



Driving  
transition

Annual Report 2018







## With clever logistics, healthcare will come to you

Read more in chapter 6



## Mail deliverer becomes parcel deliverer

Read more in chapter 8



## City hub paves the way for sustainable delivery

Read more in chapter 9

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## How to read this report

### Management summary

Readers looking for the highlights of 2018 are advised to read chapter 1 until 5, and the first pages of chapter 6 until 10.

### Report of the Board of Management

The sections Introduction, Business report and Governance together make up the report of the Board of Management.

### 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 19: Non-financial statements, section 1.3 provides more information on forward-looking statements.

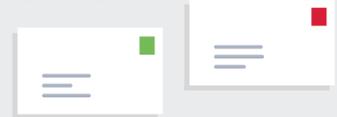
# 1 At a glance

## Our physical presence



**12,000**  
letter boxes

**1.8 billion**  
letters delivered



**251 million**  
parcels delivered



**325 million**  
kilometres transported



**22**  
parcel sorting centres

**5**  
mail sorting centres



**1**  
international sorting centre



**37,785**  
employees

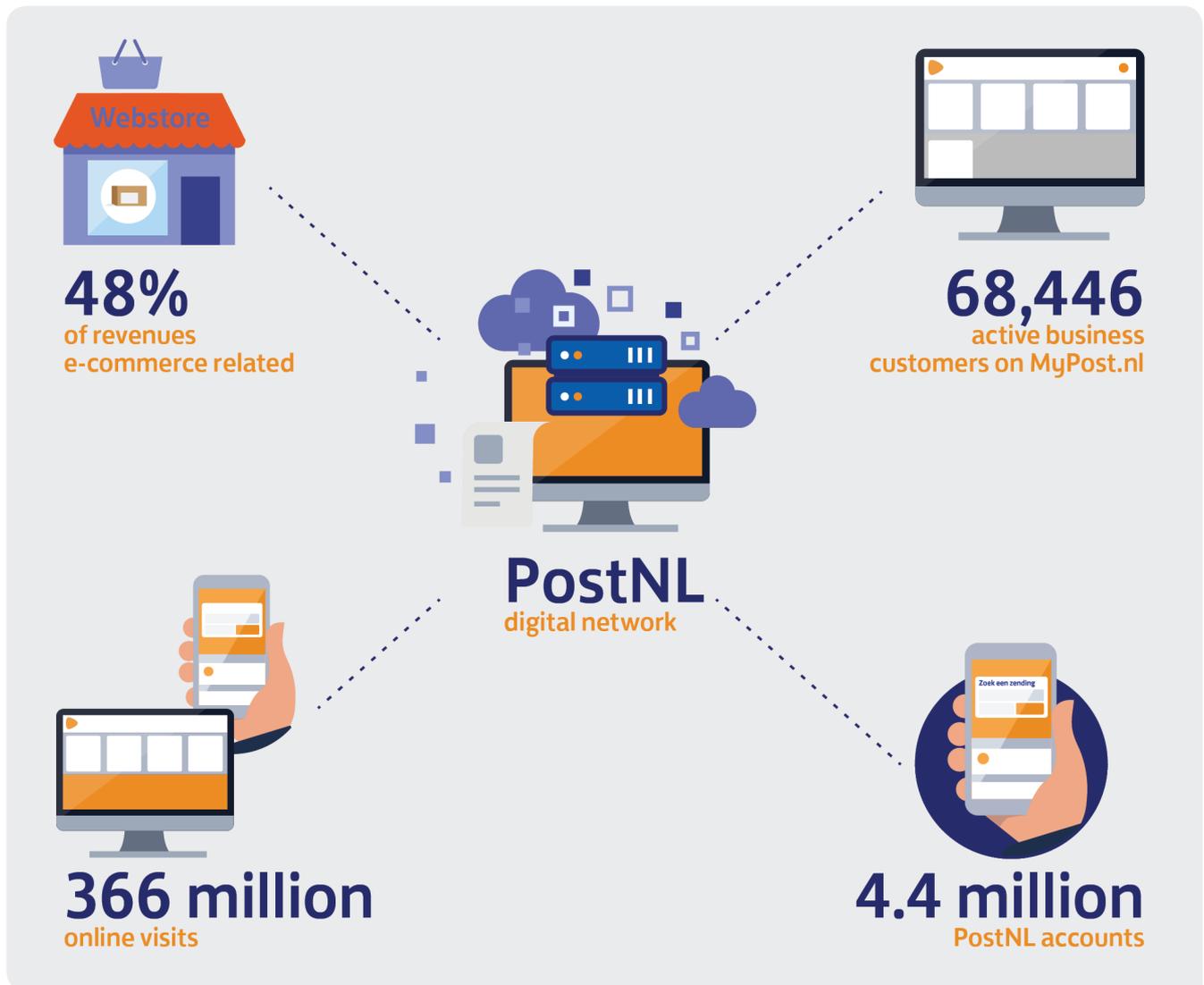


**4,183**  
retail locations

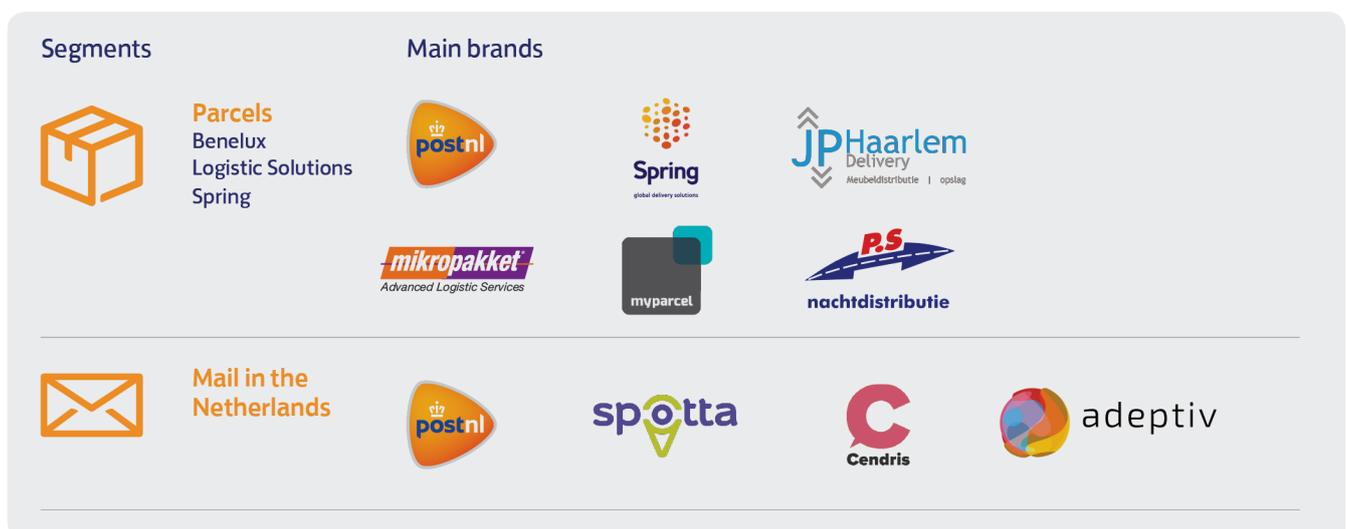


**24%**  
kilometres transported sustainably

## Our digital presence



## Our main brands



## The Benelux's number one service provider in parcels and mail

Our purpose is to deliver special moments to everyone. We are the deliverers who know you and who are there for you when you need them. Who deliver for everyone, to everyone. This means that on an average weekday we deliver 800,000 parcels and 7 million letters throughout the Netherlands. For our customers we are the indispensable link between senders and receivers, and the connection between the physical and their digital world.

### Large employer

For 220 years we have ensured that mail and parcel services are reliable and accessible in the Netherlands. And with almost 38,000 employees, we are one of the largest employers in the country. PostNL has the biggest logistics mail and parcel network in the Benelux and we are active throughout the world with our cross-border activities under the brand Spring.

### More than delivering parcels and mail

PostNL is transforming from a traditional mail business into a logistics service provider. Today, we are already doing much more than only delivering mail and parcels. For example, we help our business customers to be successful by providing direct and online marketing support, automated order processing or temperature-controlled medical transport. And we develop services that make consumers' lives easier, such as collecting parcels that consumers want to return, delivering flowers and food, or delivering and fitting kitchens and white goods.

### Customer focus

The consumer and our business customers are our starting point in everything we do. We believe that it is vital to keep mail accessible and reliable for everyone, everywhere, whether it is delivering a bank statement or a Christmas card. The unstoppable growth of e-commerce is an important driver in our parcel delivery and logistic activities, where we make online shopping easier. We connect with e-tailers through their webshops and platforms, continuing to offer them a growing range of delivery options. And we provide consumers with greater control over when and where we deliver their parcels. And PostNL is always nearby; whether it is through the PostNL app, a retail location in the local neighbourhood or our deliverers in every street, seven days a week.

### A people company

We are a people company. We focus on creating a work environment in which everyone can be themselves and believe that diversity in background, mindset and abilities is crucial to succeed as a company. We work to offer learning and development opportunities for employees at all levels of the organisation, and for all skill sets, ensuring that everyone can work to reach their true potential. Only by working together can we truly become the favourite deliverer.

## 2 Message from Herna Verhagen



### Driving transition

We are steadily realising our strategy to be *the* postal and logistics solution provider in the Benelux. Our target of having 50 percent of revenues coming from e-commerce is within reach, ahead of time. Our Parcels business progressed to the next growth phase by investing in infrastructure, innovation and an efficient, value-creating delivery model. We continued to adapt the business model of our Mail operations, which will help us save costs and further manage volume decline. We also took several steps towards consolidation of mail networks in the Netherlands. And by growing our presence and expanding our retail network, we can ensure that we are always close to our customers and consumers, creating one customer experience across PostNL.

At the same time, we dealt with a number of challenges during the year. Our customer satisfaction and employee engagement in 2018 were not where we want or need them to be. Sometimes for reasons within our control, and in those cases we have started working on improvements. And sometimes external circumstances, such as a tight labour market and the regulatory environment, tested us. While these things will not go away, we are confident that the steps we are taking will create a platform for further growth and sustainable value.

### Value for our shareholders

Value creation for our shareholders remains a key priority for us. Our share price in 2018 did not develop as we had hoped, which was disappointing. However, it is important to focus on our long-term prospects for value creation. Next to the strategic developments mentioned above, we have delivered an underlying cash operating income at the top-end of our guidance for the year. Our aim continues to be to offer shareholders a sustainable, progressive dividend based on the performance of our business. We are confident that we will continue to find the

right balance between adjusting our mail operations in the challenging Dutch postal market and expanding our footprint as an e-commerce solutions provider, creating long-term value for our shareholders and other stakeholders.

As a company in transformation, we believe that focus is key to achieving our goal. In line with our strategy to be *the* postal and logistics solution provider in the Benelux, we have decided to divest Nexive, our mail and parcels business in Italy, and Postcon, our mail business in Germany. We are making good progress with the divestment process and we expect to make further announcements before the summer.

### Parcels: striking the right balance

Driven by strong volume growth, revenue at our Parcels business increased by 19.8%. Price increases above inflation for all customer categories were more than offset by a shift in customer mix, as large e-tailers gain market share and grow faster than smaller players. Business performance improved on the back of increasing volumes, leading to higher efficiency. At the same time, we faced additional capacity costs, partly explained by a tight labour and transport market and increasing IT costs related to the ongoing development of our digital services.

During the year, we opened three new parcel sorting centres in the Netherlands, which is the pace we plan to maintain in 2019. We are very pleased with the development of our parcels business in Belgium, where we plan to further expand our parcel sorting and delivery capabilities.

We keep pace with e-commerce growth by expanding our network, hiring more people and constantly innovating our parcel collection, sorting and delivery models. In 2018, parcel volumes increased by more than 20%. On an average day, we now deliver over 800,000 parcels. On peak days, such as Black

Friday and Sinterklaas, the daily volume increased to 1.4 million parcels per day.

While the enormous success and growth of e-tailers creates opportunities, there are also challenges. The high pressure on peak days requires us to accelerate our investments. This is an industry issue, which we will have to tackle together with our customers. Increased awareness among stakeholders of the positive and negative impact of a growing e-commerce market is vital to create a sustainable model for the future. Through a number of commercial initiatives, we will continue to ensure that volume and revenue growth translate into bottom-line growth.

As we transform, we actively seek to develop new growth domains close to our core logistic propositions, which can also serve as a feeder of volumes to our Mail and Parcels networks. We have chosen food and health as specific areas where we can truly add value for customers and where societal trends offer real growth opportunities. Specialist activities within logistic solutions, such as fulfilment, @Home and Mikropakket, further broaden our capabilities and offer customers the right solution.

### Cross border: further leveraging our local presence

At Spring, our international provider of mail and parcels solutions to businesses worldwide, we saw a fierce competitive environment in 2018, especially in Asia. This put pressure on our margins and resulted in a drop in performance year-on-year. Going forward, our goal is to further leverage our local presence and our customer capabilities, resulting in an even faster, more customer-centred approach. We continue to believe in the opportunities our broker business has in a fast growing, global e-commerce environment, and as a source of inbound and outbound flows for our Benelux networks.

### Mail: becoming a more flexible business

The performance at our Mail business was characterised by volume decline of 10.7% and autonomous cost increases, which could not be fully compensated by price increases and cost savings. After a delay at the beginning of the year in the implementation of important change projects, the run-rate of cost savings improved in the second half of 2018. Revenue decreased by 5.9%. Fourth-quarter results were very good, with the December stamp again contributing significantly to our performance.

The decline of mail volumes in the Netherlands continued to develop in line with our guidance. For the first time, we saw trends towards similar levels of decline in other European countries, specifically in Belgium and the United Kingdom. The decline underpins the urgent need to consolidate the mail networks in the Netherlands, to change regulation and to transform our mail activities towards a more flexible model for mail collection, sorting and delivery. With this model, we create synergies and cut costs in parallel with the volume decline. This

is important in any scenario, but it will also leave us in a better position to add additional volumes that result from potential consolidation of networks, if and when it happens.

### Postal dialogue and consolidation

For a number of years, we have consistently argued that consolidation of mail networks is the best solution for affordable postal delivery, available for all age groups, including the elderly, and accessible in cities and rural areas. Furthermore, it is the best way to manage volume decline in a socially responsible manner. In the first half of 2018, a commission led by Ms Oudeman researched the postal market and held a dialogue with all relevant postal stakeholders. In June, the state secretary of Economic Affairs and Climate Policy, Ms Keijzer, sent her conclusions on the postal dialogue to parliament.

