolidated financial statements or, in case of more general policies, in note 5.4 to the consolidated financial statements. These policies have been consistently applied to all the years presented, unless stated otherwise. All amounts included in the consolidated financial statements are presented in euros, unless stated otherwise.

Classification of Nexive and Postcon as discontinued operations

In line with PostNL's strategy to become *the* logistics and postal solutions provider in the Benelux, 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 are reported as 'held for sale' and the results and cash flows are reported as 'discontinued operations'. The sale of Postcon was completed on 31 October 2019. For further details, see note 3.9 Assets classified as held for sale.

Going concern

Based on the cash flow-generating capability of the company, the current finance structure and the company's ability to realise its assets and discharge its liabilities in the normal course of business, PostNL's financial statements have been prepared assuming a going concern. As at 31 December 2019, the balance of cash and cash equivalents amounted to €480 million and the company has an undrawn multi-currency revolving credit facility of €400 million. Its financing arrangements do not include financial covenants. Bond repayments are not due until 2024. Although the company remains vulnerable to interest rate changes in relation to its pension obligations, it can also benefit from an environment of increasing interest rates.

1.3 Critical accounting estimates and judgements

The preparation of PostNL's consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. It also requires management to exercise its judgement in the process of applying PostNL's accounting policies.

Estimates, assumptions and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting positions will, by definition, seldom equal the related actual results. On a continuous basis, we evaluate our expectations with the actual results, and include the learnings going forward.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed below.

Post-employment benefits

Post-employment benefit accounting is intended to reflect the recognition of future benefit costs over the employee's approximate service period, based on the terms of the plans and the investment and funding decisions made. The accounting requires the company to make assumptions regarding variables such as the discount rate, the rate of benefit increases and future mortality rates. Changes in these key assumptions can have a significant impact on the defined benefit obligations, funding requirements and pension costs incurred. For details of the current funded status and a sensitivity analysis with respect to defined benefit plan assumptions, see note 3.5 to the consolidated financial statements.

Restructuring and other provisions

Restructuring charges mainly result from restructuring of our operations and overhead, including that of the acquired businesses of Sandd, as a response to declining volumes in Mail in the Netherlands. The scope and measurement of PostNL's related restructuring provision depends highly on the projected cash outflows over the future years, which are mainly driven by the estimated number of staff that will either be made redundant or apply for a mobility arrangement.

Other provisions include expected costs related to other employee benefit obligations (jubilee and long term disability benefits), claims & indemnities, onerous contracts and dilapidation costs. The provisions recorded reflect the present value of management's best estimate of the expenditure required to settle the obligation. Given the uncertain outcome, management must use a certain degree of judgement in this respect. This includes the thorough analysis and concluding view of our position and that of the third party.

For details on the current restructuring and other provisions, see note 3.6 to the consolidated financial statements.

Impairment of assets

In determining impairments of intangible assets including goodwill, tangible fixed assets and financial fixed assets, management must make significant judgements and estimates to determine whether the recoverable amount is less than the carrying value. The recoverable amount is the higher of the fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the asset-specific risks. Determining cash flows requires the use of judgements and estimates that have been included in PostNL's strategic plans and long-term forecasts. The data necessary for the execution of the impairment tests are based on management estimates of future cash flows, which make it necessary to estimate revenue growth rates and profit margins. For details on the mandatory impairment test of goodwill, see note 3.3 to the consolidated financial statements.

Deferred revenue and revenue related accruals

PostNL has to estimate the deferred revenues from stamps sold but not yet used by its customers. The company uses a seasonal model based on historical figures in order to account for the seasonal effects on sales from stamps (for example, stamp sales for Christmas greetings in November and December). Additionally, the company handles large quantities of international mail and parcel volumes to and from foreign postal operators. Although the net outstanding accrual positions reflect our best estimate, given the assumptions involved, final settlements might deviate from the outstanding positions. For details on the current positions, see note 3.1 to the consolidated financial statements.

Income taxes and deferred tax assets

The company is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision and liability for income taxes. PostNL recognises liabilities for potential tax issues based on estimates of whether additional taxes will be due, based on its best interpretation of the relevant tax laws and rules. PostNL recognises deferred tax assets to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. This is based on estimates of taxable income by jurisdiction

in which the company operates and the period over which deferred tax assets are recoverable. For details on income taxes and deferred tax assets, see notes 2.2 and 3.8 to the consolidated financial statements.

Assets classified as held for sale

For assets classified as held for sale, including liabilities related to these assets, management needs to determine the fair value less costs to sell. In assessing this value, management needs to make significant judgements and estimates, influenced by the asset-specific characteristics, market appetite, the envisaged structuring of the sales transaction, and received proposals. For details on the assets classified as held for sale, see note 3.9 to the consolidated financial statements.

Contingent liabilities

Legal proceedings covering a range of matters are pending against the company in various jurisdictions. The cases and claims often raise difficult and complex factual and legal issues that are subject to many uncertainties and complexities, including but not limited to the facts and circumstances of each particular case and claim, the jurisdiction and the differences in applicable law. PostNL consults with legal counsel and certain other experts on matters related to litigation. PostNL recognises a liability when it is determined that an adverse outcome is probable and the amount of the loss can be reasonably estimated. For details on commitments and contingencies, see note 3.10 to the consolidated financial statements.

Determining the lease term of contracts with renewal and/or termination options

PostNL determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. PostNL has several lease contracts that include extension and termination options. The company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, PostNL reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. For details on leases, see note 3.4 to the consolidated financial statements.

Purchase price allocation in relation to the acquisition of Sandd

Following the acquisition of Sandd, management needs to allocate the purchase price into the assets and liabilities of the company acquired in the transaction. A purchase price allocation involves judgement in the determination of the average market participant and the identification of intangible assets. Management needs to make estimates and assumptions in projecting future results and cash flow for the determination of the fair value of the acquired assets and liabilities. For details on the acquisition of Sandd, see note 5.3 to the consolidated financial statements.

1.4 Changes in accounting policies and disclosures

The following provides a brief description of recent issued International Financial Reporting Standards, amendments and/or interpretations, that could have a material impact on our financial statements.

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 have been replaced by depreciation and interest expenses in 2019 (with a related increase of €72 million and €2 million respectively, including the amounts related to Sandd). 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.

IFRIC 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Interpretation did not have an impact on the consolidated financial statements of the Group.

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.

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements have been reviewed by the Group. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective. It is not expected that the Group's consolidated financial statements will be significantly impacted.

Section 2: Result for the year

2.1 Operating income

2.1.1 Total operating revenue

Accounting policies

Revenue recognition

PostNL's revenue from contracts with customers consist of the provision of postal and logistics services. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which PostNL expects to be entitled in exchange for those goods or services. Revenue is the gross inflow of economic benefits during the current year that arise from ordinary activities and result in an increase in equity, other than increases relating to contributions from equity participants.

Variable consideration/volume discounts

If the consideration in a contract includes a variable amount, PostNL estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. PostNL provides volume discounts to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Discounts are offset against amounts invoiced to the customer. To estimate the variable consideration for the expected future discounts, PostNL applies the expected value method. The variable consideration can be reasonably accurately determined from achieved volumes and contract agreements.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which PostNL has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before PostNL transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when PostNL performs under the contract and relate to amongst others deferred revenue from unused stamps, deferred revenue from franking machines and the rental of mailboxes. See note 3.1.3 to the consolidated financial statements.

Revenue from contracts with customers

Revenue from contracts with customers represent revenue from the delivery of goods and services to third parties less discounts, credit notes and taxes levied on sales. Accumulated experience is used to estimate and provide for the discounts.

Other operating revenue

Other operating revenue relates to the sale of goods and rendering of services not related to PostNL's ordinary postal and logistics services and mainly include rental income of temporarily leased-out property and custom clearance income.

The company's business involves the logistical service of delivering mail, parcels and other consignments. Nearly all of the company's revenues are represented by a single performance obligation being 'logistic services'. Revenue is being recognised at a point in time when control is transferred to the customer, generally on delivery of the mail, parcels or other consignments. Other performance obligations within the company's business comprise the rental of post-boxes (revenue recognition over time), print services (revenue recognition at a point in time) and stamp collection services (revenue recognition at a point in time).

The following table presents PostNL's revenue from contracts with customers relating to the reported operating segments. Refer to note 2.5 for the segment information of the other revenue and eliminations.

PostNL Revenue from contracts with customers in € million

2018, 2019

Year ended at 31 December	2018	2019
Parcels	1,547	1,663
Mail in the Netherlands	1,672	1,600
PostNL Other	74	81
Eliminations	(535)	(515)
Total	2,758	2,829

Volume and revenue growth within Parcels was partly offset by decreased revenue within Mail in the Netherlands, mainly resulting from the continued volume decline in addressed and unaddressed mail.

The following table presents the geographical segmentation of revenue from contracts with customers. The basis of allocation of revenue by geographical area is the country or region in which the entity recording the sales is located.

PostNL Geographical segmentation in € million

2018, 2019

Year ended at 31 December	2018	2019
The Netherlands	2,483	2,541
Rest of Europe	148	158
Europe	2,631	2,699
Rest of the World	127	130
Total	2,758	2,829

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2.1.2 Work contracted out and other external expenses**Accounting policies**

Operating expenses related to ordinary activities are recognised on an accrual basis. In case it is not possible to directly relate the operating expenses to a particular income earned or expected future income, these expenses are recognised in the period incurred.

Lease expenses

As from 2019, lease expenses relate to short-term leases and leases of which the underlying assets are of low value.

Payments made (net of any incentives received from the lessor) are charged to the income statement as incurred during the period of the lease.

PostNL Work contracted out and other external expenses in € million

2018, 2019

Year ended at 31 December	2018	2019
Parcels	655	691
Mail in the Netherlands	383	395
PostNL Other	33	63
Work contracted out	1,071	1,149
Rent & lease expenses	67	16
External temporary staff	170	165
Total	1,308	1,330

Costs of work contracted out and other external expenses increased by €22 million in 2019 mainly due to increased volumes and service expansion within Parcels, partly offset by the decrease of rent & lease expenses resulting from the adoption of IFRS 16.

2.1.3 Salaries, pensions and social security contributions

PostNL Salaries, pensions and social security contribution in € million

2018, 2019

Year ended at 31 December	2018	2019
Salaries	756	786
Social security charges	115	127
Salaries and social security charges	871	913
Defined benefit plans	114	107
Defined contribution plans	12	12
Pension charges	126	119
Net addition to restructuring provisions	3	26
Share-based payments	3	1
Total	1,003	1,059

In 2019, pension charges decreased by €7 million, resulting from lower regular defined benefit charges. More detailed information on pensions is included in note 3.5. For the net additions to restructuring provisions reference is made to note 3.6 Other provisions.

PostNL Labour force as indicated

2018, 2019

¹	2018	2019
Headcount		
Parcels	5,722	7,027
Mail in the Netherlands	30,753	37,966
PostNL Other	1,310	1,310
Total at year end	37,785	46,303
External agency staff at year end	7,309	6,702
Full-time equivalents (FTEs)		
Parcels	4,664	5,653
Mail in the Netherlands	14,547	17,075
PostNL Other	1,210	1,245
Total year average	20,421	23,973

¹ Including temporary personnel on our payroll; the external agency staff are additional.

The total headcount of PostNL increased by 8,518 employees, which mainly relates to the acquisition of Sandd and an increase within Parcels due to growth in parcel volumes, partly offset by the reduction within Mail in the Netherlands due to the impact of volume decline and cost savings initiatives. The labour force is also measured in FTEs based on the hours worked divided by the local standard. In 2019, the average number of FTEs increased by 3,552 FTEs compared to 2018. The average number of employees working in the Netherlands was 23,315 FTEs (2018: 19,827) and outside the Netherlands was 658 FTEs (2018: 594).

2.1.4 Depreciation, amortisation and impairments

PostNL Depreciation, amortisation and impairments in € million

2018, 2019

Year ended at 31 December	2018	2019
Amortisation of intangible assets	25	34
Impairment of intangible assets		4
Depreciation property, plant and equipment	53	59
Impairment of property, plant and equipment	5	2
Depreciation right-of-use assets		77
Impairment of assets held for sale		4
Total	83	180

In 2019, depreciation and amortisation include €25 million of accelerated write-down of assets from Sandd, mainly related to right-of-use assets. A large part of Sandd's assets will only be used until February 2020 and are therefore depreciated in 3 months as of the acquisition date.

In 2019, amortisation of intangible assets related to software for €31 million (2018: €22 million) and other intangibles for €3 million (2018: €3 million). The increase in amortisation of software relate to increased investments in IT projects and the acquisition of Sandd. The impairment of intangible assets of €4 million, recorded within PostNL Other, partly related to software from Stockon.

In 2019, the impairment of assets held for sale of €4 million relates to a fair value impairment of Spotta, within Mail in the Netherlands, that is classified as held for sale per 31 December 2019. The impairment of property, plant and equipment of €2 million is recorded within Mail in the Netherlands and mainly concerns the impairment of real-estate related assets used by Spotta.

In 2018, the impairment of property, plant and equipment of €5 million, recorded within Mail in the Netherlands, mainly related to the demolition of a building of which the land is used to build a new parcel sorting centre.

2.1.5 Other operating expenses

The other operating expenses of €101 million (2018: €151 million) consist of IT, communication, office, travel, consulting and training expenses and other shared services costs. The decrease in 2019 includes the benefit of the review of the methodology for calculating non-deductible VAT charges, with application as from the year 2018.

In 2019, total incurred EV audit fees amounted to €2.6 million (2018: €2.2 million).

PostNL Audit fees in € million

2018, 2019

Year ended at 31 December	2018	2019
Audit fees	1.3	1.7
Audit-related fees	0.9	0.7
Tax advisory fees	0.0	0.0
Other non-audit services	0.0	0.2
Total	2.2	2.6

Audit fees include fees from the audit of the financial statements. Audit-related services include fees from assurance engagements related to the corporate responsibility information, regulatory reporting obligations, employee benefit plan data and other assurance engagements for the benefit of third parties. Other non-audit services include fees from, amongst others, consent and comfort letters to security offering and agreed upon procedures.

In accordance with Dutch legislation, article 2:382a of the Dutch Civil Code, the total audit and audit-related fees charged by the auditor EY based in the Netherlands amounted to €2.3 million (2018: €1.7 million), subdivided into audit services of €1.4 million, audit-related services of €0.7 million and other non-audit services of €0.2 million.

2.2 Net profit and earnings per share

2.2.1 Net financial expense/(income)

Accounting policies

Interest income and expense are recognised on a time-proportionate basis using the effective interest method. All borrowing costs are recognised in profit or loss using the

effective interest method, except to the extent that they can be capitalised as cost of a qualifying asset.

PostNL Net financial expense/(income) in € million

2018, 2019

Year ended at 31 December	2018	2019
Interest expenses on long-term borrowings	14	5
Interest on net defined benefit pension liabilities	8	6
Interest on leases	0	3
Other	5	5
Interest and similar expense	27	19
Other interest and similar income	(3)	(3)
Net financial expense/(income)	24	16

In 2019, interest expenses on long-term borrowings decreased mainly as a result of the repayment of a bond in August 2018, which was replaced by a new bond with a lower interest rate.

2.2.2 Income taxes

Accounting policies

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. The amount of income tax included

in the income statement is determined in accordance with the rules established by the tax authorities, based on which income taxes are payable or recoverable.

PostNL Income taxes in € million

2018, 2019

Year ended at 31 December	2018	2019
Current tax expense	45	39
Changes in deferred taxes	(11)	(8)
Total income tax expense	34	31
Income taxes paid	39	34

The difference between the total income taxes in the income statement and the current tax expense is due to temporary differences. These differences are recognised as deferred tax assets or deferred tax liabilities, see note 3.8 to the consolidated financial statements.

In 2019, the income taxes paid relate almost completely to income taxes paid in the Netherlands and include payments and refunds related to prior years. The 2019 difference between the total income taxes (€31 million) and the income taxes paid (€34 million) can mainly be explained by the changes in deferred taxes (€8 million) and the 2019 movements of the net income tax payable position (€(6) million).

PostNL Effective income tax rate in %

2018, 2019

Year ended at 31 December	2018	2019
Dutch statutory income tax rate	25.0	25.0
Adjustment regarding statutory income tax rates other countries	(0.4)	0.0
Weighted average statutory tax rate	24.6	25.0
Tax effects of:		
Non and partly deductible costs	1.5	4.0
Exempt income	(0.3)	(0.2)
Other	(4.7)	1.3
Effective income tax rate	21.1	30.1

The line 'Non and partly deductible costs' mainly relates to non deductible costs relating to the Sandd acquisition, the so-called mixed expenses (e.g., meals, entertainment) and the non deductible treatment of our share based payments. The line 'Exempt income' relates to the non taxable treatment of our results from (former) participations. The line 'Other' consists mainly of the impact of tax rate changes in the Netherlands on our deferred tax positions going forward (1.7%; 2018: -3.9%), updates of our prior year tax positions in the Netherlands (-1.7%), expiration of tax carry forwards in the Netherlands (1.2%) and several smaller effects (0.1%).

2.2.3 Earnings per ordinary share: 0.8 eurocents (2018: 7.1 eurocents)

Accounting policies

PostNL presents (diluted) earnings per share (EPS) for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss

attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding, including the effects for dilution of ordinary shares following the obligations to employees under existing share plans.

The following table summarises the outstanding shares for PostNL's calculation related to earnings per share.

PostNL (Average) number of outstanding ordinary shares in shares

2018, 2019

Year averages and numbers at 31 December	2018	2019
Number of issued and outstanding ordinary shares	469,199,776	493,952,586
Shares held by the company to cover share plans	0	0
Average number of ordinary shares per year	462,015,866	482,577,917
Diluted number of ordinary shares per year	1,163,235	906,369
Average number of ordinary shares per year on a fully diluted basis	463,179,101	483,484,286

At 31 December 2019, PostNL had potential obligations under share plans to deliver 906,369 shares (2018: 1,163,235 shares), calculated based on the share price of €2.012 as at 31 December 2019 (31 December 2018: €1.997).

2.3 Cash flow performance

Accounting policies

The consolidated statement of cash flows is prepared in accordance with IAS 7 using the indirect method. Cash flows in foreign currencies are translated at average exchange rates. Receipts and payments with respect to taxation on profits and interest payments are included in the cash flow from operating activities. Interest receipts and the cost of acquisition of

subsidiaries, associates and investments, insofar as it was paid for in cash, are included in cash flows from investing activities. Acquisitions of subsidiaries are presented net of cash balances acquired. Cash flows from derivatives are recognised in the statement of cash flows in the same category as those of the hedged item.

2.3.1 Net cash (used in)/from operating activities

In 2019, net cash from operating activities of €210 million (2018: €29 million) resulted from €258 million of cash generated from operations (2018: €94 million) reduced by €14 million interest paid (2018: €26 million) and €34 million income tax paid (2018: €39 million).

Cash generated from operations

The increase in cash generated from operations of €164 million is explained by €36 million higher profit before income tax adjusted for non-cash items and investment income, a change in working capital of €87 million and a higher change in other provisions of €44 million, partly offset by a lower change in pension liabilities of €3 million. The increase in profit before income tax adjusted for non-cash items and investment income 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).

PostNL Cash generated from operations in € million

2018, 2019

Year ended at 31 December	2018	2019
Total profit before tax adjusted for non cash items and investment income	252	288
Pension expense defined benefit plans	114	107
Cash contributions defined benefit plans	(103)	(99)
Payment unconditional funding obligation	(33)	(33)
Change in pension liabilities	(22)	(25)
Additions to/releases from provisions	9	44
Withdrawals	(23)	(14)
Change in other provisions	(14)	30
Changes in working capital	(122)	(35)
Total cash generated from operations	94	258

For the changes in provisions, reference is made to note 3.5 Provisions for pension liabilities and to note 3.6 Other provisions. The lower investments in working capital mainly related to lower trade accounts receivable within Parcels and within Mail in the Netherlands.

Interest paid

The interest paid is explained as follows:

PostNL Interest paid in € million

2018, 2019

Year ended at 31 December	2018	2019
Interest on long-term borrowings	20	4
Interest on leases	0	5
Bank charges and other	6	5
Total	26	14

The interest paid on long-term borrowings decreased mainly as a result of the repayment of a bond in 2018, which was replaced by a new bond with a lower interest rate.

Income taxes paid

The income taxes paid of €34 million (2018: €39 million) mainly related to income taxes paid in the Netherlands and include payments and refunds related to prior years.

2.3.2 Net cash (used in)/from investing activities**PostNL Net cash investing activities** in € million

2018, 2019

Year ended at 31 December	2018	2019
Acquisition of subsidiaries (net of cash)		(65)
Capital expenditure on intangible assets and property, plant and equipment	(95)	(66)
Proceeds from sale of property, plant and equipment	46	14
Changes in other loans receivable	1	0
Other	0	11
Net cash (used in)/from investing activities	(48)	(106)

Acquisitions

In 2019, cash outflow net of cash for acquisitions related to the acquisition of Sandd (€64 million) and the acquisition of Mostert Verkerk (€1 million). Reference is made to note 5.3 Business combinations.

Capital expenditure on intangible assets and property, plant and equipment

In 2019, capital expenditures on intangible assets of €32 million (2018: €40 million) mostly related to software including prepayments for software. The capital expenditures on property, plant and equipment amounting to €34 million (2018: €55 million) mainly related to the sorting equipment for the small parcel sorting centre within Parcels and to various other equipment. Capital expenditures are funded primarily by cash generated from operations and are part of strict cash control and review.

Proceeds from sale of property, plant and equipment

In 2019, proceeds from the sale of property, plant and equipment amounted to €14 million (2018: €46 million) and mainly related to the sale of several buildings.

Other

In 2019, other includes an amount of €6 million received for the reduction of our stake in Whistl, a financial asset at fair value through OCI. In the consolidated statement of cash flows, the amount is included in 'Other changes in (financial) fixed assets'. Further, 'Other' includes €3 million net cash received for the sale of PostNL Communicatie Services, a subsidiary from Mail in the Netherlands. The book profit on the sale of PostNL Communicatie Services of €5 million is included in other income in the consolidated income statement. An additional amount of €7 million from the sale will be received in 2020.

2.3.3 Net cash (used in)/from financing activities

PostNL Net cash financing activities in € million

2018, 2019

Year ended at 31 December	2018	2019
Dividends paid	(63)	(71)
Net cash from debt financing activities	(220)	232
Repayments of leases	(2)	(62)
Net cash (used in)/from financing activities	(285)	99

In 2019, net cash from financing activities of €99 million (2018: €(285) million) related to the final 2018 and interim 2019 cash dividend paid of €71 million (2018: €63 million), the proceeds of a new eurobond of €296 million partly offset by the repayment of short-term borrowings of Sandd of €64 million (2018: €223 million repayment of a eurobond) and the repayments of leases of €62 million (2018: €2 million). Refer to note 3.4 for further information on leases. Reference is also made to note 4.1 Net debt and note 4.5 Financial instruments.

2.4 Other comprehensive income and equity development

The decrease of total equity from €49 million on 31 December 2018 to €(18) million on 31 December 2019 is mainly explained by net profit for the year of €4 million, partly offset by the payment of cash dividends of €71 million in total and other comprehensive income of €(1) million. Other comprehensive income mainly consisted of a negative impact from pensions of €5 million and the increase in value of the investment in Whistl by €3 million.

Equity attributable to the equity holders of PostNL consisted of the following items:

Issued share capital and Additional paid-in-capital

As at 31 December 2019, issued share capital amounted to €40 million (2018: €38 million) and additional paid-in-capital amounted to €160 million (2018: €160 million). For details on Issued share capital and Additional paid-in capital, reference is made to note 4.6.

The following table presents the reserves included in the other reserves.

PostNL Other reserves in € million

2018, 2019

	Currency translation reserve	Hedge reserve	Financial assets at fair value OCI	Other reserves	Total other reserves
Balance at 1 January 2018	0	(1)	0	74	73
Total comprehensive income	0	1	11	27	39
Appropriation of net income				(48)	(48)
Share-based compensation				1	1
Balance at 31 December 2018	0	0	11	54	65
Total comprehensive income	0	(2)	3	(2)	(1)
Appropriation of net income				(166)	(166)
Share-based compensation				(1)	(1)
Balance at 31 December 2019	0	(2)	14	(115)	(103)

Currency translation reserve

As at 31 December 2019, the translation reserve amounted to €0 million (2018: €0 million), mainly reflecting the movement in exchange rate differences on converting subsidiaries of Spring within Parcels into euros.

Hedge reserve

As at 31 December 2019, the hedge reserve amounted to €(2) million (2018: €0 million). The tax impact on the cash flow hedges included in the hedge reserve as at 31 December 2019 is €0 million (2018: €0 million). For more information, see note 4.5 to the consolidated financial statements.

Financial assets at fair value through OCI

As at 31 December 2019, the reserve related to the financial assets at fair value through OCI amounted to €14 million (2018: €11 million). The increase in 2019 related to the increase in value of the investment in Whistl by €3 million (2018: €11 million). For more information, see note 4.2 to the consolidated financial statements.

Other reserves

As at 31 December 2019, the other reserves amounted to €(115) million (2018: €54 million). In 2019, the other reserves decreased by €169 million mainly resulting from the appropriation of net income from 2018 of €(166) million and a negative pension effect within other comprehensive income (net of tax) of €5 million. For details on pensions, reference is made to note 3.5.

Retained earnings

As at 31 December 2019, retained earnings amounted to €(118) million (2018: €(217) million). In 2019, retained earnings increased by €99 million due to the appropriation of net income from 2018 of €166 million and total profit for the year of €4 million in 2019, partly offset by the payment of cash dividends of €71 million in total.

The Board of Management has proposed not to make an amount available for distribution of dividend. Refer to note 6.5 for more details of this proposal.

2.5 Segment information

Accounting policies

PostNL reports two operating segments: Parcels and Mail in the Netherlands and one other segment: PostNL Other. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. These chief operating decision-makers, who are responsible for allocating resources and assessing the performance of the operating segments, have been identified

as the Board of Management of PostNL that makes strategic decisions. Transfer prices between operating segments are on an arm's length basis. PostNL Other represents head office entities, including the difference between the recorded IFRS pension expense for the defined benefit pension plans and the actual cash contributions.

The following table presents the reconciliation of the 2019 segment information relating to the income statement of the reportable segments. Segment information relating to the balance sheet is reported in note 3.11.

PostNL Segmentation in € million

2018, 2019

Year ended at 31 December 2019	Parcels	Mail in NL	PostNL Other	Eliminations	Total
Revenue from contracts with customers	1,473	1,356	0		2,829
Intercompany sales	190	244	81	(515)	
Other operating revenue	9	6			15
Total operating revenue	1,672	1,606	81	(515)	2,844
Other income	0	12	0		12
Depreciation/impairment PP&E	(24)	(32)	(5)		(61)
Amortisation/impairment intangibles	(9)	(17)	(12)		(38)
Depreciation/impairment right-of-use assets	(31)	(32)	(14)		(77)
Impairment assets held for sale		(4)			(4)
Total operating income	120	25	(26)		119
Net financial income/(expense)					(16)
Results from investments in JVs/associates					0
Income taxes					(31)
Profit/(loss) from discontinued operations					(68)
Profit for the year					4
Underlying cash operating income	121	76	(21)		176

The key financial performance indicator for management 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 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.

The following table presents the reconciliation from reported operating income to underlying operating income and underlying cash operating income.

PostNL From reported to underlying (cash) operating income in € million

2019

Year ended at 31 December	Reported operating income	Restructuring related charges	Payment uncond. funding obligation pensions	Accelerated write-down of Sandd assets	Project costs and other	Underlying operating income	Changes in provisions	Changes in pension liabilities	Underlying cash operating income
Parcels	120	2	2		(2)	122	2	(3)	121
Mail in NL	25	25	27	25	(25)	77	6	(7)	76
PostNL Other	(26)		(29)		18	(37)	(2)	18	(21)
Total 2019	119	27	0	25	(9)	162	6	8	176

From reported to underlying operating income

In 2019, underlying operating income totalled €162 million (2018: €209 million). Underlying operating income excludes exceptional items, which amounted to €43 million in 2019 (2018: €24 million). In 2019, the normalisation for project costs and other of €(9) million related to non-deductible VAT 2018 (€(20) million), compensation for transitional payments (€(8) million), fair value impairments of Stockon and Spotta (€9 million), book profit on the sale of PostNL Communicatie Services (€(5) million), regulatory-related advisory costs and Sandd-related transaction and integration costs (€14 million) and the consolidation effect of discontinued operations (€1 million). In 2019, the fifth and last instalment of the unconditional funding obligation to the pension fund of €33 million was paid. The segments Parcels, Mail in the Netherlands and PostNL Other record the unconditional funding obligation paid as expenses. As these payments do not represent IFRS-based pension expenses, PostNL Other records the reverse effect.

From underlying operating income to underlying cash operating income

In 2019, underlying cash operating income totalled €176 million (2018: €188 million). The changes in provisions of €6 million in 2019 (2018: €(32) million) represent the difference between the underlying net addition for restructuring and other provisions of €17 million (2018: €4 million) and the underlying cash payments of €11 million (2018: €36 million). The changes in pension liabilities of €8 million in 2019 (2018: €11 million) represent the difference between the recorded underlying pension expenses of €119 million (2018: €126 million), and the underlying cash payments of €111 million (2018: €115 million), which excludes the fifth and last instalment of the unconditional funding obligation of €33 million (2018: €33 million). The decrease of €12 million in underlying cash operating income comprised lower results at Mail in the Netherlands (€(17) million), partly offset by a higher result in Parcels (€4 million) and PostNL Other (€1 million).

The following tables present the reconciliation of the 2018 segment information relating to the income statement of the reportable segments. The figures have been represented for adjusted segment reporting and the impact of the discontinued operations. Segment information relating to the balance sheet is reported in note 3.11.

PostNL Segmentation in € million

2018

Year ended at 31 December 2018	Parcels	Mail in NL	PostNL Other	Eliminations	Total
Revenue from contracts with customers	1,342	1,415	1		2,758
Intercompany sales	205	257	73	(535)	
Other operating revenue	8	6			14
Total operating revenue	1,555	1,678	74	(535)	2,772
Other income	1	19	1		21
Depreciation/impairment PP&E	(21)	(31)	(6)		(58)
Amortisation/impairment intangibles	(9)	(11)	(5)		(25)
Total operating income	119	100	(34)		185
Net financial income/(expense)					(24)
Results from investments in JVs/associates					0
Income taxes					(34)
Profit/(loss) from discontinued operations					(94)
Profit for the year					33
Underlying cash operating income	117	93	(22)		188

PostNL From reported to underlying (cash) operating income in € million

2018

Year ended at 31 December	Reported operating income	Project costs and other	Impairment building	Restructuring related charges	Payment uncond. funding obligation pensions	Underlying operating income	Changes in provisions	Changes in pension liabilities	Underlying cash operating income
Parcels	119				2	121	(1)	(3)	117
Mail in NL	100		4	3	26	133	(27)	(13)	93
PostNL Other	(34)	17			(28)	(45)	(4)	27	(22)
Total 2018	185	17	4	3	0	209	(32)	11	188

Section 3: Operating assets and liabilities

3.1 Working capital

3.1.1 Accounts receivable

Accounting policies

Trade receivables that do not contain a significant financing component or for which PostNL has applied the practical expedient are measured at the transaction price determined under IFRS 15. PostNL recognises an allowance for expected credit losses (ECLs). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that PostNL expects to receive, discounted at an approximation of the original effective interest rate. For trade receivables, PostNL applies a simplified approach in calculating ECLs. Therefore, PostNL does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. PostNL has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to

the debtors and the economic environment. The amount of the ECLs is recognised in the income statement. Any reversal of the ECLs is included in the income statement on the same line as where the original expense was recorded.

The risk of uncollectability of accounts receivable is primarily estimated based on prior experience with, and the past due status of, doubtful debtors adjusted for forward-looking factors. Large accounts are assessed individually based on factors that include ability to pay, bankruptcy and payment history. In addition, debtors in certain countries are subject to a higher collectability risk, which is taken into account when assessing the overall risk of uncollectability.

PostNL Accounts receivable in € million

2018, 2019

At 31 December	2018	2019
Trade accounts receivable - total	323	285
Allowance for expected credit losses	(10)	(14)
Trade accounts receivable	313	271
VAT receivable	3	11
Other accounts receivable	9	40
Accounts receivable	12	51
Total accounts receivable	325	322

Trade accounts receivable are non-interest bearing and are generally on terms of 3 to 30 days.

The main part of the allowance for expected credit losses related to a collective loss component established for groups of similar trade accounts receivable balances. This collective loss component is largely based on the ageing of the trade accounts receivable and is reviewed periodically. The fair value of the total (trade) accounts receivable approximated its carrying value.

The increase in VAT receivable is mainly caused by VAT receivables from the German tax authorities (€8 million).

The increase in other accounts receivable is mainly caused by receivables related to the compensation scheme for paid transition benefits (€9 million), receivables related to the sale of Postcon (€10 million, including an earnout arrangement and a final net working capital adjustment) and receivables related to the sale of PostNL Communication Services (€7 million).

The compensation scheme for paid transition benefits is a government regulation following the introduction of the Compensation transition payments Act, whereby companies can declare the costs of the paid transition payments, which occur following dismissal due to an illness that has lasted two years or longer, to the UWV (Employee Insurance Agency).

The concentration of the trade accounts receivable per customer is limited. The top 10 trade accounts receivable accounted for 19% of the outstanding balance as at 31 December 2019 (2018: 18%). The concentration of the trade accounts receivable portfolio over the different regions can be summarised as follows:

- Netherlands €235 million (2018: €278 million),
- rest of Europe €22 million (2018: €18 million), and
- the rest of the world €14 million (2018: €17 million).

