Results PostNL Q1 2014

The Hague, 6 May 2014

Solid performance PostNL continued in Q1 2014

Financial highlights Q1 2014

- Revenue flat at €1,033 million (Q1 2013: €1,036 million)
- Underlying operating income increased to €103 million (Q1 2013: €81 million)
- Underlying cash operating income increased to €77 million (Q1 2013: €23 million)
- Net cash from operating and investing activities of €23 million (Q1 2013: €(99) million)

Operational highlights Q1 2014

- Addressed mail volume Mail in the Netherlands declined by 11.5%
- High delivery quality at 97.0% (Q1 2013: 96.1%)
- Positive contribution volume/price/mix effect due to price increases
- Strong cost savings of €41 million supported by smooth implementation of the five days delivery model and a leaner overhead structure in Mail in the Netherlands
- Parcels volume grew by 5.3%

Outlook 2014*

- Full year underlying cash operating income expected at the high end of the guided range of between €180 million and €220 million

Key figures

in € millions	Q1 2014	Q1 2013	% Change
Revenue	1,033	1,036	0%
Revenue excluding UK	*854*	*861*	
Operating income	99	73	37%
Underlying operating income	103	81	27%
Underlying operating income margin	10%	7.8%	
Changes in pension liabilities	(13)	(32)	61%
Changes in provisions	(13)	(26)	50%
Underlying cash operating income	77	23	235%
Underlying cash operating income excluding UK	*77*	*21*	*267%*
Underlying cash operating income margin	7.5%	2.2%	
Profit for the period	54	(410)	
Profit for the period (excluding TNT Express)	54	32	73%
Net cash from/(used in) operating and investing activities	23	(99)	

Note: underlying figures exclude one-offs in Q1 2014 (€2 million for restructuring related charges and €2 million for rebranding/project costs) and in Q1 2013 (€8 million for restructuring related charges). Comparative 2013 figures have been restated to reflect the effect of the adoption of IFRS11/IAS28R.

CEO statement

Herna Verhagen, CEO of PostNL: “We had a good start of the year with our underlying cash operating income increasing by €54 million to €77 million. The reorganisation delivered strong cost savings that came in early, thanks to the excellent execution of the transition from a six to five days delivery model and the implementation of a leaner overhead structure in Mail in the Netherlands. The cost savings, together with the price increases more than compensated for the volume decline in Mail in the Netherlands. Phasing effects over the remainder of the year will make it more difficult to replicate the strong performance of the first quarter. The result of International was positive, but below last year’s performance. Parcels performed in line with expectations.

Overall, we made good progress towards our sustainable delivery 2015 targets.”

* Outlook 2014 is excluding the result from the activities in the United Kingdom

Update Sustainable delivery 2015

Subject		Q1 2014
Operations Mail in NL	Centralisation with high quality	▪ 11 depots migrated while improving quality to 97.0% ▪ Implementation five days delivery model ▪ Leaner overhead structure Mail in the Netherlands
CLA	Towards sustainable labour costs and lower risk pensions	▪ Discussions on new CLA commenced
Cost savings	To compensate for volume decline	▪ €41 million of which €35 million in Mail in the Netherlands
Regulatory developments	Underpinning cost savings and price increases	▪ ACM concluded market consultation significant market power and started an inquiry into the market for unsorted mail, with focus on next day delivery
Parcels	Further profitable growth	▪ Start early pick-up and evening delivery

Main developments PostNL and segments

	Revenue			Underlying operating income			Underlying cash operating income	
in € million	Q1 2014	Q1 2013	% Change	Q1 2014	Q1 2013	% Change	Q1 2014	Q1 2013
Mail in NL	497	513		84	42		62	1
Parcels	201	198		26	27		25	24
International	409	403		2	5		2	6
PostNL Other	58	68		(9)	7		(12)	(8)
Intercompany	(132)	(146)						
PostNL	1,033	1,036	0%	103	81	27%	77	23

Note: underlying figures exclude one-offs and FX impact

PostNL's reported revenue in Q1 was €1,033 million, flat compared to the prior year. Adjusted for the currency effect, revenue was down 1%. Underlying operating income increased to €103 million (Q1 2013: € 81 million). The increase is explained by a positive volume/price/mix effect in Mail in the Netherlands (€2 million), cost savings of €34 million (excluding pensions) and lower implementation costs (€3 million), partly offset by autonomous cost increases (€6 million), Parcels (€1 million), International (€3 million) and other (€7 million). Underlying cash operating income increased to €77 million (Q1 2013: €23 million) explained by an increase in underlying operating income of €22 million, lower pension cash out (€19 million) and lower cash out from provisions (€13 million).