We welcomed the outcome, which recognised that regulation should reflect the strongly declining postal market. The state secretary concluded that adjustment of regulation is required, in order to safeguard the future accessibility and reliability of postal delivery for everyone in the Netherlands. A debate in September showed vital, broad parliamentary support for consolidation. Due to anti-trust regulation and the involvement of several stakeholders, the road to consolidation is, as predicted, not straightforward and will take time.

On the day of publication of this Annual Report, we have made a joint announcement with Sandd regarding our intention to create one strong national postal network in the Netherlands. PostNL and Sandd have filed a request for approval with the regulator, which is the formal start of this process. Combining the two postal networks of PostNL and Sandd is essential, in order to ensure that the postal market remains reliable, accessible and affordable for everyone. It also builds a stronger basis for long-term employment for mail deliverers. The combination, which is conditional upon approval and other conditions, will secure the foundation for a sustainable postal service in the Netherlands.

### Regulation

In September, a verdict by the Dutch Trade and Industry Appeals Tribunal (CBb) annulled a market analysis decision by Dutch market regulator ACM on 24-hour business mail. The CBb ruled that the ACM had insufficiently substantiated that digital sending is not part of the market for 24-hour business mail. Following this positive outcome, PostNL now offers postal operators access to its network based on fair tariffs and conditions that have been accepted by the market.

Despite the broad political support for consolidation, the ACM continues to promote competition, regardless of the negative consequences this will have for the financial viability of the mail business, for the people working in the postal sector and potentially for millions of senders and receivers of mail in the Netherlands. At the end of December, the ACM announced a

new draft market analysis decision, in which it set potential new tariffs and conditions for postal operators to access PostNL's postal network.

The approach of the regulator creates new uncertainty and falls short of reflecting the reality and the impact of the rapidly declining mail volumes on the sector and on PostNL. At the time of writing this report, the ACM had not yet published its final market decision. If the regulator does not change its initial approach, our guidance of the negative impact of regulation may have to be adjusted upwards.

## We depend on our people

We aim to be the best employer in our sector, with people who are happy and motivated to do what is best for our customers and consumers. Despite all the digital and technical support a sophisticated logistics company requires, successful delivery truly depends on the hard work of many people. We're proud and thankful to have such a group of committed people working for us, either employed by PostNL or by subcontractor and other companies.

Five days a week, thousands of our postal deliverers walk and bike the streets to deliver mail to every household in the Netherlands. They are supported by colleagues collecting and sorting mail, while over 3,000 retailers offer post office services. Thousands of thriving webshops and e-tailers depend on our parcel deliverers and sorters to deliver their promise to the customer. Our drivers are the backbone of our logistic efforts, on the road day and night ensuring we can deliver over 7 million letters per day, five days a week, and 800,000 parcels each day. Our people working in support and staff roles are as vital, making sure that the machinery runs like clockwork.

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. We work hard to create an atmosphere where people are passionate and proud to be part of PostNL.

## Looking forward: focus on our potential

In 2019, we will continue to build on a strong platform created to deliver growth and value, as we continue to focus on the potential of our business. At Mail, we will introduce a more flexible model for sorting and delivery. For Parcels, we will take further steps to strike the right balance between higher volumes, profitability and higher cash flow.

We will continue to focus on transforming to an e-commerce logistics company by strengthening the range of customer solutions we offer and further developing our digital offering. And of course we will continue to invest in activities that make our business more environmentally sustainable, as we believe sustainability is our license to operate. We are working towards the ambitious goals of emission-free delivery in 25 Dutch city centres by 2025, and emission-free last-mile delivery across the Benelux by 2030. To help achieve this, we are working with our employees, our customers, our partners and our suppliers to develop innovative solutions to reduce our environmental impact.

## 220 years at the heart of society

Despite the challenges, we have a lot to be proud of looking back at 2018. Throughout this report you will find many examples of how we are improving the customer journey, innovating our business processes and introducing smart cost-saving measures. I would like to take this opportunity to thank our key stakeholders – customers, our people, shareholders, suppliers and other relations/partners – for their support and loyalty to PostNL. Striking the right balance between the interests of our stakeholders is at the heart of what we do every day.

We are proud of our history of 220 years, and what we stand for. Our ambition is to be the favourite deliverer, and our purpose is to deliver special moments to everyone. In 2018 we redefined our purpose and principles that guide our behaviour. These ensure that everyone within PostNL moves in the same direction and focuses on the same targets. They give guidance on what we do, the customer experience we aim for and how we work together. Please refer to chapter 3 of this report to learn more about it.

We strongly believe that PostNL has proved, and will continue to prove, that our long-term strategy is right for all of our stakeholders. It offers value to our customers and to consumers as we deliver special moments for everyone, everywhere, every day. It offers jobs, income, security and development opportunities for our people. It creates sustainable value for shareholders. And as a company, we aim to contribute to a better society, which is connected, smart and sustainable. This is what we have done since 1799, when the first national postal service was founded. And this is what we will continue to do in the future.

Kind regards

Herna Verhagen, CEO

# 3 Our identity

We provide society and our customers with reliable and accessible postal and logistic services. We are proud of our history and what we stand for: delivering special moments for everyone. In 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.

Ambition

## Your favorite deliverer

<b>Why?</b> We deliver special moments	Desired customer experience  Desired employee behaviour  Optimal work environment  Optimal leadership	Makes it happen	Works with me	Makes me happy
<b>Who?</b> We deliver for everyone		Do what we promise	Stay one step ahead	Connect and surprise
<b>What?</b> We enable you to easily send and receive anything anywhere		Just deliver	Smarter every day	Look out for one another
<b>How?</b> We keep it simple. We make it smart. And we do it together		Making it possible	Providing support and guidance	Enabling connections

### Why: To deliver special moments to everyone

Our purpose is to deliver special moments to everyone. While we operate in a world in which everything and everyone is connected, we understand that every contact moment is a valuable moment. And that every delivery is a promise. This is why we aim to deliver with pleasure and care.

### Who: To deliver for everyone, to everyone

We collect, we sort, we deliver. We deliver to everyone, every day. We are the deliverers who know you and who are there for you when you need them. Who plan ahead and work with colleagues to develop digital solutions and new services. We want to be everyone's favourite deliverer.

### What: To ensure that you can send and receive anything, anywhere, anytime

We deliver for you or to you. Whatever, wherever and whenever you want. We help you from the ordering process till after delivery. In the Benelux and beyond. And more sustainably everyday.

### How: Keep it simple. Be smart. Do it together

We make it easy and keep it simple. We do what we promise. We do it smart: we work with you and stay ahead of the curve, always looking to improve. And we do it together with you and everyone who works for or with us. We aim to make people happy with special moments.

Examples of how we are contributing to being everyone's favourite deliverer can be found on the next page.



**Simple**  
**Employer branding**  
**instead of job selling**

Read more in chapter 8



**Smart**  
**Marley Spoon wants to**  
**grow together with PostNL**

Read more in chapter 6



**Together**  
**International mail and**  
**parcels under one roof**

Read more in chapter 7



**Your favourite deliverer**  
**Well prepared for**  
**the December peak**

Read more in chapter 7

## 4 Our operating context

**PostNL plays an important role in society as a postal and logistics service provider. We operate in a multi-stakeholder environment and our stakeholders significantly influence those areas we focus on to create long-term value. Each stakeholder decides which topics are most important and relevant to them. Together, we carefully identify those topics that are most material and should be prioritised. At the same time, we look at the impact competition and the regulatory landscape have on our businesses and our customers.**

### Stakeholders

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. Our main stakeholder groups are summarised below. A more detailed overview of the stakeholder engagement process is included in chapter 19: Non-financial statements, section: 'Basis of preparation'.

### Customers

Our customers are our reason for being and indispensable to our existence. We identify two types of customers who send and receive parcels and mail and use related 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 and reliable and they increasingly expect to be in control and are demanding more flexible delivery options. Our ambition is to be our customers favourite deliverer.

### Our people

PostNL is a large employer and our people and those who work for us through contracted partners are key to our ability to provide our logistic services. The main topics we discuss with our employees during our dialogues with them relate to the work they do, how they do it, and where we can make improvements. We collaborate closely with trade unions and the works council to realise favourable working conditions. We want to provide everyone with a safe working environment, where they feel respected and enjoy a culture that stimulates innovation, diversity, opportunities and working together across business segments.

### Investors

A healthy financial position and performance is important for investors and shareholders, as well as banks and financial analysts. The main topics of discussion we have with investors and shareholders relate to our business drivers and financial performance, how we create value, our investment proposition, and our short and long-term outlook.

### 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 and future city logistics.

### Opinion leaders and society

The media influences the public debate on PostNL, while academic and research institutions also publish views on the company and the market in which we operate. NGOs look at PostNL from different perspectives, such as our Human Rights and environmental impact. Local communities are important as our activities mean we are visible in every street in the Netherlands. We engage with these various stakeholders on a number of topics, including business events, market trends, environmental issues and social issues. The reduction of letter boxes in the Netherlands is an example of ongoing engagement.

### Business partners

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

## Materiality

PostNL considers all topics of discussion that we have with stakeholders as relevant. For the Annual Report we focus our disclosures on those topics deemed most material. Identifying what is most material involved first carrying out a materiality analysis to prioritise the topics we had identified, and then ranking them based on two dimensions.

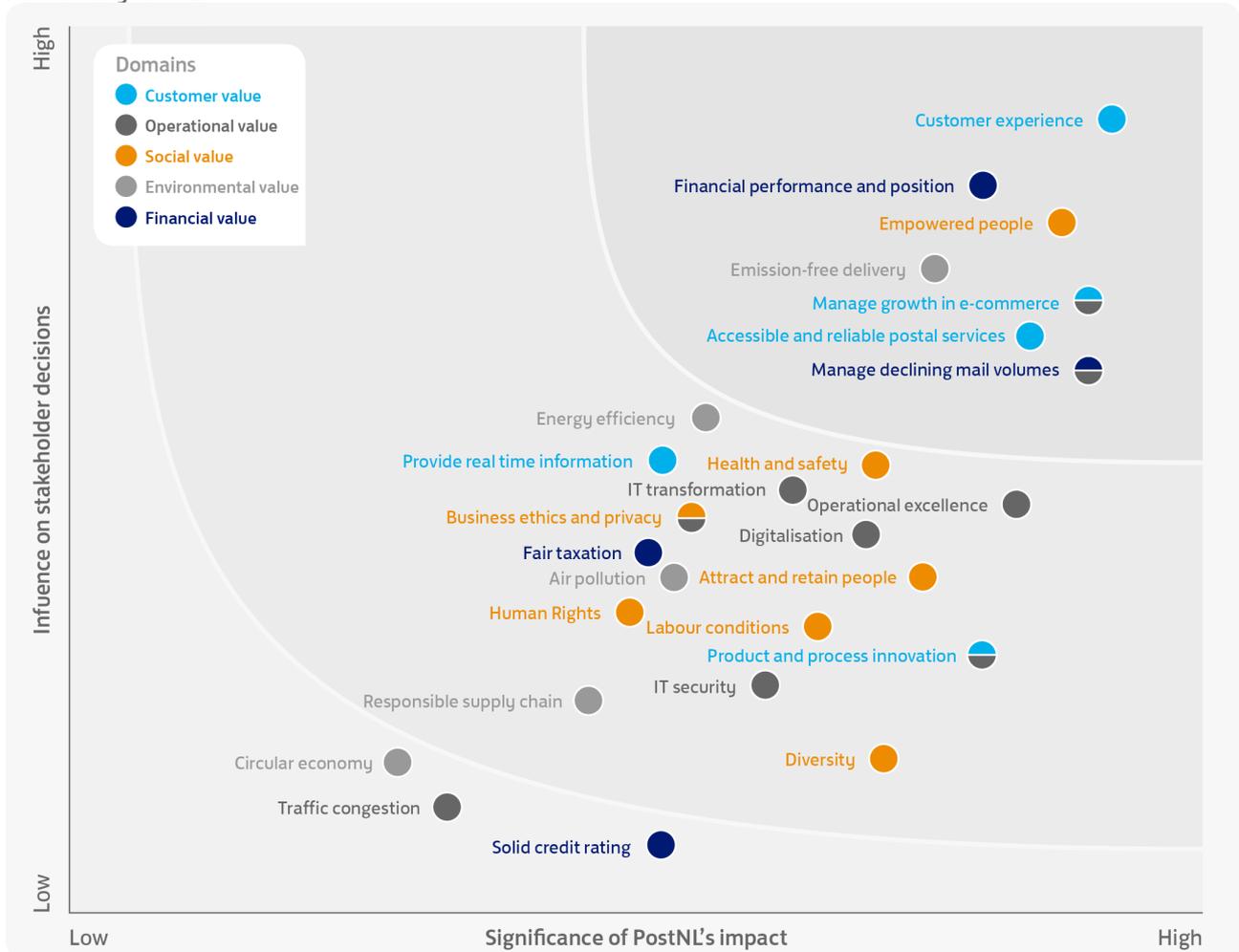
- The first is the topic's influence on stakeholder assessments and decisions. This is the vertical axis on the Materiality matrix.
- The second is the significance of the impact of PostNL with the topic on its operating environment. This is the horizontal axis on the Materiality matrix.

PostNL categorises topics in five different domains of value creation, which are included in the key in the Materiality matrix.

While all topics in the Materiality matrix have some form of financial impact, these five value creation domains form the basis for the outcome of our value creation process. This is why we have structured the business report along them.

Topics ranked in the upper right-hand quadrant of the materiality matrix represent the key material topics for the company. These seven 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 influence the decisions of our stakeholders, while optimising our impact on society, it is important to address these key material topics in our strategy. The table on the next page describes the interpretation of the topics and how these are addressed in our strategy. A more detailed description of our stakeholder engagement and materiality analysis is included in chapter 19: Non-financial statements, section: 'Basis of preparation'.