The movements in the allowance for expected credit losses of trade accounts receivable were as follows:

PostNL Statement of changes in the allowance for expected credit losses of trade accounts receivable in € million

2018, 2019

	2018	2019
Balance at 1 January	9	10
Provided for during financial year	6	5
Acquisition of subsidiaries		2
Receivables written off during year as uncollectable	(5)	(3)
Balance at 31 December	10	14

Set out below is the information about the credit risk exposure on the trade accounts receivable using a provision matrix.

PostNL Expected credit losses in € million

2018, 2019

At 31 December	Months due					Total
	Up to 1 month	1-2 months	2-3 months	3-4 months	over 4 months	
Expected credit loss rate	1%	3%	9%	27%	25%	
Gross amount of trade accounts receivable	255	32	12	3	21	323
Trade accounts receivable past due	40	19	7	2	18	86
Expected credit loss 2018	2	1	1	1	5	10
Expected credit loss rate	1%	3%	6%	14%	28%	
Gross amount of trade accounts receivable	209	28	11	4	34	286
Trade accounts receivable past due	48	22	10	4	32	116
Expected credit loss 2019	3	1	1	1	9	14

3.1.2 Other current liabilities

PostNL Other current liabilities in € million

2018, 2019

At 31 December	2018	2019
VAT payable	42	19
Social security contributions payable	21	24
Payments from customers received in advance	52	49
Other	11	18
Total	126	110

The decrease in VAT payable is mainly the result of the review of the methodology applied for calculating non-deductible VAT charges, with application as from the year 2018. As a result hereof, the payable position for the fiscal year 2018 decreased in 2019. The resulting impact has been accounted for as a change in estimate, as at year-end 2018 there was no certainty as to the outcome of the review.

3.1.3 Contract liabilities

PostNL Contract liabilities in € million

2018, 2019

At 31 December	2018	2019
Deferred revenue from unused stamps	54	42
Deferred revenue from franking machines	9	9
Rental of mailboxes	10	10
Other amounts received in advanced from customers	7	6
Total	80	67

In 2019, consolidation of Sandd positively impacted our Christmas stamp sales, thereby reducing the related deferred contract liabilities. We expect to perform almost all services related to the outstanding contract liabilities at 31 December 2019 within one year. However, note that within one year we expect outstanding contract liabilities more or less in line with the amounts currently reported.

3.1.4 Accrued current liabilities

PostNL Accrued current liabilities in € million

2018, 2019

At 31 December	2018	2019
To be paid to third parties	131	107
To be paid to personnel	20	30
Vacation days/vacation payments	77	83
Terminal dues	147	129
Interest payable	1	1
Other accrued current liabilities	2	1
Total	378	351

Main items within the expenses to be paid to third parties included payables to business partners of €12 million (2018: €16 million), claims of €6 million (2018: €5 million) and various other expenses to be paid.

Expenses to be paid to personnel included accrued wages and salaries of €22 million (2018: €14 million).

The accrual for terminal dues relates to payables to foreign postal operators relating to the years 2019 and before, partly consisting of positions in SDR currency. The net payable position, including the receivable for terminal dues of €29 million (2018: €15 million) included in prepayments and accrued income, amounted to €100 million (2018: €132 million). The change reflects both the regular course of business as well as settlements of outstanding positions. The positions where there is no price multi- or bilateral agreement on price are based on our best estimate of the price for which we expect to settle.

3.2 Property, plant and equipment

Accounting policies

Property, plant and equipment is valued at historical cost, less depreciation and impairment losses. The initial costs of an assets comprises its purchase price, costs of bringing the asset into working condition, handling and installation costs and non-refundable purchase taxes.

Land is not depreciated. System software is capitalised and amortised as a part of the tangible fixed asset for which it was acquired to operate.

Other property, plant and equipment is depreciated on a straight-line basis over its expected useful life, taking into account any residual value. The asset's residual value and useful life is reviewed on an annual basis and, if necessary, changes are accounted for prospectively.

For the accounting policy concerning impairments, reference is made to note 5.4.

PostNL Property, plant and equipment in € million

2018

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Depreciation percentage	0%-10%	10%-33%	10%-33%	0%	
Historical cost	815	505	89	17	1,426
Accumulated depreciation and impairments	(497)	(351)	(68)		(916)
Balance at 1 January 2018	318	154	21	17	510
Capital expenditure in cash	33	18	2	4	57
Capital expenditure in financial leases	9	14			23
Disposals	(16)				(16)
Internal transfers and reclassifications	8	3		(11)	
Depreciation	(19)	(28)	(6)		(53)
Impairments	(5)				(5)
Transfers to assets held for sale	(6)	(6)	(5)	(5)	(22)
Total changes	4	1	(9)	(12)	(16)
Historical cost	780	487	61	5	1,333
Accumulated depreciation and impairments	(458)	(332)	(49)		(839)
Balance at 31 December 2018	322	155	12	5	494

PostNL Property, plant and equipment in € million

2019

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Depreciation percentage	0%-10%	10%-33%	10%-33%	0%	
Historical cost	780	487	61	5	1,333
Accumulated depreciation and impairments	(458)	(332)	(49)		(839)
Balance at 1 January 2019	322	155	12	5	494
Transfers to right-of-use assets at 1 January	(22)	(15)			(37)
Capital expenditure in cash	5	11	5	8	29
Acquisition of subsidiaries	4	3	1		8
Disposal of subsidiaries		(2)			(2)
Disposals	(5)				(5)
Internal transfers and reclassifications		2	1	(3)	
Depreciation	(23)	(30)	(6)		(59)
Impairments	(2)				(2)
Transfers to assets held for sale	(7)	(5)			(12)
Total changes	(50)	(36)	1	5	(80)
Historical cost	694	420	66	10	1,190
Accumulated depreciation and impairments	(422)	(301)	(53)		(776)
Balance at 31 December 2019	272	119	13	10	414

As a result of the adoption of IFRS 16 at 1 January 2019, an amount of €37 million was transferred from property, plant and equipment to right-of-use assets of which €27 million related to finance leases and €10 million to capitalised leasehold rights and ground rent contracts.

Capital expenditures in cash 2019 are below the level of 2018. Investments were made in the sorting equipment for the small parcel sorting centre within Parcels and in various other equipment. Both developments also impacted the internal transfers and reclassifications from construction in progress to land and buildings, plant and equipment and other.

The disposals mainly related to the sale of real estate in the Netherlands. The book profit from the sale of real estate is included in other income in the consolidated income statement.

In 2019, the transfers to assets held for sale related for €7 million to buildings in the Netherlands and for €5 million to equipment from Spotta that was classified as held for sale per 31 December 2019. In 2018, the transfers to assets held for sale related for €3 million to buildings in the Netherlands and for €19 million to discontinued operations. The amount of €19 million relating to discontinued operations represents the balance as at 1 January 2018 (3 August 2018: €18 million). The net movement of €(1) million included capital expenditures of €2 million and depreciation of €3 million.

In 2018, PostNL decided to finance a number of Parcel sorting centres and sorting machines through financial leases. PostNL concluded these financial leases with an entity especially set up for this purpose by a third party. The term of the finance lease contracts is 10 years. At 31 December 2018, one sorting centre has been finalised, which triggered the recording of the related finance lease asset and liability. The construction of this centre started in 2017 in which year €3 million of capital investments were made. In 2018, all further construction costs of €9 million have been incorporated in the concluded financial lease. A sale and lease back transaction has been recorded for the €3 million of costs already capitalised in 2017. The cash proceeds are reported as 'Proceeds from long-term borrowings' in the cash flow statement. As a result of the adoption of IFRS 16 at 1 January 2019, the financial leased assets are transferred to right-of-use assets, reference is made to note 3.4.

3.3 Intangible fixed assets

Accounting policies

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of PostNL's share of the identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of joint ventures and associates is included in investments in joint ventures/associates and is not separately recognised or tested for impairment. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Separately-recognised goodwill arising on acquisitions is capitalised and subject to an annual impairment review. Goodwill is carried at cost less accumulated impairment losses.

Other intangible fixed assets

Costs related to the development and installation of software for internal use are capitalised at historical cost and amortised

over the estimated useful life. Other intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

An asset under construction is transferred to its respective intangible asset category at the moment it is ready for use and is amortised using the straight-line method over its estimated useful life. Other intangible assets are valued at the lower of historical cost less amortisation and impairment. The asset's residual value and useful life is reviewed on an annual basis and, if necessary, changes are accounted for prospectively.

For the accounting policy concerning impairments of goodwill and other intangible fixed assets, reference is made to note 5.4.

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PostNL Intangible fixed assets in € million

2018

	Goodwill	Software	Other	Total
Amortisation percentage		10%- 35%	0%- 35%	
Historical cost	318	265	68	651
Accumulated amortisation and impairments	(177)	(193)	(24)	(394)
Balance at 1 January 2018	141	72	44	257
Transfers to assets held for sale	(44)	(6)	(12)	(62)
Additions		28	14	42
Internal transfers/reclassifications		9	(9)	
Amortisation		(22)	(3)	(25)
Total changes	(44)	9	(10)	(45)
Historical cost	143	257	42	442
Accumulated amortisation and impairments	(46)	(176)	(8)	(230)
Balance at 31 December 2018	97	81	34	212

PostNL Intangible fixed assets in € million

2019

	Goodwill	Software	Other	Total
Amortisation percentage		10%- 35%	0%- 35%	
Historical cost	143	257	42	442
Accumulated amortisation and impairments	(46)	(176)	(8)	(230)
Balance at 1 January 2019	97	81	34	212
Additions	128	22	10	160
Acquisition of subsidiaries		3	30	33
Disposals	(1)			(1)
Internal transfers/reclassifications		11	(11)	
Amortisation		(31)	(3)	(34)
Impairments		(4)		(4)
Transfers to assets held for sale		(2)		(2)
Total changes	127	(1)	26	152
Historical cost	271	278	70	619
Accumulated amortisation and impairments	(47)	(198)	(10)	(255)
Balance at 31 December 2019	224	80	60	364

In 2018, the transfers to assets held for sale of €62 million related to discontinued operations and represents the balance as at 1 January 2018 (3 August 2018: €62 million). In 2019, the comparable transfers related to Spotta, which was classified as assets held for sale at year-end 2019.

Goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) and tested for impairment. The CGUs correspond to an operation in a particular country or region and the nature of the services provided. Compared to 2019, the CGU structure has not changed.

In 2019, the addition to goodwill of €128 million is related to the acquisition of Sandd and allocated to the CGU Mail in the Netherlands. Reference is made to note 5.3 Business combinations for more detailed information. The disposal of goodwill of €1 million related to the sale of PostNL Communicatie Services (CGU Mail in the Netherlands).

PostNL Goodwill per CGU in € million

2018, 2019

Year ended at 31 December	2018	2019
Parcels	32	32
Mail in the Netherlands	65	192
Total	97	224

Based on the 2019 financial performance, a detailed review has been performed of the recoverable value of each CGU. The recoverable value is the higher of the value in use and fair value less costs of disposal. Fair value less costs of disposal represents the best estimate of the amount PostNL would receive if it sold the CGU. The recoverable value is determined based on the value in use. The value in use has been estimated on the basis of the present value of future cash flows.

For both mature markets and non-mature markets, the estimated future net cash flows are based on a eight-year forecast and business plan, as management considers these forecasts reliable based on past experience. The cash flow projections have been approved by management.

PostNL has determined the budgeted gross margin based on past performance and its expectations for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The pre-tax discount rate used in the CGU valuations varies around 9.5% (2018: around 10%).

Key assumptions used to determine the recoverable values for each individual CGU are the following:

- maturity of the underlying market, market share and volume development in order to determine the revenue mix and (long term) growth rate,
- level of operating income largely impacted by revenue and cost development, taking into account the nature of the underlying costs and potential economies of scale,
- level of capital expenditure in network-related assets, and
- discount rate to be applied following the nature of the underlying cash flows and foreign currency and inflation-related risks.

Management has carried out an impairment test for each individual CGU and concluded that the recoverable amount of the individual CGUs is higher than the carrying amount.

Software and other intangibles

The closing balance of software and other intangibles is build up as follows:

PostNL Software and other intangibles in € million

2018, 2019

Year ended at 31 December	2018	2019
Internally-generated software	74	73
Purchased software	7	7
Software under construction	16	15
Customer lists	18	45
Total	115	140

The additions to software mainly concerned IT investments related to replacement and improvement of sorting and delivery processes within Mail in the Netherlands and Parcels, and software licenses and costs of internally-generated software for various IT projects including investments in our online landscape, logistic service platform and back office functionality. The reclassification from other intangibles was due to finalised IT projects. The increase in customer lists relates to the acquisition of Sandd.

The estimated amortisation expenses for software and other intangible assets are:

- 2020: €36 million,
- 2021: €30 million,
- 2022: €22 million, and
- thereafter: €52 million.

PostNL does not conduct significant research and development activities and therefore does not incur research and development costs.

3.4 Leases

Accounting policies

PostNL leases sorting centres, sorting machines, distribution centres, offices, warehouses, trucks, vans, cars, transport equipment and other equipment. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. At the commencement date of the lease, the lease liabilities are measured at the present value of lease payments to be made over the lease term. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the PostNL's incremental borrowing rate is used, being the rate that would have to be paid to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The lease payments include the exercise price of a purchase option reasonably certain to be exercised by PostNL and payments of penalties for terminating the lease, if the lease term reflects PostNL exercising the option to terminate. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

PostNL elected to apply the practical expedient not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

As a practical expedient, PostNL elected not to apply the requirements for short-term leases (with a lease term of 12 months or less and which do not contain a purchase option) and leases for which the underlying asset is of low value (< €5 million). The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

Transition to IFRS 16

PostNL applied IFRS 16 using the modified retrospective method with the cumulative effect of initially applying the Standard recognised at the date of initial application of 1 January 2019. Comparative information is not restated.

A discounted lease liability, at the present value of the remaining lease payments, has been recognised for leases previously classified as an operating lease applying IAS 17. The lease liability is discounted using the appropriate incremental borrowing rate per 1 January 2019. A right-of-use asset has been recognised at an amount equal to the lease liability.

Transition expedients

- PostNL has used the incremental borrowing rate per category of right-of-use assets for discounting at the date of initial application. For buildings the discount rate applied is 1.4%, for vehicles 1.1% and for other equipment 3.1%.
- PostNL has not applied IAS 36 *Impairment of assets* to right-of-use assets at the date of initial application. PostNL has relied on its assessment of whether leases are onerous applying IAS 37 *Provision, contingent liabilities and contingent assets* immediately before 1 January 2019 as an alternative to performing an impairment review.
- PostNL has used hindsight in determining the expected lease term where the contract contains options to extend or terminate the lease.

PostNL Right-of-use assets in € million

2019

	Land and buildings	Transport	Other	Total
Depreciation percentage	0%-10%	10%-33%	10%-33%	
Operating leases at 1 January	76	55	1	132
Finance leases transferred from PP&E at 1 January	12	2	13	27
Leasehold rights and ground rents transferred from PP&E at 1 January	10			10
Balance at 1 January	98	57	14	169
New leases	84	37	11	132
Acquisition of subsidiaries	28	7	5	40
Disposal of subsidiaries	(1)			(1)
Depreciation	(39)	(31)	(7)	(77)
Transfers to assets held for sale	(4)			(4)
Total changes	166	70	23	259
Historical cost	212	101	31	344
Accumulated depreciation and impairments	(46)	(31)	(8)	(85)
Balance at 31 December 2019	166	70	23	259

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 at 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.

The new leases of €132 million in 2019 mainly relate to new sorting and delivery centres within Parcels and replacement/expansion of buildings, vans and trucks. The acquisition of Sandd resulted in an increase of the right of use assets of €40 million. In 2019, the depreciation of €77 million includes €17 million of accelerated depreciation of assets from Sandd. The transfers to assets held for sale of €4 million related to rented buildings from Spotta that was classified as held for sale at 31 December 2019.

In 2018, PostNL decided to finance a number of Parcel sorting centres and sorting machines through financial leases. PostNL concluded these financial leases with an entity especially set up for this purpose by a third party. The term of the lease contracts is 10 years. In 2019, 3 sorting centres have been finalised and related right-of-use assets and lease liabilities have been recorded (2018: 1 sorting centre, transferred from property, plant and equipment at 1 January 2019).

PostNL Lease liabilities in € million

2018, 2019

At 31 December	2018	2019
Long-term lease liabilities	22	201
Short-term lease liabilities	3	63
Total	25	264

In 2018, the lease liabilities related to finance leases. In 2019, repayments of lease liabilities amounted to €62 million (2018: €2 million). Refer to note 4.1 for further information on the lease liabilities.

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

PostNL Reconciliation off balance sheet commitments and leases in € million

2019

	2019
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

In 2019, rent and lease expenses of €16 million relate for €9 million to short-term leases and for €7 million to leases for which the underlying asset is of low value. The interest expenses on lease liabilities amounted to €3 million in 2019.

3.5 Provisions for pension liabilities

Accounting policies

The net defined benefit liability/asset for all pension and other post-employment plans that qualify as defined benefit plans is determined by calculating the present value of the defined benefit obligation and deducting the fair value of the plan assets. The resulting deficit or surplus is adjusted for any effect of limiting a net defined benefit asset to the asset ceiling and for any effect of minimum funding requirements.

PostNL uses actuarial calculations (projected unit credit method) to measure the obligations and the costs.

Assumptions are made about financial variables (such as the discount rate and the rate of benefit increases) and demographic variables (such as employee turnover and mortality). The discount rate is determined by reference to market rates using high-quality corporate bonds. The assumed return on plan assets equals the discount rate applied in the calculation of the pension obligations at the beginning of the year.

Service costs are recognised as operating expenses in the income statement. Gains or losses on the amendment or

curtailment of a defined benefit plan (past service cost) and gains or losses on a settlement are recognised as operating expenses in the income statement on the date of the amendment, curtailment or settlement.

The net interest expense/income on the net defined benefit liability/asset, asset ceiling and/or minimum funding requirements, is recognised as 'Interest and similar expenses/income' in the income statement (below operating income).

Deviations between the expected and actual development of the pension obligation and plan assets, resulting in actuarial gains and losses, are recognised immediately within Other Comprehensive Income (net of tax). The impact of the asset ceiling and/or minimum funding requirements is also recognised within Other Comprehensive Income (net of tax).

Pension costs for defined contribution plans are expensed in the income statement when incurred or due.

PostNL's main Dutch defined benefit average pay pension plan (main plan) covers the employees subject to PostNL's collective labour agreement and staff with a personal labour agreement in the Netherlands. The main plan is externally funded in 'Stichting Pensioenfonds PostNL' (main fund), an independent legal entity which is not owned or controlled by any other legal entity and which falls under the regulatory supervision of De Nederlandsche Bank.

PostNL also runs a number of defined benefit transitional plans, which mainly consist of a conditional pension benefit ("soft pension") ultimately granted and financed towards the main fund at 31 December 2020 or retirement, if earlier.

Main developments during 2019

In 2019, PostNL, the trade unions and the main fund agreed on a change in the financing agreement of the main plan. Starting 1 January 2020, the coverage ratio dependent increase in contributions (10% if the coverage ratio is below 120% and 5% if the coverage ratio is

between 120% and 130%) is used solely for the benefit of the active participants instead of all participants. Parties agreed to fixate the variable increase at 5.5%, reflecting the long-term average outcome based on the current coverage ratio. Parties also agreed to include the separate invoicing of 0.2% contribution for 2% additional surviving dependant's pension benefits. As a result, the minimum and maximum level of pension (cash) contributions increased from 21.5% to 21.7% and from 27.5% to 29.2% respectively. The change positively impacted the resulting accrual rate. In the long term it will not result in higher cash contributions.

In 2015, PostNL started the payment of the unconditional funding obligation to the main fund by a first instalment of €32 million. In the years 2016 to 2019 the following instalments have been paid. At 31 December 2019, there is no outstanding funding obligation.

At year-end 2020 all remaining conditional soft pension benefits of our CLA employees have to be funded towards the pension fund. Based on the financing agreement with the fund, the costs are based on Q3 2019 parameters. Interest rates were at a multi-year low during Q3 2019 and negatively impacted the amount of the final payment, which would amount to approximately €300 million. Taking into account the interests of all stakeholders, PostNL has initiated discussions with the fund on options for a solution smoothing the impact of the low interest rate in the determination of the final payment. A possible solution might be to apply pricing based on expected returns in combination with a mark-up to the actuarial costs per 31 December 2020 capped at a maximum amount. This could lead, should interest rates develop beneficially, to an outcome that the required overall payment can come down and/or phased differently. The entitlements of the employees will not be affected, as payments will be based on a cost effective premium. We aim to conclude on this process in Q1 2020.

In relation to the acquisition of Sandd, we also acquired a closed defined benefit pension plan. We have assessed the remaining employer risks of these closed plans as negligible. On the basis hereof, we have concluded these closed plans can be treated as defined contributions plans.

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Further details of the main plan

The main plan is a defined benefit average pay scheme, with a basis accrual rate of 1.875% of the pensionable base and retirement age set at 68 years. The pensionable base is derived as the pensionable salary, with a statutory maximum of €107,593 (level 2019), minus a state pension offset.

Pension (cash) contributions are bounded by a minimum level of 21.7% and a maximum level of 29.2% of the pensionable salary base. The calculations are based on the main fund's expected return on plan assets. Based on the total maximum premium amount, the intended pension accrual can be reduced in any year. Given the applicable financing arrangements and current low interest rates, it is expected that the accrual rate will be lower than the basis level of 1.875% for the coming years. The accrual rate for 2019 and 2020 has been set at 1.652% and 1.751% of the pensionable base.

When the 12 months average coverage ratio will be below the minimum required funding level of 104.0% a 5-year recovery period will start, in which top-up payments of at most 1.25% of the fund's plan obligations per year might apply. In determining the top-up payment obligation, the resilience of the pension fund will be taken into account. The requirement to supplement a deficit will be determined on the basis of the 'beleidsdekkingsgraad' (i.e. the 12-months average coverage ratio). Based on our projections we do not anticipate any top-up payments.

By the end of 2019, the month-end coverage ratio of the main fund amounted 113.4% (2018: 112.1%). The increased coverage ratio is mainly explained by a negative effect from a decrease of the interest rate and a positive return on plan assets. The 12-months average coverage ratio amounted 110.6% per 31 December 2019 (2018: 116.0%).

The returns on plan assets are linked to the strategic investment policy of the main fund. The fund uses interest rate derivatives to reduce the net interest exposure on its assets and liabilities. The plan assets may from time to time include investments in PostNL's own financial instruments through indirect holdings by mutual funds. Around 72% of the fund's total plan assets have a quoted market price in an active market. The unquoted part relates to investments in investment funds which invest in non-listed assets (for example real estate investments) and non-listed derivatives.

PostNL Asset mix/return of main pension plan in %

2018, 2019

At 31 December	Actual mix 2018	Actual mix 2019
Equities	28%	30%
Fixed interest and inflation linked bonds	65%	60%
Real estate and alternative investment	8%	10%
Swaps	-1%	0%
Total	100%	100%
Return	-0.6%	15.1%

Statement of changes in provision for defined benefit plans

The following table presents an overview of the movement of the provision for post-employment benefit plans during 2019.

PostNL Statement of changes in provision for defined benefit plans in € million

2019

	Balance at 1 January 2019	Transfers from liabilities relating to assets held for sale	Post- employment benefit income/ (expenses)	Employer contributions	Actuarial gains/ (losses)	Pension asset ceiling/ minimum funding requirement	Balance at 31 December 2019
Dutch main pension plan	(33)		(97)	108	109	(87)	0
Dutch transitional plans	(262)		(16)	25	(27)		(280)
Other plans	(1)	(1)			(1)		(3)
Provision for post-employment benefit plans	(296)	(1)	(113)	133	81	(87)	(283)

The following table gives a break-down of total pension costs, pension cash contributions, actuarial gains and losses, and the impact of the asset ceiling and/or minimum funding requirement.

PostNL Details on cost, cash, gains and losses, and adjustments in € million

2018, 2019

		2018	2019
Regular defined benefit costs		(122)	(113)
Defined contribution costs		(12)	(12)
Total employer pension costs		(134)	(125)
Of which included within salaries, pensions and social security contributions	refer to note 2.1.3	(126)	(119)
Of which included within interest and similar expenses	refer to note 2.2	(8)	(6)
Defined benefit cash contributions		103	99
Defined benefit payment unconditional funding obligation		33	33
Defined contribution cash contributions		12	12
Total employer pension cash contributions		148	144
Actuarial gain/(loss) due to:			
Change in discount rate	from 1.8% to 0.9% (2018: from 2.0% to 1.8%)	(334)	(1,422)
Change in rate of benefit increases	from 1.1% to 0.9% (2018: from 1.5% to 1.1%)	603	242
Change in future benefit accrual rate		(9)	44
Changes in demographic assumptions		84	1
Experience adjustments		(67)	125
Actuarial gain/(loss) on benefit obligations		277	(1,010)
Actuarial gain/(loss) on plan assets		(234)	1,091
Total actuarial gain/(loss)		43	81
<i>Net charge within Other Comprehensive Income</i>		32	60
Adjustment for pension asset ceiling		(20)	(120)
Adjustment for minimum funding requirement		17	33
Total gross adjustment		(3)	(87)
<i>Net charge within Other Comprehensive Income</i>		(2)	(65)

The actuarial gain of €44 million (2018: loss of €9 million) resulting from a change in the rate of benefit accrual follows from the expected decrease of the future benefit accrual rate due to low interest rates. Given the current low interest rates and the applicable financing agreement, it is expected that the benefit accrual rate will be lower than the basis level of 1.875% for the coming years. Note that the positive impact of the adjusted financing agreement on the rate of benefit accrual has been offset by a negative impact on the rate of benefit increases, resulting in a net operating income impact of zero.

The negative adjustment of €87 million is the consequence of the increase in the main fund's funded status (on the basis of IAS 19 accounting) during 2019, triggering asset ceiling and adjustment of the recorded minimum funding requirement.

For 2020, we expect total cash contributions of around €420 million including the final payment of soft pension benefits per year-end 2020 of approximately €300 million (2019: €144 million including the fifth and last instalment of the unconditional funding obligation of €33 million). Note that the amount and/or timing of the final payment of soft pension benefits might change, pending finalisation of discussions with the pension fund. We refer to the earlier section Main developments in 2019.

For 2020, we expect total employer pension costs of around €150 million (2019: €125 million). The increase is mainly explained by the lower discount rate resulting in a higher defined benefit obligation and higher service costs. As the net liability of the main pension plan is limited to the outstanding funding obligation, we expect an actuarial gain of around €7 million recorded in other comprehensive income. The expected actuarial gain will be positively impacted if the amount of the final payment of soft pension benefits would come down.

Detailed reconciliation of the opening and closing balances

The following table reconciles the opening and closing balances of the present value of the defined benefit obligation and the fair value of plan assets, the funded status and the netted pension provisions, and the employer pension expenses of PostNL's defined benefit post-employment plans.

PostNL Detailed overview of changes in consolidated defined benefit plans in € million

2018, 2019

	2018	2019
Change in benefit obligation		
Benefit obligation at beginning of year	(8,826)	(8,607)
Transfers to liabilities relating to assets held for sale	9	(1)
Service costs	(122)	(116)
Interest costs	(176)	(155)
Actuarial (losses)/gains	277	(1,010)
Benefits paid	231	234
Benefit obligation at end of year	(8,607)	(9,655)
Of which funded benefit obligations	(8,345)	(9,375)
Of which unfunded benefit obligations	(262)	(280)
Change in plan assets		
Fair value of plan assets at beginning of year	8,515	8,364
Transfers to liabilities relating to assets held for sale	0	0
Assumed return on plan assets	169	150
Employee contributions	18	18
Employer contributions	136	132
Other costs	(9)	(9)
Actuarial (losses)/gains	(234)	1,091
Benefits paid	(231)	(234)
Fair value of plan assets at end of year	8,364	9,512
Change in funded status		
Funded status at the beginning of year	(311)	(243)
Transfers to liabilities relating to assets held for sale	9	(1)
Operating expenses	(113)	(107)
Interest (expenses)/income	(7)	(5)
Employer contributions	136	132
Actuarial (losses)/gains	43	81
Funded status at end of year	(243)	(143)
Impact of pension asset ceiling	(20)	(140)
Impact of minimum funding requirement	(33)	
Netted pension liabilities	(296)	(283)
Components of employer pension expenses		
Service costs (net of employee contributions)	(104)	(98)
Interest (expenses)/income	(8)	(6)
Other costs	(9)	(9)
Total post-employment benefit income/(expenses)	(121)	(113)
Weighted average assumptions as at 31 December		
Discount rate	1.8%	0.9%
Rate of benefit increases	1.1%	0.9%
Life expectancy 65 year old men/women (in years)	21.3/23.2	21.4/23.3

Key assumptions

The discount rate is based on the long-term yield on high quality (AA-rated) corporate bonds, taking into account the duration of the projected pension liabilities of around 18 years. The corporate bond yield information is sourced from Bloomberg, taking into account a minimum outstanding amount and other defined selection criteria. By applying curve-fitting procedures, a yield curve is generated. Using the full yield curve, the discounted value of the expected future benefit payments is matched with the comparable present value when using a single discount rate.

The conditional benefit increases are based on the (derived) Consumer Price Index. The assumed rate of benefit increases is based on advice, published statistics, the pension plan's ambition level and the actual financial status of the pension fund.

Assumptions regarding the longevity outlook are based on advice, published statistics and experience per country. The applied prospective longevity rates are derived from the Dutch mortality table 'AG prognosetafel 2018' taking into account experience rates based on postal areas, as applied by the main fund.

Sensitivity analysis of the defined benefit obligation

The table below shows the sensitivity of the defined benefit obligation at year-end 2019 to deviations in key assumptions, with all other assumptions held unchanged. The percentages presented exclude any impact from applying a liability ceiling, nor is the impact on plan assets, asset ceiling and/or minimum funding requirement included. The sensitivity to life expectancy of +1/-1 year is measured by assuming all plan participants 1 year younger/older. The percentages presented are prior to any effect of liability or asset ceiling.

PostNL Sensitivity defined benefit obligation as indicated

2019

	%-change in assumptions	impact on defined benefit obligation
Benefit obligation at end of year (in € millions)		9,655
Discount rate	+ 0.5%	-8.6%
Rate of benefit increases	+ 0.5%	10.2%
Life expectancy men/women	+ 1 yr	4.3%
Benefit obligation at end of year (in € millions)		9,655
Discount rate	- 0.5%	9.9%
Rate of benefit increases	- 0.5%	-8.3%
Life expectancy men/women	- 1 yr	-4.2%

3.6 Other provisions

Accounting policies

Provisions are recognised when there is a present obligation as a result of a past event, making it probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation on the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The gross-

up of the provision following the discounting of the provision is recorded in the income statement as interest expense.

PostNL recognises termination benefits when the company has committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or provides termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

Provisions for onerous contracts are recorded when the unavoidable costs of meeting the obligation under the contract

exceed the economic benefits expected to arise from that contract, taking into account impairment of fixed assets first.

The following table presents the changes in the short-term and long-term provisions.

PostNL Other long-term and short-term provisions in € million

2019

	Other employee benefit obligations	Restructuring	Claims and indemnities	Other	Total
Non-current other provisions	12	1	5	1	19
Current other provisions	7	11		3	21
Balance at 1 January 2019	19	12	5	4	40
Additions	4	31	7	9	51
Acquisition of subsidiaries	1		7	2	10
Withdrawals	(2)	(7)	(2)	(3)	(14)
Releases	(1)	(5)	(1)		(7)
Transfers to liabilities related to assets held for sale	(1)				(1)
Total changes	1	19	11	8	39
Non-current other provisions	13		11	2	26
Current other provisions	7	31	5	10	53
Balance at 31 December 2019	20	31	16	12	79

The estimated utilisation of the other provisions in 2020 is €53 million, in 2021 €13 million, in 2022 €3 million and in 2023 and thereafter €10 million.

Other employee benefit obligations

As at 31 December 2019, the other employee benefit obligations related to a provision for jubilee benefits of €13 million (2018: €14 million) and long-term disability benefits of €7 million (2018: €5 million).

Restructuring

The additions in restructuring provision of €31 million mainly relates to the restructuring programmes within Sandd (€24 million), operations Mail Netherlands (€3 million) and Cross Border Solutions (€2 million). In consultation with the works council of Sandd a social plan was agreed for the employees of Sandd who did not accept the job offer of PostNL and as a result would become redundant.

The withdrawals of €7 million concerned severance payments under the cost saving programmes totaling €4 million related to around 60 FTEs and payments for other initiatives totaling €3 million related to around 90 FTEs.

The release of €5 million mainly related to the cost saving programmes within operations and head office departments, resulting from reduced redundancies due to increased attention on internal mobility and periodical reassessments of the expected cash costs.

Claims and indemnities

The provision for claims and indemnities includes provisions for claims from third parties with respect to PostNL's ordinary business activities, as well as indemnities and disputes related to business disposals. Within Sandd, the disputes mainly relate to discussions on the remuneration (incl. pensions) of employed and contracted people. More detailed information relating to these provisions is not provided, as such information could prejudice the company's position with respect to these claims and indemnities.

Other

The additions in other provisions of €9 million mainly relate to onerous contracts within Sandd (€6 million) and anticipated customs clearance costs (€3 million). Within Sandd's opening balance, a dilapidation provision of €2 million has been recorded.

3.7 Investments in joint ventures and associates

Accounting policies

An associate is an entity over which PostNL has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint arrangement is an arrangement of which two or more parties have joint control. There are two types of joint arrangements: joint operations and joint ventures. PostNL only participates in entities that can be considered as a joint venture.