Addressed mail volumes in **Mail in the Netherlands** declined by 11.5% in the quarter (11.9% like-for-like, adjusted for one fewer working day and elections). Revenue declined by 3% to €497 million. A positive price/mix effect, mainly explained by the implementation of the increases of the stamp price effective 1 August 2013 and 1 January 2014, and cost savings compensated for the addressed mail volume decline. Mail in the Netherlands also benefited from the good weather conditions. The improvement in underlying operating income explained above and lower pension and restructuring cash out resulted in underlying cash operating income of €62 million (Q1 2013: €1 million).

Parcels' volume in the quarter increasd by 5.3%, mainly as a result of the continued growth of the e-commerce market. Revenue increased by 2% to €201 million, explained by external volume growth, including the effect of the acquisition of Fiege, partly offset by changes in product/customer mix and lower internal revenue. Volume growth, efficiency gains and lower pension cash out more than compensated for the increase in subcontractor costs and the negative contribution of Pharma & Care Belgium, resulting in underlying cash operating income of €25 million (Q1 2013: €24 million).

International revenue increased by 1% to €409 million. Adjusted for the currency effect, revenue was flat. Underlying cash operating income was €2 million (Q1 2013: €6 million). The decline is explained by the competitive situation in the German consolidation business and the roll-out of E2E services in the UK.

In the UK, revenue was €179 million (Q1 2013: €175 million). Adjusted for the currency effect, revenue decreased by 1%. Volumes increased, but the product mix impacted revenue. In the quarter, we started E2E services in Harrow and Liverpool. Our formal complaint to Ofcom is being dealt with under competition law and is currently being investigated.

In Germany, revenue decreased by 6% to €124 million (Q1 2013: €132 million). The consolidation business (formerly Postcon) was impacted by the competitive situation. The revenue decline in the consolidation business was partly compensated by new business wins and growing volumes in the other business lines. Since the end of March, all activities in Germany are branded Postcon.

In Italy, revenue increased by 11% to €63 million (Q1 2013: €57 million) driven by continued strong volume growth of Formula Certa.

Revenue in **PostNL Other** decreased to €58 million (Q1 2013: €68 million), almost fully explained by lower internal revenue. Underlying cash operating income decreased by €4 million to €(12) million mainly due to reallocation of costs to the other segments.

Equity, pensions and cash flow development

Total equity attributable to equity holders of the parent improved to €(608) million on 29 March 2014 from €(679) million as per 31 December 2013. The improvement is explained by net profit of €54 million and a fair value change of our stake in TNT Express of €30 million, partly offset by a negative impact from pensions of €13 million.

The coverage ratio of the main pension fund was 112.4% at the end of the first quarter. The pension expense in Q1 2014 amounted to €32 million (Q1 2013: €32 million). The cash contributions were €45 million (Q1 2013: €64 million excluding the top-up payment of €63 million).

Net cash from operating and investing activities was €23 million, an improvement of €122 million compared to the prior year, mainly explained by better operating cash flow and the impact from the top up payment in Q1 2013. At the end of Q1 2014, net debt was €785 million, which compares to €823 million at the end of 2013.

PostNL is well financed and has access to sufficient financial resources to meet its funding needs. The present negative consolidated equity does not impact the company's operations, the timing of debt reductions and access to the available credit facility. We expect to gradually improve our consolidated equity position. PostNL's financial and equity position will continue to be vulnerable to changes in interest rates which may impact the pension position. An environment of higher interest rates may have a positive effect on the financial and equity position.