### Materiality matrix



Key material topic	Explanation and link to strategy	Key performance indicators
● Customer experience	Make things happen; work with customers to create innovative new solutions through PostNL's networks; exceed customers' expectations.	- Highly satisfied customers
● Manage growth in e-commerce	Leverage from and contribute to a growing e-commerce market, helping facilitate a profitable transformation into a logistics e-commerce company	- Progress on transformation (share of e-commerce revenue) - Volume development Parcels
● Manage declining mail volumes	Take effective cost-efficiency measures in our Mail business model to generate a sustainable cash flow	- Volume development Mail - Cost savings
● Empowered people	Create a working environment where everyone working for and with PostNL are treated equally, are respected and are rewarded fairly. This includes developing our employees potential, helping us realise our strategic objectives	- Employee engagement - Employee loyalty
● Accessible and reliable postal services	Secure accessible, reliable and affordable postal services for all households in the Netherlands, now and in the future. This includes easy access to letter boxes and retail locations, and reliable mail delivery	- Delivery quality Mail in the Netherlands
● Financial performance and position	Generate value for PostNL and its investors through our short and long-term activities. This value can be viewed from a number of perspectives, including revenues, margins, profits, cost efficiency, cash flow, equity, debt and tax	- Revenue - Underlying operating income - Underlying cash operating income
● Emission-free delivery	Reduce our environment impact by working towards the emission-free collection, sorting and delivery of parcels and mail, particularly in the last-mile which includes Greenhouse Gas (GHG), NO <sub>x</sub> and PM <sub>10</sub> emissions	- CO <sub>2</sub> -efficiency index

## Competition

Our dense network means we have a strong foundation within our markets. In the growing parcel and e-commerce markets we are witnessing greater competition in both the Benelux region and cross-border from existing national and international players and new entrants. At the same time, large (inter)national e-tailers are beginning to fulfil part of the delivery process themselves. We focus on continuously developing propositions that help us make a difference for our customers.

The competitive market place for physical mail is influenced by substitution due to digitalisation and regulation. PostNL is the appointed universal service provider (USP) in the Netherlands.

This requires us to maintain a country-wide coverage and deliver on specific quality targets, which do not apply to other postal companies. In a declining market the challenge is to secure accessible and reliable postal services at affordable prices. PostNL continues to pro-actively engage with our stakeholders, including the government, to determine the best way forward for the postal market.

## Regulatory environment

### The postal market in general

The Dutch postal market has changed fundamentally over the past few years. Dutch mail volumes have halved since 2005 and the decline will continue. The postal market is labour intensive, and the steady volume decline has far-reaching consequences for employment opportunities at PostNL and the Dutch postal market as a whole.

The Postal Dialogue took place during the first months of 2018, during which we underlined that regulation should not artificially support competition aimed at duplicating networks: regulation should reflect the reality of the shrinking mail market. Regulation that supports network competition results in competition at the expense of labour conditions. Looking to the future, the focus should be on the reliability and accessibility of the postal service and on decent labour conditions. We believe that the consolidation of postal networks in the Netherlands is inevitable.

In June 2018, the Oudeman Committee, appointed by the state secretary of Economic Affairs and Climate Policy, published its conclusions on the future of the postal market in the Netherlands. The report concluded that consolidation, or a merger between the two largest postal companies, is the only sustainable solution to safeguard the continuity, affordability, accessibility and reliability of the postal service and realise decent labour conditions for the whole sector. After the publication of the Oudeman conclusions, the state secretary endorsed these recommendations in a letter to Parliament, where there is broad support for consolidation. The state secretary will use the results of the report to adapt future postal legislation.

### Significant Market Power regulation

In July 2017, the Authority for Consumers and Market (ACM) concluded that PostNL has significant market power (SMP) in the 24-hour bulk mail segment. As a result, from August 2017 we were obliged to grant (regional) postal operators network access in this segment at prices and under conditions specified by the ACM. These conditions and prices have had a significant impact on our Mail business, both operationally and financially.

In September 2018, the Dutch Trade and Industry Appeals Tribunal (CBb) annulled the ACM's decision on SMP. This means that the obligations imposed on us by the ACM regarding network access for postal operators no longer apply. Because of the CBb verdict, we have adjusted the expected financial impact related to the ACM's measures to between €40 million and €45 million on an annualised basis (from between €50 million and €70 million), fully visible in 2020. PostNL is currently assessing the damage done by the ACM's revoked decision and will possibly file a claim.

For 2018, the access tariffs paid by postal companies were corrected to PostNL's conditions and tariffs. In December 2018, the ACM published a new draft SMP decision. PostNL submitted its opinion on this draft on 14 February 2019. At the time of writing this report, the ACM had not yet published its final market decision. If the regulator does not change its initial approach, our guidance of the negative impact of regulation may have to be adjusted upwards.

### Privacy

In effect since 25 May 2018, the General Data Protection Regulation (GDPR) is a regulation in EU law on data protection and privacy for all individuals within the European Union and the European Economic Area. PostNL implemented the GDPR and took appropriate measures to comply with this legislation.

### Labour conditions

Since January 2018, all postal companies in the Netherlands have been required to employ at least 80% of their mail deliverers on the basis of a employment contract/agreement. Although discussions on labour conditions and compliance remain, this is an important step towards decent employment conditions across the entire postal sector. Our mail deliverers are employed by PostNL and fall under the collective labour agreement for mail deliverers, which includes a pension scheme. Almost 100% of our mail deliverers work on the basis of a labour contract.

Since 2014, PostNL has been investing in a sustainable parcels market, with fair and competitive working conditions. Part of this involves maintaining a dialogue with employers, contractors and social partners to make improvements in labour conditions and work pressure. In recent years, PostNL increased the tariffs for delivery partners which deploy parcel deliverers. The tariffs we apply should be sufficient for contracted parties to pay their employees in accordance with the collective labour agreement for the transportation of goods (BGV-CAO, a binding CLA for the sector). As part of our policy, we want to deploy more deliverers on the basis of a labour contract either directly by PostNL or by delivery partners working for PostNL. We started validating whether these employees are being paid correctly by contracted delivery partners during 2018 as part of the compliance project explained below.

Since 1 January 2017, the Labour Market Fraud (Bogus Schemes) Act (Wet Aanpak Schijnconstructies) has been applicable to the transport sector. This law provides that every party giving an assignment in a chain can be held liable for underpaying employees of a contractor. During the year we successfully began a compliance project that aims to ensure employees of our contracted delivery partners in the Netherlands are paid correctly. Additionally, contracted parties are required to employ deliverers under the BGV-CAO and extra routes for contracted parties are only fulfilled by employees. The outcome of this compliance project so far, based

on a representative amount of completed reviews, is that the vast majority of contacted parties comply with this regulation. We stopped working with some of the contracted parties based on the outcomes of the project. PostNL advocates employment relationships rather than self-employment. To reduce the workload we periodically adjust routes and fill in additional routes with new parcel deliverers employed by PostNL or employed by contractors working for PostNL. PostNL wants to remain the favorite deliverer in the Netherlands by being a social employer and contractor.

In October, PostNL qualified for system supervision through a successful cooperation with 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. In various audits PostNL has demonstrated the processes to be controlled and to be suitable for system supervision.

## Belgium

The revised Belgian postal law came into effect on 9 February 2018. This law made adjustments to the conditions required to acquire the license for distributing mail, the narrowing of the universal service obligation (USO) scope and a modified price cap formula.

## Digital single market strategy/e-commerce

In 2018 the European Parliament and the European Council adopted a regulation on cross-border parcel delivery services. This regulation stipulates market monitoring and tariff transparency requirements to be reported via the regulator. Additionally, the regulation requires the national regulator to assess the tariffs of a limited list of universal postal services that are considered to be unreasonably high.

As the transparency requirements are limited to public tariffs of a small list of specified services, we expect the monitoring and transparency requirement to have an administrative cost impact only. As our tariffs are in line with the requirements of the Postal Services Directive for universal services, we do not expect that the tariff assessment requirement will have an impact on us.

The European Council also adopted a directive amending value added tax (VAT) obligations for supplies of services and distance sales of goods as part of a modernisation to better facilitate international e-commerce. Part of this directive is the removal in 2021 of the existing VAT exemption for the importation of small consignments. This will have an operational impact on both customs authorities and PostNL. Discussions with national authorities and the European Commission on the operational impact and cost are ongoing.

## International

In October 2018, the US Department of State announced that it will initiate a process to withdraw from the Universal Postal Union. During this year-long process, the US will seek to renegotiate the terms of the UPU rules for remuneration of letter mail items containing goods. Depending on their success, they will decide whether or not to complete the official withdrawal from the UPU, which would take effect in October 2019. The US may be required to negotiate bilateral and multilateral agreements to resolve their concerns. When required, we will review our arrangements with the United States Postal Service, based on the good working relationship that we have with them.

The United Kingdom (UK) is scheduled to leave the European Union on 29 March 2019. Whether this Brexit will be based on a Withdrawal Agreement with a transition period or without a ratified agreement, whereby trade between the UK and other countries will be regulated by World Trade Organization rules, is still unclear. PostNL is preparing itself for all possible scenarios, including a possible no-deal scenario.

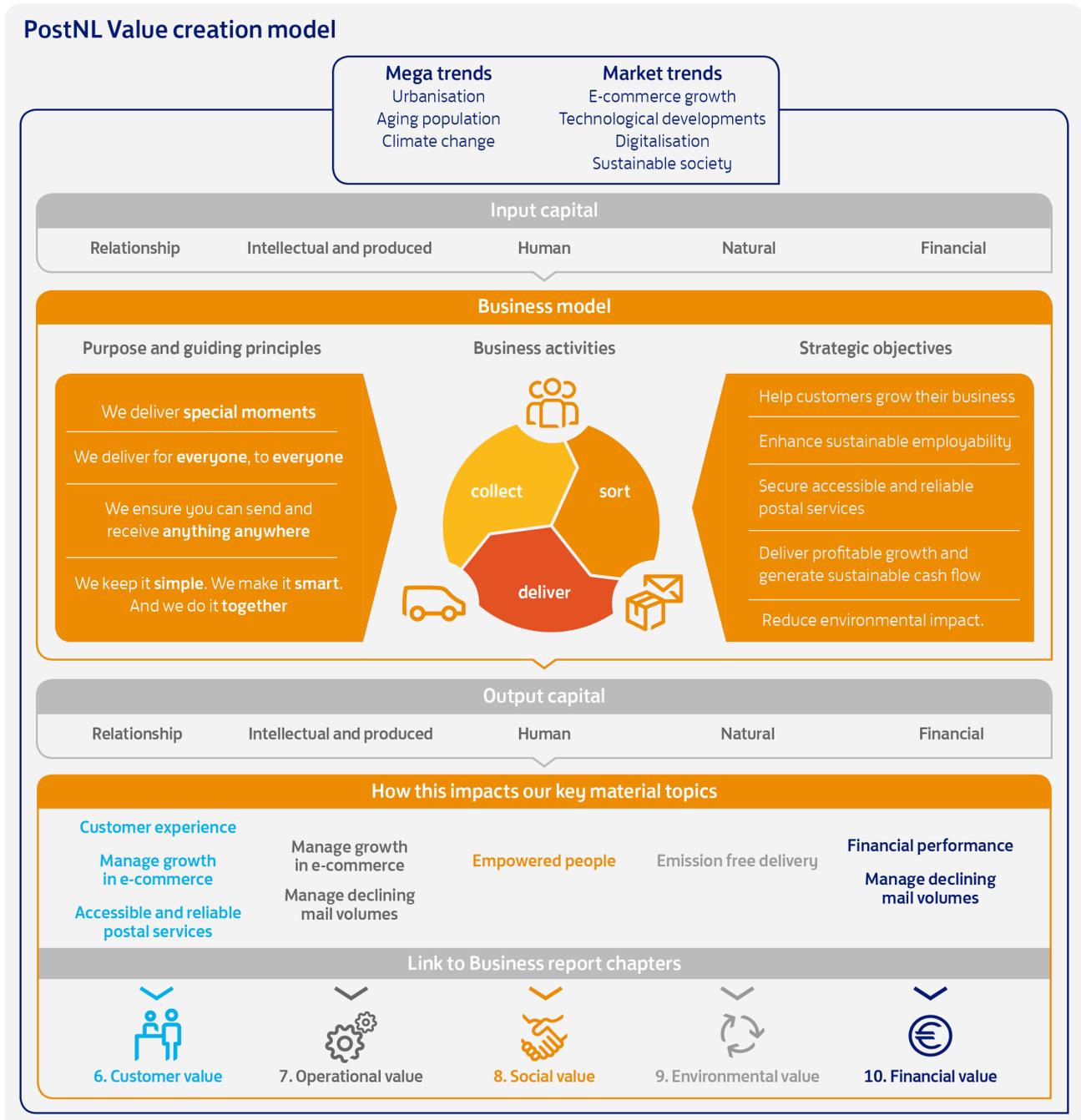
# Business Report



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# 5 Value creation and strategy

We create sustainable value for our stakeholders by providing logistic and postal services. Our value creation model illustrates our value creation process, which includes the financial and non-financial aspects of how we do business.



Our value creation model outlines trends that influence the context in which we operate, the short and long-term value creation process and the effects on stakeholders, which we categorised in five domains of value creation. The value creation process starts with the determination of input capital. We use the capital for our business model to influence or transform this capital into output capital and outcomes. We link the outcomes to our key material topics that are

defined to create short, medium and long-term value for the company, our stakeholders, shareholders, society and the environment. We believe that investing in non-financial drivers also helps us create long-term value, for example by improving customer value and the way we are perceived in society. In chapters six to ten we describe in detail how we create value for stakeholders in each of the five domains, as reflected in the Materiality matrix.

## Mega trends and market trends

### Mega trends

PostNL has identified three important mega trends that influence the environment 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 as traffic increases. At the same time, the population is aging and people are living longer at home. With elderly people more reliant on healthcare, there is a shift towards health provision at home, which requires a range of (new) logistic solutions. People are also becoming more used to having food delivered at home. Finally, transport is a significant contributor to global climate change and can have a negative impact on 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 four key market trends that are shaping the lives of our customers and are impacting our strategy:

- Growth in e-commerce
- Technological developments
- Digitalisation
- Sustainable society

#### Growth in e-commerce

The continued move from offline to online is leading to the rapid growth in e-commerce, with people increasingly making their purchases online. As well as solid domestic e-commerce growth, we also see a strong increase in the global cross-border e-commerce market. We expect annual double digit growth numbers in the global e-commerce market in future 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 will enable the company to bring more traditional markets, such as food and health, online.

#### Technological developments

Rapid developments in technology impact the way businesses operate. Current and future trends that will impact our sector include digitalisation, artificial intelligence (AI) and robotisation. For example, transforming data into insights is a key driver to innovate digitally, while online platforms impact traditional business models and new entrants disrupt traditional markets. We are using technology and data to change the way we run the company and provide our services. For example, data insights and data sharing enable us to introduce a greater range of tailored delivery options, such as

rerouting, to meet customer demands. This is balanced by ensuring that we concentrate on cyber security across our IT operations.

#### 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 for our Parcels and Mail businesses. For example, in our Parcels segment the use of IT and data enables us to help customers to better tailor their services to consumer wishes. And in Mail, we are adding customer value by offering a range of digital services, such as the stamp code, through the PostNL app.