PostNL's share in the results of joint ventures and associates is included in the consolidated income statement using the equity method. The carrying value of PostNL's share in joint

ventures and associates includes goodwill on acquisition and includes changes to reflect PostNL's share in net earnings of the respective companies, reduced by dividends received. When PostNL's share of accumulated losses in a joint venture or associate exceeds its interest in the company, the book value of the investment is reduced to zero and PostNL does not recognise further losses unless PostNL is bound by guarantees or other undertakings in relation to the joint venture or associate.

For the accounting policy concerning impairments, reference is made to note 5.4.

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The following table presents the changes in the carrying value of the investments in joint ventures and associates.

PostNL Investments in joint ventures and associates in € million

2018, 2019

	2018	2019
Balance at 1 January	9	3
Share in net result	0	0
Transfers to assets held for sale	(8)	
Additions	2	1
Disposals		(1)
Balance at 31 December	3	3

As at 31 December 2019, the investments in associates mainly related to minority shareholdings in MyParcel.com and RoamlerCare, within Parcels. There were no material joint ventures. All joint ventures are private companies and there is no quoted market price available for their shares.

In 2019, the disposals of €1 million relate to the liquidation of Postkantoren B.V., our former joint venture with ING Bank N.V.

In 2018, the transfers to assets held for sale of €8 million related to discontinued operations and represents the balance as at 1 January 2018 (3 August 2018: €8 million). There were no material movements.

In 2018, the additions of €2 million related to the acquisition of 30% of the shares of MyParcel.com and 30% of the shares of RoamlerCare. MyParcel.com develops and sells package delivery software for webshops. The multilingual platform is intended for international customers and gives access to multiple delivery services, including Spring. RoamlerCare offers online platforms where people who need care can make contact with independent care providers, to plan the care, to share information and to express wishes. In 2019, additional capital contributions were made in both entities of €1 million in total. PostNL's stake in MyParcel.com increased to 40% of the shares.

Management has assessed none of the investments in joint ventures and associates to be material to the company. On a 100% basis, the profit/(loss) of all immaterial investments in joint ventures amounted to €0 million (2018: €0 million). The profit/(loss) of all immaterial investments in associates amounted to €(1) million (2018: €(1) million).

3.8 Deferred income tax assets and liabilities

Accounting policies

Deferred tax assets and liabilities arising from temporary differences between the carrying amounts of assets and liabilities and the tax base of assets and liabilities are calculated using the substantively enacted tax rates expected to apply when they are realised or settled. Deferred tax assets are recognised if it is probable that they will be realised. At the end

of each reporting period the amounts of deferred tax assets and the amounts of unrecognised deferred tax assets are reassessed. Deferred tax assets and liabilities within the same tax group, where a legally enforceable right to offset exists, are presented net in the balance sheet.

The following table shows the movements in deferred taxes in 2019:

PostNL Statement of changes deferred taxes in € million

2019

	Net balance 1 January 2019	Changes via income statement	Changes via OCI	Acquisition of subsidiaries	Other changes	Net balance 31 December 2019	Assets	Liabilities
Provisions	21	6	4	1		32	32	
Intangible assets	(24)	(3)				(27)	6	33
Property, plant and equipment	(23)	1				(22)	9	31
Leases				(1)		(1)	39	40
Losses carried forward	6					6	6	
Other	55	4			18	77	77	
Deferred tax assets/ liabilities	35	8	4	0	18	65	169	104
Offsetting							(104)	(104)
Net deferred taxes	35	8	4	0	18	65	65	0

Of the deferred tax assets at 31 December 2019, €59 million (2018: €8 million) is to be recovered within 12 months and €6 million (2018: €58 million) after 12 months. Of the deferred tax liabilities at 31 December 2019, an amount of €0 million (2018: €20 million) is to be settled within 12 months and an amount of €0 million (2018: €11 million) after 12 months.

The changes via other comprehensive income of €4 million fully relate to taxes on OCI from pensions, of which €3 million relate to the impact of tax rate changes in the Netherlands.

The other changes of €18 million (2018: €57 million) represent mainly the Dutch tax credit potential upon realising (liquidation) losses in connection with the sale of the Nexive and Postcon businesses (refer to note 3.9).

The total accumulated losses available for carry forward at 31 December 2019 amounted to €115 million (2018: €112 million). With these losses carried forward, future tax benefits of €29 million could be recognised (2018: €30 million). Tax deductible losses give rise to deferred tax assets at the statutory tax rate in the relevant country. Deferred tax assets are recognised if it is probable that they will be realised. The probability of the realisation is impacted by uncertainties regarding the realisation of such benefits, for example as a result of the expiration of tax losses carried forward and projected future taxable income.

As a result PostNL has not recognised €23 million (2018: €24 million) of the potential future tax benefits and has recorded deferred tax assets of €6 million at 31 December 2019 (2018: €6 million).

The expiration of total accumulated losses is as follows:

- 2020: €4 million,
- 2021: €3 million,
- 2022: €1 million,
- 2023: €2 million,
- 2024 and thereafter: €32 million, and
- Indefinite: €73 million.

The following table shows the movements in deferred taxes in 2018:

PostNL Statement of changes deferred taxes in € million

2018

	Net balance 1 January 2018	Changes via income statement	Changes via OCI	Transfers to held for sale	Other changes	Net balance 31 December 2018	Assets	Liabilities
Provisions	25	10	(13)	(1)		21	21	
Intangible assets	(27)	(1)		4		(24)	2	26
Property, plant and equipment	(30)	7				(23)	14	37
Losses carried forward	11	(1)		(8)	4	6	6	
Other	7	(4)		(1)	53	55	55	
Deferred tax assets/ liabilities	(14)	11	(13)	(6)	57	35	98	63
Offsetting							(32)	(32)
Net deferred taxes	(14)	11	(13)	(6)	57	35	66	31

3.9 Assets classified as held for sale

Accounting policies

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of the carrying amount and fair value less costs to sell. Assets held for sale are no longer amortised or depreciated from the date they are classified as such. Accounting for assets classified as held for sale requires the use of assumptions and estimates. In line with IFRS 5, management assessed compliance with these statements and the assumptions used in the fair value calculations as well as the estimated costs to sell.

For the accounting policy concerning impairments, reference is made to note 5.4.

Discontinued operations

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

As at 31 December 2019, assets classified as held for sale amounted to €91 million (2018: €200 million) and related for €10 million to buildings held for sale in the Netherlands (2018: €5 million), for €65 million to Nexive (2018: €195 million related to Nexive and Postcon) and for €16 million to Spotta. The liabilities related to assets classified as held for sale of €100 million related for €84 million to Nexive (2018: €121 million related to Nexive and Postcon) and for €16 million to Spotta.

Nexive and Postcon

In line with PostNL's strategy to accelerate our transformation to become the logistics and postal solutions provider in the Benelux, 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 are reported as 'held for sale' and the results and cash flows are reported as 'discontinued operations'.

On 5 August 2019, PostNL announced to have 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, parties agreed on an earnout arrangement with a range from €0 to €12 million.

At 31 December 2019, the divestment process for Nexive was still ongoing. Refer to note 5.5 Subsequent events which discloses the signed agreement on the sale of Nexive's business.

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

PostNL discontinued operations Financial performance and cash flow in € million

2018, 2019

Year ended at 31 December	2018	2019
Revenues	757	659
Expenses	(798)	(679)
Operating income	(41)	(20)
Financial expense	0	(1)
Results from investments in jv's/associates	3	0
Income taxes	3	1
Profit/(loss) after taxes	(35)	(20)
Impairment to fair value less costs to sell	(59)	(48)
Profit/(loss) from discontinued operations	(94)	(68)
Net cash used in operating activities	(45)	8
Net cash used in investing activities	(7)	(2)
Net cash from financing activities	0	(9)
Changes in cash and cash equivalents	(52)	(3)

The fair value impairment of €(48) million reflects the result of the completed Postcon transaction and anticipated Nexive transaction and includes a positive tax effect of €18 million (refer to note 3.8). 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 of Nexive and at 31 December 2018 of Postcon and Nexive.

PostNL discontinued operations Condensed balance sheet in € million

2018, 2019

At 31 December	2018	2019
Total non-current assets	7	16
Trade accounts receivable	87	7
Other current assets	81	35
Cash and cash equivalents	20	7
Total assets	195	65
Provisions	11	9
Long-term liabilities	0	15
Trade accounts payable	48	34
Other current liabilities	62	26
Total liabilities	121	84

At year-end 2019, the main part of the provisions of €9 million (2018: €11 million) related to the unfunded defined benefit plan Trattamento di Fine Rapporto (TFR) of €7 million (2018: €7 million) in Italy (applying a discount rate of 0.8%).

The average number of employees working for the discontinued operations was 1,375 employees (2018: 4,908) with a comparable number of FTEs of 1,251 FTEs (2018: 4,256).

As a specific contingent tax liability, at the end of December 2019 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 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 2015 onwards.

Spotta

At year-end 2019, the classification criteria of IFRS 5 Non-current Assets Held for Sale were met in relation to the anticipated sale of Spotta, market leader for leaflet distribution in the Netherlands and part of the segment Mail in the Netherlands. Following the classification as assets held for sale, Spotta has been impaired by €4 million as reflection of its fair value. Refer to note 2.1.4 for an overview of all recorded impairment charges. Refer to note 5.5 Subsequent events which discloses the signed sale and purchase agreement.

Property plant and equipment

Property, plant and equipment included in assets held for sale relate to buildings in the Netherlands. The book profit from the sale of buildings is included in other income in the consolidated income statement. The following table presents the movements of the balance sheet positions during 2019 and 2018.

PostNL Property, plant and equipment in € million

2018, 2019

	2018	2019
Balance at 1 January	10	5
Disposals	(8)	(2)
Transfers from property, plant and equipment	3	7
Balance at 31 December	5	10

3.10 Commitments and contingencies

Accounting policies

Commitments are probable obligations that arises from past events whose existence will only be confirmed by the occurrence (or non-occurrence) of one or more probable future events.

Contingencies are possible obligations (contingent liabilities) or possible assets (contingent assets) that arise from past events whose existence will only be confirmed by the occurrence (or non-occurrence) of one or more uncertain future events, not wholly within the control of the entity.

PostNL Off balance sheet commitments in € million

2018, 2019

At 31 December	2018	2019
Rent and operating lease	133	
Short term leases and leases of low-value assets		5
Leases, not commenced	39	82
Capital expenditure	20	34
Purchase commitments	123	127

As at 31 December 2019, €118 million of the commitments indicated above are of a short-term nature (2018: €155 million).

Short-term leases and leases of low-value assets

In 2019, short-term leases mainly consists of leases of depots in Mail in the Netherlands. Leases of low-value assets are mainly related to the lease of scooters.

Leases, not commenced

As at 31 December 2019, commitments in connection with leases not commenced amounted to €82 million (2018: €39 million). These commitments primarily relate to the new headoffice (€49 million) and an acquired Sandd contract of €24 million for which an onerous contract provision of €3 million has been recorded. The remainder of €21 million is disclosed as commitment, although management expects these costs will be avoided. Other commitments relate to vans and cars.

Capital expenditure

As at 31 December 2019, commitments in connection with capital expenditure amounted to €34 million (2018: €20 million) and are related to property, plant and equipment. These commitments primarily relate to the new sorting centres of Parcels.

Purchase commitments

As at 31 December 2019, PostNL had unconditional purchase commitments of €127 million (2018: €123 million), primarily related to various service and maintenance contracts for information technology, security, salary registration and cleaning.

Contingent tax assets and liabilities

Multinational groups of the size of PostNL are exposed to varying degrees of uncertainty related to their tax planning, their (changes in) transfer pricing models, regulatory reviews and tax audits, fuelled by tax regulations and relevant practices in the countries where PostNL operates being subject to change. PostNL accounts for its (income) taxes on the basis of its own internal analyses, if needed, supported by external advice. PostNL continually monitors its global tax position, and whenever uncertainties arise, assesses the potential consequences and either records the receivable, discloses a contingent asset, accrues the liability or discloses a contingent liability in its financial statements, depending on the strength of the company's position and the resulting chance of income or risk of loss.

Guarantees

As at 31 December 2019, PostNL, on behalf of its subsidiaries, had various parental support and bank guarantees outstanding. However, none resulted in an off-balance sheet commitment for the Group as the relating obligations to external parties have already been recognised by these subsidiaries following their ordinary course of business.

Contingent legal liabilities

The company is involved in several legal proceedings relating to the normal conduct of its business, such as claims for loss of goods, delays in delivery, trademark infringements, subcontracting and employment issues, and general liability. The majority of these claims are for amounts below €1 million and are insured and/or provided for. PostNL does not expect any liability arising from any of these legal proceedings to have a material impact.

The company is also involved in regulatory proceedings. While it is not feasible to predict or determine the ultimate outcome of these proceedings, the company is of the opinion that they may have an impact on the company's financial position, result of operations and cash flows going forward. The company has made provisions for probable liabilities where deemed necessary and to the extent a reliable estimate of the future cash outflows can be made.

Separation agreement PostNL and TNT Express

Following the demerger of Express, PostNL and TNT Express entered into a separation agreement, which remained valid despite the sale of the shares in TNT Express under the public offer by FedEx in May 2016. The separation agreement creates certain rights and obligations for both PostNL and TNT Express after the demerger. Relevant aspects relate to pensions, litigation, such as claims and litigation handling, non-allocated and non-anticipated claims and release of provisions.

Pursuant to the pension arrangements concluded between PostNL, TNT Express and the pension funds, PostNL provided a subsidiary guarantee for TNT Express in the event of violation of contractual terms, irregularity of payments and bankruptcy. This subsidiary guarantee only relates to pension benefits accrued under the existing pension plans (up to the date of the demerger) and will comprise a liability that gradually decreases over time. In addition, PostNL has provided a guarantee for future TNT Express pension payments, barring certain unforeseen circumstances. The guarantees of PostNL will only exist as long as the coverage ratio of the TNT Express fund is below a certain level. If the coverage ratio rises above that level and remains above that level for three consecutive quarters, the guarantees lapse.

As at 31 December 2019, no events had occurred that triggered disclosure of a significant contingent asset or liability following the aforementioned agreement with TNT Express.

3.11 Segment information

Accounting policies

PostNL reports two operating segments: Parcels and Mail in the Netherlands and one other segment: PostNL Other. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. These chief operating decision-makers, who are

responsible for allocating resources and assessing the performance of the operating segments, have been identified as the Board of Management of PostNL that makes strategic decisions. Transfer prices between operating segments are on an arm's length basis.

Balance sheet information

A reconciliation of the segment information relating to the balance sheet of the reportable segments is presented below. Segment information relating to the income statement is reported in note 2.5.

PostNL Segmentation - balance sheet and capital expenditures in € million

2019

At 31 December 2019	Parcels	Mail in NL	PostNL Other	Discontinued operations	Total
Intangible assets	65	267	32		364
Property, plant and equipment	259	140	15		414
Right-of-use assets	176	62	21		259
Other non-current assets	20	0	69		89
Trade accounts receivable	143	127	1		271
Other current assets	51	105	494		650
Assets classified as held for sale	0	26	0	65	91
Total assets	714	727	632	65	2,138
Trade accounts payable	62	105	30		197
Other current liabilities	199	462	(7)		654
Liabilities related to assets classified as held for sale	0	16	0	84	100
Total liabilities	497	832	743	84	2,156
Cash out for capital expenditures	28	22	16		66

A reconciliation of the segment information relating to the balance sheet of the reportable segments as at 31 December 2018 is presented below.

PostNL Segmentation - balance sheet and capital expenditures in € million

2018

At 31 December 2018	Parcels	Mail in NL	PostNL Other	Discontinued operations	Total
Intangible assets	72	112	28		212
Property, plant and equipment	283	195	16		494
Other non-current assets	13	3	76		92
Trade accounts receivable	140	172	1		313
Other current assets	58	67	262		387
Assets classified as held for sale	0	5	0	195	200
Total assets	566	554	383	195	1,698
Trade accounts payable	40	82	24		146
Other current liabilities	159	432	21		612
Liabilities related to assets classified as held for sale	0	0	121	121	121
Total liabilities	299	723	506	121	1,649
Cash out for capital expenditures	52	30	13		95

The segment information from a geographical perspective is derived as follows: the basis of allocation of assets and investments by geographical area is the location of the assets.

PostNL Geographical segmentation - assets in € million

2018, 2019

At 31 December	2018			2019		
	The Netherlands	Rest of Europe	Total	The Netherlands	Rest of Europe	Total
Intangible assets	211	1	212	363	1	364
Property, plant and equipment	492	2	494	411	3	414
Right-of-use assets				232	27	259
Financial fixed assets	91	1	92	88	1	89
Total non-current assets	794	4	798	1,094	32	1,126

Section 4: Capital structure and financing costs

Accounting policies

PostNL distinguishes the following categories of financial assets and liabilities:

- financial assets and liabilities at fair value through profit or loss,
- financial assets and liabilities measured at amortised costs,
- financial assets at fair value through other comprehensive income

Management determines the classification of PostNL's financial assets and liabilities at initial recognition.

Derivative financial instruments and hedge accounting

PostNL uses derivative financial instruments, such as forward currency contracts, interest rate swaps to hedge its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Balance sheet hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as financial income or expense.

Cash flow hedges

Cash flow hedges (hedges of a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction).

At the inception of a hedge relationship, PostNL formally designates and documents the hedge relationship to which it wants to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. For all cash flow hedges PostNL wants to apply hedge accounting.

The effective portion of the change in the fair value of the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

Amounts accumulated in OCI are recycled in the income statement in the periods when the hedged item will affect profit and loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred

from equity and included in the initial measurement of the asset or liability.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in equity at that time remain in equity until the underlying transaction is ultimately recognised in the income statement. When an underlying transaction is no longer expected to occur, the cumulative gains or losses that were reported in equity are immediately transferred to the income statement.

Fair value measurement

Fair value measurement is based on the following fair value measurement hierarchy:

- 1) quoted prices (unadjusted) in active markets,
- 2) inputs other than quoted prices that are observable either directly (prices) or indirectly (derived from quoted prices), and
- 3) inputs not based on observable market data. Valuation techniques used include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, statutory/management reports and discounted cash flow analysis.

Financial assets and liabilities measured at amortised costs using the effective interest method

A financial asset is measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss. Financial liabilities are recognised initially at fair value net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the financial liability using the effective interest method.

Financial assets designated at fair value through other comprehensive income

PostNL's equity investments are classified as equity instruments designated at fair value through OCI. Gains and losses on these financial assets are never recycled to profit or

loss. Dividends are recognised as financial income in the statement of profit or loss when the right of payment has been established, except when PostNL benefits from such proceeds as a recovery of part of the cost of the financial asset, in which

case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

4.1 Adjusted net debt

PostNL Adjusted net debt in € million

2018, 2019

At 31 December	2018	2019
Short- and long-term debt	399	696
Long-term interest bearing assets		(6)
Cash and cash equivalents	(269)	(480)
Net debt	130	210
Pension liabilities	296	283
Lease liabilities (on balance)	25	264
Lease liabilities (off balance)	163	51
Deferred tax assets on pension and operational lease liabilities		(72)
Adjusted net debt	614	736

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As at 31 December 2019 adjusted net debt amounted to €736 million (2018: €614 million). The increase of €122 million mainly resulted from new leases of €135 million, debt and leases from the acquisition of Sandd of €103 million and (interim) dividend payments of €71 million, partly offset by positive net cash from operating and investing activities of €104 million and, as of 2019, the inclusion of related deferred tax assets of €72 million to appropriately reflect on the net impact.

Reference is made to note 3.4 Leases, note 3.5 Provisions for pension liabilities and note 3.10 Commitments and contingencies for more detailed information on leases (on and off balance) and pensions.

Other loans receivable

As at 31 December 2019, other loans receivable of €6 million (2018: €6 million) mainly include a lessor loan of €5 million (2018: €6 million) relating to the finance lease of a sorting machine by Bol.com. The expected credit loss amounts to €0 million.

Cash and cash equivalents

PostNL Cash and cash equivalents in € million

2018, 2019

At 31 December	Nominal amount	Average amount	Effective interest rate
Cash at bank and in hand	137		
Bank deposits	10	60	(0.35%)
Money Market Funds	122	203	(0.39%)
Total cash and cash equivalents 2018	269		
Cash at bank and in hand	219		
Bank deposits	25	7	(0.51%)
Money Market Funds	236	136	(0.40%)
Total cash and cash equivalents 2019	480		

As at 31 December 2019, included in cash and cash equivalents was €0 million (2018: €0 million) of restricted cash. The fair value of cash and cash equivalents approximated the carrying value.

Debt

As at 31 December 2019, the total of debt-related liabilities consists of long-term debt of €896 million (2018: €420 million) and short-term debt of €64 million (2018: €4 million).

PostNL Total borrowings - maturity schedule in € million

2019

	Eurobonds	Lease liabilities	Other loans	Total
2020		63	1	64
2021		58		58
2022		42		42
Thereafter	695	101		796
Total borrowings	695	264	1	960
Of which included in long-term debt	695	201		896
Of which included in short-term debt		63	1	64

The following table presents the cash and the non-cash changes in debt during 2019.

PostNL Reconciliation debt in € million

2019

	Eurobonds	Lease liabilities	Other loans	Total
Balance at 1 January 2019	398	25	1	424
Proceeds	296			296
Repayments		(62)	(64)	(126)
Total cash movements	296	(62)	(64)	170
Operating leases at 1 January 2019		132		132
New leases		135		135
Acquisition of subsidiaries		39	64	103
Disposal of subsidiaries		(1)		(1)
Amortisation	1			1
Transfers to assets held for sale		(4)		(4)
Total non-cash movements	1	301	64	366
Balance at 31 December 2019	695	264	1	960

The increase in debt in 2019 is due to the issuance of a €300 million eurobond with an annual coupon of 0.625% in September 2019. Refer to note 4.5 for more details on the current outstanding eurobonds.

In 2018, the non-cash changes in the debt amounted to €21 million and related to €23 million to new finance leases.

4.2 Financial assets at fair value through OCI

The following table presents the changes in the carrying value of the financial assets at fair value through OCI.

PostNL Financial assets at fair value through OCI in € million

2018, 2019

	2018	2019
Balance at 1 January	5	17
Additions	1	1
Remeasurement recognised in OCI	11	3
Partial reduction in our stake in Whistl		(6)
Balance at 31 December	17	15

As at 31 December 2019, the investments in financial assets at fair value through OCI relate to investments in equity shares of non-listed companies. PostNL holds non-controlling interests in Whistl Group Holdings Limited, Endeit Fund II Coöperatief U.A. and Clean Clothes B.V. The assessment of fair value is based on key performance indicators included in related management and statutory reports and derived from the expected development of business and financial performance. In 2019, the fair value remeasurement of €3 million (2018: €11 million) mainly related to our stake in Whistl, for which external valuation insights have been applied.

4.3 Capital management

Capital management is focused on the following components of the current capital structure:

- targeting a leverage ratio (adjusted net debt/EBITDA) not exceeding 2.0 (outcome 2019: 2.6);
- structural availability of €300 million to €400 million of undrawn committed facilities out of our revolving credit facility (reference is made to note 4.4);
- structural funding via a combination of public and bank debt, with a risk-weighted mix of fixed and floating interest;
- cash pooling systems that ensure optimal cash requirements for the PostNL Group by facilitating centralised funding and surplus cash concentration at group level;
- tax-optimal internal and external funding focused on optimising the cost of capital for PostNL, within boundaries that are sustainable on a long-term basis.

4.4 Financial risk management

PostNL's activities expose the company to a variety of financial risks, such as interest rate risk, foreign currency exchange risk, credit risk and liquidity risk. All these risks arise in the normal course of business and PostNL therefore uses various techniques and financial derivatives to mitigate them.

The following analyses provides quantitative information regarding PostNL's exposure to the financial risks described above. There are certain limitations and simplifications inherent in the analyses presented, primarily due to the assumption that rates change in a parallel fashion and instantaneously. At the same time, for example, the impact of changes in interest on foreign exchange exposures and vice versa is ignored. In addition, the analyses are unable to reflect the complex market reactions that would normally arise from the market shifts assumed.

PostNL uses derivative financial instruments solely for the purpose of hedging currency and interest exposures. The company enters into contracts related to derivative financial instruments for periods commensurate with its underlying exposures and does not take positions independent of these exposures. None of these financial instruments are leveraged or used for trading purposes or to take speculative positions.

Financial risk management is carried out by Group Treasury under policies approved by the Board of Management. Group Treasury identifies, evaluates and hedges financial risks and exposures in close cooperation with operating units. The Board of Management provides written principles for overall risk management, as well as written policies covering the financial risks. Periodic reporting on financial risks is embedded in the overall risk framework and is provided to the Board of Management in a structural way.

Group Treasury matches and manages the intragroup and external financial exposures. Although the company generally enters into hedging arrangements and other contracts to reduce its exposures, these measures may be inadequate or may subject the company to increased operating or financing costs.

Interest rate risk

PostNL identifies interest rate risk associated with its financial assets and borrowings. Virtually all debts are at fixed rates, an increase in the rate will therefore not affect the cost base. As at 31 December 2019, PostNL's gross interest-bearing borrowings, including lease obligations, totalled €960 million (2018: €424 million), all at fixed interest rates. Financial assets are on average of a short-term nature.

At 31 December 2019, if interest rates on borrowings and financial assets had been 1% higher with other variables held constant, the profit before income tax would have been €5 million higher (2018: €3 million). The potential profit increase is entirely attributable to interest income on the cash and cash equivalents. Equity would be positively affected by €4 million (2018: €3 million), mainly due to the interest income on cash and cash equivalents.

Foreign currency exchange risk

PostNL has international operations that generate foreign currency exchange risks arising from future commercial transactions, recognised assets and liabilities, investments and divestments in foreign currencies other than functional currencies of the respective business units of PostNL, irrespective of whether it is the euro (PostNL's functional and reporting currency) or another functional currency. For accounting purposes the European Central Bank is used as the source.

The main currencies of PostNL's external hedges are the British Pound, Hong Kong Dollar and US Dollar.

The Board of Management has set a policy requiring Group companies to manage their foreign exchange risk against the functional currency. Group companies are required to hedge material exposures via the use of foreign exchange derivatives with Group Treasury, whereby a financing company operated by Group Treasury trades these foreign exchange derivatives with external banks. As at 31 December 2019, PostNL had no net investment hedges outstanding. Significant acquisitions and local debt are usually funded in the currency of the underlying assets.

As at 31 December 2019, if the euro had weakened 10% against the British Pound, the Hong Kong Dollar and the US Dollar with all other variables held constant, the profit before income taxes on the foreign exchange exposure on financial instruments would have been €0 million lower/higher (2018: €0 million). In 2019, the net income sensitivity to movements in euro/pound sterling, euro/HK dollar and euro/US dollar exchange rates is neglectable and did not change compared to 2018. Equity would have been positively impacted by €2 million (2018: €4 million), all related to the move in the hedge reserve.

Credit risk

Credit risk represents the potential losses that the company would incur if counterparties are unable to fulfil the terms of underlying agreements. Credit risk arises from cash and cash equivalents, derivatives and deposits with banks and financial institutions as well as credit exposures relating to customers. The credit risk exposure is minimised by only transacting with financial institutions, ensuring established credit guidelines are met and by managing its customer portfolio.

On the reporting date, there was no significant concentration of credit risk across the customer portfolio. The top 10 trade accounts receivable accounted for 19% of outstanding trade receivables as at 31 December 2019.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, PostNL attempts to maintain flexibility in funding by keeping committed credit lines available. The terms and conditions of PostNL's material long-

term and short-term debts, as well as its material drawn or undrawn committed credit facilities do not include any financial covenants. There are no obligations to accelerate repayments of these material debts and committed facilities in the event of a credit rating downgrade. A downgrade in PostNL's credit rating may negatively affect its ability to obtain funds from financial institutions and banks and increase its financing costs by increasing the interest rates on its outstanding debt or the interest rates at which the company is able to refinance existing debt or incur new debt.

At 31 December 2019, the €400 million committed credit facility (maturity date: 10 April 2022) was undrawn (2018: undrawn).

The following table analyses PostNL's financial liabilities, categorising them into relevant maturity groupings based on the remaining period on the balance sheet to the contractual maturity date. The outgoing flows disclosed in the table are the contractual undiscounted cash flows that contain the redemptions and interest payments.

PostNL Maturity liquidity risks in € million

2018, 2019

At 31 December	Less than 1 year	Between 1 and 3 years	Thereafter	Book value
Eurobonds	4	8	412	398
Financial leases	3	6	17	25
Other loans	1			1
Interest rate and cross-currency swaps - outgoing	0			
Foreign exchange contracts - outgoing	206			
Trade accounts payable	146			146
Other current liabilities	63			63
Total outgoing flows	423	14	429	633
Interest rate and cross-currency swaps - incoming	0			
Foreign exchange contracts - incoming	206			
Total mitigation via incoming flows	206			
Total liquidity risk 2018	217	14	429	633
Eurobonds	6	12	716	695
Leases	66	102	107	264
Other loans	1			1
Interest rate and cross-currency swaps - outgoing	18			
Foreign exchange contracts - outgoing	176			
Trade accounts payable	197			197
Other current liabilities	67			67
Total outgoing flows	531	114	823	1,224
Interest rate and cross-currency swaps - incoming	18			
Foreign exchange contracts - incoming	176			
Total mitigation via incoming flows	194			
Total liquidity risk 2019	337	114	823	1,224

4.5 Financial instruments

In line with IFRS 9 and IFRS 13, the following categories of financial assets and financial liabilities can be distinguished.

PostNL Financial instruments - assets in € million

2018, 2019

At 31 December	Notes	Input information level (IFRS13)	Loans and receivables	Derivatives used for hedging	Financial assets at fair value through OCI	Total
Other loans receivable		level 2	6			6
Other financial fixed assets		level 3			17	17
Accounts receivable	3.1.1	level 2	325			325
Foreign exchange contracts ¹		level 2		3		3
Cash and cash equivalents	4.1		269			269
Total assets balance sheet 2018			600	3	17	620
Other loans receivable		level 2	6			6
Other financial fixed assets		level 3			15	15
Accounts receivable	3.1.1	level 2	322			322
Foreign exchange contracts ¹		level 2		1		1
Cash and cash equivalents	4.1		480			480
Total assets balance sheet 2019			808	1	15	824

¹ Foreign exchange contracts are included in prepayments and accrued income in the statement of financial position.

Fair value represents the price that would be received when selling an asset in an orderly transaction between willing market participants. For the level 3 financial assets at fair value through OCI our valuations have been measured by using the market approach as per 31 December 2018 and 31 December 2019. This has resulted in an increase in fair value by €3 million (2018: €11 million) which has been accounted for through other comprehensive income.

PostNL Financial instruments - liabilities in € million

2018, 2019

At 31 December	Notes	Input information level (IFRS13)	Financial liabilities measured at amortised costs	Derivatives used for hedging	Total
Long-term debt	4.1	level 1 ¹	398		398
Trade accounts payable		level 2 ²	146		146
Short-term debt	4.1	level 2 ²	1		1
Other current liabilities ³	3.1.2	level 2 ²	62	1	63
Total liabilities balance sheet 2018			607	1	608
Long-term debt	4.1	level 1 ¹	695		695
Trade accounts payable		level 2 ²	197		197
Short-term debt	4.1	level 2 ²	1		1
Other current liabilities ³	3.1.2	level 2 ²	66	1	67
Total liabilities balance sheet 2019			959	1	960

¹ Eurobonds level 1.

² We consider the fair value equal to the book value as these items will be settled within short-term and therefore level 2.

³ Other current liabilities include 'Payments from customers received in advance' for €49 million (2018: €52 million) and 'Other' for €18 million (2018: €11 million), refer to note 3.1.2.

All financial instruments are reported on a gross basis per instrument. Netting of financial instruments per contractual counterparty will not have a material impact on the outstanding balances.

Eurobonds

For the details on the outstanding eurobonds, see the table below.

PostNL Outstanding eurobonds in € million

2018, 2019

At 31 December	Nominal value	Costs/discount to be amortised	Hedge accounting	Carrying value	Fair value
1.000% eurobond 2024	400	2	No	398	389
Total outstanding eurobonds 2018	400	2		398	389
1.000% eurobond 2024	400	1	No	399	412
0.625% eurobond 2026	300	4	No	296	299
Total outstanding eurobonds 2019	700	5		695	711

Leases

For the details on the outstanding leases, see the table below.

PostNL Outstanding leases in € million

2018, 2019

At 31 December	Nominal value	Fixed/floating interest	Hedge accounting	Carrying value	Fair value
Total outstanding financial leases 2018	25	fixed	No	25	25
Total outstanding leases 2019	264	fixed	No	264	264

Derivatives - Foreign currency exchange contracts

For the details on the outstanding foreign exchange contracts, see the table below.

PostNL Outstanding foreign exchange contracts in € million

2018, 2019

At 31 December	Carrying value	Fair value	Nominal value	Hedge	Amount in equity
Asset	3	3	154	balance sheet/cashflow	0
Liability	1	1	52	balance sheet/cashflow	0
Foreign exchange contracts 2018					
Asset	1	1	79	balance sheet/cashflow	0
Liability	1	1	97	balance sheet/cashflow	0
Foreign exchange contracts 2019					

The fair value of these outstanding foreign exchange hedges is recorded as a current asset in 'prepayments and accrued income' or as a current liability in 'total current borrowings' and includes credit valuation adjustments.

In 2019, the total ineffective portion on all derivatives recognised in the income statement that arises from the use of fair value and cash flow hedges amounted to €0 million (2018: €0 million).

4.6 Equity

Accounting policies

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases PostNL's equity share capital (treasury shares), the consideration paid, including any

directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity.

Authorised share capital

Since 4 August 2011, the company's authorised share capital amounts to €120 million, divided into 750,000,000 ordinary shares and 750,000,000 preference shares B, both of €0.08 nominal value each.