Financial calendar

4 August 2014	Publication of Q2 & HY 2014 results
3 November 2014	Publication of Q3 2014 results
23 February 2015	Publication of Q4 & FY 2014 results
6 May 2015	Publication of Q1 2015 results

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Audio webcast and conference call Q1 2014 results

On 6 May 2014, at 14.00 CET, the conference call for analysts and investors will start. The conference call can be followed live via an audio webcast on www.postnl.com.

Additional information

Additional information is available at www.postnl.com.

Warning about forward-looking statements

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

Consolidated interim financial statements

Consolidated statement of financial position in € millions	29 March 2014	Restated 31 December 2013	Restated 1 January 2013
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	84	84	100
Other intangible assets	45	46	56
Total	129	130	156
Property, plant and equipment			
Land and buildings	340	345	303
Plant and equipment	125	127	139
Other	34	35	39
Construction in progress	35	29	51
Total	534	536	532
Financial fixed assets			
Investments in joint ventures/associates	37	36	1,403
Other financial fixed assets	7	9	7
Deferred tax assets	47	51	70
Available for sale financial assets	572	542	
Total	663	638	1,480
Total non-current assets	1,326	1,304	2,168
Current assets			
Inventory	6	5	6
Trade accounts receivable	330	361	419
Accounts receivable	34	29	57
Income tax receivable	2	1	2
Prepayments and accrued income	132	104	116
Cash and cash equivalents	482	451	370
Total current assets	986	951	970
Assets classified as held for sale	196	194	62
Total assets	2,508	2,449	3,200
LIABILITIES AND EQUITY			
Equity			
Equity attributable to the equity holders of the parent	(608)	(679)	(301)
Non-controlling interests	7	6	8
Total	(601)	(673)	(293)
Non-current liabilities			
Deferred tax liabilities	38	37	41
Provisions for pension liabilities	552	542	532
Other provisions	119	128	117
Long-term debt	1,263	1,260	1,611
Accrued liabilities	1	1	2
Total	1,973	1,968	2,303
Current liabilities			
Trade accounts payable	137	153	222
Other provisions	69	69	83
Other current liabilities	197	209	253
Income tax payable	59	54	26
Accrued current liabilities	555	552	595
Total	1,017	1,037	1,179
Liabilities related to assets classified as held for sale	119	117	11
Total equity and liabilities	2,508	2,449	3,200

Consolidated income statement in € millions	Q1 2014	Restated Q1 2013
Net sales	1,030	1,033
Other operating revenue	3	3
Total operating revenue	1,033	1,036
Other income	1	2
Cost of materials	(23)	(26)
Work contracted out and other external expenses	(522)	(526)
Salaries, pensions and social security contributions	(325)	(344)
Depreciation, amortisation and impairments	(23)	(27)
Other operating expenses	(42)	(42)
Total operating expenses	(935)	(965)
Operating income	99	73
Interest and similar income	1	1
Interest and similar expenses	(25)	(32)
Net financial expenses	(24)	(31)
Results from investments in jv's/associates	1	40
Reversal of/(impairment) of investments in associates		(481)
Profit/(loss) before income taxes	76	(399)
Income taxes	(22)	(11)
Profit/(loss) from continuing operations	54	(410)
Profit from discontinued operations		
Profit for the period	54	(410)
Attributable to:		
Non-controlling interests		
Equity holders of the parent	54	(410)
Earnings per ordinary share (in € cents) [1]	12.3	(93.2)
Earnings per diluted ordinary share (in € cents) [2]	12.2	(93.2)

1 Based on an average of 439,973,297 outstanding ordinary shares (2013: 439,973,297).
2 Based on an average of 440,889,468 outstanding diluted ordinary shares (2013: 439,973,297).