#### Sustainable society

Sustainable developments play a key role in the way society is changing. Stakeholders are increasingly focusing on the longer term impact of businesses, including within the logistics and postal sector. We take our responsibilities seriously and focus on how we can create a more sustainable company while addressing the wishes of our stakeholders. For example, employees expect sustainable labour conditions, customers are demanding more sustainable delivery options, while consumers want convenience. At (local) government level, there are demands to reduce traffic congestion and improve air quality.

#### External recognition on sustainability

In 2018, PostNL was again ranked in the top five 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.

#### Sustainable development goals

At the heart of the agenda for sustainable development towards 2030, in 2015 all United Nations (UN) member states adopted 17 Sustainable Development Goals (SDGs). These goals aim to achieve peace and prosperity for people and the planet, now and into the future. In 2017 we carried out an SDG scan that identified two SDGs that are particularly relevant to PostNL:

8 DECENT WORK AND ECONOMIC GROWTH



Explanation: Promote inclusive and sustainable economic growth, employment and decent work for all.

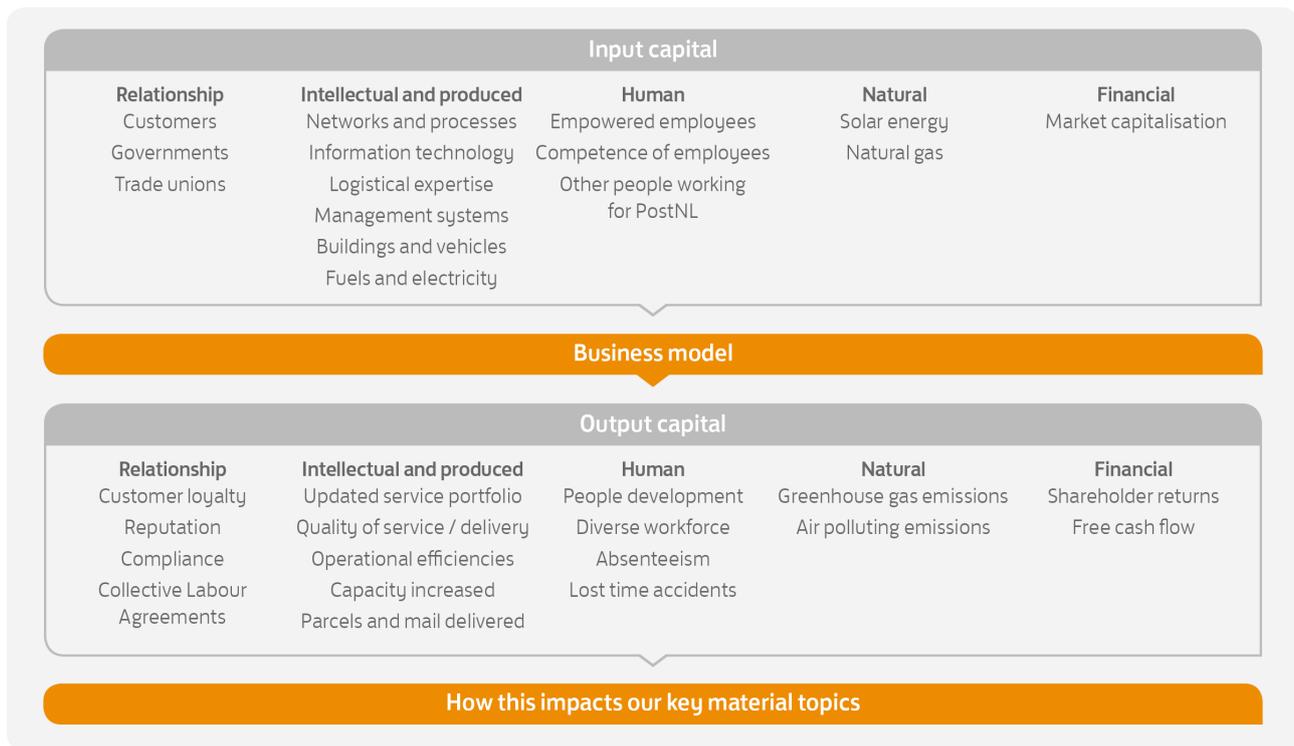
13 CLIMATE ACTION



Explanation: Take urgent action to combat climate change and its impacts.

More information about our commitment to the SDGs is included in chapter 19: Non-financial statements, section: 'Reporting principles'.

## 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.

### Relationship capital

We have deep roots in society and connect with millions of stakeholders on a daily basis through our operations. The relations we have with our stakeholders, especially customers, 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.

### Intellectual and produced capital

The collective knowledge and experience of PostNL, built over the course of more than two centuries, is one of our greatest assets. As a logistics expert we have built state-of-the-art networks, smart processes and created management systems that have enabled us to become a front runner in our rapidly changing markets. These are built to help PostNL deliver high-quality services, optimise our operations and develop new value-added operations. 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 and machinery. We select these goods and assets based on our specific needs and available sustainable options.

### Human capital

PostNL is a people company. We need productive, skilled and motivated people to execute our strategy and contribute to the delivery of our services. This includes our own employees and others working for PostNL. By operating and developing an inclusive organisation, we aim to help our human capital, our people, to grow while providing a safe and healthy work environment.

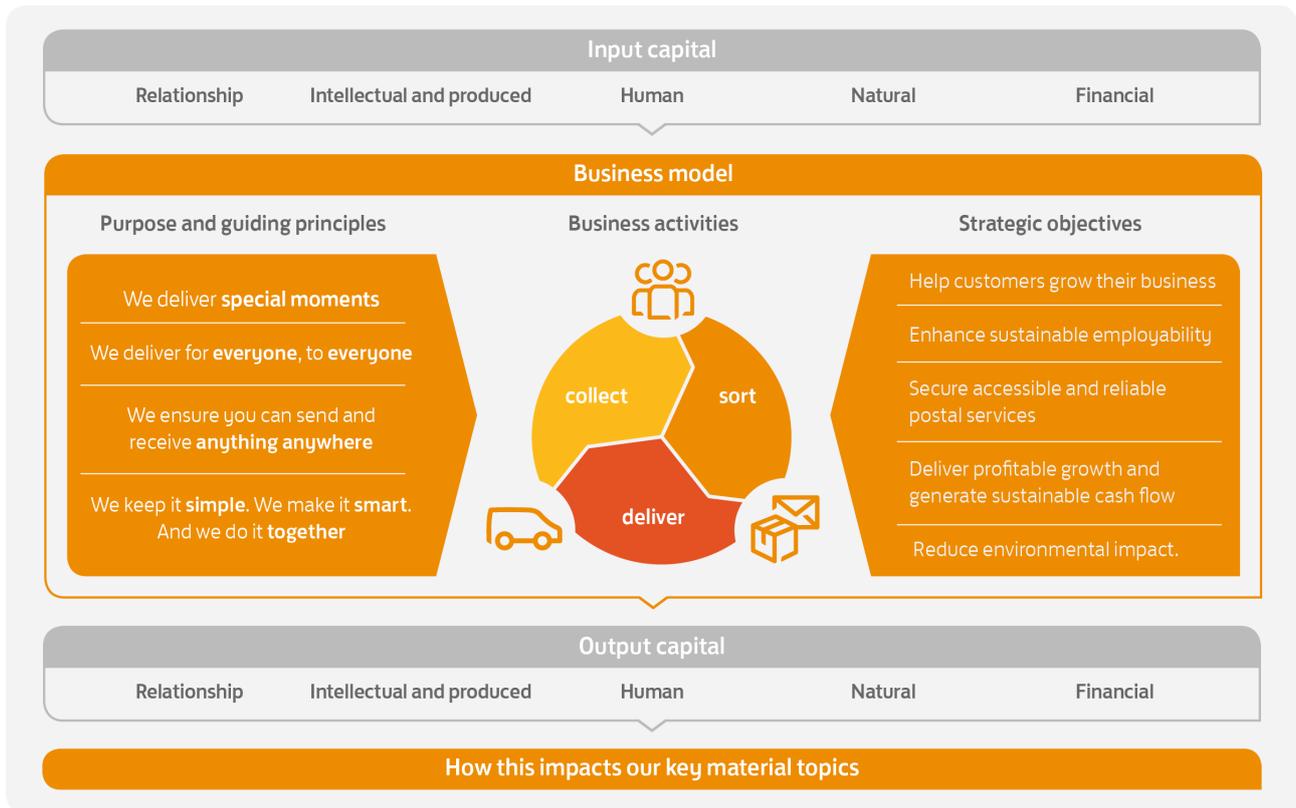
### Natural capital

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 gas (GHG) and air polluting emissions that impact air quality and contribute to climate change.

### Financial capital

Relevant players in financial markets, such as shareholders, 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



Collecting, sorting and delivering form the core of our business model. With our committed workforce, we offer customers a wide range of logistic services through a variety of networks. Our purpose and guiding principles, which are explained in chapter 3: Our identity, influence our behaviour and how we will achieve our objectives, providing clear directions when we make (strategic) choices in our company.

### Purpose and guiding principles

In 2018 we redefined our purpose and the principles that guide our behaviour. Looking at who we are, what we offer our customers and how we operate helps us sharpen our organisation and ensure we continue to focus on providing customers with the best services and solutions they need and demand. More information can be found in chapter 3: Our identity.

### Business activities

PostNL adds value for customers through three essential core activities within the parcels and mail environment: collecting, sorting and delivering. This is only possible because of the dense and integrated networks and state-of-the-art processes that we operate. We provide our services throughout the Benelux, and beyond the Benelux 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.

In everything we do we aim to help our customers grow their business. Collecting parcels and mail is what we have always done. Our solutions range from fulfillment to food logistics and from time-critical delivery to installation services. At the same time we offer consumers simple options to send postcards. We make receiving easy, providing consumers with a range of options through our digital platform, such as the PostNL app. And adding home pick-up returns opens up new markets.

We help our customers with delivery options and webshop integration that fit their selling propositions, and we help consumers by contributing to a convenient shopping experience. We offer smart logistic services for senders and simple solutions for receivers. And we facilitate returns. Our services are designed to deliver anything, anywhere.

### Strategic objectives

We have five strategic objectives, which will help us achieve our strategy. These are:

- i. Help customers to grow their business;
- ii. Enhance sustainable employability;
- iii. Secure accessible and reliable postal services;
- iv. Deliver profitable growth and generate a sustainable cash flow; and
- v. Reduce environmental impact.

These five objectives are explained in greater detail in the Strategy section hereafter.

## Our strategy

Our strategy is to accelerate our transformation to become *the* logistics and postal solutions provider in the Benelux. We want to achieve this sustainably, providing customers with a uniform and consistent experience, no matter how, where or when they interact with us. At the same time, our goal is to empower our employees to ensure they are productive, skilled and motivated so that both they and our customers are satisfied with PostNL. Below we have outlined the five strategic objectives that will help us achieve this.

### Decision to divest Nexive and Postcon

In 2018, we decided to divest our Italian and German business lines Nexive and Postcon. We have full confidence that the management teams in both countries will be able to realise their strategic ambitions, develop their activities and strengthen their position in Italy and Germany respectively. We are making good progress with the divestment processes. We expect to make further announcements before the summer of 2019. In this Business report we focus on our continuing operations. More details about the financial impact of the divestment decision are provided in note 3.8 to the consolidated financial statements.

### Change to mail business model

PostNL wants to ensure postal services remain accessible and reliable. In 2018 we announced an important change to our mail business model, which we will implement in 2019. Called the New mail route, the project will benefit customers, our people and the company. More information about this new model can be found at the end of this chapter.

## Strategic objectives

### Help customers to grow their business

We want to help our customers develop successfully and profitably, by providing them with services and solutions that enhance their business. One example is through the expansion of our retail network, growing our presence and ensuring we are always close to our customers. Another example is by strengthening our dense networks. By creating high quality, modern and flexible data-driven logistic networks we strengthen our position in the Benelux, enabling further growth and creating more value for customers and consumers.

### Enhance sustainable employability

As one of the largest employers in the Netherlands, we provide thousands of people with job security, a stable income and opportunities for personal development and growth. In addition to providing our people with a safe and healthy work environment, which is diverse and where they are respected and enjoy a stimulating and cooperative culture, we also believe we need to work on sustainable employability. This means helping our people at all phases of their career to be skilled and well-trained, highly motivated and in good health to work for our company or elsewhere, today and in the future.

### Secure accessible and reliable postal services

The ongoing decline in the mail market is having a profound impact on PostNL and other postal logistics players in the market, which is why we are reshaping our mail business model and continue to invest in smart technologies. This will enable us to keep post relevant and attractive for our customers across the Benelux. At the same time, we continue to develop measures to save costs while maintaining the highest possible service quality and coverage in the Netherlands. We believe that consolidation within the Dutch postal market is inevitable if we are to safeguard the reliability and accessibility of the postal service, while preserving decent labour conditions in what is a shrinking market. Given our history and competences, we believe we will have a key role to play in the future postal market. We actively contribute to the postal dialogue with the government, regulators and other stakeholders.

### Deliver profitable growth and generate a sustainable cash flow

It is vital that all businesses within PostNL generate sustainable cash flow, enabling us to achieve profitable growth across our operations and create value for our investors and the company. Within Parcels, for example, we are investing in network capacity, enhancing operational efficiency, focusing on the customer experience and optimising customer value. This will enable us to continue to take advantage of the strong growth within the e-commerce market, while introducing innovative services and solutions for customers and consumers. Within our Mail business, we are focusing on continually improving the customer experience. We are also strengthening operational excellence and achieving cost savings by optimising our processes and making our IT structure as effective as possible, in a declining market by. In our international business, we are enabling customers and consumers to tap into the growing global e-commerce market.

### Reduce environmental impact

We want to develop our business sustainably while adding long-term value for our stakeholders. As well as adding value sustainably for stakeholders such as investors and customers, we also proactively take responsibility for the environmental impact of our operations. For example, we continue to set ambitious targets to reduce our environmental footprint, which is why our aim is to have emission-free parcel delivery in 25 city centres across the Netherlands by 2025, and by 2030 to have emission-free last-mile delivery across the Benelux.

### Opportunities in current business propositions

PostNL operates in a dynamic environment, marked by a declining mail market and opportunities from the growth of e-commerce. In our Parcels segment, the use of IT and data provides us with many opportunities to increase the value we add to customers and consumers, as illustrated in chapter 6: Customer value. In our Mail business, IT is helping us realise additional cost savings and add customer value. We continued to tap into the strong cross-border e-commerce growth, and launched new services and solutions to support our position as

a strong player in the international e-commerce market. Using data and scale in a smart and efficient way means we can create operational efficiencies across our businesses. In addition to these opportunities, we have identified three growth domains: convenient shopping, network logistics and connected community, which are outlined below.