Form of shares

The ordinary shares are in bearer or registered form. Ordinary shares in bearer form are represented by a global note held by the Dutch clearing system Euroclear Netherlands and are transferable through Euroclear Netherlands' book entry system. Ordinary shares in registered form are transferred by means of a deed of transfer and PostNL's written acknowledgement of the transfer. PostNL does not have share certificates for ordinary shares represented by the global note. The preference shares B are in registered form.

Issued share capital

At 31 December 2019, the company's issued share capital amounted to €40 million (2018: €38 million). The number of authorised, issued and outstanding shares by class of share is as follows:

PostNL Shares number of shares

2018, 2019

Before proposed appropriation of profit	2018	2019
Authorised by class		
Ordinary shares	750,000,000	750,000,000
Preference shares B	750,000,000	750,000,000
Total authorised	1,500,000,000	1,500,000,000
Issued and outstanding		
Per 1 January of the reported year	453,530,195	469,199,776
Issued for stock dividend	15,165,535	23,900,149
Issued under its incentive schemes	504,046	852,661
Per 31 December of the reported year	469,199,776	493,952,586
Issued and outstanding per 31 December by class		
Ordinary shares	469,199,776	493,952,586
of which held by the company to cover share plans	0	0
of which a foundation incorporated by the company only holds the legal title	1,667,191	1,830,366
Preference shares B	0	0

Issuance/repurchase of shares to cover share plans

For all equity-settled and cash-settled share plans, PostNL intends to perform the settlement (or in case of cash-settled plans, fund the settlement) by issuing new shares. As a result, the company issued 852,661 ordinary shares in 2019 (2018: 504,046 shares) under its incentive schemes to 'Stichting Managementparticipatie PostNL' (Foundation Management Participation PostNL). The company did not

purchase any ordinary shares in 2019 (2018: 0 shares) to cover its obligations under the existing share plans. At 31 December 2019, the total number of shares held for this purpose was nil (2018: 0 shares). The company also held no ordinary shares for cancellation at 31 December 2019 (2018: 0 shares).

Incentive scheme and Foundation Management Participation PostNL

For administration and compliance purposes, since May 2013 all shares belonging to PostNL employees under PostNL incentive schemes are held by Stichting Managementparticipatie PostNL (Foundation Management Participation PostNL) on an omnibus securities account with ING Bank, the Netherlands. Foundation Management Participation PostNL legally owns the shares, while the beneficial ownership of the shares is vested in the employees, who are also entitled to dividend received by Foundation Management Participation PostNL on their behalf. At 31 December 2018, the number of PostNL shares involved amounted to 1,830,366 shares (2018: 1,667,191 shares) with a nominal value of €0.08 per share.

Foundation Continuity PostNL and preference shares B

Stichting Continuïteit PostNL (Foundation Continuity PostNL) was formed to safeguard the interests of PostNL, the undertaking connected with PostNL and all parties involved. It does this by, among other things, preventing any influences that could threaten PostNL's continuity, independence and identity, as far as possible. Foundation Continuity PostNL is an independent legal entity and is not owned or controlled by PostNL or any other legal person.

PostNL's articles of association provide for protective preference shares B that can be issued to Foundation Continuity PostNL to serve these interests. The preference shares B have a nominal value of €0.08 and have the same voting rights as PostNL's ordinary shares.

PostNL and Foundation Continuity PostNL have entered into a call option agreement, which enables Foundation Continuity PostNL to acquire a number of preference shares B not exceeding the total issued amount of shares minus one and minus any shares already issued to Foundation Continuity PostNL. The call option agreement is meant as a preventive countermeasure against influences that might threaten the continuity, independence and identity of the company. Preference shares B will be outstanding no longer than is strictly necessary. At 31 December 2019 no preference shares B were issued.

Additional paid-in capital

At 31 December 2019, additional paid-in capital of €160 million (2018: €160 million) is fully exempt for Dutch tax purposes to the extent that this has been paid in by shareholders of the company.

Section 5: Other notes

5.1 Remuneration of Supervisory Board, Board of Management and senior management

Accounting policies

Equity-settled share-based compensation plans

PostNL operates a number of equity-settled share-based compensation plans, under which the employees receive (conditional) shares of the Group for services rendered. The fair value of the employee services received, as measured at the grant date, in exchange for the grant of the shares is recognised as an expense, with a corresponding increase in equity.

Non-market performance and service conditions are included in assumptions about the number of (conditional) shares that are expected to vest. The total expense is recognised over the

vesting period, which is the period over which all the specified vesting conditions are to be satisfied. In addition, for some share-based compensation plans, employees provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense between service commencement date and grant date. At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Remuneration of members of the Supervisory Board

Total remuneration of the Supervisory Board in 2019 amounted to €403,742 (2018: €347,783). For details see the chapter 'Remuneration report'.

The members of the Supervisory Board receive no compensation related to performance and/or equity and accrue no pension rights with the company. The members of the Supervisory Board receive no severance payments in the event of termination. PostNL does not grant loans, including mortgage loans, advance payments, guarantees and options or shares to any member of the Supervisory Board.

Remuneration of members of the Board of Management

In 2019, the total remuneration based on IFRS of the Board of Management amounted to €1,926,351 (2018: €2,225,250). The following table presents total remuneration of the Board of Management:

PostNL Remuneration of the Board of Management in €

2018, 2019

		Base salary	Other benefits ¹	Pension costs ²	One year variable	Multi-year variable	Total remuneration
Herna Verhagen - CEO	2019	625,000	185,135	24,355	140,625	119,963	1,095,078
	2018	625,000	196,006	24,110	93,750	265,803	1,204,669
Pim Berendsen - CFO	2019	475,000	115,002	32,252	106,875	102,144	831,273
	2018	333,819	77,039	23,854	50,073	82,127	566,913
Jan Bos - Former CFO							
	2018	197,917	129,198	10,606	29,687	86,259	453,668

1 Other benefits include company costs related to tax and social security, pension allowances, company car and other compensation.

2 Pension costs represent the service costs of the defined benefit scheme and risk premium for the net pension plan.

Base salary

As adopted at the 2013 Annual General Meeting of Shareholders on 16 April 2013, the annual base salaries for members of the Board of Management were set at €625,000 for the CEO, and €475,000 for the CFO. The base salaries have not been adjusted since.

Accrued for short-term incentive

PostNL accounts for the short-term incentive on the basis of the performance of the year reported. In 2019, an amount of €247,500 was accrued for. In accordance with the remuneration policy, this amount will be paid in cash in 2020. In 2018, an amount of €173,510 was paid to the members of the Board of Management in relation to the short-term incentive of 2018.

Accrued for long-term incentive

In 2019, the total share-based payment costs relating to the long-term incentive performance share plan for the members of the Board of Management amounted to €222,107 (2018: €434,189).

Performance share plan (PSP)

The members of the Board of Management are awarded a long-term incentive, which represents a maximum potential reward of 37.5% of the annual base salary in the form of a performance share plan. The characteristics of this performance share plan are:

- it is a conditional equity-settled share plan based on a three-year performance period
- each year shares are conditionally allocated to members of the Board of Management
- a conditional dividend equivalent is added to the conditional shares equal to the dividend rights of ordinary shares
- the conditional shares and their conditional dividend equivalents will vest after a performance period of three years
- vesting is subject to the achievement of targets set on each of the long-term performance measures supportive to the attainment of PostNL's strategy
- if a member of the Board of Management leaves the company during the performance period due to circumstances involving fraud or gross misbehaviour, any accrued rights on the long-term incentive plan will terminate and become void
- if a member of the Board of Management leaves the company due to other reasons, a pro rata performance and time-based vesting applies, unless decided otherwise by the Supervisory board

In compliance with the Dutch Corporate Governance Code, following a three-year performance period, the holding period for vested shares expires two years thereafter or at termination of employment/service if this occurs earlier. For compliance reasons, a sale of shares may not occur within six months following the date of termination of the employment/service. Any sale of shares for the purpose of using the proceeds to pay for the tax due at vesting of these shares is exempted.

PostNL Performance share plan Board of Management number of shares

2019

Name of Director - position	Specification of plan	Number of shares held		Number of dividend shares ³	Number of shares settled during 2019	Number of shares forfeited during 2019	Net number of shares under a holding period at 31 Dec 2019	Number of shares subject to a performance condition at 31 Dec 2019
		at 1 Jan 2019 ¹	during 2019 ²					
Herna Verhagen - CEO	PSP 2019		101,207	4,530				105,737
	PSP 2018	75,833		9,859				85,692
	PSP 2017	55,884		7,266				63,150
	PSP 2016	69,428		5,666	(53,317)	(21,777)	25,725	
	PSP 2015	27,423					27,423	
	PSP 2014	30,200						
	Total shares	258,768	101,207	27,321	(53,317)	(21,777)	53,148	254,579
Pim Berendsen - CFO	PSP 2019		76,918	3,443				80,361
	PSP 2018	57,633		7,493				65,126
	PSP 2017	25,387		3,301				28,688
	PSP 2016	30,474		2,487	(23,403)	(9,558)	⁴	
	Total shares	113,494	76,918	16,724	(23,403)	(9,558)		174,175
Total shares		372,262	178,125	44,045	(76,720)	(31,335)	53,148	428,754

1 The shares held by Pim Berendsen up to and including 2017 reflect the number of shares that were granted in his duty as member of the Executive Committee.

2 The number of conditional shares granted is based on 37.5% of the annual base salary divided by the five-day average Euronext Amsterdam share price of PostNL prior to the date of publication of the Q1 2019 results (€2.3158).

3 Conditional dividend shares were granted following the final dividend 2018 and interim dividend 2019.

4 The shares of PSP 2016 were granted to Pim Berendsen in his role as member of the Executive Committee and are not subject to a holding period.

PostNL The main conditions of share award plans

2019

Specification of plan	Performance period	Grant date
PSP 2019	01/01/2019-31/12/2021	10/05/2019
PSP 2018	01/01/2018-31/12/2020	09/05/2018
PSP 2017	01/01/2017-31/12/2019	09/05/2017
PSP 2016	01/01/2016-31/12/2018	10/05/2016
PSP 2015	01/01/2015-31/12/2017	09/05/2015
PSP 2014	01/01/2014-31/12/2016	09/05/2014

The vesting date is generally equal to grant date plus three years. Subsequently a holding period of two years applies.

Note that the number of outstanding conditional shares does not represent the total number of shares held by each member of the Board of Management, which includes vested shares under PostNL's performance share plan and variable remuneration.

In 2019, an amount of €222,107 (2018: €434,189) was expensed for the cost of the performance shares of the Board of Management. The costs are determined by multiplying the number of granted performance shares by the fair value of such shares on the date of the grant (PSP 2019: € 1.853 per share; PSP 2018: €3.220 per share; PSP 2017: €4.361 per share; PSP 2016: €3.619 per share) and by taking into account expected vesting percentages.

Other periodic compensation

Other periodic compensation included company costs related to tax and social security, pension allowances, company car and other compensation.

Pension costs

The pension costs consist of the service costs for the reported year (net of employee contributions) and risk premium for the net pension plan. The members of the Board of Management are participants in a career average defined benefit scheme.

Loans, advance payments of guarantees

No loans, advance payments or guarantees were granted to members of the Board of Management in 2019 (2018: nil).

Remuneration of senior management

Short-term incentive

The short-term incentive for senior management represents a potential reward of a percentage of the annual base salary (the percentage depending on the job level), which is based on annual performance measures. Of the realised achievements, 50% is paid in cash and 50% is paid in PostNL shares in the following year. Shares will be granted unconditionally and will be delivered without restrictions or a restricted period, other than those defined in the PostNL insider trading policy.

The 50% of the short-term incentive settled in shares is accounted for as an equity-settled share-based payment. The accrued share-based payment costs relating to this short-term incentive amounted to €1.6 million in 2019 (2018: €1.2 million). The realised amounts will be granted and paid in PostNL shares in 2020.

Performance share plan

A selected group of members of senior management is awarded a long-term incentive, which represents a potential reward of 37.5% of the annual base salary in the form of a performance share plan that contains three-year performance measures. The long-term incentive is part of the remuneration package for this selected group of senior management. It is aimed particularly at aligning their interests with the long-term interests of the company and its shareholders.

The performance share plan contains the same characteristics as the performance share plan of the Board of Management with the exception that there is no holding period applicable for senior management.

PostNL Performance share plan senior management

2019

Specification of plan	Number of shares held at 1 Jan 2019	Number of shares granted during 2019 ¹	Number of dividend shares ²	Number of shares settled during 2019	Number of shares forfeited during 2019	Number of shares outstanding at 31 Dec 2019
PSP 2019		278,982	10,202	(2,403)	(48,670)	238,111
PSP 2018	204,426		24,729	(13,629)	(27,763)	187,763
PSP 2017	135,683		16,306	(18,357)	(11,545)	122,087
PSP 2016	148,115		12,087	(113,746)	(46,456)	
Total shares	488,224	278,982	63,324	(148,135)	(134,434)	547,961

1 The number of conditional shares is based on 37.5% of the annual base salary divided by the five-day average Euronext Amsterdam share price of PostNL prior to the date of publication of the Q1 2019 results (€2.3158).

2 Conditional dividend shares were granted following the final dividend 2018 and interim dividend 2019.

In 2019, an amount of €347,600 (2018: €636,626) was expensed for the cost of the performance shares of senior management. The costs are determined by multiplying the number of granted performance shares by the fair value of such shares on the date of the grant (PSP 2019: €1.853 per share; PSP 2018: €3.220 per share; PSP 2017: €4.361 per share; PSP 2016: €3.619 per share) and by taking into account expected vesting percentages.

Bonus matching share plan

Since 2011, senior management have had the opportunity, on a voluntary basis, to participate in a bonus/matching plan. The company sees the bonus matching plan as part of the remuneration package for the members of senior management, particularly aimed at aligning their interests with the long-term interests of the company and shareholders. At the discretion of the Supervisory Board, grants are made on an annual basis in accordance with the bonus matching plan which has been approved by the Supervisory Board. The significant aspects of the plan are:

- bonus shares are purchased by the participant using 25% of the gross (cash) variable remuneration and delivered upon the grant of the right on matching shares
- the number of bonus shares is calculated by dividing 25% of an individual's gross annual cash bonus relating to the preceding financial year by the share price on Euronext Amsterdam on the date the grant is made
- the rights to matching shares are granted free of charge. The number of matching shares is equal to the number of bonus shares (equity settled scheme)
- the matching rights vest three years after the delivery of the bonus shares
- for each bonus share that is sold within three years, the associated right to one matching share lapses. If more than 50% of the bonus shares are sold within three years, the entire right to matching shares lapses with immediate effect
- if a participant leaves the company for certain reasons (retirement, certain reorganisations, disability or death), the right to matching shares will vest immediately and he/she can exercise his/her right pro rata
- a participant loses the right to exercise his/her right on matching shares when he/she leaves the company for reasons other than those mentioned

The exercise of the rights to matching shares is subject to the PostNL insiders trading policy.

PostNL Bonus matching plan senior management

2019

Specification of plan	Vesting period	Number of shares outstanding at 1 Jan 2019	Number of shares granted during 2019	Number of shares settled during 2019	Number of shares forfeited during 2019	Number of shares outstanding at 31 Dec 2019
Bonus matching 2019	09/05/2018-09/05/2021		40,498			40,498
Bonus matching 2018	09/05/2017-09/05/2020	9,807	2,459	(384)	(537)	11,345
Bonus matching 2017	10/05/2016-10/05/2019	29,075		(1,001)	(552)	27,522
Bonus matching 2016	07/05/2015-07/05/2018	26,176		(26,176)		
Total		65,058	42,957	(27,561)	(1,089)	79,365

In 2019, an amount of €92,685 (2018: €83,310) was expensed for the cost of the equity-settled bonus matching shares. The costs are determined by multiplying the number of granted matching shares by the fair value of such shares on the date of the grant (2019: €1.853 per share; 2018: €3.220 per share; 2017: €4.361 per share; 2016: €3.619 per share) and by taking into account expected vesting percentages.

Financing of equity-settled plans

For all equity-settled and cash-settled share plans, PostNL intends to perform the settlement (or in case of cash-settled plans, fund the settlement) via the issuance of new shares. Accordingly, the company does not need to actively hedge the risk in connection with its obligations. As a result, the company did not purchase any additional shares in 2019 (2018: 0) to cover its obligations under the existing share plans. As at 31 December 2019, the total number of shares held for this purpose was nil (2018: 0).

5.2 Related party transactions and balances

The PostNL Group companies have trading relationships with a number of joint ventures as well as with companies in which PostNL holds minority stakes. In some cases, there are contractual arrangements in place under which PostNL companies source supplies from such undertakings, or such undertakings source supplies from PostNL. Transactions are carried out at arm's length.

During 2019, sales of PostNL to joint ventures and associates amounted to €0 million (2018: €0 million). Purchases of PostNL from joint ventures and associates amounted to €0 million (2018: €0 million). The net amounts due from the joint ventures and associates amounted to €0 million (2018: €0 million).

Related party transactions with PostNL's pension fund are presented in note 3.5 to the consolidated financial statements.

PostNL considers the members of the Board of Management and Supervisory Board as key management personnel as defined by IAS 24. For disclosure on related party transactions with the Board of Management and Supervisory Board, see note 5.1 to the consolidated financial statements.

5.3 Business combinations

The following table presents the entities acquired by PostNL during 2019.

PostNL Specification business combinations in € million

2019

Company name	Segment	Month acquired	% owner	Purchase price	Goodwill on acquisition
Sandd	Mail in NL	October	100.00%	65	128
Mostert Verkerk	Parcels	January	100.00%	1	
Total				66	128

The cash balances in the acquired companies amounted to €1 million, resulting in a cash outflow from acquisition of subsidiaries of €65 million. After closing of the acquisition of Sandd an amount of €64 million has been paid to repay debts. Refer to note 2.3.3 to the consolidated financial statements.

Sandd

On 22 October 2019, PostNL acquired 100% of the shares of Sandd, the other postal company with country-wide coverage in the Netherlands, for an amount of €65 million. The acquisition fits within the goal to create one nationwide postal network for the Netherlands in order to ensure that the postal market remains reliable, accessible and affordable for everyone. The purchase price allocation resulted in intangible assets of €30 million (customer relationships, with an amortisation period of 16 years) and goodwill of €128 million. The goodwill comprises the value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes. Transaction costs of €6 million were expensed and are included in other operating expenses.

The fair values of the identifiable assets and liabilities of Sandd as at the date of acquisition are summarised in the table below.

Sandd Balance sheets in € million

2019

	Fair value recognised on acquisition
Customer list	30
Other intangible assets	3
Property, plant and equipment	7
Right-of-use assets	41
Trade accounts receivable	23
Other current assets	9
Total assets	113
Provisions	10
Lease liabilities	39
Trade accounts payable	34
Other current liabilities	93
Total liabilities	176
Total identifiable net assets at fair value	(63)
Goodwill arising on acquisition	128
Purchase consideration transferred	65

The acquired lease liabilities were measured using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities. The terms of the acquired leases did not significantly deviate from current market conditions.

The fair value of the trade receivables amounts to €23 million. The gross amount of trade receivables is €25 million and it is expected that the fair value of the contractual amounts can be fully collected.

There were no contingent liabilities recognised at acquisition date.

Acquiree's results

In 2019, Sandd's total revenue and net income attributable to shareholders accounted for within PostNL, since acquisition date, amounted to €39 million and €(54) million respectively. The recording of a restructuring provision of €24 million and the accelerated depreciation of assets for €25 million had a substantial negative impact on Sandd's result.

Pro forma results

The following table presents the pro forma results of PostNL for 2019 as if the acquisitions had taken place on 1 January 2019. Pro forma results are not necessarily indicative of the future performance of PostNL.

PostNL Pro forma results in € million

2019

Year ended at 31 December	As reported 2019	Pro forma results 2019
Total operating revenue	2,844	2,998
Profit for the year	4	(36)
Profit attributable to the equity holders of the parent	4	(36)
Earnings per ordinary share (in € cents) ¹	0.8	(7.5)

¹ Earnings per ordinary share are in 2019 based on an average of 482,577,917 outstanding ordinary shares.

5.4 Summary of all other accounting policies

Consolidation

The consolidated financial statements include the financial figures of PostNL N.V. and its subsidiaries, associates and joint ventures and have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances have been eliminated on consolidation. A complete list of subsidiaries, associates and joint ventures included in PostNL's consolidated financial statements is filed for public review at the Chamber of Commerce in The Hague. This list has been prepared in accordance with the provisions of article 379 (1) and article 414 of book 2 of the Dutch Civil Code.

Subsidiaries

A subsidiary is an entity controlled directly or indirectly by PostNL N.V. Control is defined as the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether PostNL controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to PostNL and are de-consolidated from the date on which control ceases.

PostNL uses the acquisition method of accounting to account for the acquisition of subsidiaries. The consideration of an acquisition is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred also includes the fair value arising from contingent consideration arrangements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the acquisition date irrespective of the extent of any non-controlling interest. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred over the fair value of PostNL's share of the identifiable net assets of the subsidiary is recorded as goodwill. If the cost of acquisition is less than the fair value of PostNL's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

The non-controlling interest is initially measured at the proportion of the non-controlling interest in the recognised net fair value of the assets, liabilities and contingent liabilities. Losses applicable to the non-controlling interest in excess of the non-controlling interest in the subsidiary's equity are allocated against PostNL's interests, except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Functional currency and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary environment in which the entity operates ('the functional currency'). These consolidated financial statements are presented in euros, which is PostNL's functional and presentation currency.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities in foreign currencies are translated to the functional currency using year-end exchange rates. Foreign currency exchange gains and losses resulting from the settlement of foreign currency transactions and balances and from the translation at year-end exchange rates are recognised in the income statement except for qualifying cash flow hedges and qualifying net investment hedges that are directly recognised in other comprehensive income.

Foreign operations

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing exchange rates,
- income and expenses are translated at average exchange rates, and
- the resulting exchange rate differences based on the different ways of translating between the balance sheet and the income statement are recognised as a separate component of equity (translation reserve).

Foreign currency exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the translation reserve. When a foreign operation is sold, such exchange differences are recycled in the income statement as part of the gain or loss on the sale.

Impairment of goodwill

Goodwill is not subject to amortisation but is tested for impairment annually or whenever there is an indication that the asset might be impaired. For the purposes of assessing impairment, assets are grouped at the lowest levels at which there are separately identifiable cash flows, being the cash-generating units (CGUs). If the recoverable value of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the CGU and then pro rata to other assets of the CGU. The recoverable amount is the higher of the fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the asset-specific risks. For the purpose of assessing impairment, corporate assets are allocated to specific CGUs before impairment testing. The allocation of the corporate assets is based on the contribution of those assets to the future cash flows of the CGU under review. Impairment losses recognised for goodwill are not reversed in a subsequent period.

Impairment of investments in joint ventures and associates

PostNL assesses on each balance sheet date whether there is objective evidence that an investment in a joint venture or associate may need to be impaired. If the recoverable value of the investment is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the asset-specific risks. The fair value less costs of disposal of a joint venture or associate is reviewed based on observable publicly available market data. Possible impairment charges may be reversed if there is an indication that the impairment no longer exists or has been reduced.

Impairment of finite-lived intangible assets and property, plant and equipment

At each balance sheet date, PostNL reviews its finite-lived intangible assets and property, plant and equipment for an indication of impairment. If any indication exists, the recoverable amount of the assets is estimated. The recoverable amount is defined as the higher of an asset's fair value less costs of disposal and its value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment loss is recognised immediately in the income statement. Impairment losses recognised in prior periods shall be reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The recoverable amount shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in previous periods. A reversal of an impairment loss is recognised immediately in the income statement.

Profit sharing

The company recognises a liability and an expense for profit-sharing by employees, based on a calculation that takes into consideration quantitative and qualitative performance measures in accordance with contractual arrangements.

Dividend distribution

Dividend distribution to PostNL's shareholders is recognised as a liability in the financial statements in the year in which the dividends are approved by the shareholders. If PostNL offers its shareholders (the choice of) dividends in additional shares, the additionally issued shares are recognised at their nominal amount.

5.5 Subsequent events

On 6 February 2020, PostNL announced to have signed a sale and purchase agreement for the acquisition of PostNL Spotta by Arcis, a consortium of three companies highly experienced in printing. The transaction is expected to be completed by the end of February 2020.

On 24 February 2020, PostNL announced that it has signed an agreement on the sale of 80% of the activities of Nexive, the number-two mail and parcels provider in Italy, to Mutares SE & Co KGaA. PostNL will obtain 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 is subject to a number of conditions and is expected to close in Q2 2020. The transaction value, including the cash contribution, has been appropriately reflected in the estimated fair value per 31 December 2019.

Corporate primary statements

PostNL N.V. Corporate income statement in € million

2018, 2019

Year ended at 31 December	Notes	2018	2019
Dividend income	6.2.1	73	0
Other income		1	
Impairment Mail investments	6.2.2	(164)	(409)
Salaries, pensions and social security contributions	6.2.3	(2)	6
Other operating expenses		2	
Total operating expenses		(164)	(403)
Operating income		(90)	(403)
Interest and similar income		0	1
Interest and similar expenses		(17)	(7)
Net financial expense	6.2.4	(17)	(6)
Profit/(loss) before income taxes		(107)	(409)
Income taxes	6.2.5	5	0
Profit/(loss) for the year attributable to shareholders		(102)	(409)

PostNL N.V. Corporate statement of comprehensive income in € million

2018, 2019

Year ended at 31 December	Notes	2018	2019
Profit for the year attributable to shareholders		(102)	(409)
Actuarial gains/(losses) pensions, net of tax	6.4.2	25	81
Pension asset ceiling/minimum funding requirement, net of tax	6.4.2	(2)	(65)
Other comprehensive income that will not be reclassified to the income statement		23	16
Gains/(losses) on cashflow hedges, net of tax		2	
Other comprehensive income that may be reclassified to the income statement		2	
Total other comprehensive income for the year		25	16
Total comprehensive income for the year		(77)	(393)

PostNL N.V. Corporate statement of cash flows in € million

2018, 2019

Year ended at 31 December	Notes	2018	2019
Profit/(loss) before income taxes		(107)	(409)
Adjustments for:			
Impairment Mail investments		164	409
Share-based payments		3	1
Dividend income		(73)	0
Interest and similar income		0	(1)
Interest and similar expenses		17	7
Investment income		(56)	6
Pension liabilities		(4)	(12)
Other provisions		(3)	0
Changes in provisions		(7)	(12)
Changes in working capital		(4)	3
Cash used in operations		(7)	(2)
Interest paid		(19)	(4)
Income taxes received/(paid)		8	(32)
Net cash used in operating activities	6.3.1	(18)	(38)
Dividend received		73	0
Interest received		0	1
Capital contribution paid			(117)
Net cash from/(used in) investing activities	6.3.2	73	(116)
Dividends paid		(63)	(71)
Financing related to Group companies		206	(71)
Proceeds from long-term borrowings			296
Repayments of short-term borrowings		(198)	
Net cash from/(used in) financing activities	6.3.3	(55)	154
Total change in cash and cash equivalents		0	0
Cash and cash equivalents at the beginning of the year		0	0
Total change in cash and cash equivalents		0	0
Cash and cash equivalents at the end of the year		0	0

PostNL N.V. Corporate statement of financial position in € million

2018, 2019

At 31 December	Notes	2018	2019
Before proposed appropriation of profit			
Assets			
Investments in Mail	6.4.1	3,075	2,783
Deferred tax assets	6.2.5	0	0
Total non-current assets		3,075	2,783
Accounts receivable from Group companies	6.4.3		25
Other accounts receivable		3	1
Income tax receivable			19
Cash and cash equivalents		0	0
Total current assets		3	45
Total assets		3,078	2,828
Equity and liabilities			
Issued share capital		38	40
Additional paid-in capital		160	160
Revaluation reserve investments in Mail		2,168	1,759
Other reserves		345	602
Retained earnings		(118)	(432)
Total shareholders' equity	6.3.4	2,593	2,129
Provision for pension liabilities	6.4.2	33	
Eurobonds	6.4.4	398	695
Other provisions		2	2
Total non-current liabilities		433	697
Accounts payable to Group companies	6.4.3	44	
Income tax payable		7	
Other current liabilities		1	2
Total current liabilities		52	2
Total equity and liabilities		3,078	2,828

PostNL N.V. Corporate statement of changes in equity in € million

2018, 2019

	Issued share capital	Additional paid-in capital	Hedge reserves	Revaluation reserve investments in Mail	Other reserves	Retained earnings	Total shareholders' equity
Balance at 1 January 2018	36	160	(2)	2,332	205	(1)	2,730
Total comprehensive income			2		23	(102)	(77)
Appropriation of net income					(48)	48	0
Final dividend previous year	1	(1)				(47)	(47)
Interim dividend current year	1	(1)				(16)	(16)
Share-based compensation		2			1		3
Reduction revaluation reserve				(164)	164		0
Balance at 31 December 2018	38	160	0	2,168	345	(118)	2,593
Total comprehensive income					16	(409)	(393)
Appropriation of net income					(166)	166	0
Final dividend previous year	1	(1)				(48)	(48)
Interim dividend current year	1	(1)				(23)	(23)
Share-based compensation		2			(1)		1
Reduction revaluation reserve				(409)	409		0
Other					(1)		(1)
Balance at 31 December 2019	40	160	0	1,759	602	(432)	2,129

Section 6: Corporate financial statements

6.1 Basis of preparation

General information and description of the business

PostNL N.V. (hereafter referred to as 'the company') is a public limited liability company with its registered seat and head office at Prinses Beatrixlaan 23, 2595 AK, 's-Gravenhage, the Netherlands. The Chamber of Commerce number is 27124700.

The company's principal activity is acting as a holding company for the Group companies of the PostNL Group ('the Group') that provide businesses and consumers in the Benelux with an extensive range of services for their mail needs. Through our international sales network Spring, we connect local businesses around the world to consumers globally. The company is the ultimate parent company of the Group.

The corporate financial statements were authorised for issue by PostNL's Board of Management and Supervisory Board on 24 February 2020 and are subject to adoption at the Annual General Meeting of Shareholders on 14 April 2020.

Summary of significant accounting policies

The significant accounting policies applied in the preparation of these corporate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. All amounts included in the financial statements are presented in euros, unless stated otherwise.

Accounting principles applied

The corporate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and Dutch law. IFRS-EU includes the application of International Accounting Standards (IAS), related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and interpretations of the Standing Interpretations Committee (SIC), issued and effective, or issued and adopted early, as at 31 December 2019.

Basis of measurement

In the corporate financial statements, the same accounting principles have been applied as set out in the notes to the consolidated financial statements, except for the valuation of the investments as presented under financial fixed assets in the corporate financial statements. These policies have been consistently applied to all years presented.

In the corporate financial statements, the Mail investments are recorded at cost less impairments (deemed cost upon adoption of IFRS-EU). In the corporate statement of income, dividend received from the investments is recorded as dividend income. Due to this application, the corporate equity and net result are not equal to the consolidated equity and net result. A reconciliation for total shareholders' equity and total comprehensive income is presented in note 6.5 to the corporate financial statements.

Changes in accounting policies and disclosures

For new and amended standards we refer to the descriptions included in the 'Changes in accounting policies and disclosures' in the notes to the consolidated financial statements. The company has assessed the impact on the corporate financial statements. None of these is expected to have a significant effect on the corporate financial statements.

Functional and presentation currency

The corporate financial statements are presented in euros, the company's functional currency.

Use of estimates and judgements

The preparation of the corporate financial statements in conformity with IFRS-EU requires management to exercise judgements and make estimates and assumptions that affect the application of the company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the corporate financial statements are disclosed in the note 'Critical accounting estimates and judgements' to the consolidated financial statements.

Key accounting estimates and judgements affecting the assessment and measurement of impairment are included in note 6.4.1 to the corporate financial statements.

Share-based payments

Equity-settled share-based compensation plans

PostNL operates a number of equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for (conditional) shares of the Group. For the company's accounting policies on equity-settled share-based compensation plans, we refer to note 5.1 of the consolidated financial statements.

Specifically for PostNL N.V., the grant by the company of shares to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the corporate financial statements, in the period in which the dividends are approved by the company's shareholders.

6.2 Result for the year

6.2.1 Dividend income

Dividend income is recognised when the right to receive payment is established. The dividend income from the company's subsidiaries for 2019 was €0 million (2018: €73 million).

6.2.2 Impairment Mail investments

In 2019, an impairment of €409 million on the company's investments in Mail was accounted for (2018: €164 million). Reference is made to note 6.4.1 to the corporate financial statements.

6.2.3 Salaries, pensions and social security contributions

In 2019, salaries, pensions and social security contributions amounted to €(6) million (2018: €2 million). In accordance with IAS 19.41, the net defined benefit cost for the company's pension plans shall be recognised in the corporate financial statements. For PostNL, the contributions charged to other Group companies more than offset the pension expense incurred, resulting in a positive amount of salaries, pensions and social security contributions over the year. For further information on defined benefit pension costs, see note 6.4.2 to the corporate financial statements. PostNL N.V. does not have any employees other than the Board of Management.

6.2.4 Net financial expense/(income)

PostNL has financing relationships with both external banks and with PostNL companies, mainly with PostNL Finance B.V. As a result, PostNL records both external interest income and expenses from financial institutions and from PostNL Finance B.V.

PostNL N.V. Net financial expense/(income) in € million

2018, 2019

Year ended at 31 December	2018	2019
Interest expenses on long-term borrowings	14	5
Interest on net defined benefit pension liabilities	2	1
Other interest and similar expense	1	1
Interest and similar expense	17	7
Other interest and similar income	0	(1)
Net financial expense/(income)	17	6

In 2019, interest expenses on long-term borrowings decreased mainly as a result of the repayment of a bond in August 2018, which was replaced by a new bond with a lower interest rate. Reference is made to note 4.1 to the consolidated financial statements.