Consolidated statement of comprehensive income in € millions	Q1 2014	Restated Q1 2013
Profit for the period	54	(410)
Other comprehensive income that will not be reclassified to the income statement		
Impact pensions, net of tax	(13)	19
Share other comprehensive income jv's/associates		(2)
Other comprehensive income that may be reclassified to the income statement		
Currency translation adjustment, net of tax		(1)
Gains/(losses) on cashflow hedges, net of tax	(1)	4
Share other comprehensive income jv's/associates		2
Change in value of available-for-sale financial assets	30	
Total other comprehensive income for the period	16	22
Total comprehensive income for the period	70	(388)
Attributable to:		
Non-controlling interests		
Equity holders of the parent	70	(388)

Consolidated statement of cash flows in € millions	Q1 2014	Restated Q1 2013
Profit/(loss) before income taxes	76	(399)
Adjustments for:		
Depreciation, amortisation and impairments	23	27
Share-based payments	1	
(Profit)/loss on assets held for sale	(1)	(2)
Interest and similar income	(1)	(1)
Interest and similar expenses	25	32
(Reversal of) impairments and results of investments in jv's/associates	(1)	441
Investment income	22	470
Pension liabilities	(13)	(95)
Other provisions	(8)	(9)
Changes in provisions	(21)	(104)
Trade accounts receivable	9	(6)
Other accounts receivable	6	18
Other current assets	(30)	(36)
Trade accounts payable	(5)	(1)
Other current liabilities excluding short-term financing and taxes	(27)	(36)
Changes in working capital	(47)	(61)
Cash generated from operations	54	(67)
Interest paid	(1)	(1)
Income taxes received/(paid)	(8)	(7)
Net cash (used in)/from operating activities	45	(75)
Interest received	1	
Capital expenditure on intangible assets	(5)	(4)
Capital expenditure on property, plant and equipment	(19)	(24)
Proceeds from sale of property, plant and equipment	1	4
Net cash (used in)/from investing activities	(22)	(24)
Proceeds from short term borrowings	2	
Repayments of short term borrowings	(10)	(2)
Net cash used in financing activities	(8)	(2)
Total change in cash	**15**	(101)
Cash at the beginning of the period	451	370
Cash included in assets held for sale	16	
Exchange rate differences		(1)
Total change in cash	15	(101)
Cash at the end of the period	482	268

Basis of preparation

The interim financial statements are reported on a year-to-date basis ending 29 March 2014. The information should be read in conjunction with the consolidated 2013 Annual Report of PostNL N.V. as published on 24 February 2014.

Apart from the changes in accounting for joint ventures (IFRS 11/IAS 28R), all other significant accounting policies applied in these consolidated interim financial statements are consistent with those applied in PostNL's consolidated 2013 Annual Report for the year ended 31 December 2013.

The measure of profit and loss and assets and liabilities is based on the Group Accounting Policies, which are compliant with IFRS as endorsed by the European Union.

Per 1 January 2014 IFRS 11 'Joint Arrangements' and the revisions in IAS 28 'Associates and joint ventures' have been adopted. PostNL recognised the investment in the joint ventures at the beginning of the earliest period presented (1 January 2013) as the net amount of the carrying value of the assets and liabilities previously proportionately consolidated by the group. This is the deemed cost of the group's investment in the joint venture for applying equity accounting. PostNL's most significant joint venture as at 31 December 2013 was the 50% interest in Postkantoren B.V. / Bruna B.V. (Mail in the Netherlands). In addition, PostNL holds a 50% interest in HIM Holtzbrinck joint ventures (International).The comparative figures of 2013 have been restated for this change. There is no impact on shareholders' equity, comprehensive income, net result and earnings per share.

Classification of stake in TNT Express
In December 2013, PostNL sold part of its stake in TNT Express. In accordance with IAS 39, the remaining 14.8% stake in TNT Express is considered an available-for-sale financial asset measured at fair value with gains and losses arising from changes in the fair value recognised in other comprehensive income. Until the start of Q4 2013, the stake in TNT Express was classified as an investment in associates accounted for using the equity method.

Classification of TNT Post UK
In December 2013, PostNL reached an agreement with LDC to establish a joint venture, which will allow TNT Post UK to roll out its E2E service. At completion, PostNL will have a 40% stake in the joint venture and control will be lost. This resulted in the transfer of the assets and liabilities of TNT Post UK to held for sale at the end of 2013.