### **Convenient shopping**

The world is changing, and the internet means we are shopping across borders, 24/7, while enjoying the convenience of having our goods delivered anytime, anywhere. Our strength along the logistics chain, from first-mile collection to last-mile delivery, means we can act as a strategic partner to e-tailers, opening up new markets and creating new opportunities for PostNL.

### **Network logistics**

There has been a sharp rise in the number of goods bought and sold around the world. Ensuring these goods are delivered at the right time, to the right place, requires a large, reliable, innovative network. Customers and consumers have increasingly high expectations about the way goods are delivered, demanding greater control over delivery time and location. Using our strong distribution network, we open up the world and connect the Benelux.

### **Connected community**

Our society is changing. Increasing numbers of people are moving to cities. And while they are getting older, they still want to live independently. Access is becoming more important than ownership. This is having an impact on the care market, with the delivery of medicine, medical devices, consumables and other related products and services at home becoming increasingly important. The combination of our unique mix of networks and our trusted brand in the Netherlands positions us perfectly to provide a variety of services in this area.

### **New business propositions**

PostNL actively seeks to develop alternative growth domains which are related to our core logistic propositions to create and provide opportunities for future growth, such as in the food or health segments. We identify three ways of developing these growth domains through our own startups, co-investments and acquisitions.

To help support our aim of developing a future-proof business portfolio, in 2016 we decided to invest in an equity fund, Endeit, with a maximum commitment of €6 million. This investment means we are better able to access and cooperate with companies connected to our growth domains.

In 2018 we co-invested with Henkel, a chemical and consumer goods company, in Dobbi, an online laundry and dry cleaning service. Dobbi was recognised as the most innovative new business in its market, and currently has a coverage of around 70% of the Netherlands. Another important new co-investment we made in 2018 was in Roamler Care, This home care platform connects self-employed home care providers with sick or

elderly people connected to care institutions. This is a business-to-business service that aims to improve matching, planning and administration between care institutions and home care providers. We believe health is an important growth sector in the logistics market and expect to see an increase in demand for such solutions in the future.

### **Main risks**

We continually work to manage our exposure to the main risks impacting our business such as competition, the declining mail market, challenging regulatory environment, network peak capacity, execution of strategic change and cost saving initiatives. The risks below represent the highest level risks identified in chapter 14: Risk management.

#### **Competition**

We are faced with increasing competition particularly in our parcels and international businesses, as markets become more competitive and volatile, which continues to put pressure on our market share, volumes and prices and may have an adverse effect on revenues and profitability. This risk is relevant for the following key material topics in the Business report: Financial performance and position; Customer experience; Manage growth in e-commerce.

#### **Declining mail market**

The volume of mail is continuing to decrease, which requires us to adapt our infrastructure and delivery processes. Substitution or alternatives to our delivery services may reduce revenues and profitability. This risk is relevant for the following key material topics in the Business report: Financial performance and position; Manage declining mail volumes; Accessible and reliable postal services.

#### **Challenging regulatory environment**

We are confronted with complex legal and regulatory requirements in the countries in which we operate. Changes in legal and regulatory requirements may continue to have an adverse material impact on our business operations, our reputation and on our financial performance. This risk is relevant for the following key material topics in the Business report: Financial performance and position; Accessible and reliable postal services; Emission free delivery.

#### **Execution of cost-saving initiatives**

Technical complexity as well as inter-dependencies among multiple change projects may cause delays in successfully completing all projects. This may have an adverse material effect on our mid- and long-term targets in relation to cost savings. This risk is relevant for the following key material topics in the Business report: Financial performance and position, manage declining mail volumes.

These and other risks as well as our mitigating actions are discussed in greater detail in chapter 14: Risk management.

## Equal amount of mail every day: New mail route

We are continually implementing changes to our logistics model to reduce costs as mail volumes continue to decline. We make our processes smarter and more efficient while maintaining the high quality our customers expect.

In 2017, for example, we started working with the 'Codeerregel'. And in 2018 we introduced the 'Combibundel', simplifying our sorting activities and operations. In addition, we improved the automatic coding process on the sorting machine, resulting in a reduction in manual processes. These changes mean mail is available to be delivered earlier, an important condition for taking the next step in our business model.

### New delivery process

In 2019 we will switch from the current model, which results in mail peaks on Tuesdays, Thursday and Saturdays, to an equal-flow model. The new model is called the New mail route. We are adapting our product portfolio for non-time-critical mail and will deliver this type of mail over two consecutive days, for example Tuesday and Wednesday or Wednesday and Thursday. This will create a win-win-win situation, benefiting our customers, our employees and us. We will continue to deliver 24-hour mail five days a week.

### How will our customers benefit?

- Customers can have their non-time-critical mail delivered five days a week, instead of the current three days.
- They will be able to better manage the flow of their processes, for example in the production of mailings or in the handling of calls following a direct mailing promotion.
- They will have access to high quality services at an affordable price.

### How will our employees benefit?

- We are going to make the work for mail deliverers more attractive: because the delivery routes will get longer, we can offer them an employment contract with more hours.
- Mail will be available for delivery earlier.
- We will provide deliverers with (electric) bikes to lighten the workload.
- Going forward, we will be able to offer our deliverers job and income security for as long as possible.

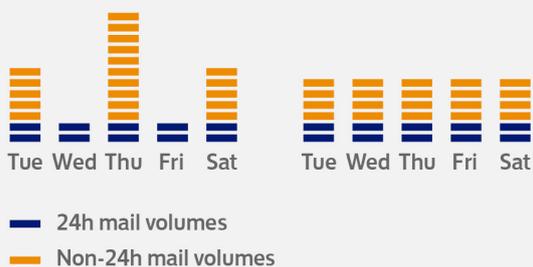
### How will PostNL benefit?

- By introducing an equal-flow model, we will be able to spread the workload equally over five days.
- We will make better use of our locations and resources, thereby saving costs.
- The new model will enable us to simplify our processes and be more flexible.
- We will be better able to absorb future volume decreases and thus continue to realise the cost savings we need to.

### Mail delivery model

Current business model

New mail route



## 6 Customer value

Our ambition is to be everyone's favourite deliverer and connect millions of senders and receivers every day. In today's competitive market, loyal customers are essential to our success, and we want to provide our customers with services and solutions that enhance their business. This relates both to our ability to manage the growth in e-commerce and in securing accessible and reliable postal services.



### Key results and highlights

In 2018 our Parcels business grew strongly, while ongoing digitalisation led to the expected volume decline in our Mail business. We continued to develop innovative services that provide consumers with faster, cheaper and more convenient delivery options. The growth in parcel volumes is helping with our transformation into a logistics e-commerce company. In 2018, 48% of our revenue came from e-commerce, and we expect to achieve our target of 50% by 2020 ahead of schedule.

While mail volumes in the Netherlands continue to decline the targets set under the universal service obligation (USO) to deliver mail accurately and on time to all households across the country remain unchanged. In 2018 we met this target, ensuring that 95% of consumer mail was delivered within 24-hours.

We made important changes across our businesses and IT environment to help improve the customer experience over the long term, and enable us to keep pace with volume developments. Some of these changes were challenging and proved to be more difficult than expected, impacting our customer experience. In our Mail business we experienced a temporary shortage of mail deliverers in certain locations. And although we expanded our Parcels capacity, it proved challenging in 2018 to keep up with the volume growth. These factors put pressure on the quality of our services, and as a result negatively impacted the percentage of highly satisfied customers. The company-wide percentage of highly satisfied business customers fell to 30% in 2018 from 41% in 2017. However, overall customer satisfaction remained high, with only a slight decrease from 85% to 82% year-on-year.

During the year we continued to enhance our logistic networks and customer services along the value chain, as we work to help customers grow their business. This includes a range of interconnected activities, such as developing solutions that help consumers shop and customers sell more easily, expanding our logistic services for senders, and improving our last-mile solutions for receivers, including return solutions.

For example, we further developed our online platforms, where we are providing business customers and consumers with a greater range of products and delivery solutions when they want to ship their goods. We also added new services and features to Mijn Post in the PostNL app.

Within our food logistics offering, we expanded our delivery solutions and enlarged our customer base. For one new customer, Marley Spoon, we are delivering food ingredients in our reusable cool boxes, which keeps perishables fresh during the delivery process.

And as we strive to provide customers and consumers with more control over their delivery, our option to reroute parcels before the first delivery attempt continued to prove extremely popular. It was used 1.7 million times in 2018, up from 0.5 million times in 2017.

In 2018, the annual independent survey carried out by RepTrak showed that our reputation score remains high, despite a decrease of two points to 67.7 (2017: 69.7). While our baseline service levels remained high in 2018, we will continue to focus on improving the customer experience to increase our customer value.

This chapter provides more detailed information about how we create value to our customers.

## Main developments

In addition to customer experience, managing the growth in e-commerce and securing accessible and reliable postal services are key priorities for PostNL. In 2018 we saw continued growth in the parcels market, while mail market volumes declined as expected. Our focus was on continuing to act as a reliable business partner for our customers and consumers, understanding their needs and providing seamless, high quality and sustainable services. Within our Parcels segment, we continued to innovate and worked on ensuring our network capacity and the quality of our services met customer expectations. Within Mail, we continued to rationalise our current product portfolio and adjust our networks to the volume decline. Simultaneously, we keep developing new added-value services in order to stay a vital player in the market. Providing customers with services along the entire logistic value chain is increasingly important as business customers and consumers look for ways to diversify and broaden their online offerings.

As part of this strategy we chose to streamline a number of services, such as integrating our direct mail and digital marketing businesses, while continuing to focus on the importance of mail in society and developing e-commerce related services. These included City Logistics, home pick-up returns and the introduction of additional services in the PostNL app. We also contributed to one CRM and continued to expand our online service channels as part of our strategy.



### Shopping and selling

PostNL plays an active role in the first phase of the logistic value chain. We help our customers by adding delivery options to their selling propositions, and help consumers by contributing to a convenient shopping experience. Our aim is to bring innovative new value propositions to the market.

### Platform developments

Online platforms have been embraced by consumers and continue to create significant changes to traditional business models. In 2018 we continued to develop our online platforms, 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 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. Another key platform development is our digital environment, which led to a growth of PostNL accounts from 3.3 to 4.4 million during 2018. Through our website and PostNL app, we offered users with a broader range of online services in 2018.

### Digital propositions

Another way in which we add value to the first segment of the logistic value chain is by making use of data. For example, our new rerouting option for consumers creates valuable data on favourable delivery options, enabling us to further increase the value we add to our business partners. Using our dense and growing retail network, consumers can reroute their parcels to retail shops close to their homes.

### Adeptiv

In 2018 we took the final steps towards integrating our direct mail and digital marketing businesses Yourzine, Searchresult and Cendris into a rebranded company, called Adeptiv.

### Daan, the digital assistant from PostNL

In 2018 we rolled out Daan, a Dutch-language digital assistant that aims to answer questions customers might have about PostNL. For example, where the nearest PostNL location or post box is, or when will we deliver their package. Users can also log into their PostNL account and Daan will let them know if they can change their package's delivery time or location.

A strong example of artificial intelligence, Daan will learn and improve as it is used by customers. The system is available for Android and iOS smartphone users, and is designed to supplement the PostNL app, website and our customer service operations.

### Mail propositions

#### PostNL Communication Services

As mail volumes continue to decline, we are working hard on tailoring the product portfolio of our communication services. For example, by combining our Direct Mail, Printing on Demand and Transaction Mail services, we provide customers with a broad range of services in one location. This is more convenient and efficient. In 2018 we also began focusing on multichannel customer communication and customer interaction, and continued to look for cost efficiencies by rationalising our physical operations and adjusting our logistic footprint.

### Spotta

In 2018, the city of Amsterdam introduced a new opt-in letterbox sticker system, with residents who want to continue receiving door-to-door newspapers and advertising material now having to place a 'Yes-Yes' sticker on their letterboxes. Under the old system, printed advertising material could be delivered to any letterbox without a sticker.

While this form of mail remains both important and well-read, this move will have an impact on the volume of unaddressed mail delivered by companies such as Spotta. These volumes are already under pressure due to digitalisation, and price competition is fierce. Just like others in the market, Spotta has lodged an appeal against the introduction of the new sticker system in Amsterdam, which is due to be heard in court in March 2019.

## Consumer propositions

### Enhancing digital services

By year-end, 4.4 million people were connected to PostNL via a digital account and 571,000 users had activated the Mijn Post option in the PostNL app. This service provides users a notification and digital preview of the mail that we will deliver to them that day. We aim to expand our services related to mail available in the app in 2019 and aim to have 2 million Mijn Post users by 2020.

For business customers, we introduced the option to interact with consumers directly through Mijn Post in the PostNL app, for example by including a link to their web page in the digital notification. Plein.nl, a personal care e-tailer, was one of the first customers to use the new service and have been enthusiastic about the results, with a significant number of consumers clicking through to visit the Plein.nl website. We also continued to attract a range of businesses, both large and small, who look to us to develop smart digital tools that bring the on- and offline worlds together.

Another popular service is the stamp code, which lets users pay for a stamp through the app. They receive a nine-digit code which they can write on the envelope in place of a stamp. In 2018 we sold around 800,000 stamps and our goal for 2019 is to double these volumes.

In 2018 we also worked with post and media company Hallmark to launch a service that lets users send a physical photo card through the mail, which they order through the app. Thousands of cards have been sent since its introduction at the end of 2018.



### Logistic services for senders

PostNL provides a wide range of logistics options for senders, depending on the nature of parcels and mail, time preferences and services beyond our core delivery process.

### Fulfillment solutions

At the front-end of our logistic processes, we help customers by providing smart fulfillment solutions aimed at creating efficiency gains in high volume delivery. In 2018 we completed the implementation of the robotised warehouse fulfilment service that we introduced at our Houten fulfilment centre in 2017. This scalable system allows us to store and access our products faster and more reliably than when done by hand, and gives us greater control over deliveries to the customer and consumer. By year-end, we were using the new system to fulfil orders and international returns for a growing number of e-tailers and platforms. Another area where we have expanded our services is food fulfillment. These services aim to reduce steps in the value chain, by combining our fulfillment capabilities with our delivery networks.

## Time-critical networks

### Convenient parcel delivery times

Operating the densest transport network in the Benelux and utilising its integrated IT platforms, our time-critical network enables us to provide customers with a choice of delivery solutions, depending on their individual needs.