6.2.5 Income taxes

Accounting policies

The company is tax-resident in the Netherlands. The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of income, except to the extent that it relates to items recognised directly in other comprehensive income.

The amount of income tax included in the statement of income is determined in accordance with the rules established by the tax authorities in the Netherlands, based on which income taxes are payable or recoverable.

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PostNL N.V. Corporate income taxes in € million

2018, 2019

Year ended at 31 December	2018	2019
Current tax expense	3	6
Changes in deferred taxes	(8)	(6)
Total income tax expense/(income)	(5)	0
Income taxes paid/(received)	(8)	32

The difference between the total income taxes in the income statement and the current tax expense is due to temporary differences. These differences are recognised as deferred tax assets or deferred tax liabilities. In 2019, the change in deferred taxes also includes an amount of €(6) million (2018: €(8) million) via other comprehensive income fully related to taxes on OCI from pensions.

PostNL N.V. Corporate effective income tax rate in € million

2018, 2019

Year ended at 31 December	2018	2019
Dutch statutory income tax rate	25.0	25.0
Tax effects of:		
Non and partly deductible costs	(0.1)	0.0
Non deductible impairments	(38.3)	(25.0)
Exempt income	17.5	0.0
Other	0.6	0.0
Effective income tax rate	4.7	0.0

In 2019, the income taxes of €0 million (2018: €(5) million) on the result before income taxes of €(409) million (2018: €(107) million), resulted in an effective income tax rate of 0% (2018: 4.7%). Adjusted for the tax-exempt dividend income of €0 million (2018: €73 million) and the non deductible impairment of €409 million (2018: €164 million), the result before income taxes would have been €0 million (2018: €(16) million), which with income taxes unchanged at €0 million (2018: €(5) million) would have resulted in an effective income tax rate of 0% (2018: 31.3%).

Deferred tax assets and liabilities are presented net in the balance sheet if the company has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority. Based on this reporting principle, the deferred tax assets as at 31 December 2019 amounts to €0 million (2018: €0 million).

6.3 Cash flow performance and equity development

6.3.1 Net cash from/(used in) operating activities

The increase in net cash used in operating activities from €(18) million in 2018 to €(38) million in 2019 mainly related to the change in interest paid and income taxes received. In 2019, the total cash outflow for interest paid of €4 million (2018: €19 million) mainly related to interest on PostNL's long-term borrowings. In 2019, the company paid income taxes totalling €32 million (2018: €8 million received) which include settlements relating to prior years and, in 2018, internal settlements with Group companies within the PostNL fiscal unity.

6.3.2 Net cash from investing activities

In 2019, net cash from investing activities amounted to €(116) million (2018: €73 million) and mainly related to a capital contribution to PostNL Holding B.V. of €117 million. The total cash inflow from dividend received from the company's subsidiaries was €0 million (2018: €73 million).

6.3.3 Net cash used in financing activities

In 2019, the net cash from financing activities of €154 million (2018: €(55) million) mainly related to the final 2018 cash dividend paid of €48 million (2018: final 2017 cash dividend: €47 million), interim 2019 cash dividend paid of €23 million (2018: interim 2018 cash dividend: €16 million), the proceeds of a new eurobond of €296 million and financing related to Group companies of €(71) million (2018: €206 million). Financing related to Group companies mainly relates to intercompany financing of PostNL by PostNL Finance B.V. and included in 2018 the repayment of €25 million of the intercompany cross-currency swap relating to the eurobond. In 2018, the net cash used in financing activities included the repayment of a eurobond of €198 million.

6.3.4 Equity

As at 31 December 2019, equity amounts to €2,129 million (2018: €2,593 million). For the disclosure on issued share capital, additional paid-in capital and the hedge reserve, see notes 2.4 and 4.6 to the consolidated financial statements.

The revaluation reserve investments in Mail and the hedge reserve are legal reserves and are restricted for distribution.

As at 31 December 2019, the revaluation reserve of €1,759 million (2018: €2,168 million) related to the applied deemed cost approach for the investments in Mail as of 1 January 2010, partly offset by the net recorded impairment charges of €823 million.

During 2019, the other reserves increased to €602 million from €345 million, mainly due to a reclassification from the revaluation reserve of €409 million and a positive pension effect within other comprehensive income of €16 million, partly offset by the appropriation of net income for 2018 of €(166) million.

6.4 Corporate statement of financial position

6.4.1 Investments in Mail

Accounting policies

Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are stated at cost, less impairment. Dividend income from the company's subsidiaries and associated companies is recognised when the right to receive payment is established.

Impairment of investments in subsidiaries

At each balance sheet date, the company reviews whether there is an indication that its investments in subsidiaries might be impaired.

An indication may include management's downward adjustment of the strategic plan or other areas where observable data indicates a measurable decrease in the estimated future cash flows. These determinations require significant judgement. In making this judgement, management evaluates, among other factors, the financial performance of and business outlook for its investments, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If any indication for impairment exists, the recoverable amount of the investments is estimated. The recoverable amount is defined as the higher of an investment's fair value less costs

of disposal and its value in use. If the recoverable amount of an investment is estimated to be less than its carrying amount, the carrying amount of the investment is reduced to its recoverable amount. Any impairment loss is recognised immediately in the statement of income.

The investments' fair value less costs of disposal represents the best estimate of the amount the company would receive if it sold its investments. The fair value of each investment has been estimated on the basis of the present value of future cash flows, taking into account costs of disposal. The determination of the investment's value in use is based on calculations using pre-tax cash flow projections based on financial budgets approved by management covering a nine-year period. Cash flows beyond the nine-year period are extrapolated using estimated growth rates.

Impairment losses recognised in prior periods shall be reversed only if there has been a change in the estimates or external market information used to determine the investment's recoverable amount since the last impairment loss was recognised. The recoverable amount shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

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The movement in the Investments in Mail is as follows:

PostNL N.V. Investments in Mail in € million

2018, 2019

	2018	2019
Balance at 1 January	3,239	3,075
Additions to capital		117
Impairment	(164)	(409)
Balance at 31 December	3,075	2,783

The subsidiary undertakings of the company as at 31 December 2019, and the company's percentage interest, are set out below.

PostNL N.V. Breakdown corporate investments

2019

Name of direct subsidiary	Country of incorporation	Ownership %
PostNL Holding B.V.	Netherlands	100%

A complete list of investments in subsidiaries, associated companies and jointly-controlled entities will be attached to the company's Annual Report made available to the Chamber of Commerce.

A detailed review has been performed of the recoverability of the Mail investments. The recoverable value of each investment is the higher of the value in use and fair value less costs of disposal. The recoverable value is determined based on the value in use as this was higher than the fair value less costs of disposal at year end 2019. The value in use has been estimated on the basis of the present value of future cash flows. For all investments, the estimated future cash flows are based on a eight-year forecast and business plans, as management considers these forecasts reliable based on past experience.

The estimated future cash flows are derived from the most recent strategic planning approved by management, including inherent uncertainties like future volume developments, efficiency measures and the impact of regulatory decisions and developments. The applied growth rate does not exceed the long-term average growth rates on the related operation and market. The company has determined the budgeted gross margin based on past performance and its expectations for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The pre-tax discount rates in the investments' valuations varies around 9.5% (2018: around 10%).

Key assumptions used to determine the recoverable values for the investments of the company are the following:

- maturity of the underlying market, market share and volume development in order to determine the revenue mix and (long term) growth rate,
- level of operating income largely impacted by revenue and cost development, taking into account the nature of the underlying costs and potential economies of scale,
- level of capital expenditure in network-related assets, and
- discount rate to be applied following the nature of the underlying cash flows and foreign currency and inflation-related risks.

As the Mail investments are vulnerable to changes in the discount rate and changes in operating income, a sensitivity analysis has been performed for the Mail investments. The sensitivity analysis included the impact of the following items which are considered to be most critical when determining the recoverable value:

- an increase or decrease in the discount rate of 0.5%, and
- an increase or decrease in operating income of 5%.

If the discount rate were to change by 0.5%, this would impact the Mail investments by around €230 million (2018: €240 million). A change in operating income of 5% would impact the Mail investments by around €90 million (2018: €80 million).

The detailed review of the value of the Mail investments resulted in the recoverable value being €409 million lower than their carrying value. The recoverable value of the continuing operations was derived from the 2019 strategic planning, taking into account uncertainties relating to volume and margin developments, efficiency measures and investments necessary to keep up with market dynamics, and the impact of regulation within Mail in the Netherlands. The value of Postcon and Nexive, our discontinued operations, is based on fair value less costs to sell at year-end 2019. The value decrease mainly followed from a reassessed base line for Mail in the Netherlands, where to a lesser extent price increases and costs savings are expected to absorb further volume and revenue decline, an adjusted growth rate for Parcels, reduced business plans within Spring impacted by increased fierce competition and a negatively impacted discontinued operations' value, partly offset by the value impact resulting from the consolidation of Sandd. Based on the detailed review, management concluded that an impairment of €409 million was present for the Mail investments. Consequently, management recorded an impairment charge of €409 million in 2019 (2018: €164 million). Within equity, the revaluation reserve associated with the initial revaluation of the Mail investments has been lowered by the impairment charge amount.

In 2019, the additions to capital of €117 million related to a capital contribution to PostNL Holding B.V.

6.4.2 Provisions for pension liabilities

Accounting policies

For the accounting policies on pension liabilities, reference is made to note 3.5 to the consolidated financial statements.

The company is the sponsoring employer of the main Dutch pension plan, which is externally funded in a separate pension fund and cover the majority of PostNL's employees in the Netherlands.

In accordance with IAS 19.41, PostNL recognises the net defined benefit cost in the corporate financial statements of the company. The relevant Group companies recognise the costs equal to the contributions payable for the period in their financial statements. In its corporate financial statements, PostNL recognises the contributions received from the relevant Group companies as a benefit that offsets the defined benefit pension expense. The impact of the contributions is represented as participant contributions in the following table.

For the company, the contributions received from the relevant Group companies more than offset the pension expense. As a result, the corporate financial statements record a defined benefit pension income of €7 million (2018: expense of €1 million), whereas the consolidated financial statements record defined benefit pension expenses of €113 million (2018: €122 million).

The following table reconciles the opening and closing balances of the present value of the defined benefit obligation and the fair value of plan assets, the funded status and the employer pension income for the sponsored pension plan of the company.

PostNL N.V. Detailed overview of changes in corporate defined benefit plans in € million

2018, 2019

	2018	2019
Change in benefit obligation		
Benefit obligation at beginning of year	(8,528)	(8,340)
Service costs	(114)	(109)
Interest costs	(171)	(150)
Other movements	(25)	(21)
Actuarial (losses)/gains	268	(981)
Benefits paid	230	234
Benefit obligation at end of year	(8,340)	(9,367)
Change in plan assets		
Fair value of plan assets at beginning of year	8,511	8,360
Assumed return on plan assets	169	150
Other movements	29	25
Participants contributions	121	122
Employer contributions	3	3
Other costs	(9)	(9)
Actuarial (losses)/gains	(234)	1,090
Benefits paid	(230)	(234)
Fair value of plan assets at end of year	8,360	9,507
Change in funded status		
Funded status at the beginning of year	(17)	20
Operating expenses (incl. participants contributions)	1	8
Interest (expenses)/income	(1)	0
Employer contributions	3	3
Actuarial (losses)/gains	34	109
Funded status at end of year	20	140
Impact of pension asset ceiling	(20)	(140)
Impact of minimum funding requirement	(33)	
Netted pension liabilities	(33)	0
Components of employer pension expenses		
Service costs	(114)	(109)
Interest (expenses)/income	(2)	(1)
Other costs	(6)	(5)
Participants contributions	121	122
Post-employment benefit income/(expenses)	(1)	7
Weighted average assumptions as at 31 December		
Discount rate	1.8%	0.9%
Rate of benefit increases	1.1%	0.9%
Life expectancy 65 year old men/women (in years)	21.3/23.2	21.4/23.3

6.4.3 Accounts receivable from Group companies / Accounts payable to Group companies

As at 31 December 2019, accounts receivable from Group companies amounted to €25 million of which €22 million related to a receivable from PostNL Finance B.V. (2018: €44 million payable to PostNL Finance B.V.). The fair value of the accounts receivable from and payable to Group companies approximated the carrying value, due to the short-term nature.

6.4.4 Eurobonds

As at 31 December 2019, the eurobonds amounted to €695 million non-current (2018: €398 million). For the disclosure on the eurobonds, reference is made to notes 4.1 and 4.5 to the consolidated financial statements.

In 2019, the non-cash changes in the total debt amounted to €1 million and related to the amortisation of costs included in the eurobonds.

6.5 Other notes

Reconciliation corporate and consolidated equity and comprehensive income

PostNL N.V. Consolidated to corporate equity and total comprehensive income in € million

2018, 2019

Year ended at 31 December	2018		2019	
	Equity	Income	Equity	Income
Consolidated: Equity and total comprehensive income	46	72	(21)	3
Reconciliation items previous years	2,696		2,547	
Impairment Mail investments	(164)	(164)	(409)	(409)
Results from investments	29	29	(4)	(4)
Other comprehensive income (CTA/hedges/associates/pensions)	(14)	(14)	17	17
Other direct equity movements			(1)	
Total reconciliation items	2,547	(149)	2,150	(396)
Corporate: Shareholders' equity and total comprehensive income	2,593	(77)	2,129	(393)

The differences between total shareholders' equity and total comprehensive income according to the IFRS-EU consolidated financial statements and the corporate financial statements under IFRS-EU in general relate to the accounting of the Mail investments at cost less impairments (deemed cost upon adoption of IFRS-EU) in the corporate financial statements and subsequent (reversal of) impairments.

The reconciling items for equity and income are further detailed below.

Reconciliation items

The 'reconciliation items previous years' of €2,547 million in 2019 relate to the difference between the consolidated equity as at 31 December 2018 of €46 million and the corporate equity of €2,593 million at that date.

For details of the reversal of the impairment of the Mail investments recognised in the corporate financial statements in 2019, see note 6.4.1 to the corporate financial statements.

The 2019 results from investments were €4 million lower in the corporate financial statements and can be calculated from the result from the corporate income statement of €(409) million, plus the impairment of the Mail investments of €409 million, minus the result from the consolidated income statement of €4 million. The difference relates to the difference between the dividend income and the result from the Mail investments. The 2018 results from investments were €29 million higher in the corporate financial statements and can be calculated from the result from the corporate income statement of €(102) million, plus the impairment of the Mail investments of €164 million, minus the result from the consolidated income statement of €33 million. The difference relates to the difference between the dividend income and the result from the Mail investments.

The reconciliation item 'Other comprehensive income' represents hedge and currency translation adjustments and adjustments for actuarial gains/(losses) which were recognised in the consolidated financial statements but not in the corporate financial statements as the investments are stated at cost. It also represents other comprehensive income from the change in value of financial assets at fair value through OCI that was recognised in the consolidated financial statements but not in the corporate financial statements.

The 2019 difference in other comprehensive income of €17 million included €(21) million of actuarial losses on pensions, €3 million of the change in value of financial assets at fair value through OCI and €1 million other items. The 2018 difference in other comprehensive income of €(14) million included €7 million of actuarial gains on pensions, €11 million of the change in value of financial assets at fair value through OCI and €(4) million other items.

Commitments and contingencies

Declaration of joint and several liability

At 31 December 2019, the company issued a declaration of joint and several liability for some of its Group companies in compliance with article 403, book 2 of the Dutch Civil Code. Those Group companies are:

PostNL N.V. Declaration of joint and several liability

2019

Cendris Customer Contact B.V.	PostNL E-commerce Services B.V.
DM Productions B.V.	PostNL Finance B.V.
G3 Worldwide Mail N.V.	PostNL Holding B.V.
Koninklijke PostNL B.V.	PostNL Pakketten Benelux B.V.
Logistics Solutions B.V.	PostNL Real Estate B.V.
Netwerk VSP B.V.	PostNL TGN B.V.
PostNL Data Solutions B.V.	PostNL Transport B.V.

Fiscal unity in the Netherlands

The company forms a fiscal unity with a majority of its Dutch subsidiaries for corporate income tax and VAT purposes. A company and its subsidiaries that are part of these fiscal unities are jointly and severally liable for the tax payable by these fiscal unities.

Parental support

In addition to the declaration of joint and several liability in compliance with article 403, book 2 of the Dutch Civil Code, the company provided parental support relating to the following items:

- committed revolving credit facilities of €400 million;
- guarantee facilities of €85 million;
- ordinary business activities of the Group of €33 million;
- ISDA agreements.

Separation agreement TNT Express

For details on the separation agreement with TNT Express, see note 3.10 to the consolidated financial statements.

Financial risk management

For disclosure on the company's overall financial risk management programme, reference is made to note 4.4 to the consolidated financial statements.

Financial instruments

For a summary of the company's financial instruments relevant to these corporate financial statements, reference is made to note 4.5 to the consolidated financial statements.

Related party transactions and balances

The company's shares are widely held. As such, no ultimate controlling party can be identified. The company, acting as a holding company, has relationships with a number of Group companies. In some cases, there are contractual arrangements in place under which the company sources supplies from such undertakings or such undertakings source supplies from the company. Transactions are in principle carried out at arm's length.

PostNL N.V. Related party transactions in € million

2018, 2019

Year ended at 31 December	2018		2019	
	Transactions	Balances	Transactions	Balances
Dividend income PostNL Group companies	73		0	
Accounts receivable from PostNL Group companies/interest income				25
Accounts payable to PostNL Group companies/interest expense	(1)	44	(1)	
Hedge accounts receivable/(payable) to PostNL Group companies/ hedge income/(costs)	(1)			
Net financing activities from Group companies	206		(71)	
Income tax received from/(paid to) PostNL Group companies	27			

For the compensation of the members of the Board of Management and Supervisory Board, see note 5.1 to the consolidated financial statements.

Subsequent events

For disclosure on subsequent events, reference is made to note 5.5 to the consolidated financial statements.

Subsidiaries and associated companies at 31 December 2019

The list containing the information referred to in article 379 and article 414 of book 2 of the Dutch Civil Code is filed at the office of the Chamber of Commerce in The Hague.

Appropriation of profit**Dividend proposal 2019**

In accordance with our dividend policy, the condition for paying out dividend is a leverage ratio (adjusted net debt/EBITDA) not exceeding ~2. This condition was not met per year-end 2019 (leverage ratio: 2.6). The Board of Management has decided, with the approval of the Supervisory Board, subject to shareholders approval at the 2019 Annual General Meeting of Shareholders, to declare a dividend of €0.08 per ordinary share for 2019, which is equal to the interim 2019 dividend that was paid in August 2019. No final dividend will be distributed.

Appropriation of profit

The Board of Management, with the approval of the Supervisory Board, shall withdraw the corporate loss of €409 million from the reserves. For detailed information on PostNL's corporate performance, and the resulting loss, refer to section 6 of the financial statements.

Subject to the adoption of PostNL's financial statements by the Annual General Meeting of Shareholders, and given an 2019 interim dividend of €0.08 per ordinary share has been paid, no 2019 final dividend is proposed.

Upon approval of this proposal, corporate result will be appropriated as follows:

PostNL N.V. Appropriation of corporate profit in € million

2019

	2019
Result attributable to the shareholders	(409)
Appropriation in accordance with the articles of association:	
Reserves withdrawn by the Board of Management and approved by the Supervisory Board (article 31, paragraph 2)	432
Dividend on ordinary shares	23
(Interim) dividend paid in cash	(23)
Final dividend	0

The Hague, the Netherlands, 24 February 2020

Board of Management

H.W.P.M.A. Verhagen (CEO)

P. Berendsen (CFO)

Supervisory Board

J.J. Nooitgedagt (Chairman)

J. Wallage

E. Blok

A.M. Jongerius

M.E. van Lier Lels

T. Menssen

F.H. Rövekamp

PostNL N.V.

Prinses Beatrixlaan 23

2595 AK The Hague

The Netherlands

Section 7: Other information

Appropriation of profit

Extract from the articles of association on appropriation of profit

Under PostNL's articles of association, the dividend specified in article 31, paragraph 1 will first be paid on the preference shares B if outstanding. Subject to the approval of PostNL's Supervisory Board, the Board of Management will determine thereafter which part of the profit remaining after payment of dividend on any preference shares B will be appropriated to the reserves (article 31, paragraph 2). The remaining profit after the appropriation to reserves shall be at the disposal of the General Meeting of Shareholders (article 31, paragraph 3). No dividend shall be paid on shares held by PostNL in its own capital (article 31, paragraph 6). Preference shares B were not issued in 2019.

Independent auditor's report

To: the shareholders and Supervisory Board of PostNL N.V.

Report on the audit of the financial statements 2019 included in the Annual Report

Our opinion

We have audited the financial statements 2019 of PostNL N.V. (hereinafter: PostNL or The Company), based in The Hague, the Netherlands.

In our opinion the accompanying financial statements give a true and fair view of the financial position of PostNL N.V. as at 31 December 2019, and of its result and its cash flows for 2019, in accordance with International Financial Reporting Standards, as adopted by the European Union (EU-IFRS), and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The consolidated and corporate statement of financial position as at 31 December 2019
- The following statements for 2019: the consolidated and corporate income statement, the consolidated and corporate statement of comprehensive income, the consolidated and corporate statement of cash flows and the consolidated and corporate statement of changes in equity
- The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of PostNL in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Our understanding of the business

PostNL provides businesses and consumers in the Benelux with an extensive range of services for their mail and parcel needs, transforming from a traditional mail business into a logistics service provider. Through their international sales network Spring, they connect local business around the world to consumers globally. The group is structured in components and we tailor our group audit approach accordingly. We pay specific attention in our audit to a number of areas driven by the operations of the group and our risk assessment.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks, and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Materiality

Materiality	€7.5 million
Benchmark applied	5% of normalised operation income
Explanation	<p>We consider an earnings-based measure as the most appropriate basis to determine materiality. We consider operating income to be the most appropriate earnings-based benchmark, as it provides us with a consistent year on year basis for determining materiality and is one of the key performance measures for the users of the financial statements.</p> <p>The benchmark applied is in line with last year's audit. Since current years' operating income is impacted by two material one off Sandd acquisition related costs of approximately €49 million (restructuring provision and accelerated depreciation of assets), we have adjusted operating income to come to a normalized operating income on which we based our materiality.</p>

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of €375,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the Company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

We considered available information and made enquiries of relevant executives, directors (including internal audit, integrity office, legal, compliance) and the Supervisory Board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic specialists. In our risk assessment we considered the potential impact of performance based bonus schemes which the Company has in place.

We evaluated the design and the implementation of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in note 3.8, 3.1.4, 3.9 and note 5.3 of the consolidated primary statements and note 6.4.1 to the corporate primary statements. We have also used data analysis to identify and address high-risk journal entries.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, reading minutes and inspection of internal audit reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Going concern

In order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting, we consider based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Scope of the group audit

PostNL is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of PostNL N.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

Our group audit focused on significant group entities of PostNL N.V. within the segments Parcels, Mail in the Netherlands and PostNL Other. Based on their significance and/or risk characteristics, we performed full scope or specific scope audit procedures on the significant group entities within those segments. Additionally, specific scope procedures were performed on Nexive, the Group's Italian business unit included within discontinued operations.

For the entities in scope within Parcels and Mail in the Netherlands, except for the newly acquired entity Sandd and Spring Hong Kong, the group engagement team performed the work. For Sandd non-EY auditors performed full scope audit procedures on the financial information included in the Company's consolidated financial statements on our request. For Spring Hong Kong and Nexive we used EY auditors from Hong Kong and Italy respectively, who are familiar with local laws and regulations, to perform audit procedures to obtain sufficient coverage for financial statement line items from a consolidated financial statements perspective. The auditors for Sandd, Hong Kong and Nexive are collectively referred to as component auditors.

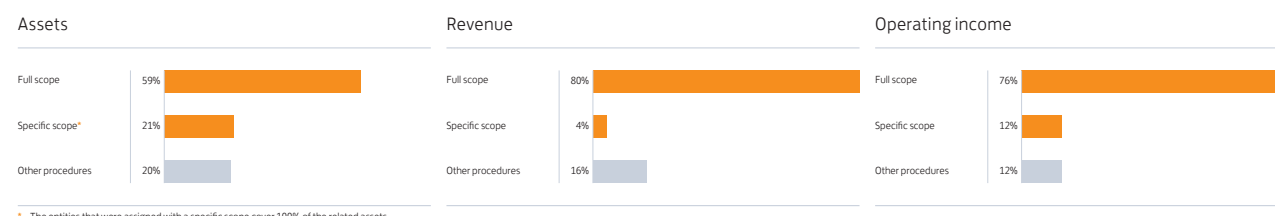
Component materiality was determined by our judgment, based on the relative size of the component and our risk assessment. Component materiality did not exceed €3.75 million and the majority of the component auditors applied a component materiality that is significantly less than this threshold.

We sent detailed instructions to all component auditors, covering the significant areas that should be addressed and set out in the information required to be reported to us. We interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process.

The group consolidation, financial disclosures and a number of complex items were audited by the group engagement team at the Company's head office. These included goodwill and Mail investments impairment testing, purchase price allocation in relation to the

acquisition of Sandd, valuation of assets classified as held for sale and pensions. We involved several EY specialists to assist the audit team, including specialists from our tax, valuations, actuarial and treasury departments. In total, in performing these procedures, we achieved, by performing full and specific scope procedures, the following coverage on the financial line items:

PostNL Coverage on financial line items



* The entities that were assigned with a specific scope cover 100% of the related assets.

None of the components covered through other procedures (remaining components) individually represented more than 3% of total group revenue. For those remaining components we performed, amongst others, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components. By performing the procedures mentioned above at entity level, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

Use of internal audit

We performed our audit in cooperation with Internal Audit of PostNL, leveraging their in-dept knowledge of the Company and the work performed. We agreed about the joint coordination of the audit planning, the nature and scope of the work to be performed, the report and documentation. We evaluated and tested the relevant work performed by Internal Audit to satisfy ourselves that the work was adequate for our purposes and established what work had to be performed by our own professionals.

General audit procedures

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

Following the acquisition of Sandd on 22 October 2019, a new key audit matter 'Acquisition of Sandd' has been defined. Impact of laws and regulation on the valuation of the business of PostNL is no longer included as a key audit matter as this mainly related to the discussion around significant market power (SMP) and tariff setting for which there were only limited developments in 2019. Furthermore we have updated the key audit matter Deferred revenue and revenue related accruals (stamps and terminal dues) to Revenue related accruals (terminal dues) since we concluded the estimate in the deferred revenue position for stamps to be limited.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our audit approach	Key observations
<p>Discontinued operations</p> <p>In August 2018 PostNL decided to divest its Postcon (Germany) and Nexive (Italy) business via an asset deal and to subsequently liquidate the entities. As a result of this decision and the historical losses at those entities a deferred tax asset originated which at 31 December 2019 amounts to €73 million. On 31 October 2019 the sale of Postcon was effectuated. As part of this transaction a receivable is recorded related to an earnout arrangement.</p> <p>We focused in our audit on the valuation of the assets classified as held for sale (Nexive), as well as the deferred tax asset which originated as a result of the (announced) divestments and the accounting for the sale of Postcon including the valuation of the related earnout. Accounting is complex and significant management judgment is involved in relation to the assessment of the recoverability of the deferred tax asset and the earnout.</p> <p>Further reference is made to note 3.8 Deferred income tax assets and liabilities and note 3.9 Assets classified as held for sale to the consolidated primary statements.</p>	<p>We have gained an understanding on the status of the divestment of Postcon and Nexive.</p> <p>Our procedures consisted of the following:</p> <ul style="list-style-type: none"> Assessed the appropriateness and compliance of the Company's accounting policies in relation to assets held for sale and discontinued operations; Corroborated the valuation of Nexive to the binding offer received; Obtained and read the agreement in relation to the sale of Postcon and verified that the transaction was correctly accounted for. We furthermore tested management's assumptions to assess the valuation of the earnout; Reconciled the amounts presented as Discontinued Operations to the underlying trial balances. <p>With the involvement of our tax specialists we audited the calculation of the deferred tax asset originating as a result of the decision to divest and subsequently liquidate the Postcon and Nexive entities. We verified the clerical accuracy, the timing of realization against the applicable enacted tax rate, as well as the recoverability of the deferred tax asset by testing management's assumptions to determine the probability that the deferred tax assets recognized in the balance sheet will be recovered.</p> <p>We also assessed the adequacy of the Company's disclosures around the deferred tax asset as included in note 3.8 Deferred income tax assets and liabilities and note 3.9 Assets classified as held for sale of the consolidated primary statements.</p>	<p>We confirm that the Company appropriately accounted for the sale of Postcon and the value of Nexive is based on the binding offer received which has been accepted on 23 February 2020 by the Company.</p> <p>We also consider management's assumptions applied in the valuation of the deferred tax asset related to Nexive and Postcon and the receivable recorded as part of the earnout arrangement (Postcon) to be reasonable.</p> <p>Furthermore, we assessed that the disclosures in note 3.8 Deferred income tax assets and liabilities and note 3.9 Assets classified as held for sale of the consolidated primary statements are appropriate.</p>
<p>Acquisition of Sandd</p> <p>On 22 October 2019 the Company acquired 100% of the shares of Sandd for a total consideration of €65 million paid for the shares and debt repayment of €64 million, resulting in €128 million goodwill and €30 million intangible assets.</p> <p>The Company was required to recognize assets acquired and liabilities assumed at the acquisition-date fair values. The acquisition, and more specifically the judgments around the</p>	<p>The Company's management engaged a third-party expert to provide valuation, tax and business modelling support with respect to the determination of the fair values of assets and liabilities under IFRS 3. We deployed our valuation experts to audit the PPA.</p> <p>Our procedures focused primarily on the risks relating to the valuation model, assumptions and judgments associated with the estimation of the fair value measurements on customer contracts and provisions. These included:</p> <ul style="list-style-type: none"> gaining an understanding through enquiry and review of the valuation methodology adopted by 	<p>We were satisfied that management had followed a robust process in the PPA exercise and that it reflected appropriately the facts and circumstances that existed at the acquisition date.</p> <p>We assessed that the disclosures in note 5.3 Business combinations are appropriate.</p>

Risk	Our audit approach	Key observations
<p>determination of the fair value of the customer contracts and provisions as part of the purchase price allocation (PPA), were significant to our audit.</p>	<p>the Company, and comparing the approach with accepted industry practice;</p> <ul style="list-style-type: none"> • assessing the appropriateness of key assumptions, by comparing them with external benchmarks; • confirming consistency of assumptions with other areas of the financial statements; • using our valuation experts to audit the integrity of the models used in the valuations; • understanding and validating the value attributed to the assets identified in the purchase price allocation; • confirming existence and valuation of assets and liabilities acquired, with specific focus on whether certain provisions should be accounted for at the acquisition date or in the period subsequent to acquisition. 	
<p>Revenue related accruals (terminal dues)</p>	<p>We also assessed the adequacy of the Company's disclosure around the acquisition as included in 5.3 Business combinations.</p>	
<p>Various assumptions are being made in the measurement of revenue related accruals.</p>	<p>We have gained an understanding of the terminal dues and its revenue related accruals process, performed walkthroughs of the revenue classes of transactions and evaluated the design in this area.</p>	
<p>The accounting of the revenue related accrual, which relates to settlements with international postal operators for services provided (terminal dues), is important to our audit given the estimates used in the calculation of the terminal dues can have an impact on the operating revenues and accrued liabilities.</p>	<p>We performed detailed analytical procedures on the terminal due positions, which included inquiry of management of the Company on the development of the postal volume and took in consideration external reports provided by other postal services, as defined in the Universal Postal Service obligations, on postal volume delivered to PostNL as well as the status of the negotiations. We performed test of details procedures on the contractual agreements on the volume and price developments, which includes back testing of previous estimates. We performed detailed procedures to determine the correctness of adjustments by substantiating the balances by agreeing the amounts to supporting documentation.</p>	<p>We also assessed the appropriateness of the Company's accounting policies in relation to revenue related accruals and the adequacy of the Company's related disclosures as included in note 3.1.4 of the consolidated primary statements.</p>
<p>Further reference is made to note 3.1.4 to the consolidated primary statements. In addition, the general accounting policy around revenue related accruals is disclosed in note 1.3 of the consolidated primary statements.</p>	<p>We also assessed the appropriateness of the Company's accounting policies in relation to revenue related accruals and the adequacy of the Company's related disclosures as included in note 3.1.4 of the consolidated primary statements.</p>	