Auditor's involvement

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

Summary of restatements

The following tables summarise the effect of the adoption of IFRS 11 and IAS 28R on the consolidated balance sheet per 1 January 2013 and 31 December 2013 and the consolidated (comprehensive) income statement for Q1 2013 and the full year 2013.

Consolidated statement of financial position in € millions	Reported 31 Dec 2012	JV equity accounting	Restated 1 Jan 2013	Reported 31 Dec 2013	JV equity accounting	Restated 31 Dec 2013
ASSETS						
Total intangibles	168	(12)	156	143	(13)	130
Total property, plant and equipment	536	(4)	532	539	(3)	536
Investments in associates/jv's	1,373	30	1,403	6	30	36
Other financial fixed assets	74	3	77	603	(1)	602
Total financial fixed assets	1,447	33	1,480	609	29	638
Total non-current assets	2,151	17	2,168	1,291	13	1,304
Total current assets	1,002	(32)	970	979	(28)	951
Assets classified as held for sale	63	(1)	62	194		194
TOTAL ASSETS	**3,216**	**(16)**	**3,200**	**2,464**	**(15)**	**2,449**
EQUITY AND LIABILITIES						
Equity for shareholders of the parent	(301)		(301)	(679)		(679)
Non-controlling interests	9	(1)	8	7	(1)	6
Total equity	(292)	(1)	(293)	(672)	(1)	(673)
Total non-current liabilities	2,310	(7)	2,303	1,973	(5)	1,968
Total current liabilities	1,187	(8)	1,179	1,046	(9)	1,037
Liabilities related to assets classified as held for sale	11		11	117		117
TOTAL EQUITY AND LIABILITIES	**3,216**	**(16)**	**3,200**	**2,464**	**(15)**	**2,449**

Consolidated income statement in € millions	Reported Q1 2013	JV equity accounting	Restated Q1 2013	Reported 31 Dec 2013	JV equity accounting	Restated 31 Dec 2013
Net sales	1,068	(35)	1,033	4,296	(144)	4,152
Other operating revenue	3		3	11		11
Total operating revenue	1,071	(35)	1,036	4,307	(144)	4,163
Other income	2		2	7		7
Cost of materials	(45)	19	(26)	(167)	79	(88)
Work contracted out and other external expenses	(531)	5	(526)	(2,142)	23	(2,119)
Salaries, pensions and social security contributions	(350)	6	(344)	(1,288)	28	(1,260)
Depreciation, amortisation and impairments	(28)	1	(27)	(132)	3	(129)
Other operating expenses	(45)	3	(42)	(181)	7	(174)
Total operating expenses	(999)	34	(965)	(3,910)	140	(3,770)
Operating income	**74**	**(1)**	**73**	**404**	**(4)**	**400**
Interest and similar income	1		1	10	(1)	9
Interest and similar expenses	(32)		(32)	(184)	1	(183)
Net financial expense	(31)		(31)	(174)		(174)
Results from investments in associates/jv's	39	1	40	36	2	38
Reversal of/(impairment of) investments in associates/jv's	(481)		(481)	(369)		(369)
Profit/(loss) before income taxes	**(399)**		**(399)**	**(103)**	**(2)**	**(105)**
Income taxes	(11)		(11)	(67)	2	(65)
Profit for the year	**(410)**		**(410)**	**(170)**		**(170)**
Profit for the year (excluding TNT Express)	*32*		*32*	*164*		*164*
Earnings per ordinary share (in € cents)	(93.2)		(93.2)	(38.6)		(38.6)
Earnings per diluted ordinary share (in € cents)	(93.2)		(93.2)	(38.6)		(38.6)
Other comprehensive income that will not be reclassified to the income statement						
Impact pensions, net of tax	17	2	19	(230)	3	(227)
Share other comprehensive income associates	0	(2)	(2)	(5)	(3)	(8)
Other comprehensive income that may be reclassified to the income statement	5		5	24		24
Total other comprehensive income for the period	22		22	(211)		(211)
Total comprehensive income for the period	**(388)**		**(388)**	**(381)**		**(381)**