Making 40,000 stops per day across the Netherlands, our time-critical network is also the country's largest and acts as an increasingly vital service link for our retail locations, collecting (first-mile) and delivering (last-mile) for both parcels and mail. Based on the internal competences of this network we are now offering customers a number of new and innovative services, such as delivery from store for two fashion brands, and return on demand for Zalando. For example, in Rotterdam and Amsterdam we offer Zalando customers scheduled one-hour timeslots, where we collect the parcel they want to return within an hour of them contacting us. This service is available between 8:00 am and 9:00 pm, Monday to Friday.

### PostNL Express

In 2018 we rebranded Valid Express to PostNL Express. The company provides customers with a highly flexible service designed to give them maximum control over the time and place of delivery. This includes guaranteed delivery, priority, overnight, or same-day courier delivery, specialised delivery of (confidential) documents and packets and 24/7 availability.

### Funeral and medical mail

In our Mail business, we have specific processes to collect, sort and deliver funeral and medical mail. These products are highly time critical and our business model is set up in such a way that we deliver these mail streams within 24 hours of collection, six days a week. In cooperation with the funeral sector, we developed a special envelope that lets customers send over 30 funeral cards at once, giving them the confidence that these important cards will be handled with special care and delivered on time to the right address.

## International

### Cross-border delivery services

For our customers in the Netherlands, we offer cross-border delivery solutions under the PostNL brand. We work continuously on offering a more convenient and integrated experience to customers in the Netherlands who have shipping needs that go beyond our borders, and in 2018 made strong progress towards reaching our goal of offering one integrated cross-border e-commerce portfolio. Business customers looking to export goods of different sizes and weights are now able to make use of our most popular solutions via one convenient portal instead of through several different portals. This is an important improvement over previous years; it unburdens our exporting business customers and contributes to our aim of operating as OnePostNL.

For international customers, we offer cross-border delivery solutions under the Spring brand. Spring is our international provider of mail, parcels and return solutions to businesses worldwide, handling international deliveries across the most reliable networks. In 2018 the competitive environment remained fierce, especially in Asia, with mail and parcel deliverers moving into the market. At the same time, low-cost deliverers, mainly regional postal operators, continued to aggressively take a share of this market. This put pressure on our margins and resulted in a drop in performance compared to 2017.

We continued to act as a broker offering solutions across 14 countries. We have local presence in Asia, for example. Our Asian customer base consists predominantly of e-commerce platforms and consolidators, combining the large volumes generated by local sales platforms. In 2018 we further decentralised the development of our solutions, so that we can better meet the needs of our customers in Asia. Leveraging our local presence means we are able to maximize customer value by tailoring solutions to specific customer needs along their supply chain. In Europe, we began implementing our advanced customer-facing shipping platform, which we will further roll out in 2019. We also extended cooperation with platforms across the continent to expand our reach. We also began partnering with the MyParcel.com platform, and together we are working on rolling the platform out across Europe.

### Tailored networks

Many of our customers require highly specialised delivery options, from transporting perishable or fragile goods, to early morning or late night deliveries.

### Food logistics

We are expanding our logistic solutions in order to meet both customer expectations and the growth of e-commerce. As part of this strategy, we continued to expand our food delivery solutions in 2018, introducing the delivery of groceries, meal boxes and other fresh food products to customers between 8.00 and 13.00, in a time window of 30 minutes, a service we offer next to our already existing evening delivery. We currently deliver for more than 50 food suppliers and continue to grow the customer base of our food box. Not only does the food box allow us to transport fresh products at the right temperature, it can also be reused up to 500 times. One example is Marley Spoon, an online food supplier, who we began helping with food deliveries in 2018.

In Belgium we introduced food delivery seven days a week and evening delivery five days a week. We also now provide consumers with a specific delivery window.

During the year we introduced a real-time feature via the PostNL app that enables users to track the progress of their food package along the deliverer's route. This means they can predict with far greater accuracy when their package will arrive, creating a more precise delivery window.



## Marley Spoon: growing together with PostNL

Young, positive and full of ambition. These are the words of Christian Nauta, Head of Production at Marley Spoon, as he describes the company's collaboration with PostNL.

'PostNL is one of the suppliers that deliver our meals throughout the Netherlands and Belgium, thanks to their extensive network,' he explains. 'When we asked PostNL if they could deliver in the morning, they arranged it within a few months. Great for our clients who want to receive their food box before they go to work.'

PostNL delivers Marley Spoon's meals in reusable cool boxes, which Christian says have a number of advantages. 'The cool boxes are unique and can keep products such as meat, fish and cheese sufficiently cool for the trip to the customer. PostNL worked with Wageningen university to develop them, and they are a sustainable alternative to refrigerated transport. The challenge for PostNL is to have sufficient cool boxes available for the future. The food market is growing incredibly quickly!'

### Health logistics

We believe we can add customer value within the changing health environment using our logistic solutions, and are actively looking at opportunities to work with other parties to make this happen. For example, wholesalers selling to hospitals and pharmacies already deliver pallets to us, which we then split. The smaller parcels for pharmacies are delivered through our parcel network, while the pallets are delivered to hospitals through our cargo network. We also provide hospitals with a pallet and parcel consolidation service, creating a faster, more efficient service. Pharma & Care distributes goods which are temperature-controlled to pharmacies, health centres and hospitals. In 2018 we continued to develop our delivery consolidation service for hospitals in the Netherlands, which we already offer in Belgium. This provides hospitals with a faster, more efficient service.



## With clever logistics, healthcare will come to you

As much as 70% to 80% of the processes in healthcare are logistic processes. Patients going from A to B, processes or goods logistics. 'The health sector itself takes care of this, but it is not part of their core tasks', says Huub Zijlstra, sector manager Health at PostNL. 'We can save the patient and the healthcare sector a lot of time if we separate care from logistics and services.'

Huub sees several major trends in the healthcare sector. New technologies and innovations will make more possible. We also have more data than ever at our disposal. And patients themselves want to see changes. At present, healthcare is something that 'happens' to the patient, but they are becoming more mature and are demanding more. Patients are now asking themselves: when do I get a tight grip on my healthcare process?

To follow these developments, healthcare parties should enter into new partnerships, says Zijlstra. 'They don't have to figure out everything themselves but can join what is already there. PostNL can optimise flows to and from the hospital. In fact, we already do this: we take care of the delivery of screenings, delivering intake sets to the consumer and the diagnostic returns to the lab. And we also deliver medical devices at home. Even into people's homes if they are infirm or ill and need a helping hand. We also deliver medicines to the patient under controlled conditions, such as at the right temperature and within the required timeframes. So, we already deliver healthcare at home, but we see room for improvement. Together we can guarantee the quality of healthcare, while also serving the patient even better.'

**In 2018 PostNL started a health team to respond faster and more effectively to changes in the healthcare sector. The team focusses on four domains: Pharma, Medical devices, Diagnostics and Personal Care. Our current market position in healthcare helps us to respond effectively to developments in the market. We offer custom made solutions in healthcare by combining the different competencies within our networks.**

The coming period the team will focus on:

- Realising further growth in home delivery of healthcare products.
- Creating new possibilities for the healthcare consumer to take control over his healthcare processes.
- Building partnerships with healthcare institutions.
- Developing new propositions for the delivery of medication and across-the-threshold services.

## Mikropakket

Mikropakket is our high-value goods delivery network, which specialises in securely transporting goods such as mobile phones, jewellery, and medicines. During the year the company consolidated and strengthened the market-leading position it holds within its chosen segment. We extended several large existing contracts and securing new customers, for example in pharmaceuticals and media. It also sees growth potential for the distribution of e-bike batteries, which are subject to very strict transport rules.

## @Home services

Our ambition within the @Home market is to be the leading logistics company that delivers and installs for a wide variety of goods and services. From white goods and electronics to medical and (garden) furniture, we are developing a broad range of delivery capabilities, ensuring that we are able to offer customers the right solution across all of our focus areas.

For retailer Coolblue we introduced a complete shipping and installation service in 2018, giving consumers the option to have their new TV, washing machine or fridge installed and set up as well as being delivered. We also grew JP Haarlem Delivery, the high-end furniture delivery and assembly specialist we purchased in 2017, as consumers increasingly select expert installation services combined with reliable delivery. Overall, the total number of customer deliveries by Extra@Home grew by over 15% year-on-year.



## Last-mile solutions for receivers

### Delivery options made easy

We offer receivers a range of delivery options to a range of delivery locations, meaning there is always a solution that fits their needs. For example, they can choose to have their delivery sent to:

- A physical address
- A retail location
- A parcel locker
- One of the 800 P.O. box locations we operate across the country.

## Customers having more control over the delivery

### Rerouting before the first attempt

We strive to optimise our last-mile parcel delivery by putting the consumer more in control of the delivery. One example is the option to reroute parcels before the first delivery attempt, which enables consumers to change the delivery time and location of their parcel before the first planned delivery.

Our rerouting service continued to prove extremely popular across the Netherlands, and was used 1.7 million times in 2018 (2017: 0.5 million).

## Track & Trace

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 to them.

## Change of address services

We want customers to receive their mail without interruption, whether they go on holiday for a few weeks or move to a new home. Our change of address and mail forwarding services let customers choose to have their mail redirected to a new address for a period of between one week and a year, meaning their post always knows where they are.



## Returns

We are expanding our returns services, benefitting customers by enabling them to expand their service offering and consumers by making it easier to return online orders. At the same time, the services increase both the sustainability and the efficiency of our operations and services. We are also working with our customers to develop innovative packaging solutions that are more sustainable and efficient. Below are examples of services we introduced in 2018, and one that we launched at the beginning of 2019.

### Home pick-up returns

We now offer e-tailers the option to provide consumers with a home pick-up returns service, making returning goods ordered online incredibly simple. Consumers can make an appointment for us to collect their parcel in a two-hour pick-up window, on the same day or a day of their choice.

### Packaging pilot with FuturumShop

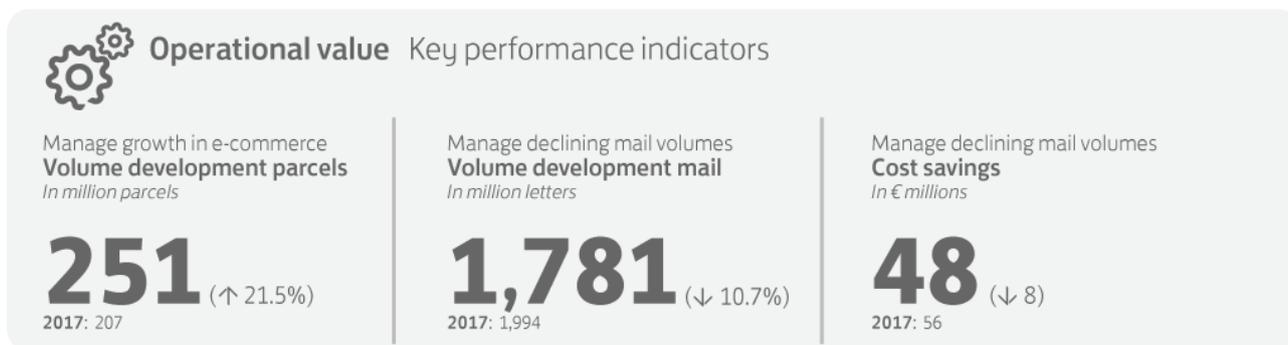
In 2018 we began a pilot with FuturumShop, an e-tailer in the Netherlands, to test the use of reusable packaging. The specially developed packaging is made of flexible material that takes the form of the product, reducing the amount of air in the parcel and thus its size. This results in a more efficient and sustainable delivery process. And because the packaging can be reused up to 1,000 times, one piece has the potential to save over 130 kilograms of cardboard. As well as having their goods delivered more sustainably, consumers benefit by no longer having to dispose of packing material at home; they can simply return the reusable pack to the deliverer.

### Return packages with the deliverer

At the beginning of 2019 we introduced our latest returns option in the Netherlands, which lets consumers return their parcel with a deliverer who is already at the door. As well as being more convenient for consumers and online shops and e-tailers, the service is also sustainable as it saves the consumer from having to make a trip to one of our parcel drop off points.

# 7 Operational value

We operate in a dynamic environment. Our Parcels business is taking advantage of the rapid growth in e-commerce, while our Mail business is managing declining mail volumes of around 10% year-on-year. At the same time, consumers are increasingly focused on gaining access to the most convenient delivery options, with shorter delivery times and greater delivery flexibility. This requires us to continue to focus on operational excellence while providing deliveries anytime, anywhere.



## Key results and highlights

Parcel and mail market developments are influencing our transition into an e-commerce logistic company. During 2018 we collected, sorted and delivered 21.5% more parcels than in 2017, delivering on average 800,000 parcels daily. To manage this growth and prepare for future development, we opened three new parcel sorting and delivery centres. In 2019 we will also open three new sorting centres. We also expanded our delivery capacity in Belgium to match the business growth.

The ongoing decline in physical mail being sent led to a 10.7% decline in our mail volumes. As a result, we continued to restructure our organisation, which included closing down our sorting centre in The Hague. We also reduced the number of preparation centres we operate from 44 to 38, and merged our international parcels and mail sorting centres into one integrated location, called IMEC, in The Hague. The sorting centre we vacated in The Hague is now being used for international PostNL activities.

In 2018 we achieved further cost savings of €48 million, as expected slightly below our initial guidance of €50 million to €70 million. These cost savings came primarily from the reorganisation of our overheads and operational management at our Mail business. We are also adapting our business model and will introduce the New mail route in 2019. Our aim is to achieve significant cost savings through this renewed model going forward, enabling us to keep pace with volume declines.

The growth in parcels and decline in mail had a significant impact on our operations. To help deal with this, we implemented a number of measures to adjust our collecting, sorting and delivery capacity and we focused on optimising our processes and IT effectiveness. One example is streamlining collection within our time-bound network, which helps us increase the quality of pick-ups in the narrow time windows we offer our customers.

To enhance the sorting capacity within our Parcels segment, we opened new sorting and delivery centres across the Benelux. And in Mail, we continued to roll out the sorting machine coding, which adds codes to envelopes, helping us simplify our preparation process.

We also made strong developments in our delivery capabilities. For example, we expanded the number of pick-up points in retail locations, and we introduced the Combibundel, which enables us to improve the efficiency of our sorting process.

This chapter provides more detailed information about how we create operational value.