Risk	Our audit approach	Key observations
<p>Valuation Mail investments (corporate primary statements)</p> <p>At 31 December 2019 the value of Mail investments, as included in the corporate primary statements, amounted up to €2,783 million. At each balance sheet date, the Company reviews whether there is an indication that its Mail investments are impaired or whether there are indicators that a previously recognized impairment may no longer exist or may have decreased.</p> <p>Auditing the calculation of the recoverable amount is complex, given the significant judgment related to assumptions and data in the model used to determine whether the carrying value of goodwill is appropriate and the sensitivity to fluctuations in assumptions. Significant assumptions used in the model to support the recoverable amount of Mail investments are the discount rate and operating income.</p> <p>The assumptions, sensitivities and results of the tests performed are disclosed in note 6.4.1 of the corporate primary statements. In addition, the general accounting policy around impairment is disclosed in note 1.3 and 5.4 of the consolidated primary statements.</p>	<p>We have gained an understanding of the Mail investments impairment testing process, performed a walkthrough of the impairment analysis process (e.g. controls over the data and assumptions used in the analysis such as the discount rate and operating income) and evaluated the control design in this area.</p> <p>Our EY valuation specialists assisted us with our audit of PostNL's annual impairment analysis. We reviewed the valuation model to assure that the methodology used is in line with IAS 36 Impairment of assets.</p> <p>We validated that the projected financial information used in the analysis was derived from PostNL's most recent strategic plan and long-term forecast as approved by the Board of Management and Supervisory Board and have evaluated the historical accuracy of management's assessment by comparing the historical actual results to the forecasts used.</p> <p>We challenged the assumptions used by the Company in their valuation model by comparing to external information such as discount rates and implied growth rates driving operating income.</p> <p>We confirmed that the cash flow projections are appropriate and consistent with the information approved by Board of Management and the Supervisory Board and we reconciled the carrying value to financial information from the accounting system.</p> <p>In addition, we have assessed and challenged the sensitivity analysis as performed by the Company. In the sensitivity analysis for Mail investments the Company stress tested the key assumptions discount rate and operating income to calculate the impact of a change in assumption.</p> <p>We also assessed the adequacy of the Company's disclosures around Mail investments as included in note 6.4.1 of the corporate primary statements.</p>	<p>We consider management's assumptions to be within the acceptable range and we assessed that the disclosures for Mail investments are appropriate.</p> <p>The Company impaired €409 million in 2019. We agree with management's conclusion.</p>

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The Report of the Board of Management
- The Remuneration report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code
- Report of the Supervisory Board and Non-financial statements

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 and Section 2:135b of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 and Section 2:135b sub-Section 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code, other information required by Part 9 of Book 2 of the Dutch Civil Code and the Remuneration report in accordance with Section 2:135b of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

Following the appointment by the annual general meeting of shareholders on 14 April 2015, we were engaged by the Supervisory Board on 11 January 2016 as auditor of PostNL N.V., as of the audit for the year 2016 and have operated as statutory auditor since that date. We were re-appointed in the annual general meeting of shareholders on 16 April 2019.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities for the financial statements

Responsibilities of Board of Management and the Supervisory Board for the financial statements

The Board of Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Management is responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Management should prepare the financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The Our audit approach section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Communication

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

In this respect we also submit an additional report to the Supervisory Board in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 24 February 2020

Ernst & Young Accountants LLP

S.D.J. Overbeek-Goeseije

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Non-financial performance indicators

Customer value

Year ended at 31 December	Notes	2015	2016	2017	2018	2019
Key performance indicators						
Share of highly satisfied customers	2.1	not reported	38%	41%	30%	27%
Share of satisfied customers	2.1	84%	86%	85%	82%	80%
Share of e-commerce revenue	2.2	not reported	40%	44%	48%	52%
Delivery quality Mail in the Netherlands (preliminary)	2.3	96%	96%	95%	95%	94%
Other performance indicators						
Reputation score (on a 0-100 scale)	2.4	67.7	67.8	69.7	67.7	67.1
ISO 9001 certification (percentage of total FTE working in certified sites)	2.5	96%	100%	100%	100%	100%

Social value

Year ended at 31 December	Notes	2015	2016	2017	2018	2019
Key performance indicators						
Share of engaged employees	3.1	64%	68%	67%	65%	65%
Share of employees expected to stay	3.1	86%	88%	86%	88%	88%
Other performance indicators						
Headcount (scope of non-financial reporting)	3.2	43,248	41,497	38,965	37,785	35,721
FTE (scope of non-financial reporting)	3.2	20,372	20,730	20,791	20,421	20,528
Share of females in management positions	3.3	25%	24%	21%	21%	22%
Share of females in senior management positions	3.3	not reported	not reported	not reported	25%	27%
Training hours per FTE	3.4	22	17	17	22	26
Fatal accidents	3.5	3	1	1	2	3
Recordable accidents (per 100 FTE)	3.5	not reported	not reported	not reported	4.7	4.2
Absenteeism (share of total working days)	3.5	5.0%	5.0%	5.2%	5.9%	5.4%
ISO 18001 certification (percentage of total FTE working in certified sites)	3.5	94%	100%	100%	100%	100%

Environmental value

Year ended at 31 December	Notes	2015	2016	2017	2018	2019
Key performance indicators						
CO ₂ efficiency (relative reduction of scope 1 and 2 emissions per km compared to 2017)	4.1	not reported	not reported	base year (0%)	(2%)	(8%)
Share of emission-free delivery of mail and parcels in the last-mile	4.1	not reported	not reported	not reported	17%	19%
Other performance indicators						
Energy consumption (total scope 1 and 2 in TJ)	4.2	907	925	893	949	932
Energy efficiency buildings (TJ / 1000 m ₂)	4.3	0.53	0.56	0.51	0.59	0.47
Energy efficiency transport (TJ / million km)	4.3	5.3	5.3	5.3	5.5	5.6
Scope 1 GHG emissions (gross in ktCO ₂ e)	4.4	40	41	36	37	40
Scope 2 GHG emissions (gross in ktCO ₂ e)	4.4	5	4	0	0	0
Scope 3 GHG emissions (gross in ktCO ₂ e)	4.4	256	220	211	194	187
Total GHG emissions (gross in ktCO₂e)	4.4	301	265	247	231	227
NO _x emissions (scope 1 in kg)	4.5	42,692	39,420	37,668	35,935	39,282
NO _x emissions (scope 1 in g/km)	4.5	0.55	0.50	0.46	0.43	0.42
PM ₁₀ emissions (scope 1 in kg)	4.5	685	615	628	651	734
PM ₁₀ emissions (scope 1 in g/km)	4.5	0.01	0.01	0.01	0.01	0.01
Share of vehicles complying with Euro 6	4.5	8%	19%	48%	76%	80%
Share of vehicles complying with Euro 5	4.5	92%	81%	52%	24%	20%
ISO 14001 certification (percentage of total FTE working in certified sites)	4.6	95%	100%	100%	100%	100%

Section 1: Basis of preparation

1.1 Reporting principles

Long-term value creation requires companies to steer both on the financial and non-financial aspects of business. Certain non-financial aspects contribute directly or indirectly to financial performance, and often have a greater impact over the medium to long term. At PostNL, we believe that an integrated approach towards performance management is key to ensuring the company creates stakeholder value in the long run.

Integrated Reporting as guidance

The Integrated Reporting framework of the International Integrated Reporting Council (IIRC) provides guidance on how companies should communicate about value creation. PostNL used the guiding principles and main content elements of the framework as a basis for this Annual Report. PostNL aims to further develop its corporate reporting communication about long-term value creation.

Sustainability Reporting Standards applied

PostNL prepared the non-financial information in this Annual Report in accordance with the core option of the 2016 Sustainability Reporting Standards of the Global Reporting Initiative (GRI). The GRI standards provide relevant and clear requirements for sustainability reporting on economic, social and environmental aspects, while allowing for company-specific aspects to be reported. PostNL decided to report in accordance with the core option of GRI because not all specific disclosures on material GRI topics, which are reporting requirements in the comprehensive option, are relevant for the company.

In addition to the GRI requirements, we apply supplemental reporting criteria specific to PostNL for reporting elements which are not covered by GRI. This includes specific reporting definitions as presented in the Appendix 'Glossary and definitions'.

Commitment to UN Global Compact

As a UN Global Compact signatory since 2012, PostNL reports annually through an online submission its progress of implementing the ten UN Global Compact principles. These are related to human rights, labour, environment and anti-corruption. The Appendix 'UN Global Compact reference table' provides an overview of the ten principles and references to the descriptions of progress on those principles in this Annual Report.

Contributing to the SDGs

Until now, we have focused on our long-term impact on SDG 8 (Decent work and economic growth) and SDG 13 (Climate action) and we concentrated our actions on making progress across our own operations. In 2019, we reviewed our SDG focus by carrying out an SDG impact analysis. We evaluated our impact based on a mapping between relevant topics for PostNL (see Materiality matrix) and the SDGs on a subtarget level. We validated the results during our stakeholder dialogue event and also compared the results with SDG trends in our sector. We learned that stakeholders expect us to look beyond our direct operations and pro-actively collaborate on our SDGs along the value chain.

Therefore, we decided to add two SDGs to our long-term priorities: SDG 9 (Industry, innovation and infrastructure) and SDG 12 (Responsible production and consumption). We also take action on other SDGs as part of our business model. Because all 17 SDGs are interrelated, the impact we make by focusing on the four SDGs relevant for PostNL also impacts the other SDGs.



Based on our SDG impact analysis, we assessed the long-term impact of our relevant topics in relation to our four priority SDGs. We distinguish our impact between doing good (improving our positive impact) and avoiding harm (mitigating negative impact). For each

SDG, we mapped the relevant PostNL topics to the related SDG sub goals to provide insight into where our contribution to the SDGs is to do good and where to avoid harm. The SDGs and sub goals (or sub targets as defined by the UN) are described qualitatively. We link the SDGs to our strategy through our key material topics and other relevant topics from our Materiality matrix. We defined performance indicators on all our key material topics.

PostNL SDG 8 Decent work and economic growth

PostNL topic	Link to SDG sub goal (doing good)	Link to SDG sub goal (avoiding harm)
Engaged people	8.5 Sustainable employability	8.8 Provide favourable working conditions
Labour conditions	N/A	8.8 Protecting Human Rights
Diversity and inclusion	8.5 Inclusive workforce	8.5 Reduce inequalities
Health and safety	N/A	8.8 Prevent accidents and sickness
E-commerce growth	8.1 Contribute to sector growth	N/A
Managing declining mail volumes	N/A	8.1 Response to market decline
Product and process innovation	8.2 Higher levels of economic productivity	N/A
Digitalisation	8.2 Higher levels of economic productivity	8.2 Full employment

PostNL SDG 9 Industry, innovation and infrastructure

PostNL topic	Link to SDG sub goal (doing good)	Link to SDG sub goal (avoiding harm)
Accessible, reliable and affordable postal services	9.1 Accessible, reliable and affordable mail	N/A
Sustainable city logistics	9.4 Upgrade infrastructure, clean and environmentally sound technologies and processes	N/A

PostNL SDG 12 Sustainable production and consumption

PostNL topic	Link to SDG sub goal (doing good)	Link to SDG sub goal (avoiding harm)
Responsible supply chain	12.7 Promote sustainable supply chain	12.7 Avoid non-compliance in procurement practices
Provide real-time information	12.6 Integrate sustainability in reporting cycle	12.6 Avoid cherry picking, ensure completeness
Air pollution	N/A	12.4 / 12.5 significantly reduce waste to air, soil and water to minimise adverse impacts on humans and environment
Circular economy	12.7 Collaborate with partners to promote a more sustainable supply chain	12.2 Sustainable and efficient use of natural resources

PostNL SDG 13 Climate action

PostNL topic	Link to SDG sub goal (doing good)	Link to SDG sub goal (avoiding harm)
Emission-free delivery	13.2 Improve education and awareness about climate change adaptation, mitigation and impact reduction	13.2 Reduce impact on climate change by implementing measures
Energy and GHG efficiency	N/A	13.2 Reduce impact on climate change by implementing measures

EU directive on non-financial information

As a large listed company in the Netherlands, PostNL has to comply with the EU directive on non-financial information (2014/95/EU). PostNL is required to report about non-financial information in relation to environmental, social and personnel matters, in respect of human rights and combatting bribery and corruption. The mandatory disclosures include:

- Policies and results thereof;
- Main risks and how these are managed;
- Performance indicators, to the extent that these elements exist within PostNL.

Greenhouse Gas Protocol

PostNL uses the Greenhouse Gas (GHG) Protocol to report its greenhouse gas emissions. The production of direct and indirect CO₂ emissions represents the main GHG of PostNL. We also take other GHG emissions into account, such as CH₄ and N₂O, and report our climate change impact in CO₂ equivalents.

Aligning with Taskforce on Climate related Financial Disclosures (TCFD)

PostNL recognises that climate change events can have an impact on our company and business. For many years, PostNL has included the reduction of GHG emissions in its strategy. Since 2018, we have externally disclosed that we are aligning our climate action approach to TCFD. In 2019, we further developed our long-term roadmap towards reducing our environmental impact in the next decade. We addressed all four TCFD reporting recommendation elements throughout this report.

PostNL TCFD reporting recommendation

TCFD reporting recommendation	TCFD element	Link to disclosures
<ul style="list-style-type: none"> Governance 	<ul style="list-style-type: none"> Board oversight Role of management 	<ul style="list-style-type: none"> Chapter 'Corporate governance'
<ul style="list-style-type: none"> Strategy 	<ul style="list-style-type: none"> Risks and opportunities Impact of risks and opportunities Resilience of the organisation 	<ul style="list-style-type: none"> Chapter 'Risk Management' Chapter 'Our strategy'
<ul style="list-style-type: none"> Risk Management 	<ul style="list-style-type: none"> Processes for identifying and assessing risks Processes for managing risks Integration into overall risk management 	<ul style="list-style-type: none"> Chapter 'Risk Management'
<ul style="list-style-type: none"> Targets 	<ul style="list-style-type: none"> Metrics used to assess GHG Emissions Targets 	<ul style="list-style-type: none"> Chapter 'Environmental value' Chapter 'Non-financial statements', section 'Environmental value performance indicators'

1.2 Reporting criteria

Explanation of reporting criteria used

The GRI standards provided a structured approach to prepare the non-financial information in this report. This includes universal disclosures and topic-specific disclosures. The universal disclosures consist of three key elements:

- a. Foundations: Defining report content & quality, requirements for preparing a report in accordance with GRI;
- b. General standard disclosures: Contextual information about PostNL, its strategy and governance and non-financial reporting practices; and;
- c. Management approach: Information on how PostNL manages its key material topics.

PostNL uses the topic-specific disclosures to describe the company's impact related to each key material topic, expressed in key performance indicators.

In addition, PostNL has also taken into account two important elements in relation to value creation as described by the IIRC:

- **Strategic focus / future orientation:** Information about the strategy and ability to create short-, medium- and long-term value and the ability to the use of and effect on the relevant capitals;
- **Connectivity:** Show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time .

The GRI Content Index table in the Appendix 'GRI Content index' provides references to sections with specific information in relation to the GRI requirements in this report.

Description of reporting foundations

We follow the reporting foundations in line with the GRI standards. This includes engagement with stakeholders, putting sustainability data in context, assessing material topics and ensuring information in the report is complete.

Stakeholder engagement

PostNL's main stakeholder groups, and why these groups are relevant to us, are outlined in the chapter 'Our operating context'. We interact with a variety of stakeholders on a regular basis to understand their expectations, needs and interests. In addition to our day-to-day engagement, we also engage with them through a stakeholder dialogue event. In 2019 this event was held on 3 October, where we discussed a variety of topics, including our sustainability approach, relevant SDGs and priorities, "responsible production and consumption" and "diversity and inclusion". We discussed both short and long-term impact of relevant topics. Additionally, we use a materiality assessment to identify those topics that have the greatest influence on stakeholders' decisions, and which require management's strategic attention. In 2019, we also obtained input from representatives on our stakeholder dialogue event on our material topics, which we considered in updating our materiality matrix.

The following table details the topics of interest and the means of engagement with each stakeholder group.

PostNL Stakeholder engagement

Stakeholder group	Description	Relevant topics	Our engagement
Customers	<ul style="list-style-type: none"> Business customers Consumers 	<ul style="list-style-type: none"> High quality logistic services Innovative solutions Convenient receiving options Accessible and reliable services 	<ul style="list-style-type: none"> Daily contact about services Bi-annual customer satisfaction survey Customer events and knowledge sessions Annual stakeholder dialogue
Our people	<ul style="list-style-type: none"> Employees, directly and via works council Trade unions People employed by contracted parties Independent parcel deliverers 	<ul style="list-style-type: none"> Safe and secure work environment Favourable working conditions Development opportunities Sustainable employability 	<ul style="list-style-type: none"> Daily contact about day-to-day work Regular team meetings and round table discussions Regular contact with trade unions and work councils Annual employee engagement surveys Annual survey satisfaction delivery partners at Parcels Annual stakeholder dialogue
Investors	<ul style="list-style-type: none"> Shareholders Banks Financial analysts 	<ul style="list-style-type: none"> Financial performance and position Short- and long-term value creation Investment propositions 	<ul style="list-style-type: none"> Meetings and conference calls with analysts and shareholders Quarterly results and presentations
Government bodies	<ul style="list-style-type: none"> Federal government Local governments Regulators 	<ul style="list-style-type: none"> Market developments City logistics Compliance with regulations 	<ul style="list-style-type: none"> Round tables and meetings with (local) governments Meetings and formal communication with regulators Annual stakeholder dialogue
Opinion leaders and society	<ul style="list-style-type: none"> Media Academic and research institutions NGO's Local communities 	<ul style="list-style-type: none"> Market trends Business events Environmental issues Social and societal issues 	<ul style="list-style-type: none"> Ad hoc communication about events Collaboration on research projects Annual discussion at shareholders meeting with NGO representatives Annual stakeholder dialogue
Business partners	<ul style="list-style-type: none"> Suppliers Retail shops Branch organisations 	<ul style="list-style-type: none"> Collaboration Procurement practices Business ethics 	<ul style="list-style-type: none"> Ad hoc collaboration through projects Tender processes Periodic contract negotiations and supplier evaluations Ad hoc engagement on ethical topics Annual stakeholder dialogue

Understanding the expectations of stakeholders helps PostNL to allocate resources effectively on relevant topics while focusing on adding short-, medium- and long-term value.

Sustainability context

Performance data becomes information only when put into context, which is an important principle we apply to our non-financial reporting. Our performance is influenced by our strategic actions and external circumstances, which could be sector or location specific and based on relevant trends and common goals, such as the SDGs. PostNL provides context to its performance on key material topics in the Business Report of this report.

Materiality assessment

PostNL interacts with its stakeholders on a great variety of relevant but different topics. Selecting the key material topics that drive our long-term value creation is required to bring focus to the Annual Report. This materiality concept is similar to financial reporting and is applied by evaluating the extent to which a topic influences stakeholders' decisions and the significance of PostNL's impact on its environment, including stakeholders.

Identification of topics

PostNL used the following sources to prepare a long list of topics as a first step in the assessment:

- Desktop research including:
 - Peer review
 - Market trends
 - Topics evaluated in prior years, through our Annual Reports
 - Interests of benchmarks and guidelines (such as DJSI, CDP, GRI)
 - Media search
- Long-term impact related to the SDGs
- Stakeholder dialogue on 3 October 2018;
- Interviews with (senior) management representing certain stakeholder groups with whom they have regular contact.

Selecting key material topics

Based on the long list of topics from different inputs, we clustered topics based on their nature as a first step in the selection process. The prioritisation of topics was performed based on the following process:

- a. Using the results of the extensive materiality assessment of 2018 as a basis;
- b. Updating the wording of topics to report on more specific topics;
- c. Updating the prioritisation of topics in the materiality matrix by the Annual Report project team. This was based on developments within PostNL and its operating environment and the relative importance of different stakeholders;
- d. Discuss the prioritisation of topics through interviews with (senior) management representing relevant stakeholder groups and those responsible for PostNL's strategic plans;
- e. Validate the materiality matrix with the Executive Committee which includes approval of PostNL's Board of Management.

List of topics and relation to value creation

PostNL mapped its material topics to the five different domains of value creation. These topics are the starting point of our value creation model, which can be found in the chapter 'How we create value'.

Completeness

The final element of the report foundations relate to completeness of topics, clear boundaries and coverage of the topics over time, to sufficiently reflect the significance of PostNL's impact.

Through the materiality assessment, PostNL selected, to the best of its knowledge, all relevant topics to include in this report. For each topic included in the non-financial disclosures, PostNL identified the topic boundaries where PostNL's impacts occur and how PostNL is involved in these impacts.

For all key material topics, the main impact of PostNL's activities occur in the Benelux, with the exception of environmental impact, where the main impact is outside the Benelux due to air transport of mail and parcels. For all key material topics, PostNL influences the impact by its direct activities. For the key material topics 'Customer experience', 'Emission-free delivery' and 'Sustainable city logistics', this influence is also impacted by indirect activities, mainly through activities carried out by others working for PostNL.

1.3 Safeguarding report quality

Quality principles

PostNL applied high quality standards when preparing the non-financial information in this Annual Report. This means that the company ensures that the information this report provides is:

- **Accurate:** Precise and with sufficient level of detail
- **Balanced:** Reflects both positive and negative aspects of performance
- **Clear:** Understandable and accessible for stakeholders
- **Comparable:** Consistent and allows for comparability over time
- **Reliable:** Auditable
- **Timely:** Allow stakeholders to make informed decisions.

Scoping

PostNL has aligned the scope of reporting non-financial information with financial information. On certain areas the non-financial information scope differs from the financial reporting scope.

Acquisitions, divestments and mergers

We do not include information about joint ventures in the scope of non-financial information. New entities acquired during the reporting year will be included in the first reporting year in which the entity was part of PostNL the entire year. When we divest entities during the year, or when we classify entities as discontinued in our financial reporting, we exclude the non-financial information from the performance data in the report. For material and available information we will report the relevant non-financial performance information separately in this chapter of the report. In case of mergers, we evaluated appropriate scoping on a case-by-case basis.

In line with our scoping policy, the 2019 non-financial performance statements are prepared excluding information from Sandd, as we do not have information about non-financial information in accordance with definitions we set in our reporting policies. Because the activities of Sandd will be fully integrated into our own operations, the information related to former Sandd activities will automatically be included in the non-financial reporting as of 2020.

Performance by parties in our value chain

The primary focus in our non-financial reporting is on our own direct operations. For certain information, we extend our reporting to performance of relevant parties in our value chain. Examples include information about fatal accidents where delivery partners of PostNL may be involved in. But also the CO₂ emissions and kilometres of our transport partners, both in the Benelux and beyond including truck, air and boat transport. We include all emissions for transport directly arranged by PostNL. This excludes first- and last-mile transport where PostNL is not involved in organising the logistics.

Significant estimates and judgements

PostNL strives to report the non-financial information as accurate and complete as possible. Due to inherent limitations in relation to the uncertainty of measurement equipment and/or availability of actual data, we use estimates, assumptions and judgements in our reporting. Estimates, assumptions and judgements are based on historical experience and other factors, including reasonable expectations under given circumstances.

For certain information, such as accidents, it is difficult to determine reasonable expectations. We partly depend on the reporting discipline of our people for accidents occurred during the year. Despite all measures PostNL implemented, including an open safety culture, the inherent risk of incomplete accident reporting remains.

Significant estimates in emissions reporting

Emissions reporting provides inherent limitations to the accuracy of information. The main reason is the unavailability of data from contracted parties by PostNL about their factual transport kilometres, energy consumption and CO₂ emissions. Actual emissions monitoring is not common and therefore conversion factors published by external institutes are used. PostNL used the following significant estimates to report its emissions:

Fuel consumption and kilometres of contracted partners

For the contracted partners in the Netherlands we calculate the fuel consumption using planned kilometres by vans from our operational systems and the average fuel consumption of our own fleet. In order to make conservative estimations, we assume all delivery partner use diesel vans in case we have no insight in the vehicles used. In 2019, we started to register information of vehicles used by delivery partners to obtain better insights in the vehicle mix. For the networks we have this mix available, we use it to estimate the fuel consumption per fuel type. Contrary to our own fleet, we do not know the exact kilometres driven by delivery partners. Therefore, we use planned kilometres from our operational systems in our estimation.

Kilometres transported by foot or bike to deliver mail in the Netherlands

We use several sources to calculate the amount of kilometres transported to deliver mail by foot or bike. All kilometres can be accurately determined based on actual data, except for two parts of the routes. For so-called sub-routes (between street and mailbox) we calculate the transported kilometres based on the estimated hit rate percentage of addresses that receive mail, and the estimated distance between the street and mailbox for every individual address. This is because not every household receives mail on a daily basis. The other estimate we use is related to part of the kilometres driven by e-bikes. Mail deliverers may charge these bikes either at home or at a PostNL location. We estimate the kilometres to return the bike to a PostNL location based on share of routes based on an assumed share of applicable routes.

Fuel consumption for international commercial linehaul activities

For both trucks and air freight, PostNL calculates the tonne-kilometres carried based on the distance travelled (between the Netherlands and the hub of the destination) and the actual weight of the mail and parcels transported. For trucks, PostNL uses publicly available route planning information, and for air travel PostNL uses publicly available information (Great Circle Mapper) to calculate the great circle distance between airports.

Energy consumption, CO₂, NO_x and PM₁₀ emissions

We use standard publicly available Dutch conversion factors to convert activity data from buildings and vehicles to energy consumption in Terra Joules (TJ).

To calculate CO₂ emissions of our total own operations and of subcontracted operations to our delivery partners in the Benelux, we use different external sources in order to estimate the emissions as accurately as possible.

PostNL uses the tank-to-wheel (TTW) conversion factors from activity data to CO₂ emissions published by the UK government department for environment, food and rural affairs (DEFRA) as a basis. These factors are based on the annual submission of the GHG inventory for the UK to the United Nations Framework Convention of Climate Change (UNFCCC) which is prepared in accordance with the guidelines of the Intergovernmental Panel on Climate Change (IPCC). The conversion factors of electricity use outside the UK are not provided by DEFRA, therefore PostNL uses the factors published by the International Energy Agency (IEA), an autonomous body in the framework of the Organisation for Economic Co-operation and Development (OECD). For the emissions of the discontinued operations in Germany and Italy, we calculate the emissions based on a combined average CO₂ per euro revenue of Deutsche Post DHL and Royal Mail using data from their latest published Annual Reports.

The emissions of NO_x and PM₁₀ are not directly related to the usage of combustion fuels, but depend mainly on the efficiency of the engines of vehicles. The actual emissions of NO_x and PM₁₀ are not measured, therefore we use the maximum allowed emissions for the various European emission standards of vehicles we use (Euro 4, Euro 5 or Euro 6) in grams per kilometre. By using the maximum allowed emissions, PostNL reports the NO_x and PM₁₀ emissions conservatively.

Significant judgements

Customer satisfaction, employee engagement, brand reputation and delivery quality are indicators measured on sample basis. PostNL aims to report performance data that provides a representative view of the population from which the sample is taken. To achieve this representativeness, PostNL ensures the sample sizes are statistically sufficient and include all different sub populations to justify our assumption that the result of the measurement represents the view of the entire population for the indicators mentioned.

Data revisions

Developments in business, reporting requirements and methodology improvements influence the way PostNL measures, calculates and reports its performance data. Whenever PostNL updates its reporting scope or reporting methods, we also revise prior years' data to keep the performance data comparable over time.

Improvements in data quality

During 2019, we have further improved our non-financial reporting processes and systems. This has resulted in the availability of more accurate data, which helped us in reporting certain information with higher accuracy. Within our social value domain, we improved our reporting on new hires and employee turnover. We were able to calculate these numbers more accurately, resulting in lower percentages across the board in our comparative figures. The table below details the data revisions for employee new hires and turnover.

PostNL Effect of data revisions in comparative figures in Social value

2015-2018, as indicated

Year ended at 31 December	2015	2016	2017	2018
New hires				
Male (share of total headcount) before data revision	30%	31%	32%	42%
Female (share of total headcount) before data revision	35%	34%	35%	37%
Total (share of total headcount) before data revision	32%	32%	33%	40%
Male (share of total headcount) after data revision	28%	27%	27%	31%
Female (share of total headcount) after data revision	35%	31%	31%	27%
Total (share of total headcount) after data revision	31%	29%	29%	29%
Turnover				
Male (share of total headcount) before data revision	40%	36%	40%	43%
Female (share of total headcount) before data revision	39%	36%	39%	43%
Total (share of total headcount) before data revision	39%	36%	40%	43%
Male (share of total headcount) after data revision	38%	33%	34%	32%
Female (share of total headcount) after data revision	38%	34%	36%	32%
Total (share of total headcount) after data revision	38%	33%	35%	32%

For the development of our plan towards our long-term science-based CO₂ emission reduction targets, we obtained more accurate data of transport activities and vehicle mix of our subcontractors used by our smaller networks. Based on this information we were able to estimate the CO₂ emissions more precisely compared to prior years. This resulted in more CO₂ emissions per kilometre as basis for our estimation for these networks than our previous assumptions, and thus a increase in our scope 3 GHG emissions from subcontractors.

PostNL Effect of data revisions in comparative figures in Environmental value

2015-2018, in kilotonnes CO₂e

Year ended at 31 December	2015	2016	2017	2018
Scope 3 GHG emissions				
Independent parcel deliverers and other subcontractors before data revision	224	194	166	154
Independent parcel deliverers and other subcontractors after data revision	248	215	187	169

Reporting processes, systems and controls

PostNL uses formalised processes to record, validate and consolidate information in order to report non-financial performance data. PostNL integrated non-financials in the regular planning and control cycle, including budgeting, target setting and periodic performance monitoring. We collect and report non-financial performance data on selected key performance indicators on a monthly basis. Other indicators are reported biannually or annually depending on the nature of the indicators.

Similar to financial reporting, all reporting entities are responsible for their non-financial performance data and implement actions to steer on results. Although the majority of non-financial information is recorded in central PostNL systems, for several entities and indicators other systems are used. For our consolidation processes, we use an IT system covering both financial and non-financial data. For some performance indicators, such as employee engagement and loyalty, the data is prepared and collected centrally. We strive to report non-financial performance data based on actuals as much as possible. We focus on our key performance indicators. On other performance indicators, we may use extrapolation of results of big entities to determine the performance of smaller entities. This reduces the administrative tasks for smaller entities. We only use this method in cases where the extrapolations are reasonably predictable. In our data coverage table in Appendix 2 we provide insight into the information reported based on extrapolation.

In order to ensure that the data reported by different entities is consistent and of high quality, PostNL developed company-wide reporting definitions for each performance indicator. In addition, we implemented formal quality controls related to the reported data in the system for both the data owners (first line of defence) and control department (second line of defence). This includes decentral and central analytical procedures to evaluate the accuracy and completeness of reported data, as well as seeking explanations for unexpected trends in performance. PostNL uses its controls in a company-wide financial and non-financial internal control framework.

PostNL Performance of discontinued operations

2018, 2019

	2018	2019 ¹
Social value		
Headcount	4,906	4,744
FTE	4,255	4,224
Fatal accidents	0	0
Recordable accidents (per 100 FTE)	5.5	8.5
Absenteeism (share of total working days)	6.8%	6.9%
Environmental value		
Scope 1 GHG emissions (gross in ktCO ₂ e)	3	3
Scope 2 GHG emissions (gross in ktCO ₂ e)	0	0
Scope 3 GHG emissions (gross in ktCO ₂ e)	37	29
Total GHG emissions (gross in ktCO₂e)	40	32

1 For Postcon, we only report the first ten months of 2019.

Similar to last year, we include non-financial information in relation to operations within Postcon and Nexive, which are classified as discontinued. We report on the non-financial information reported by these entities during 2019. As shown in the table above, the recordable accident frequency rate is higher than for our continued operations. This is partly explained by local requirements on recordable accidents in Germany and with a history of relative high numbers of recordable accidents in Italy. Absenteeism is comparable with prior years but higher than our continued operations. Uncertainty about the future of the companies due to the long divestment processes may have influenced these results.

The decrease in scope 3 emissions is mainly related to the fact that for Postcon we only report until October.

Forward-looking information

Some statements in this Annual Report are 'forward-looking statements'. By their nature, 'forward-looking statements' involve risk and uncertainty because they relate to and depend on circumstances that occur in the future. These statements involve known and unknown risks, uncertainties and other factors that are beyond PostNL's control and impossible to predict and may cause actual results to differ materially from any future results expressed or implied. They are based on current expectations, estimates, forecasts, analyses and projections about the industries in which PostNL operates and PostNL management's beliefs and assumptions about future events.

Undue reliance cannot be placed on these 'forward-looking statements' by readers of this report. These statements only speak as of the date of this Annual Report and are neither predictions nor guarantees of future events or circumstances. PostNL does not undertake any obligation to release publicly any revisions to these statements to reflect events or circumstances after the date of this Annual Report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

Assurance

PostNL's Internal Audit department includes select non-financial information and related controls in the scope of their work. In addition to the internal controls and internal audit, PostNL engaged EY as our independent external auditor for our financial statements to provide reasonable assurance on the non-financial information in this Annual Report.

The scope of EY's assurance includes the non-financial information in the following sections of this Annual Report:

- Introduction
- Business report (excluding the chapter 'Financial value')
- Non-financial performance statements (excluding Assurance report of the independent auditor).

1.4 Guidelines, benchmarks, and initiatives

Our assessment of material topics is also based on dominant topics in guidelines and benchmarks, such as the GRI guidelines; the ten principles of the UN Global Compact, with respect to human rights, labour, environment, and anti-corruption, which we support; and the OECD guidelines. The following guidelines, benchmarks, and initiatives are particularly important for us.

Dow Jones Sustainability Index

Launched in 1999, the Dow Jones Sustainability Indices are the first global indices to track the financial performance of the leading sustainability-driven companies worldwide. They provide asset managers and other stakeholders with reliable and objective benchmarks for managing sustainability portfolios. In 2019, we were given a Bronze Award within the DJSI and were ranked in the top-10 of the Transport and Transportation industry. For further information, see www.sustainability-index.com.



Carbon Disclosure Project

Carbon Disclosure Project (CDP) is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Over the past 15 years the organisation has created a system that has resulted in unparalleled engagement on environmental issues worldwide. In 2019 we were awarded a Level A+ score by the CDP for our climate reporting, stabilising our performance of 2018.



Sustainable Development Goals

The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations. The SDGs were established with the aim of ending poverty, protecting the planet and ensuring prosperity for all. As part of our materiality analysis, we carried out desk research on the external environment, including on the SDGs. We originally identified two SDGs that are most relevant for us: Decent work and economic growth, and Climate action. In 2019 we added two additional SDGs to our long-term priorities: SDG 9 (industry, innovation and infrastructure) and SDG 12 (Responsible production and consumption). In the chapter: How we create value, we explain in more detail the steps we have taken to accomplish these goals.



UN Global Compact

The UN Global Compact is an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labour, the environment and anti-corruption. Under the Global Compact, companies are brought together with UN agencies, labour groups and civil society.



Global Reporting Initiative

The GRI is a multi-stakeholder process and an independent institution whose mission is to develop and disseminate globally-applicable sustainability reporting guidelines for voluntary use by organisations that report on the economic, environmental and social dimensions of their business. The GRI incorporates participation of business, accountancy, investment, environmental, human rights and research and labour organisations from around the world. For more information, see www.globalreporting.org.



International Post Corporation

The IPC is the leading service provider of the global postal industry that provides leadership by driving service quality, interoperability and business-critical intelligence to support posts in defending existing business and expanding into new growth areas. It is a cooperative association of 24 member postal operators in Asia-Pacific, Europe and North America.



Dutch Diversity Charter

The Dutch Diversity Charter was launched in The Hague in July 2015, with 22 employers from the public and private sector. The Diversity Charter is an essential part of the project Diversity at Work. Through this project the Dutch Labour Foundation wants to support employers and employees in the public and private sector in their efforts to increase diversity in their businesses and work towards a more inclusive environment. PostNL was one of the original signatories of the Charter.



Talent to the Top

We are active in the Talent to the Top Charter. The Charter was developed in 2008, in close consultation with the business sector, public bodies and the Ministries of Economic Affairs and Education, Culture & Science. The aim is to achieve a higher intake, promotion and retention of female talent in top jobs.



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BREEAM

BREEAM, Building Research Establishment Environmental Assessment Method, is a globally-recognised method for assessing, rating and certifying the sustainability of buildings. The assessment covers a range of environmental issues, including evaluating energy and water use, health and wellbeing, pollution, transport, materials, waste, ecology and management processes. Buildings are rated and certified on a scale of 'Pass', 'Good', 'Very Good', 'Excellent' and 'Outstanding'. We built our most recent parcel distribution and processing centres in accordance with BREEAM 'Outstanding'.



Lean & Green

Lean & Green is Europe's leading programme for sustainable logistics. It stimulates organisations to achieve a higher level of sustainability, by taking measures that are not only cost efficient, but also focused on reducing the environmental impact, resulting in a more efficient logistical process. Lean & Green is operated by Connex, an independent network for smart, sustainable and social mobility, and logistics. In 2019, we maintained our Lean & Green second star for our Parcels segment.



EcoVadis

EcoVadis provides holistic Corporate Social Responsibility (CSR) ratings service of companies, delivered via a global cloud-based SaaS platform. The EcoVadis Rating covers a broad range of non-financial management systems including Environmental, Labor & Human Rights, Ethics and Sustainable Procurement impacts. Each company is assessed on the material issues as they pertain to their company's size, location and industry. These evidence-based assessments are refined into easy to read scorecards, providing zero to one hundred (0-100) scores, and medals (bronze, silver, gold), when applicable. In 2019, we received a gold medal based on the Ecovadis rating. For more information, see www.ecovadis.com.



Section 2: Customer value performance indicators

PostNL Customer indicators

2015 - 2019

Year ended at 31 December	2015	2016	2017	2018	2019
Key performance indicators					
Share of highly satisfied customers	not reported	38%	41%	30%	27%
Share of satisfied customers	84%	86%	85%	82%	80%
Share of e-commerce related revenues	not reported	40%	44%	48%	52%
Delivery quality Mail in the Netherlands (preliminary)	96%	96%	95%	95%	94%
Other performance indicators					
Reputation score (on a 0 -100 scale)	67.7	67.8	69.7	67.7	67.1
ISO 9001 certification (percentage of total FTE working in certified sites)	96%	100%	100%	100%	100%

2.1 Customer satisfaction and reputation

Customer satisfaction

We measure customer satisfaction twice a year through an online survey performed by an independent external research company. In 2019, we invited more than 70,000 customers, both business customers and consumers, to participate (2018: 69,000) and our response rate increased to 9%. International customers are not included. In our survey, we ask our customers about their opinion on various elements of our business. This includes but is not limited to the timeliness and quality of our delivery, our communication, the quality of our service and help desks.

Where traditionally customers would only use mail or parcel services, the rise of omnichannel means that today's customers use a range of products and services across the entire company. During their customer journey, customers interact with us through multiple channels and often switch between channels. For example, when receiving a parcel it is not uncommon for customers to use a combination of our website, the PostNL app and our retail locations. This is why we are focusing on creating a unique and personalised customer experience that provides them with a uniform and consistent experience, no matter how, where or when they interact with us. More information about our developments and actions in relation to customer satisfaction is explained in the chapter 'Customer value'.

Reputation score

In addition to customer satisfaction, we also monitor our corporate reputation. The independent Reputation Institute calculates the RepTrak pulse score for our Dutch operations, based on a representative sample of respondents from Dutch society. The score is determined based on opinions of different stakeholders, including customers and employees. After increasing over four consecutive years, we noted a slight decrease of our reputation score over the last two years. This is mainly influenced by the drop in customer satisfaction and some difficulties in always delivering what customers demand, especially in the first two quarters of 2019. With specific focus on customers and employees in our strategy, we aim to strengthen our brand and our reputation going forward and saw good progress over the last half of 2019.

2.2 Share of e-commerce related revenue

We measure the share of e-commerce related revenues from our total revenues to evaluate our progress on our transformation to become *the* logistics and postal solutions provider in the Benelux. We use the revenues from contracts with customers at Parcels as nominator in our calculation. This is a simplified method to calculate our progress, which gives a conservative score on our performance as some of our mail services are also related to e-commerce. Excluding these revenues in this metric, does not influence the overall view on our progress. We also use different qualitative factors to evaluate the progress. More information about the developments in relation to our progress can be found in the chapter 'Customer value'.

2.3 Delivery quality Mail in the Netherlands

Under the USO, PostNL delivers mail posted in letterboxes across the country five days a week. For funeral mail this is six days a week. The USO prescribes that 95% of this mail needs to be delivered by the next day. In 2019, we did not reach this 95% delivery target for the full year. We experienced challenges in our mail delivery quality, mostly due to integrating part of the Sandd volumes in our own network in the last quarter. Also, the tight labour market made it challenging to find enough qualified mail deliverers in certain areas in the Netherlands. More information is provided in the chapter 'Customer value'.

Section 3: Social value performance indicators

3.1 Employee engagement, loyalty and culture

PostNL Employee engagement

2015 - 2019

Year ended at 31 December	2015	2016	2017	2018	2019
Share of engaged employees	64%	68%	67%	65%	65%
Share of employees expected to stay	86%	88%	86%	88%	88%

Until 2018 PostNL measured its company-wide employee engagement through an annual survey, and only included employees with a PostNL labour agreement. In 2019, we changed our methodology and started to measure employee engagement with slightly different questions and went from annual to bi-annual measurement. Both our employee engagement and employee loyalty remained stable at 65% and 88% respectively in 2019. More information on the scores from our updated method for 2019 can be found in the chapter 'Social value'.

As culture-related questions form an integral part of our new employee engagement measurement, we stopped reporting on our culture index in 2019.

For a large group of hired people, namely deliverers working for delivery partners, we measure satisfaction annually through a collaboration barometer. This Dutch survey provides valuable insights on where we can improve.

More information can be found in the chapter 'Social value'.

3.2 Employment

PostNL Workforce

2015 - 2019

Year ended at 31 December	2015	2016	2017	2018	2019
Headcount (scope of non-financial reporting)	43,248	41,497	38,965	37,785	35,721
FTE (scope of non-financial reporting)	20,372	20,730	20,791	20,421	20,528

The total workforce of PostNL decreased by 5.5% in 2019, while the number of FTEs remained stable. While headcount declines as a result of developments at Mail in the Netherlands, we grew our employee base at Parcels. At Parcels, employees typically have contracts with more working hours than those at Mail in the Netherlands, the implementation of the New mail route helped us to offer employees at Mail in the Netherlands more hours in their contracts.

The figures in the tables in this paragraph exclude Sandd employees, in line with our non-financial reporting policy.

The share of female employees at year remained stable at 48%. Unrounded we saw a slight decrease. This was due to the fact that the share of females in our new hires population was six percentage points lower than males (22% female and 28% male).

While the employee turnover rate remains higher than we would like to see, we managed to improve slightly in 2019. We focused on reducing the early turnover rates in our operations. Investments in onboarding and better coaching during the first period of employment, as well as the larger contracts as result of the implementation of the New mail route helped to reduce the percentage of voluntary turnover in 2019, which we achieved for the first time over the past five years.

More information about developments in our workforce and examples of improvement initiatives can be found in the chapter 'Social value', paragraph 'Managing personnel capacity'.

PostNL Workforce by gender

2015 - 2019, as indicated

Year ended at 31 December	2015	2016	2017	2018	2019
Male	24,703	22,226	21,021	19,612	19,492
Female	21,810	21,022	20,476	19,353	18,293
Balance at 1 January	46,513	43,248	41,497	38,965	37,785
Male	6,961	6,079	5,694	6,037	5,359
Female	7,592	6,469	6,246	5,249	4,154
New hires	14,553	12,548	11,940	11,286	9,513
Male	9,449	7,256	7,160	6,321	6,226
Female	8,369	7,044	7,312	6,145	5,351
Turnover	17,818	14,299	14,472	12,466	11,577
Male	22,216	21,049	19,555	19,328	18,625
Female	21,032	20,448	19,410	18,457	17,096
Balance at 31 December	43,248	41,497	38,965	37,785	35,721

PostNL New hires

2015 - 2019, as indicated

Year ended at 31 December	2015	2016	2017	2018	2019
< 30 years	6,473	5,108	5,251	5,509	4,550
30 - 50 years	4,710	4,034	3,799	3,251	2,842
>50 years	3,370	3,407	2,890	2,527	2,120
Total by age group	14,553	12,548	11,940	11,286	9,513
Male (share of total headcount)	28%	27%	27%	31%	27%
Female (share of total headcount)	35%	31%	31%	27%	23%
Total (share of total headcount)	31%	29%	29%	29%	25%

PostNL Turnover

2015 - 2019, as indicated

Year ended at 31 December	2015	2016	2017	2018	2019
< 30 years	8,118	5,883	5,766	5,048	4,696
30 - 50 years	5,026	4,278	4,432	3,806	3,417
>50 years	4,674	4,138	4,274	3,612	3,464
Total by age group	17,818	14,299	14,472	12,466	11,577
Male (share of total headcount)	38%	33%	34%	32%	32%
Female (share of total headcount)	38%	34%	36%	32%	29%
Total (share of total headcount)	38%	33%	35%	32%	31%
Total voluntary turnover	17%	17%	20%	20%	18%

3.3 Recruitment and career development

PostNL Recruitment and career development

2015 - 2019

Year ended at 31 December	2015	2016	2017	2018	2019
Training hours per FTE	22	17	17	22	26

During 2019, we saw a further increase in the number of training hours per FTE. Operational trainings form the bulk of all training hours within PostNL. The relatively high rates of new employee hires, combined with more focus on adequate training for new joiners, resulted in more training hours per FTE. In addition, the internal mobility numbers are increasing, such as employees at Mail in the Netherlands moving to Parcels, which also requires additional training.

3.4 Diversity and inclusion

PostNL Diversity and inclusion

2015 - 2019

Year ended at 31 December	2015	2016	2017	2018	2019
Share of females in management positions	25%	24%	21%	21%	22%
Share of females in senior management positions	not reported	not reported	not reported	25%	27%

The company-wide share of females in management positions grew by 1 percentage point in 2019. To align our Annual Report with other corporate external reporting, we decided to include the share of females in senior management, and provided comparative figures for 2018. The share of females in senior management positions increased by 2 percentage points, which is a result of the execution of our diversity policy.

With 43% of positions held by females, gender diversity in our Executive Committee is relatively high. We have initiatives in place, such as the Agora network and the Women Inclusion Network (WIN), to promote diversity in the workplace. In the management layer just below executive level, we continue to focus on diversity, as we aim to see the share of females in management positions better reflect the share of females in our workforce. We have specific programmes in the Netherlands that we commit to, for example to contribute to the Talent to the Top Charter. More information can be found in the chapter 'Social value'.

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3.5 Health and Safety

PostNL Health and Safety

2015 - 2019

Year ended at 31 December	2015	2016	2017	2018	2019
Fatal accidents	3	1	1	2	3
Recordable accidents (per 100 FTE)	not reported	not reported	not reported	4.7	4.2
Absenteeism (share of total working days)	5.0%	5.0%	5.2%	5.9%	5.4%
ISO 18001 certification (percentage of total FTE working in certified sites)	94%	100%	100%	100%	100%

Despite our efforts and initiatives on health and safety, we deeply regret having to report three fatal accidents across our Parcel operations in 2019 (2018: 2). The three fatalities, which included civilians and people who work with or for us, occurred in traffic accidents, involving our own vehicles and those of our delivery partners.

In 2019, we decided to change our relative safety metric from "Lost time accidents" to "Recordable accidents" because this is more in line with our internal safety management system and the GRI403 standard. We started reporting this metric over 2018 and we see a positive development with a reduction of 0.5 recordable injuries per 100 FTEs. We believe our ongoing focus on improving working conditions in our parcel and mail sorting and delivery centres has helped to lower the rate of recordable accidents.

The absenteeism rate decreased to 5.4% in 2019 (2018: 5.9%). See the chapter 'Social value' for more information. We implemented a number of initiatives to help lower absenteeism, and help speed up the reintegration process. We achieved this in a number of ways, including by providing training on absenteeism prevention to our operational managers and HR advisors. We also introduced and trained coaches at our head office to provide psychological support for anyone who needed it, and we developed interactive videos in which we prepare managers for their role in the reintegration process.

Section 4: Environmental value performance indicators

4.1 CO₂ efficiency

PostNL CO₂ efficiency

2015 - 2019, as indicated

Year ended at 31 December	2015	2016	2017	2018	2019
CO ₂ efficiency (scope 1 and 2 emissions in grams CO ₂ e per km)	not reported	not reported	226	231	245
CO ₂ efficiency (relative reduction of scope 1 and 2 emissions per km compared to 2017)	not reported	not reported	base year (0%)	(2%)	(8%)
Share of emission-free delivery of mail and parcels in the last-mile	not reported	not reported	not reported	17%	19%

As a postal and logistic solutions provider, it is clear we have an impact on the environment, and that our operations emit carbon as well as other emissions. In the chapter 'Environmental value', we explained our strategy to reduce our environmental impact. In our risk management process we evaluate physical, regulatory and reputational climate change-related risks. We identified that our main risks relate to not meeting our long-term reduction targets. No significant physical and regulatory risks were identified during 2019.

As a result of our new, science-based emission reduction targets towards 2030, we introduced two new key performance indicators to monitor our progress in reducing environmental impact. We set a target to improve the CO₂ efficiency of our own operations by 80% in 2030, compared to the base year 2017. We report annually on the relative difference in total CO₂ emissions of our own operations (buildings and transport) per transported kilometre compared to 2017. We also introduced a target to deliver 100% of our mail and parcels in the last-mile in the Benelux, which we report as the share of emission-free kilometres. This includes kilometres from our own operations and of our delivery partners and includes also the collection of mail and parcels with small trucks and vans and other light electric vehicles.

Since 2017, we unfortunately have not been able to improve our CO₂ efficiency. Over the past few years we have built up a substantial fleet of small biogas trucks and vans. We faced challenges in the availability of biogas vehicles with the right specifications, which meant we had to switch back to diesel vehicles for part of our fleet. In addition, we achieved substantial growth of our transport activities in our core parcel network, and through the acquisition of two entities since 2017, JP Haarlem and Mostert Verkerk. This increased the share of kilometres transported by heavy vehicles. While we continuously seek to invest in low carbon vehicles where possible, we are also exploring the expansion of renewable fuels, such as biodiesel and bio-LNG. At the same time, we are testing electric vehicles in parts of our network and preparing the charging infrastructure across the Benelux. We rely on manufacturers being able to produce vehicles to the correct specifications at economically viable prices if we are to electrify our fleet. Despite this, we expect to significantly increase our own electric delivery fleet in the coming years.

The share of emission-free last-mile delivery of mail and parcels was 19% in 2019, which was mainly a result of the over 44 million kilometres we travelled by foot and bicycle to deliver mail in the Netherlands. This was a slight improvement on 2018, due to an increase in city deliveries by e-cargo bikes. We also started to replace vans with electric motor cycles and e(-cargo) bikes in our mail operations. We expect to see a further increase when we implement the next phase of the New mail route.

More information about our CO₂ efficiency initiatives can be found in the chapter 'Environmental value'.

4.2 Energy consumption

PostNL Energy consumption

2015 - 2019, as indicated

Year ended at 31 December	2015	2016	2017	2018	2019
Energy consumption buildings (in TJ)	464	458	404	428	357
Energy consumption fleet (in TJ)	443	467	489	521	575
Total energy consumption	907	925	893	949	932

The energy we consumed in our buildings significantly decreased compared to prior years. One main reason is the improvement in data quality as we began to use automatic telemetric activity data in our reporting in 2019. The decrease in energy consumption compared to 2018 was mainly driven by increasing the energy efficiency of our buildings.

We continued to install LED-lighting in our sorting centres, which cuts lighting energy consumption in these buildings by around 50%. We also improved our data quality for a number of small buildings by collecting and reporting more data automatically compared to previous years. The actual data indicated lower energy use from these buildings than we would have reported based on estimations.

Energy consumption of our own fleet increased by 54 TJ in 2019 compared to 2018. This increase is mainly due to the increasing volumes in our parcel network, requiring more transport activity from large trucks. In addition, due to the lack of availability of low-carbon vehicles, we had to deliver additional volumes at Parcels primarily with diesel vans, which are more energy intensive. The reduction of our mail volumes and growth of e-cargo bikes only partly offsets this increase.

The expected growth in our activities will likely result in a higher energy demand in coming years. We aim to minimise this by being as efficient as possible in our operations. At the same time, we focus on using fewer energy intensive vehicles. For our electricity demand, we continue to invest in solar panels to generate as much renewable energy as possible ourselves. This not only reduces our environmental impact, but also stabilises our cost base in an increasingly volatile energy market.

4.3 Energy efficiency of buildings

PostNL Buildings

2015 - 2019, as indicated

Year ended at 31 December	2015	2016	2017	2018	2019
Energy consumption from natural gas (in TJ)	119	121	96	92	73
Energy consumption from heating oil (in TJ)	4	3	3	3	3
Energy consumption from electricity (in TJ)	322	320	297	325	276
Energy consumption from district heating (in TJ)	19	14	8	8	5
Total energy consumption from buildings (in TJ)	464	458	404	428	357
Share of solar energy from total energy consumption in buildings	0%	0%	0%	4%	6%
Energy efficiency (in TJ /1,000 m₂)	0.53	0.56	0.51	0.59	0.47

The vast majority of our energy demand comes from electricity. As a result of our investments in solar panels on all three of our new parcel sorting centres, the share of sustainably generated electricity increased from 4% to 6%. This represents more than 40% of the electricity needs of our parcel sorting centres.

In 2018, we saw an increase in energy consumption per square metre as a result of merging sorting activities within Mail in the Netherlands, and an increase in the utilisation of our parcel sorting centres. The improved efficiency in 2019 is partly explained by the increased share of extremely energy-efficient buildings (our three new parcel sorting centres have all been certified BREEAM Outstanding) and partly through a reduction of reported activity data due to data quality improvements. Mild weather conditions also led to lower energy use when heating buildings.

4.4 Energy efficiency of fleet

PostNL Fleet

2015 - 2019, as indicated

Year ended at 31 December	2015	2016	2017	2018	2019
Energy consumption from large trucks and vans (in TJ)	257	266	275	297	340
Energy consumption from small trucks and vans (in TJ)	179	190	203	213	226
Energy consumption from scooters and bikes (in TJ)	7	11	11	11	9
Total energy consumption from fleet (in TJ)	443	467	489	521	575
Energy efficiency (in MJ / km)	5.3	5.3	5.3	5.5	5.6

The energy consumption of our small and large trucks increased substantially during 2019. For small trucks and vans this was a result of our strategic choice to deliver a higher share of the parcel routes ourselves. In addition, the ongoing volume growth resulted in more energy consumed. We see the same trend for our large trucks, where the growth of 14.4% in 2019 was in line with the volume growth at Parcels, and now includes the energy consumption of Mostert Verkerk, an entity we acquired in January 2019.

The relative energy per kilometre increased by 2%, meaning that our energy consumption grew slightly faster than our transported kilometres. The main reason for this increase is related to the increase in the load factor of our vehicles, which means we transport less air but more weight on average per kilometre.

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4.5 Air quality

PostNL Air pollution from fleet

2015 - 2019, as indicated

Year ended at 31 December	2015	2016	2017	2018	2019
NO_x emissions (in kg)					
Large trucks	28,317	25,654	25,167	25,986	30,165
Small trucks and vans	14,375	13,766	12,501	9,949	9,117
Total NO_x emissions	42,692	39,420	37,668	35,935	39,282
NO_x efficiency (g/km)					
Large trucks	1.07	0.94	0.87	0.83	0.83
Small trucks and vans	0.28	0.27	0.24	0.19	0.16
Total NO_x efficiency	0.55	0.50	0.46	0.43	0.42
PM₁₀ emissions (in kg)					
Large trucks	362	352	361	382	443
Small trucks and vans	323	263	267	269	291
Total PM₁₀ emissions	685	615	628	651	734
PM₁₀ efficiency (g/km)					
Large trucks	0.01	0.01	0.01	0.01	0.01
Small trucks and vans	0.01	0.01	0.01	0.01	0.01
Total PM₁₀ efficiency	0.01	0.01	0.01	0.01	0.01

The developments in air quality are directly related to the type of vehicles we use. Therefore, the explanation of trends in the table above is combined with the explanation in trend in the table on our compliance with euro norms below.

PostNL Compliance with Euro emission norms

2015 - 2019, share per Euro norm

Year ended at 31 December	2015	2016	2017	2018	2019
Large trucks					
Vehicles complying with Euro 6	57%	68%	68%	73%	69%
Vehicles complying with Euro 5	43%	32%	32%	27%	31%
Small trucks and vans					
Vehicles complying with Euro 6	2%	12%	46%	76%	81%
Vehicles complying with Euro 5	98%	88%	54%	24%	19%
Total					
Vehicles complying with Euro 6	8%	19%	48%	76%	80%
Vehicles complying with Euro 5	92%	81%	52%	24%	20%

In 2019, we further increased the combined percentage of vehicles complying with Euro 6 emission standards. In large trucks, we saw a slight decrease in the percentage of Euro 6 vehicles, caused by acquiring Euro 5 trucks from transport company Mostert Verkerk.

During the year we extended our fleet of cleaner small trucks and vans, improving our NO_x efficiency to 0.42 (2018: 0.43). This improvement resulted in both lower NO_x (nitrous oxides) and PM₁₀ (soot) emissions per kilometer. Even though our relative emissions were lower than in 2018, the absolute emissions of our fleet increased. The increase in absolute emissions was caused by more kilometers driven due to the growth of our business. In 2020, we will continue to invest in large trucks fueled by liquified natural gas (LNG), which will further reduce our NO_x and PM₁₀ emissions. The scale up of our electric fleet will help us improve our absolute emissions, which is one of the elements covered in our Sustainable City Logistics programme. The scale up of electric vehicles is expected by around 2025.

4.6 Carbon footprint

PostNL Carbon footprint

2015 - 2019, in kilotonnes CO_{2e}

Year ended at 31 December	2015	2016	2017	2018	2019
Natural gas and heating fuel	8	8	7	6	5
Fuel for large trucks	19	20	20	22	25
Fuel for small trucks and vans	13	13	9	9	10
Total gross scope 1 emissions	40	41	36	37	40
Compensated carbon emissions heating (CO ₂ credits)	0	0	0	0	0
Compensated emissions for buildings (CO ₂ credits)	(2)	(2)	(6)	(6)	(5)
Compensated emissions for fleet (green gas) (CO ₂ credits)	(1)	0	0	0	0
Total net scope 1 emissions	37	39	30	31	35
Electricity consumed	4	3	0	0	0
District heating	1	1	0	0	0
Total gross scope 2 emissions	5	4	0	0	0
Compensated emissions	(5)	(4)	0	0	0
Total net scope 2 emissions	0	0	0	0	0
Company cars	7	4	5	6	4
Business travel by air	1	1	0	0	0
Employee commuting	not reported	not reported	19	19	21
Independent parcel deliverers and other subcontractors	248	215	187	169	162
Total gross scope 3 emissions	256	220	211	194	187
Compensated emissions company cars	(7)	(4)	(5)	(6)	(4)
Compensated emissions business travel by air	(1)	(1)	0	0	0
Compensated emissions employee commuting	not reported	not reported	0	0	(21)
Total net scope 3 emissions	248	215	206	188	162
Total gross emissions	301	265	247	231	227
Total net emissions	285	254	236	219	197

Scope 1

Our gross scope 1 emissions increased in 2019. The 3 kilotonnes increase is mainly related to the carbon emissions of our large trucks, due to the higher volumes of parcels we transported. With the available fuels we use, these large trucks are CO₂ intensive. To partly counter this development, we aim to expand our large truck LNG fleet in 2020. In addition, we had to invest in more diesel driven small trucks and vans to capture growth, leading to an increase in emissions. During 2019, it proved challenging to find biogas vehicles that meet our operational requirements and the electric delivery van market is still developing, making it hard to find electric alternatives that meet our demands. We are looking into investing in more renewable fuel types, for example bio-diesel and bio-LNG, to help us realise improvements more quickly, as we do not expect a significant scale up of our electric fleet in the coming three years. Due to less gas-heated buildings and less gas consumption due to weather influence, the CO₂ emissions from natural gas decreased by 1 kilotonne.

Scope 2

Our gross scope 2 emissions remained stable at 0 kilotonnes in 2019 (2018: 0). Our nominal electricity consumption decreased to 77 million kWh in 2019 (2018: 88 million kWh). The reasons for the decrease have been detailed in the section 'Energy efficiency of buildings'. We stimulate the use of sustainable electricity in our buildings and use the market-based instrument of purchasing Guarantees of Origin to ensure our electricity consumption is based on renewable energy. This resulted in gross scope 2 emissions of 0.

Scope 3

Our gross scope 3 emissions decreased to 187 kilotonnes in 2019 (2018: 194 kilotonnes) and relate to the emissions from our external delivery partners. The decrease in 2019 can be explained by:

- A decline in international freight CO₂ emissions resulting from a decline in international freight; in 2019, a total of 68 million kilos was shipped compared to 75 million in 2018. From this, air freight emissions contributed the largest share of CO₂ emissions. The share of international truck emissions remained relatively low.
- Volume growth in our Parcels segment increased the emissions from external delivery partners in the Netherlands and in Belgium.

Additionally, we purchased Gold Standard credits to offset 25 kilotonnes of carbon emissions from company cars and business travel and employee commuting, resulting in net scope 3 CO₂ emissions of 162 kilotonnes (2018: 188 kilotonnes).

Part of the requirements of the Science Based Target Initiative (SBTi) is listing all your significant categories for CO₂ emissions. One of those identified was CO₂ emissions arising from employee commuting. Therefore, from the base year 2017 onwards, we will include reporting on these figures in our carbon footprint. In 2019, we saw a slight increase in CO₂ emissions from employee commuting. We continue to promote public transport in order to lower these emissions.

4.7 Environmental management system

PostNL Environmental management system

2015 - 2019, as indicated

Year ended at 31 December	2015	2016	2017	2018	2019
ISO 14001 certification (percentage of total FTE working in certified sites)	95%	100%	100%	100%	100%

Our environmental management systems help us to continuously improve our environmental performance and management across the company. As in prior years, all PostNL employees worked in ISO14001-certified locations.

Assurance report of the independent auditor

To: the Shareholders and members of the Supervisory Board of PostNL N.V.

Our opinion

We have audited the non-financial information in the accompanying annual report for the year 2019 of PostNL N.V. at The Hague. An audit is aimed at obtaining a reasonable level of assurance.

In our opinion, the non-financial information presents, in all material respects, a reliable and adequate view of:

- The policy and business operations with regard to corporate social responsibility
- The thereto related events and achievements for the year 2019

in accordance with the Sustainability Reporting Standards (option Core) of the Global Reporting Initiative (GRI) and applied supplemental reporting criteria as disclosed in chapter Non-financial statements of the annual report.

The non-financial information consists of the following chapters in the annual report: Introduction, Business Report (excluding chapter Financial value) and Non-financial statements.

Basis for our opinion

We have performed our audit on the non-financial information in accordance with Dutch law, including Dutch Standard 3810N, "Assurance-opdrachten inzake maatschappelijke verslagen" (Assurance engagements relating to sustainability reports), which is a specific Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information". Our responsibilities under this standard are further described in the section Our responsibilities for the audit of the sustainability information of our report.

We are independent of PostNL N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Reporting criteria

The non-financial information needs to be read and understood together with the reporting criteria. PostNL N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards of the GRI and the applied supplemental reporting criteria as disclosed in chapter Non-financial statements of the annual report.

The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Materiality

Based on our professional judgement we determined materiality levels for each relevant part of the non-financial information and for the non-financial information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the company.

We agreed with the Supervisory Board that misstatements which are identified during the audit and which in our view must be reported on quantitative or qualitative grounds, would be reported to them.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the sustainability information. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the sustainability information as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	How our assurance engagement addressed the matter	Key observations
<p>Estimations and assumptions used for calculating CO₂ scope 3 emissions</p> <p>External delivery partners are a material part of PostNL's CO₂ emissions. The methodology for calculating the CO₂ emissions of these external delivery partners is based on the Greenhouse Gas protocol of the World Resource Institute (WRI)/World Business Council for Sustainable Development (WBCSD).</p> <p>In the absence of complete information from its external delivery partners, PostNL estimates scope 3 CO₂ emissions based on assumptions.</p>	<p>Our procedures focused on understanding and evaluating the reasonableness of the estimates and assumptions used.</p> <p>We assessed the sufficiency of related disclosures, including information on inherent limitations, and the consistent use compared to prior year.</p>	<p>We concur with the estimates and assumptions used in calculating the scope 3 CO₂ emissions and the sufficiency of the related disclosures. In addition, we determined that the assumptions and estimates used did not change compared to prior year.</p>
<p>Share of emission-free delivery of parcels and mail in the last-mile</p> <p>The new key performance indicator 'Share of emission-free delivery of parcels and mail in the last-mile' represents the ratio of last-mile kilometres travelled without emitting any CO₂, relative to the total number of last-mile kilometres travelled. This includes kilometres travelled on foot, by bicycle, and using light electric vehicles.</p> <p>PostNL has developed its own methodologies to estimate these kilometre totals.</p>	<p>Our procedures focused on understanding and evaluating the reasonableness of the estimates and assumptions used.</p> <p>We assessed the sufficiency of related disclosures.</p>	<p>We concur with the estimates and assumptions used in calculating the 'share of emission-free delivery of parcels and mail in the last-mile' and the sufficiency of the related disclosures.</p>
<p>Methodology underlying indicators measured by third parties</p> <p>The reputation, employee engagement and the customer satisfaction indicators are by request of PostNL measured by third parties. The outcome is based on the methodology used by these third parties.</p>	<p>Our procedures focused on evaluating whether the methodology used by the third party is suitable and consistently applied.</p> <p>We assessed the sufficiency of related disclosures and the consistent use compared to prior year.</p>	<p>We concur with the methodologies applied, the sufficiency of the related disclosures and determined that the methodology used did not change compared to prior year.</p>

Limitations to the scope of our audit

The non-financial information includes prospective information such as ambitions, strategy, plans, expectations, estimates and risk assessments. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the non-financial information.

The references to external sources or websites in the non-financial information are not part the non-financial information as audited by us. We therefore do not provide assurance on this information.

Description of responsibilities for the non-financial information

Responsibilities of the Board of Management and the Supervisory Board for the non-financial information

The Board of Management is responsible for the preparation of reliable and adequate non-financial information in accordance with the reporting criteria as included in the section Reporting criteria, including the identification of stakeholders and the definition of material matters. The choices made by the Board of Management regarding the scope of the non-financial information and the reporting policy are summarized in chapter Non-financial statements of the annual report.

The Board of Management is also responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the non-financial information that are free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing the reporting process of PostNL N.V.

Our responsibilities for the audit of the non-financial information

Our responsibility is to plan and perform the audit in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

We apply the “Nadere voorschriften kwaliteitssystemen” (NVKS, Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

We have exercised professional judgment and have maintained professional skepticism throughout the audit performed by a multi-disciplinary team, in accordance with the Dutch assurance standards, ethical requirements and independence requirements.

Our audit included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the company
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the non-financial information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the Board of Management
- Obtaining an understanding of the systems and processes for collecting, reporting and consolidating the non-financial information, including obtaining an understanding of internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the procedures performed by the internal audit department
- Identifying and assessing the risks that the non-financial information is misleading or unbalanced, or contains material misstatements, whether due to fraud or errors. Designing and performing further audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the non-financial information is misleading or unbalanced, or the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. These further audit procedures consisted amongst others of
 - Interviewing relevant staff at corporate and business level responsible for the sustainability strategy, policy and results

- Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the non-financial information
- Obtaining assurance information that the non-financial information reconciles with underlying records of the company
- Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the non-financial information
- Performing an analytical review of the data and trends
- Reconciling the relevant financial information with the financial statements
- Evaluating the consistency of the non-financial information with the information in the annual report which is not included in the scope of our audit
- Evaluating the overall presentation, structure and content of the non-financial information
- Considering whether the non-financial information as a whole, including the disclosures, reflects the purpose of the reporting criteria used

Communication

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant findings in internal control that we identify during our audit.

From the matters communicated with the Supervisory Board we determine the key audit matters: those matters that were of most significance in the audit of the non-financial information. We describe these matters in our assurance report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not mentioning it is in the public interest.