## Main developments

Our Parcels and Mail businesses continue to focus on adaptability to change and increase operational efficiencies. These changes and improvements include greater automation, digital solutions and IT developments. Our aim is to contribute to a better customer experience, while also saving costs. Our operational services can be divided in three domains: collect, sort and deliver. In each of these domains, we made improvements during 2018.

### Collecting

#### Time-critical networks

Large volumes of parcels and mail are generally delivered by our customers to our sorting and delivery centres. However, the collection of smaller volumes is carried out by our time-critical network (TGN). This network plays an important role in our business, for example by emptying letter boxes and collecting parcels from retail locations. We also use TGN's capacity to deliver parcels and mail to smaller customers, and to make parcel deliveries in the evenings and on Sundays. In 2018 we managed to increase the use of our capacity in our car fleet. We also worked on planning our routes more efficiently, for example by delivering our collected parcels from small businesses directly to the Parcel sorting centres.

In 2018, we started testing time frame indication in collection for 10 business customers. This test provides us insights in the customer preferences in our communication on pickup times in our collection, which help to increase our efficiency. The added value of this network is the ability to integrate different solutions, meaning we can use our collection and time-critical delivery capacity to the full, while planning our routes efficiently. We have started to invest in low emission alternatives for our cars, for example by using e-cargo bikes where possible. We plan to further develop our time-critical network commercially and sustainably.

#### Increasing our retail network

To keep pace with the growth in e-commerce, and the increasing numbers of parcels we deliver, in 2018 we opened more than 200 retail locations in the Netherlands. Our dense and growing retail network means that consumers can reroute their parcels to retail shops closer to their homes, making the delivery process even more convenient.

### Sorting

#### Physical capacity developments

During 2018 we further increased the efficiency of our sorting and delivery centres within Parcels, and expanded the number of parcel sorting machines in operation. One example is the addition of about 4% sorting capacity in our existing sorting centres by adding sorting lanes. Another example is the extension of the daily sorting time frame. We also opened three new sorting and delivery centres, increasing our parcel delivery capacity. We will continue to grow our capacity to keep pace with the parcel volume growth.

In our Mail business, we continued to centralise our mail sorting centres, reducing the number from six to five. We also closed 6 out of 44 preparation centres. At the same time, we decided to merge a number of staff functions, achieving greater efficiency and cost savings. Where possible, we housed other PostNL activities in the buildings we vacated.



## Three new parcel sorting centers in 2018

Ivo Peeters is a process manager in the new parcel sorting center in Venlo. Previously, he worked as a driver and a planner both with Mail and Parcels. The opening of the new location in Venlo offered Ivo the opportunity to work closer to home.

Currently, Ivo works alternating shifts with six other process managers, six days of the week. 'It was really cool when the first parcels rolled off the belt. We ran trials, of course, but it's still exciting. I spend a lot of time on the workflow. The process is the same as in Son, my previous location. But this sorting center has eight extra docks. Venlo is also special because it is close to Germany. Big German customers like Zalando sometimes deliver fifteen thousand parcels on one night.'

In 2018 we brought together the processes of Mail, Parcels and our time-critical network at our sorting and processing centre on the edge of Amsterdam. This means we can maximise the efficiency of employees, resources and products. For example, bike logistics from our time-critical network now makes evening deliveries for our Parcels business in Amsterdam.

For our international volumes in the Netherlands, we centralised our IMEC export and import locations from three centres to one in the Netherlands. IMEC processes mail, letterbox parcels and parcels. This change has enabled us to utilise transport and system synergies, helping us reduce costs and increase quality.



## International mail and parcels under one roof

For Sami Aissi, team leader Distribution and Transport, it took some getting used to: a new place of work at the International Mail & E-commerce Center (IMEC) in The Hague. IMEC has brought the International Mail units from Amsterdam and Rotterdam and the International Parcels sorting center from Amsterdam together under one roof.

Because he has alternating day, evening and night shifts, Sami still hasn't got to know all of his new colleagues yet. But that won't take long. 'Our department is the engine of the IMEC,' he says.

Sami and his team have to make sure everybody can get to work without delays and the drivers can get on the road on time. 'Fortunately my team consists of hard workers with a lot of knowledge. Their experience gives me peace and trust. With these guys we'll be all right!'

### Robotics in sorting centres

We began testing a robotic automation project in 2018 in our parcel sorting centre in Den Hoorn. The project uses a robotic arm to move parcels from roll containers onto the sorting machine, increasing efficiency and reducing the physical impact on workers who have to move the parcels manually. We also implemented an automatic warehouse in our fulfillment centre in Houten. This helps us reducing order-pick time and create efficiencies in our processes.

### Product rationalisation mail

In 2018 we further rationalised our product portfolio by removing a total of 28 services and 54 product codes from our Mail business, all of which were deemed non-core. This is an example of our focus on costs savings and profitability. By focusing on core services and products we believe we can add more value to our customers. For example, we closed our online printing service shop, although will still process larger print

orders for customers. We also stopped active sales of services from PostNL Communication Services and Customer Excellence. Another service we ended in 2018 is the temporary storing of customers' mail, for example when they are on holiday.

### Enhancement of coding system (codeerregel)

Over the last few years we have invested strongly in automation, with the aim of increasing delivery quality and efficiency. In 2018 we continued to roll out the sorting machine coding (SMC), which adds codes to envelopes. Coding helps us to simplify our preparation process and introduces more flexibility when realising delivery route optimisation.

We also invested in machine and deep learning software that improves the quality of the coding machines, which has resulted in a significant improvement in the automatic recognition and correction of addresses. This improves the quality of our coding and saves costs, as less coding has to be done manually.

Similar to 2017, we saw little progress on our goal to increase the automatic sequence sorting. We have implemented this on our SMK (Sorting Machine Small) and the 65% of our mail volumes sequence sorted automatically remained stable in 2018. We will start implementing this way of sorting on our SMX (Sorting machine extra) machines in 2019 in order to achieve our goal of 85% by 2020.

### Delivering

#### Adjustment to delivery capacity

During 2018 we continued to hire additional parcel deliverers and drivers for our large trucks, to keep pace with the growth in delivery demands. While our delivery capacity has increased, we continue to face challenges, particularly in peak periods. Using data steering, we are better able to connect customer and consumer needs to our delivery options. This has led to a greater flow of parcels to our retail locations.

#### Optimise mix of vehicles

We continuously review how we can improve our delivery methods. Given the different locations we deliver to, from city centres to rural areas, we do not have a one-size-fits-all delivery model. In 2018 we continued to increase the number of e-cargo bikes we use, while reducing the number of vans. Not only does this improve our own efficiency by cutting costs, it also helps us minimise our environmental impact and contributes to a more liveable society.

#### Introduction of Combibundel

In 2018 we began rolling out the Combibundel, 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. We continue to work with deliverers to develop different ways to make the delivery process more efficient. In 2018 we also worked with the works

council of production, and improved the way we communicate with our employees, to help create greater acceptance of the Combibundel among deliverers.

While delays to the roll out of both the coding system and the Combibundel in 2018 meant we were not able to achieve the cost savings we had anticipated, we now expect both programs to be fully rolled out by the middle of 2019. This will help us continue to target cost savings and efficiencies, with the coding improvements and the Combibundel vital to the success of our new delivery model, New mail route. This model will result in the mail being available sooner and longer routes for our deliverers.



## The Combibundel is one of those measures that keep the company healthy

In September 2017, PostNL introduced the Combibundel. Mail deliverer Gert van Manen from Veenendaal participated in the test phase.

‘For us the Combibundel means we have to deliver the mail from two different bundles: one with small items of mail from the sorting machine and one with the rest of the mail,’ he says. ‘It took me some time to get used to it. Untying the bundles and putting them in the mail vest I use are extra tasks for me. All in all, it took me a lot longer in the beginning, but now it’s okay. I find working with the mail vest easier.’

Gert understands why PostNL needs to find ways to save costs. ‘If you look back over the fourteen years that I have worked at PostNL and see the speed with which mail volumes have declined, you can’t avoid these changes. Here in Veenendaal we were anxious, I must admit. It was another change on top of all the other changes. But now you no longer hear anybody complaining. It has become normal.’

### Predict delivery success rate

Using artificial intelligence (AI), we continued to fine-tune algorithms that help us better predict when a second delivery attempt will be successful. Greater success increases customer satisfaction, and cuts our journey times and costs. AI also helps us better predict the capacity of retail locations, enabling us to reroute parcels to other locations and use capacity more efficiently.

### Expanding our operational services

We introduced time-frame indication in the PostNL app for Belgium-based consumers and we will focus on continuously improving this service to increase our delivery quality and operational efficiency. The option to reroute a parcel before the first delivery attempt is also aimed at increasing the hit-rate of our parcel delivery.

### Developing retail locations

One aspect of our focus on customer experience is to provide consumers with a greater range of options to pick up their parcels close to their homes. This is why we increased the number of pick-up points in retail locations to more than 3,200 from 3,000 in 2017, highlighting how we work to strengthen our infrastructure. We also continued to develop our "Scan & Go" service at retail locations for customers who prepared their parcels online. Customers can scan the parcel code they have generated on their app, print the label and drop off the parcel. And we continued to develop our self-service parcel lockers, which let consumers pick up parcels at various locations across the country.

### Self-management

In 2018 we introduced an initiative called self-management, which provides mail deliverers with greater choice over their work. Deliverers can now select additional delivery routes through their work app, based on an overview of available routes. This provides deliverers with greater choice over their own workload. It also creates greater efficiency as the planning and selection of routes becomes faster. The new system was developed with direct input from deliverers and is a good example of more agile working within PostNL. Going forward, employees will increasingly be in control of their own work and will make greater use of digital resources.

### Responding to increase in traffic congestion

The rapid growth of e-commerce, in combination with the rise of urbanisation, will lead to a sharp rise in the number of parcels being delivered. With the majority of parcels being delivered by van to cities and urban areas, continuous growth will quickly lead to serious traffic congestion issues. Many of our vans now run on biogas or electricity, and we are continuing to grow their numbers. While those that run on diesel or petrol do produce emissions such as greenhouse gases (GHG), NO<sub>x</sub> and PM<sub>10</sub>, we are continuing to reduce their number within our fleet.

PostNL has been experimenting with new types of vehicles, such as e-cargo bikes and electric vans for our last-mile delivery. Tackling congestion issues will require a multi-stakeholder approach however. In 2018 we launched a company-wide program called City Logistics, with the aim of leading the debate about the future of logistics in cities, thereby developing solutions in cooperation with stakeholders. More on City Logistics can be found in chapter 9: Environmental value.

### Delivering successfully over the Sinterklaas and Christmas peak period

We again processed extremely high seasonal parcel volumes during the last two months of the year. We successfully delivered tens of million parcels over the course of November and December. The week between Black Friday (the fourth Friday in November) and Sinterklaas (5 December) and the weeks between Sinterklaas and Christmas showed the highest volume peaks. On our highest peak day, we delivered 1.4 million parcels.



## Well prepared for the December peak

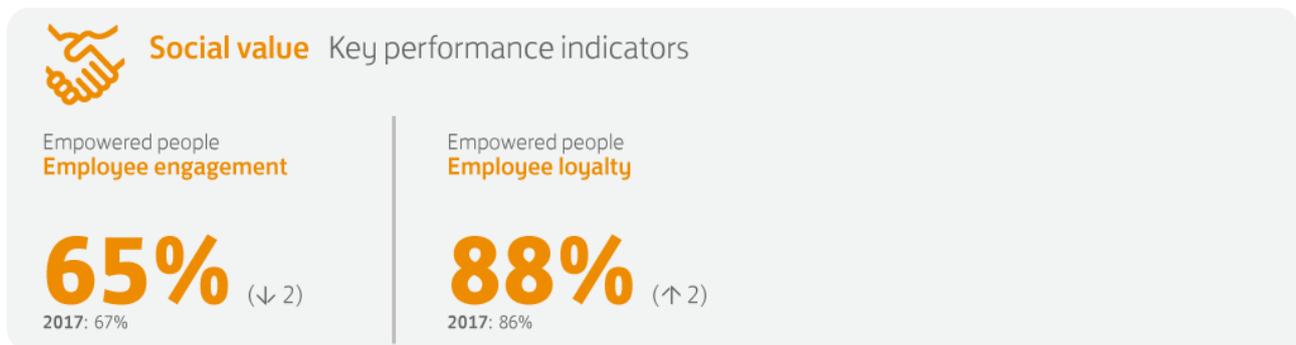
Natalie Abels is program manager SKNJ (PostNL's name for the period from Black Friday till early January) at the Parcels division. And PostNL delivers so many parcels during this period, that Natalie begins preparing for the company's busiest period in the spring.

And her biggest challenge? Finding sufficient people, she explains. 'The machines have sufficient sorting capacity, but that is useless without drivers and deliverers. Together with our customers we find smart ways to spread the peak moments, for example by encouraging consumers to order in time.'

Fortunately, in 2018 we opened three new parcel sorting centers, which allowed us to better spread the workload. But you cannot prepare for everything. One day you think everything is under control, the day after it starts to snow heavily. Then we immediately have to adjust. It is exciting and hard work, for everybody. Even colleagues from headquarters help out. Although challenging, for most colleagues it remains the best time of the year!

## 8 Social value

The markets PostNL operates in are changing rapidly, impacting everyone who works for or with us. We aim to be a responsible employer that empowers our people to realise their full potential and feel they can make a difference to our customers. And we value our social impact, from the role we play providing accessible and reliable postal services, through to employing approximately 38,000 people.



### Key results and highlights

With 37,785 employees, PostNL is a large employer in the Netherlands. On average our own employees make up around 75% of our total workforce. We deliver quality services to every street and every house across the country, every week of the year. Quality that our customers trust the people of PostNL to deliver, which is why it is vital that our people feel empowered to make a difference.

We currently measure our employee engagement annually. In 2018 we were unable to improve our employee engagement score, with this key performance indicator dropping two percentage points to 65%. Our other key performance indicator, employee loyalty, increased by two percentage points, with 88% of our employees indicating that they expect to stay with PostNL. The response rate also increased, to 62% in 2018 from 60% in 2017. These results indicate that our employees are not only critical but also loyal to us as an employer.

The main reasons for the decrease in employee engagement relate to capacity planning and work pressure. Based on this feedback, we launched several initiatives to improve our performance, which we will measure again in the second quarter of 2019. The results of our survey also showed that, in general, our employees like their work and are particularly positive about their working relationship with direct colleagues and managers.

We also made advances across a number of other important areas. For example, we made strong progress with internal mobility and our employability policy, which means people from within PostNL can more easily switch between business units, without losing seniority.