Amsterdam, 24 February 2020

Ernst & Young Accountants LLP

J. Niewold

Appendices

1 Other non-financial performance indicators

PostNL Other non-financial performance indicators

2015 - 2019, as indicated

Year ended at 31 December	2015	2016	2017	2018	2019
People indicators					
Percentage of females in total headcount	49%	49%	50%	48%	48%
Employees with a disability	1,442	1,482	1,631	1,704	1,351
Disabled employees as percentage of total headcount	3%	4%	4%	5%	4%
Environmental indicators					
Water usage (in liters per FTE)	not reported	not reported	not reported	not reported	5246
Waste (in tonnes per FTE)	0.3	0.3	0.3	0.2	0.2
Recycling of waste in percentage of total waste	69%	61%	64%	66%	77%
Environmental incidents on site	3	8	1	2	4
Environmental incidents off site	1	2	0	2	4

2 Data coverage table

The periodically reported non-financial data depends on the scope of the entity. Where appropriate, certain non-financial data of

medium or limited scope entities is estimated. The table below shows an overview of the resulting scoping coverage per line item in the 'Non-financial performance indicators'.

PostNL Data coverage table

2019

	Actual data	Extrapolation
Customer value		
Share of highly satisfied customers	100%	0%
Share of satisfied customers	100%	0%
Share of e-commerce revenue	100%	0%
Delivery quality Mail in the Netherlands (preliminary)	100%	0%
Reputation score	100%	0%
ISO 9001 certification	99%	1%
Social value		
Share of engaged employees	100%	0%
Share of employees expected to stay	100%	0%
Headcount (scope of non-financial reporting)	100%	0%
FTE (scope of non-financial reporting)	100%	0%
Share of females in management positions	87%	13%
Share of females in senior management positions	93%	7%
Training hours per FTE	81%	19%
Fatal accidents	100%	0%
Recordable accidents (per 100 FTE)	96%	4%
Absenteeism (share of total working days)	90%	10%
ISO 18001 certification	99%	1%
Environmental value		
CO ₂ efficiency (relative reduction of scope 1 and 2 emissions per km compared to 2017)	84%	16%
Share of emission-free delivery of mail and parcels in the last-mile	100%	0%
Energy consumption (total scope 1 and 2 in TJ)	98%	2%
Energy efficiency buildings (TJ / 1000 m ²)	80%	20%
Energy efficiency transport (TJ / million km)	100%	0%
Scope 1 GHG emissions (gross in ktCO ₂ e)	100%	0%
Scope 2 GHG emissions (gross in ktCO ₂ e)	100%	0%
Scope 3 GHG emissions (gross in ktCO ₂ e)	100%	0%
NO _x emissions (scope 1 in kg)	100%	0%
NO _x emissions (scope 1 in g/km)	100%	0%
PM ₁₀ emissions (scope 1 in kg)	100%	0%
PM ₁₀ emissions (scope 1 in g/km)	100%	0%
Share of vehicles complying with Euro 6	100%	0%
Share of vehicles complying with Euro 5	100%	0%
ISO 14001 certification	99%	1%

3 Glossary and definitions

Absenteeism

Total hours of absence divided by the total contractual working days.

ACM

Dutch Authority for Consumers and Markets.

Application programming interfaces (API)

An API specifies how different computer programs should interact, by clearly defining a set of communication methods between various software components. We build our own APIs, which make it easier for our customers to interact with our software, such as Track & Trace.

Auditor

A chartered accountant (register accountant) or other auditor referred to in section 393 of book 2 of the Dutch Civil Code or an organisation in which such auditors work together.

Biogas

Biogas is broadly defined as gas consisting of or derived from biomass. Biogas consists of CO₂ that has recently been extracted from the atmosphere as a result of growing plants and trees, and therefore does not influence the CO₂ concentration in the atmosphere over a longer period of time. This is in contrast to fossil fuels, such as natural gas or crude oil, which are stored over millions of years so that their combustion and subsequent emissions do influence CO₂ levels in the atmosphere.

Business travel

Business travel refers to all business-related travel for work, other than employee commuting, including travel by air.

Carbon neutral

Carbon neutral means that the net CO₂ equivalent emissions from activities are zero.

CO₂ efficiency

The CO₂ efficiency is the term used to express the relative impact of CO₂. In relation to the key performance indicators, this means the total net direct and indirect (scope 1 and scope 2) CO₂ emissions from our operations divided by the total number of kilometres transported from our own operations. The efficiency number is the grammes of CO₂ per kilometre transported.

Company cars

Company-owned or leased vehicles at the disposal of an employee for commuting and business travel.

Corporate governance

The OECD (see reference in this glossary) defines corporate governance as the system by which corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants, such as the board, managers, shareholders and other stakeholders, and defines the rules and procedures for making decisions. In doing so, it also provides the structure by which company objectives are set and the means of attaining those objectives and monitoring performance.

Corporate responsibility (CR)

Corporate responsibility is the umbrella term for the obligation a company has to consider the social (corporate social responsibility) and environmental (sustainability) impact of its activities and to go beyond this obligation in the treatment of economic, environmental and social activities to sustain its operations, financial performance and ultimately its reputation.

Customer satisfaction

Customer satisfaction is an indicator of customer opinion towards the services we provided in the reporting period. We measure and categorise customer satisfaction into 'satisfied customers' and 'highly satisfied customers' through an online survey, which is carried out by an independent research company twice per year. The score is based on a questionnaire with multiple choice answers on a five-point scale (1 represents 'highly satisfied' and 5 'satisfied').

Delivery quality

Delivery of a consignment within the time frame set for the service in question. An independent research firm tests our delivery process, by sending trackable letters through our network. These letters are scanned along the entire sorting process, enabling us to identify any delays.

Digitalisation

This refers to the digital transformation of society in which digital information and communication play an increasingly important role in all facets of life. This is different from digitisation, which refers to the transformation of analogue information into digital information. This process is necessary for the processing, modelling, and storage of data.

Disabled employees

Disabled employees are employees on the payroll whose medical condition has been recognised by the relevant authorities as a disability.

Dow Jones Sustainability Indices

Launched in 1999, the Dow Jones Sustainability Indices are the first global indices to track the financial performance of the leading sustainability-driven companies worldwide. They provide asset managers and other stakeholders with reliable and objective benchmarks for managing sustainability portfolios. For further information, see www.sustainability-index.com.

E-commerce

The online buying and selling of products and service by businesses and consumers.

Emission-free delivery

Emission-free delivery means the delivery of goods without CO₂ emissions. In relation to the key performance indicator, emission-free delivery means the delivery of letters and parcels from the last sorting activity before distribution to the final destination (last-mile) in the Benelux without CO₂ emissions. This also includes the collection of mail and parcels, but excludes transport by large trucks.

Employee engagement

Employee engagement refers to the number of employees (employed by PostNL for three months or more) who stated in the employee engagement survey that they were 'engaged' or 'more than engaged' by PostNL as an employer. An 'engaged employee' is one who feels connected to the company, is enthusiastic about its work, and actively aims to improve the company and its reputation. The score is based on an average of five questions with a multiple choice answer. The methodology for 2019 is exactly the same compared to prior years. Starting 2020, we will report the same indicators using a slightly different method. We already started monitoring following this method to allow for comparison in the 2020 Annual Report.

Employee loyalty

The number of employees (employed by PostNL for three months or more) who stated in the employee engagement survey that they expect to stay within PostNL or stated not to expect to leave PostNL.

Environmental incident

An environmental incident is an incident that has led to the pollution of soil, water or air. This includes failures, breakdowns, floods, spillages, leaks and so forth. Environmental incidents are divided into onsite and offsite incidents. Onsite incidents occur at sorting and delivery centres, hubs, offices and other locations owned, leased, rented or operated directly by PostNL. Offsite incidents occur away from sorting and delivery centres, hubs, offices and other locations owned, leased, rented or operated directly by PostNL.

European emission standards

Euro 4, Euro 5 and Euro 6 are mandatory European emission standards (EU directives) applicable to new road vehicles sold in the European Union. They define levels of vehicular emissions such as nitrogen oxides (NO_x) and particulate matter (PM₁₀).

Fatal accidents

The death of any person because of an occupational accident. An occupational accident is an unexpected and unplanned occurrence, including acts of violence, arising out of or in connection with work activities performed for PostNL. It doesn't matter where the fatal accident has taken place or which person (employee or third party) is a casualty.

Full-time equivalents (FTEs)

FTEs refer to the total number of hours worked by the headcount divided by the local number of contract hours (e.g. 40 p/w or 196 p/m).

General data protection regulation (GDPR)

The GDPR is an EU regulation (Algemene Verordening Gegevensbescherming - AGV in Dutch) aiming to protect all EU citizens from privacy and data breaches in today's data-driven world. More can be found on <https://eugdpr.org/the-regulation/>

General Meeting of Shareholders

The meeting of shareholders and other persons entitled to attend meetings.

Global Reporting Initiative (GRI)

The GRI is a multi-stakeholder process and an independent institution whose mission is to develop and disseminate globally-applicable sustainability reporting guidelines for voluntary use by organisations that report on the economic, environmental and social dimensions of their business. The GRI incorporates participation of business, accountancy, investment, environmental, human rights and research and labour organisations from around the world. The GRI began in 1997 in partnership with the United Nations and became an independent body in 2002. It continues to collaborate with the United Nations Environment Programme and works with the United Nations Global Compact. For more information, see www.globalreporting.org.

Green gas

Green gas is a sustainable variant of natural gas and is produced by upgrading biogas to the same quality as natural gas. Green gas is a renewable fuel, which is produced cleanly.

Greenhouse Gas Protocol

The Greenhouse Gas Protocol (GHG Protocol) was established in 1998 to develop internationally-accepted accounting and reporting standards for greenhouse gas emissions of companies.

Group company

A group company as defined in article 2:24b of the Dutch Civil Code.

Headcount

Headcount is the number of employees on the payroll in active duty working for fully consolidated companies.

IFRS

International Financial Reporting Standards.

IFRS-EU

IFRS, as adopted by the European Union.

Internal promotion

The number of PostNL employees appointed to vacancies in management positions at the end of a reporting period. This refers to the number of actual appointments, not the number of FTE positions.

Internet of Things (IoT)

The Internet of Things (IoT) is the network of devices that connects online and shares data. This includes vehicles, buildings, white goods (such as fridges), and even clothes, which contain electronics, software, sensors, and network connectivity. The IoT allows objects to be sensed and controlled remotely across existing network infrastructure, creating opportunities for more direct integration of the physical world into computer-based systems, resulting in improved efficiency, economic growth, and innovations. Estimates are that the IoT will consist of almost 50 billion objects by 2020.

Investors in People (IiP)

Developed in 1990 by a partnership of leading businesses and national organisations, IiP helps organisations to improve performance and realise objectives through the management and development of their staff. For further information, see www.investorsinpeople.co.uk.

ISO (International Organization for Standardization)

The ISO is a network of national standards institutes from 146 countries working in partnership with international organisations, governments, industry, business and consumer representatives. The ISO is the source of ISO 9000 standards for quality management, ISO 14000 standards for environmental management and other international standards for business, government and society. For further information, see www.iso.org.

ISO 14001 (environmental management)

The ISO 14001 standards are international standards for controlling environmental aspects and improving environmental performance, minimising harmful effects on the environment and achieving continual improvements in environmental performance.

ISO 9001 (quality management)

The ISO 9000 standards cover an organisation's practices in fulfilling customers' quality requirements and applicable regulatory requirements while aiming to enhance customer satisfaction and achieve continual improvement of its performance in pursuit of these objectives.

Key performance indicators (KPIs)

KPIs are measurements that focus on achieving outcomes critical to the current and future success of an organisation. These indicators should deal with matters that are linked to the organisation's mission and vision, and are quantified and influenced where possible.

Materiality

Information is material if errors, omissions or incorrect presentation can influence the evaluation or decisions of users of the information.

Non-financial information

All information other than financial information is non-financial information. This includes, but is broader than terms PostNL used before, such as Corporate Responsibility (CR) Information.

NO_x

NO_x (NO and NO₂) refers to nitrogen oxides. Nitrogen oxides are produced during combustion, especially at high temperatures.

Number of supervisory positions

According to Dutch law, the number of supervisory positions that managing and Supervisory Board members may hold in certain companies is limited (article 2:132a of the Dutch Civil Code for managing board members and article 2:142a of the Dutch Civil Code for Supervisory Board members). Since 1 January 2013 a person is prohibited from being appointed member of the Supervisory Board of more than five so-called large entities (including PostNL), whereby a chairman position counts twice. Existing positions are exempt, but if they exceed five, they must be reconsidered at the moment of (re)appointment. Board members holding more than the maximum number of positions on 1 January 2013 are not obliged to resign from these positions, but positions must be reconsidered at the time of reappointment.

OECD

Organisation for Economic Co-operation and Development.

OHSAS 18001 (occupational health and safety management)

OHSAS 18001 is a standard for occupational health and safety management systems. It is intended to help organisations control occupational health and safety risks and was developed in response to widespread demand for a recognised standard for certification and assessment. OHSAS 18001 was created through the collaboration of several of the world's leading national standards bodies, certification organisations and consultancies. For further information, see www.ohsas-18001-occupationalhealth-and-safety.com.

Omnichannel

An omnichannel organisation is one that focuses on the customer, without being dependent on time, place and channel. Customers experience a consistent experience across all channels because the organisation provides relevant and immediately available information and content.

Parcel

Goods to be transported by a distribution company, weighing up to approximately 30 kg.

PM₁₀

Particulates, alternatively referred to as particulate matter (PM), such as fine particles and soot, are tiny subdivisions of solid matter suspended in a gas or liquid. The notation PM₁₀ is used to describe particles of 10 micrometres or less.

PostNL (Group)

PostNL N.V. and its Group companies.

PostNL N.V.

A public limited liability company incorporated under the laws of the Netherlands, listed on the Amsterdam Stock Exchange, with its statutory seat in The Hague, the Netherlands, and its registered office at Prinses Beatrixlaan 23, 2595 AK The Hague, the Netherlands, until 31 May 2011 named TNT N.V.

Processing and distribution centres

The sorting and delivery centres within our Parcels segment. These centres operate automated sorting, and are all directly connected by linehauls and serve as a starting point for distribution rounds and returns handling.

Progress on transformation

When we talk about progress on transformation we mean the progress we make to become the logistics and postal service provider in the Benelux. We monitor our progress by measuring the share of Parcels revenues from contracts with customers compared to the total revenue of PostNL.

Recordable accident

Work-related accident that results in an injury with a physical impact beyond first aid, or loss of consciousness.

Reputation score

Reputation is a perception about the degree of admiration, positive feelings, esteem and trust an individual has for an organisation. Reputation is rooted in an assessment of the performance of an organisation over time, including in the past and with expectations about the future. Our reputation score is measured quarterly by the Reputation Institute, which measures reputation across stakeholders, countries and industries. It tracks 23 key performance indicators grouped around seven core dimensions.

Retail location

A retail location is a location where goods or services are sold directly to consumers. In the context of PostNL for the Annual Report, this includes retail shops, business points, parcel points and post offices.

Serious accident

A serious accident is an occupational accident where a PostNL employee is admitted to a hospital ward within 30 days after the accident happened. An occupational accident is an unexpected and unplanned occurrence, including acts of violence, arising out of or in connection with work activities performed for PostNL.

Sustainable electricity

Sustainable is electricity from 'green' or 'renewable' sources, such as solar, wind, geothermal, biomass, hydroelectric and ocean energy, purchased during the reporting period for power and lighting of all company locations (where this can be established from utility suppliers' invoices or other means). It does not include nuclear electricity.

TNT Express

The former public limited liability company which was demerged from TNT N.V. on 31 May 2011 and until 25 May 2016 the ultimate parent company of the former express activities of TNT N.V. On 25 May 2016 it was acquired by FedEx, and subsequently delisted from the Amsterdam Stock Exchange on 4 July 2016.

TNT N.V.

Until the demerger of TNT Express on 31 May 2011, TNT N.V. was a public limited liability company incorporated under the laws of the Netherlands, listed on the Amsterdam Stock Exchange. Following the demerger on 31 May 2011, it was renamed PostNL N.V.

UPU

The Universal Postal Union is a specialised agency of the UN and is the primary forum for cooperation between postal sector players worldwide.

USO

Universal Service Obligation. The designation as Universal Service Provider obliges PostNL to collect and deliver domestic mail and parcels five days a week (mourning cards and medical post six days a week), and to provide for cross-border mail and parcels according to the Universal Postal Union (UPU) rules.

Working days

The total number of individually-calculated working days adjusted for overtime, leave or similar deviations.

Working hours

The total number of individually-calculated working hours adjusted for overtime, leave or similar deviations.

4 GRI Content Index

PostNL General disclosures

Indicator nr.	Indicator	Details/reference
Organisational profile		
102-1	Name of the organization	PostNL N.V.
102-2	Activities, brands, products, and services	Chapter 'At a glance'; Chapter 'Customer value'
102-3	Location of headquarters	Prinses Beatrixlaan 23, 2595 AK The Hague, the Netherlands
102-4	Location of operations	Chapter 'Our operating context'; Chapter 'How we create value'; Chapter 'Our strategy'
102-5	Ownership and legal form	Chapter 'PostNL on the capital markets'
102-6	Markets served	Chapter 'Our operating context'; Chapter 'How we create value'; Chapter 'Customer value'
102-7	Scale of the organization	Chapter 'At a glance'; Chapter 'Social value'; Chapter 'Financial value'; Chapter 'Financial statements'; Chapter 'Non-financial statements'
102-8	Information on employees and other workers	Chapter 'Social value'; Chapter 'Non-financial statements'
102-9	Supply chain	Chapter 'Our operating context'; Chapter 'How we create value'; Chapter 'Our strategy'; Chapter 'Customer value'; Chapter 'Environmental value'; Chapter 'Non-financial statements'. PostNL's main suppliers are external delivery partners. Our supply chain is mainly locally organised.
102-10	Significant changes to the organization and its supply chain	Chapter 'Our strategy'
102-11	Precautionary Principle or approach	Chapter 'Risk management'. We have not formally adopted the precautionary principle but we systematically assess and manage environmental, safety, supply chain, operational, and other risks as described throughout this report. We hold risk workshops throughout the year and have an internal control framework in place to mitigate risks for financial as well as for CR reporting.
102-12	External initiatives	Chapter 'Non-financial statements', Reporting principles; Guidelines, benchmarks and initiatives
102-13	Membership of associations	We participate in several branche organisations: IPC, PostEurope, UPU.
Strategy		
102-14	Statement from senior decision-maker	Chapter 'Interview with Herna Verhagen'
102-15	Key impacts, risks, and opportunities	Chapter 'Our strategy'
Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	Chapter 'Our identity'
102-17	Mechanisms for advice and concerns about ethics	Chapter 'Corporate governance'
Governance		
102-18	Governance structure	Chapter 'Corporate governance'
102-19	Delegating authority	Chapter 'Corporate governance'
102-20	Executive-level responsibility for economic, environmental, and social topics	Chapter 'Corporate governance'
102-21	Consulting stakeholders on economic, environmental, and social topics	Chapter 'Corporate governance'
102-22	Composition of the highest governance body and its committees	Chapter 'Corporate governance'
102-23	Chair of the highest governance body	PostNL does not have a unitary board structure.
102-24	Nominating and selecting the highest governance body	Chapter 'Corporate governance'
102-25	Conflicts of interest	Chapter 'Corporate governance' No conflicts of interest occurred.
102-26	Role of highest governance body in setting purpose, values, and strategy	Chapter 'Corporate governance'
102-27	Collective knowledge of highest governance body	Chapter 'Report of the Supervisory Board'
102-28	Evaluating the highest governance body's performance	Chapter 'Corporate governance'

Indicator nr.	Indicator	Details/reference
102-29	Identifying and managing economic, environmental, and social impacts	Chapter 'Report of the Supervisory Board'
102-30	Effectiveness of risk management processes	Chapter 'Corporate governance'
102-31	Review of economic, environmental, and social topics	Chapter 'Corporate governance'
102-32	Highest governance body's role in sustainability reporting	Chapter 'Corporate governance'
102-33	Communicating critical concerns	Chapter 'Corporate governance'
102-34	Nature and total number of critical concerns	There were no critical concerns in 2019.
102-35	Remuneration policies	Chapter 'Remuneration report'
102-36	Process for determining remuneration	Chapter 'Corporate governance'
102-38	Annual total compensation ratio	Chapter 'Remuneration report'. We report on the ratio of the annual total compensation for the organisation's highest-paid individual compared to the average annual total compensation for all employees. This reporting is in line with the Dutch Corporate Governance Code. As such we do not report on a ratio based on the median of the annual total compensation for all employees.
102-39	Percentage increase in annual total compensation ratio	Chapter 'Remuneration report'. We report on the ratio of the annual total compensation for the organisation's highest-paid individual compared to the average annual total compensation for all employees. This reporting is in line with the Dutch Corporate Governance Code. As such we do not report on a ratio based on the median of the annual total compensation for all employees.
Stakeholder Engagement		
102-40	List of stakeholder groups	Chapter 'Our operating context'; Chapter 'Non-financial statements', Basis of preparation
102-41	Collective bargaining agreements	Chapter 'Our operating context'; Chapter 'Non-financial statements', Basis of preparation
102-42	Identifying and selecting stakeholders	Chapter 'Our operating context'; Chapter 'Non-financial statements', Basis of preparation;
102-43	Approach to stakeholder engagement	Chapter 'Our operating context'; Chapter 'Non-financial statements', Basis of preparation;
102-44	Key topics and concerns raised	Chapter 'Our operating context'; Chapter 'Non-financial statements', Basis of preparation;
Reporting practice		
102-45	Entities included in the consolidated financial statements	Chapter 'Financial statements'. A complete list of investments in subsidiaries, associated companies and jointly-controlled entities will be attached to the company's annual report made available to the Chamber of Commerce.
102-46	Defining report content and topic Boundaries	Chapter 'Non-financial statements', Reporting criteria
102-47	List of material topics	Chapter 'Our operating context'
102-48	Restatements of information	Chapter 'Non-financial statements', Safeguarding report quality
102-49	Changes in reporting	Chapter 'Our operating context', Stakeholder engagement and materiality; Chapter 'Non-financial statements', Reporting criteria
102-50	Reporting period	Full calendar year 2019
102-51	Date of most recent report	24 February 2019
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Please send us your comments by e-mail to corporatecommunications@postnl.nl or by sending a letter to PostNL Annual Report team: P.O. Box 30250, 2500 GG The Hague, The Netherlands
Claims of reporting in accordance with the GRI		
102-54	Standards	The scope of the report is part of the Assurance report of the independent auditor.
102-55	GRI content index	

Indicator nr.	Indicator	Details/reference
102-56	External assurance	Chapter 'Non-financial statements', Safeguarding report quality
102-37	Stakeholders' involvement in remuneration	Chapter 'Remuneration report'. The views on stakeholders are sought indirectly through the stakeholder dialogues we have held.

PostNL Topic specific disclosures

GRI

Standard	Name of standard	Reference, explanation, omission
Customer experience		
103-1	Explanation of the material topics and its Boundary	Chapter 'Customer value'; Chapter 'Non-financial statements', Reporting criteria
103-2	The management approach and its components	Chapter 'Customer value'
103-3	Evaluation of the management approach	Chapter 'Customer value'; Chapter 'Non-financial statements', Safeguarding report quality
PNL-1 Key	Highly satisfied customers	Chapter 'Customer value'; Chapter 'Non-financial statements', Customer value performance indicators
PNL-2 Key	Satisfied customers	Chapter 'Customer value': Customer value; Chapter 'Non-financial statements', Customer value performance indicators
Growth in e-commerce		
103-1	Explanation of the material topics and its Boundary	Chapter 'Customer value'; Chapter 'Non-financial statements', Reporting criteria
103-2	The management approach and its components	Chapter 'Customer value'
103-3	Evaluation of the management approach	Chapter 'Customer value'; Chapter 'Non-financial statements', Safeguarding report quality
PNL-3 Key	Progress on transformation (share of e-commerce revenue)	Chapter 'Customer value'; Chapter 'Non-financial statements', Customer value performance indicators
PNL-4 Key	Volume development Parcels	Chapter 'Customer value'; Chapter 'Non-financial statements', Customer value performance indicators
Manage declining mail volumes		
103-1	Explanation of the material topics and its Boundary	Chapter 'Customer value'; Chapter 'Financial value'; Chapter 'Non-financial statements', Reporting criteria
103-2	The management approach and its components	Chapter 'Customer value'; Chapter 'Financial value'
103-3	Evaluation of the management approach	Chapter 'Customer value'; Chapter 'Financial value'; Chapter 'Non-financial statements', Safeguarding report quality
PNL-5 Key	Underlying operating income	Chapter 'Financial value'
PNL-6 Key	Underlying cash operating income	Chapter 'Financial value'
Engaged people		
103-1	Explanation of the material topics and its Boundary	Chapter 'Social value'; Chapter 'Non-financial statements', Reporting criteria
103-2	The management approach and its components	Chapter 'Social value'
103-3	Evaluation of the management approach	Chapter 'Social value'; Chapter 'Non-financial statements', Safeguarding report quality
PNL-7 Key	Employee engagement	Chapter 'Social value'; Chapter 'Non-financial statements', Social value performance indicators
PNL-8 Key	Employee loyalty	Chapter 'Social value'; Chapter 'Non-financial statements', Social value performance indicators
401-1	New employee hires and employee turnover	Chapter 'Non-financial statements', Social value performance indicators
403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	Chapter 'Non-financial statements', Social value performance indicators. Occupational diseases and Lost Days are not applicable for PostNL as this does not provide useful management information about Health and Safety at PostNL. Information about 'Absenteeism' and working days of workers beyond our own employees is unavailable for PostNL, we only report these indicators for our own employees.

GRI

Standard	Name of standard	Reference, explanation, omission
404-1	Average hours of training per year per employee	Chapter 'Non-financial statements', Social value performance indicators
405-1	Diversity of governance bodies and employees	Chapter 'Corporate governance', Diversity; Chapter 'Non-financial statements', Social value performance indicators
Accessible and reliable postal services		
103-1	Explanation of the material topics and its Boundary	Chapter 'Customer value'; Chapter 'Non-financial statements', Reporting criteria
103-2	The management approach and its components	Chapter 'Customer value'
103-3	Evaluation of the management approach	Chapter 'Customer value'; Chapter 'Non-financial statements', Safeguarding report quality
PNL-9 Key	Delivery quality Mail in the Netherlands	Chapter 'Customer value'; Chapter 'Non-financial statements', Customer value performance indicators
Financial position and performance		
103-1	Explanation of the material topics and its Boundary	Chapter 'Financial value'; Chapter 'Non-financial statements', Reporting criteria
103-2	The management approach and its components	Chapter 'Financial value'
103-3	Evaluation of the management approach	Chapter 'Financial value'; Chapter 'Non-financial statements', Safeguarding report quality
PNL-10 Key	Revenue	Chapter 'Financial value'
PNL-11 Key	Underlying operating income	Chapter 'Financial value'
PNL-12 Key	Underlying cash operating income	Chapter 'Financial value'
201-1	Direct economic value generated and distributed	Chapter 'Financial statements', Consolidated primary statements
201-2	Financial implications and other risks and opportunities due to climate change	Chapter 'Risk management', Regulatory risks
201-3	Defined benefit plan obligations and other retirement plans	Chapter 'Financial statements', Provisions for pension liabilities
Emission free delivery		
103-1	Explanation of the material topics and its Boundary	Chapter 'Environmental value'; Chapter 'Non-financial statements', Reporting criteria
103-2	The management approach and its components	Chapter 'Environmental value'
103-3	Evaluation of the management approach	Chapter 'Environmental value'; Chapter 'Non-financial statements', Safeguarding report quality
PNL-13 Key	CO2 efficiency	Chapter 'Environmental value'; Chapter 'Non-financial statements', Environmental value performance indicators
PNL-14 Key	Share of emission-free delivery	Chapter 'Environmental value'; Chapter 'Non-financial statements', Environmental value performance indicators
302-1	Energy consumption within the organisation	Chapter 'Non-financial statements', Environmental value performance indicators
302-2	Energy consumption outside of the organisation	Chapter 'Non-financial statements', Environmental value performance indicators
302-3	Energy intensity	Chapter 'Non-financial statements', Environmental value performance indicators
302-4	Reduction of energy consumption	Chapter 'Non-financial statements', Environmental value performance indicators
302-5	Reductions in energy requirements of products and services	Chapter 'Non-financial statements', Environmental value performance indicators
305-1	Direct (scope 1) GHG emissions	Chapter 'Non-financial statements', Environmental value performance indicators
305-2	Energy indirect (scope 2) GHG emissions	Chapter 'Non-financial statements', Environmental value performance indicators
305-3	Other indirect (scope 3) GHG emissions	Chapter 'Non-financial statements', Environmental value performance indicators

GRI

Standard	Name of standard	Reference, explanation, omission
305-4	GHG emissions intensity	Chapter 'Non-financial statements', Environmental value performance indicators
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Chapter 'Non-financial statements', Environmental value performance indicators
Sustainable city logistics		
103-1	Explanation of the material topics and its Boundary	Chapter 'Environmental value'; Chapter 'Non-financial statements', Reporting criteria
103-2	The management approach and its components	Chapter 'Environmental value'
103-3	Evaluation of the management approach	Chapter 'Environmental value'; Chapter 'Non-financial statements', Safeguarding report quality
PNL-Key	Percentage of city centres delivered emission-free	Not reported

5 UN Global Compact reference table

PostNL Global compact principles

UN Global Compact principle	Reference
1. Support and respect the protection of internationally proclaimed human rights	Chapter 'Social value', Our commitment to respect Human Rights
2. Make sure that they are not complicit in human rights abuses	Chapter 'Social value', Our commitment to respect Human Rights
3. Uphold the freedom of association and the effective recognition of the right to collective bargaining	Chapter 'Social value', Our commitment to respect Human Rights; Chapter 'Social value', Collective labour agreements
4. Uphold the elimination of all forms of forced and compulsory labour	Chapter 'Social value', Our commitment to respect Human Rights
5. Uphold the effective abolition of child labour	Chapter 'Social value', Our commitment to respect Human Rights
6. Uphold the elimination of discrimination in respect of employment and occupation	Chapter 'Social value', Our commitment to respect Human Rights
7. Support a precautionary approach to environmental challenges	Chapter 'Environmental value'
8. Undertake initiatives to promote greater environmental responsibility	Chapter 'Environmental value'; Chapter 'Non-financial statements', Environmental performance indicators
9. Encourage the development and diffusion of environmentally friendly technologies	Chapter 'Environmental value'
10. Work against corruption in all its forms, including extortion and bribery	Chapter 'Risk management', Integrity

6 Summary of key figures

All numbers presented in this appendix are the reported numbers in the respective Annual Reports of 2015 till 2019, unless restated

in a later year. Revenues and underlying cash operating income have represented for all earlier years for adjusted segment reporting, the impact of the discontinued operations in Italy and Germany and the management buy-out of Whistl in 2015.

PostNL Key figures 2015-2019, in € millions, unless indicated otherwise

	2015	2016	2017	2018	2019
Financial performance					
Revenue					
Parcels	1,173	1,283	1,382	1,555	1,672
Mail in the Netherlands	1,961	1,877	1,783	1,678	1,606
PostNL	2,751	2,723	2,725	2,772	2,844
Underlying cash operating income					
Parcels	123	131	140	117	121
Mail in the Netherlands	204	160	125	93	76
PostNL Other	(22)	(37)	(24)	(22)	(21)
PostNL	305	254	241	188	176
Underlying cash operating income margin					
Parcels	10.5%	10.2%	10.1%	7.5%	7.2%
Mail in the Netherlands	10.4%	8.5%	7.0%	5.5%	4.7%
PostNL	11.1%	9.3%	8.8%	6.8%	6.2%
Net cash from operating & investing activities (excluding TNT Express)	135	10	11	(19)	104
Adjusted net debt	not reported	not reported	not reported	(614)	(736)
Consolidated equity attributable to the equity holders of the parent	(213)	(79)	34	46	(21)
Corporate equity	2,204	2,742	2,730	2,593	2,129
Month-end coverage ratio main pension fund	106.0%	108.3%	115.8%	112.1%	113.4%
12-months avg coverage ratio main pension fund	106.8%	103.6%	113.4%	116.0%	110.6%
Cash out from pensions	179	164	151	148	144
Profit for the year (excluding TNT Express)	147	135	148	33	4
Earnings per share (excluding TNT Express in € cents)	33.3	30.5	33.0	7.1	0.8
Operational performance					
Parcels					
Parcel volume (in millions of items)	156	177	207	251	283
Volume growth percentage	9.6%	13.3%	17.2%	21.5%	12.4%
Mail in the Netherlands					
Addressed mail volume (in millions of items)	2,401	2,213	1,994	1,781	1,742
Volume decline percentage	(11.2%)	(7.9%)	(9.9%)	(10.7%)	(2.2%)
Delivery quality (2019 preliminary)	96%	96%	95%	95%	94%
Cost savings	85	64	56	48	48

	2015	2016	2017	2018	2019
Non-financial performance					
Share of highly satisfied customers	not reported	38%	41%	30%	27%
Share of engaged employees	64%	68%	67%	65%	65%
Absenteeism (% of total working hours)	5.0%	5.0%	5.2%	5.9%	5.4%
CO ₂ efficiency (relative reduction of scope 1 and 2 emissions per km compared to 2017)	not reported	not reported	base year (0%)	(2%)	(8%)
Share of emission-free delivery of mail and parcels in the last-mile	not reported	not reported	not reported	17%	19%

We look forward to receiving feedback on this report

Please send us your comments by e-mail to

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or by sending a letter to:

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