We also published our diversity and inclusion policy built on six elements. We focus on creating a work environment in which everyone feels safe and is provided with development opportunities to maximise their potential. We stimulate diversity in age, gender, ethnic background, sexual preference and distance to the labour market, and recognise that diversity in mindset and abilities is crucial to succeed as a company.

And within Mail, we worked closely with the works council to develop the New mail route, which we will introduce during the course of 2019. This will enable us to provide a large number of our employees with additional contractual hours, securing their job and income for as long as possible.

This chapter provides more detailed information about how we create value to our people.

## Main developments

### Our people

PostNL provides direct and indirect employment to around 50,000 people. 90% of our people is directly or indirectly employed via a labour contact and PostNL directly employs around 38,000 people. We have a clear strategy to help our employees develop and feel empowered within the company. We also provide indirect employment through contracted partners. This large group of approximately 12,000 people on average are parcel deliverers, other drivers, sorting employees from contractors and temporary workers. These provide us with flexibility to deal with our seasonal businesses. In peak periods, we scale up our own employees, attract temporary workers and scale up through our partners. PostNL also employs a relatively large group of people with a distance to the labour market. We aim to provide favourable work conditions for our entire workforce. For our indirect workforce we aim to provide fair compensation, attractive work packages as well as a safe and pleasant work environment, while for our people we also focus on diversity and development. On 19 February 2019, we announced that we are going to make the switch from outsourcing sorting processes through contracting to hiring temporary workers. We will start phasing out our contracting model in 2019.

Our priority is on four areas:

- Managing personnel capacity
- Making connections
- Remaining healthy
- Realising change.

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

### Managing personnel capacity

In a high volume, growing logistics business, effective staffing and planning is a key success factor. The tight labour market and organisational changes within the company contribute to a complex and intense staffing and planning exercise, which needs to be managed under acute work pressure. 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.

### Finding the right people in a tight labour market

During 2018, our number of FTEs slightly decreased by 1.8%. Within Parcels we managed to grow our FTE number by 18%, while FTEs in Mail fell by 8%.

Keeping up with the 21.5% growth in parcel volumes was a huge challenge, due primarily to the lowest employment rate in 10 years. Despite this, we hired around 100 truck drivers and 300 parcel deliverers in the fourth quarter of 2018 as a result of intensified, targeted recruitment campaigns.

The decline in mail volumes requires PostNL to continuously optimise its business model. Restructuring is a key element in this optimisation, which impacts our people. For example, employees experience changes to their work and may feel uncertain about the future. Many employees in our Mail business have part-time contracts, and it is relatively easy for employees to switch jobs in the current labour market. This is one of the reasons why we continued to focus on internal mobility in 2018, which gives employees the chance to move to a new job between our business segments.



## Employer branding instead of job selling

Like many companies in the Netherlands, PostNL had to deal with a very tight labour market in 2018. Willemijn Kaal helped develop a campaign that wasn't so much aimed at selling jobs, but rather at selling the company.

'We have to compete with companies that offer similar jobs, sometimes with better conditions, so we can't get away with simply recruiting delivers,' Willemijn says. 'We have to explain why it's worthwhile working for PostNL. What kind of company do you become a part of? The goal is to make people consciously choose for PostNL, because they feel they fit in. They want to play for our team not only because we are the biggest, but because they agree with what we stand for.'

And this is valid not just for the operational positions, explains Willemijn. 'We see that there is still a gap between the operations and the office. By formulating a clear employer brand, we also connect the different work fields within the company, from the deliverer in the street to the manager in an office. Eventually, everybody who works at PostNL feels part of the same organisation, and understands that we all have to work together.'

## Manage employee turnover

We faced challenging company-wide turnover rates, especially among new employees. This was due to a variety of reasons, including improvements needed in the onboarding practice and the competitive labour market.

To better retain the people we hire, especially in the first few months of employment, we began implementing initiatives that help get employees off to a good start at the company. For example, we are paying more attention to welcoming people on their first day, facilitating onboarding, training mentors at our sorting and delivery centres, as well as focusing on building up the workload slowly in the first few weeks. We believe that greater personal attention will lead to higher employee engagement and retention.



## Creating more trust between coworkers in the parcel sorting centers

At our Parcels business, we have been running a program called With confidence into the future, which uses training sessions to increase trust, engagement and collaboration. Femke de Vries was responsible for the program until 2018.

‘This culture program is aimed at the most important link within our logistics network: the people who work for and with us,’ she says. ‘To be able to work well together, trust is key. You give trust, which is why it is so important that management is the first to set a good example.’

The result of the training sessions is very clear, explains depot manager Peter van Rijn, who participated. ‘Within our sorting center we have created a safer working environment, where you are allowed to make mistakes. And we now also make sure employees see their manager more often.’

## Making connections

The majority of our people have task-oriented jobs, with our drivers and deliverers required to carry out their duties primarily on their own. At the same time, 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 paying them the right level of attention is vital if we are to learn as an organisation, and help them feel engaged and appreciated.

## Employee engagement

As mentioned in our key results section, employee engagement decreased while employee loyalty increased slightly compared to 2017. Positive feedback was related to customer focus, clear expectations and innovation. We continue to be impacted by the tight labour market, which creates a shortage of available labour. Going forward, areas for improvement mainly relate to clear choices, accepting mistakes and collaboration between departments.

Due to the rapid change of our organisation, we are also evaluating the way we measure the engagement of our employees. For 2019, we have decided to change the way we ask our people for feedback. We are also changing our external service provider helping us to measure and improve our employee engagement. We will update our measurement method and also increase the frequency of our survey in order to enable better follow up on the results.

A crucial pre-condition for providing feedback is trust. People need to feel safe when voicing their opinion and trust that the feedback they give will not impact them negatively. In 2018, we introduced dialogue sessions with teams at all levels within our business to discuss trust and the behaviour that builds trust. These sessions were very positively received, and have led to a number of action points.

## Collaboration barometer delivery partners

Since 2015, PostNL has annually evaluated collaboration between delivery partners and our parcel deliverers to identify improvement areas. In 2018, 43% of our delivery partners and almost 36% of their deliverers took part in the survey.

The results showed that 51% of the delivery partners and 63% of the parcel deliverers are (highly) satisfied with the collaboration with PostNL. The main areas for improvement relate to communication and discussions (primarily on routes and compensation), workload and process improvements.

## Workload

We learned from round table discussions with our employees that workload relates to five main themes: managing personnel capacity, effectiveness and user-friendliness of systems, communication, collaboration between departments and implementing changes. Increased workload is an important topic for our employees and PostNL values the openness of our employees in the discussions. During 2018, PostNL

commenced improvement initiatives on all five themes, both in our Parcels and Mail businesses.

An example of improvements we implemented in 2018 is ordering 500 new air-conditioned vans, which makes driving in hot weather more convenient. We also started paying closer attention to when employees take a break, ensuring that they take rest periods during their work day. Furthermore, we introduced communication screens and a complaints hotline in all our sorting and delivery centres.

Within Mail we actively looked for opportunities to increase contractual hours on a voluntary basis for employees with small, part-time contracts. Deliverers can now select an additional route through our app if they wish to increase the number of hours they work.

### **Building a diverse and inclusive workforce**

PostNL strives to build a workforce which represents society. With around 120 nationalities represented in our workforce, PostNL is a multicultural company. Diversity and inclusion is important for PostNL, as well as our customers and other stakeholders. It creates more perspectives in our discussions, improves the decisions we make and generates ideas for new services we introduce. Ultimately, it makes our business stronger.

In 2018, we published our diversity and inclusion policy built on six elements. We focus on creating a work environment where everyone feels safe and is provided with development opportunities to maximize their potential. PostNL stimulates diversity in age, gender, ethnic background, sexual preference and distance to the labour market because we recognise that diversity in mindset and abilities is crucial to succeed as a company. Every three years PostNL holds a diversity survey, and we define follow up actions accordingly. In addition, PostNL finances scientific research into diversity and inclusion at the VU Amsterdam, and uses the factual results to define specific improvement areas. We use these to provide new insights to our employees on cultural resilience.

Each year we train around 1,000 people across the company on how to interact and behave in a multicultural environment. This enables our people to make PostNL a pleasant place to work. When we identify intercultural issues, internal specialists work on a case-by-case basis to address them. PostNL works continuously on specific actions across all six elements of its diversity and inclusion policy to optimise the capabilities of our workforce to operate in a multicultural and diverse society. We also look at multicultural diversity through our mobility programs and management development programs, with the aim of attracting more multicultural talent and better aligning the recruitment for our traineeships.

At the end of 2018, 48.5% of our workforce was female. PostNL offers equal opportunities for all employees. However, with only 21% of management positions held by women, we believe there is still progress to be made. Developing leadership within

an organisation takes time. This is why we believe in focusing on diversity and inclusion, and understand that developing talent at lower levels of the organisation helps shape a more diverse management structure for the future. We continued to identify talent with multicultural backgrounds to help these employees move into leadership positions within the company. Through our partnership with the Agora network, we also promote internal cultural diversity within PostNL. In addition, we help women in the (sub)top of our organisation with a mentoring program called Women Inclusion Network (WIN), providing them with the opportunity to expand their professional network.

PostNL is recognised in 2018 by the Social Economic Council (SER) as one of the best practice companies on cultural diversity. We are proud of this independent external recognition which motivates us to proceed with our strategy.

### **Labour conditions**

#### **Collective labour agreements**

PostNL agrees on labour conditions with trade unions in three different collective labour agreements (CLA): Mail deliverers, Saturday deliverers and other PostNL employees (PostNL). In addition to the CLAs, 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 2018 PostNL agreed with the trade unions on a new CLA for mail deliverers, applicable till 30 September 2019. Since November 2018, we have also been negotiating the new PostNL CLA, and in early 2019 we signed a principle agreement with three of the four trade unions. Unfortunately, the fourth trade union disagrees with the proposed improvement for our employees. In February, all trade union members have the opportunity to vote about this agreement.

PostNL values its relationships with trade unions and aims to agree on new CLAs during the course of 2019 for all employees.

#### **Relations with delivery partners and contracting parties**

The main discussion topics with delivery partners in 2018 was on parcel delivery rates and correct payment of their employees. Our contracting model is being challenged by one trade union. PostNL defines the principles for its tariffs annually. These principles form the starting point for contract discussions with delivery partners. For the Labour Market Fraud (Bogus Schemes) Act (Wet Aanpak Schijnconstructies), we are ultimately responsible for the fair payment of delivery partners' employees. These partners must demonstrate to us that they make fair payment to their employees, and our policy is to exclude delivery partners who breach this regulation.

### **Developing our people**

At PostNL we believe that ownership and curiosity is the engine for learning and performing. 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 2018, the main elements were agile working, customer experience and digital transformation.

In 2018, PostNL changed its approach to the development of learning from a centrally-developed curriculum to a model where the business has more 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 programs and leadership programs.

To help secure people's employability, over the last few years we have created a learning environment. 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 anywhere. This will align with the broader change across society where people increasingly use online platforms and apps that give them greater control over their lives. This dedicated online environment, 'Mijn Leerplein', offers content from third-party knowledge providers, meaning we have a broader range of training courses on offer.

### **Managing personal capabilities and potential**

PostNL values talent management as a success factor for the continuity of our business. 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 them 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 attract potential new leadership talent. During 2018, PostNL employed 91 trainees of which 38 took on a new job within PostNL and 53 will continue the program in 2019.

### **Performance management**

PostNL would like its people to feel engaged and empowered to grow. We use performance management to help monitor the development of our employees. Currently, this is based on an annual cycle, including the preparation of a personal development plan, mid-term review and an annual performance appraisal.

The introduction of more agile ways of working leads to a change in working methods. PostNL plans to change its performance management approach as from 2019, with the aim of implementing a more collaborative and transparent process of continuous dialogue and feedback. For example, in 2018 we introduced a Feedback on Behaviour initiative among 60 senior managers. And in January 2019, we began a pilot with around 200 employees from different business units, and we will use the results to optimise our approach during 2019. The objective of the new Performance Management approach is to

engage our people more in this process, and to improve performance by paying more attention to their potential.

### **Remain healthy**

Healthy employees are central to a well-functioning company, as this increases employee satisfaction and productivity. Providing a safe work environment is an important pre-condition. The absenteeism rate and lost-time accidents (LTA) rate are relevant metrics we use externally to measure the health and safety of our people. At the beginning of 2018, absenteeism went up. This upward trend began towards the end of the third quarter of 2017. We identified a number of root causes for the increase, and how we can tackle them. This includes giving more attention to our employees, and improving working conditions in our parcel sorting and delivery centres. Another improvement area is focusing on alternative tasks ill employees are able to carry out during their recovery. Finally, we need to help those employees that call in sick more frequently than expected, by constructively discussing the risk of long-term illness and the support we can offer them to remain healthy.

During 2018 we implemented a number of initiatives to reverse this absenteeism trend. One example is providing training to our operational managers in the prevention of absenteeism. In addition, we built awareness among our managers about the role they play in preventing absenteeism, and we provided tools to enable them to discuss potential long-term illness in an adequate manner. We also hired dedicated case managers to support our businesses in helping ill employees and to coordinate our processes around registration and follow up on absences.

While our overall 2018 absenteeism results are still higher than 2017 (5.9% compared to 5.2%), we see signs that our actions are having a positive impact. The monthly figures as from the second half of 2018 improved with absenteeism overall lower in the fourth quarter compared to 2017, and we aim to continue our efforts in 2019 to decrease absenteeism. Our Lost time accidents rate decreased from 3.1% to 2.3%. Our efforts to reduce the number of accidents caused by scooters has had its effect. While this indicator provides some insights, we are evaluating our safety indicators for 2019 onwards. Despite our focus on safety, we regret the fact that PostNL was involved in two occupational fatal accidents. These cases relate to people working for delivery partners who were involved in traffic accidents.

### **Realising change**

#### **Opening of sorting and delivery centres within Parcels segment**

When we open a new parcel depot, it has an impact on the people working for PostNL. The workforce in the new sorting and delivery centres is made up of new hires and experienced people. We also look for ways to optimise our logistics processes, which means current routes can be partly or wholly

moved to a new depot. People are given the choice to stay or to move to the new depot. We consider the impact on our people carefully when opening new sorting and delivery centres and apply a phased build-up to manage the impact on our people and operations.



## Mail deliverer becomes parcel deliverer

Ilona Goossen-Vissers made the switch from our Mail business to our Parcels business. She had been delivering mail by scooter since 2016, but now works delivering parcels in Breda. ‘Delivering mail by scooter was a good job and we had a very nice team. But I worked 15 hours spread over five days. I have two daughters, Nina is 7 and Emma is 2. When I work, my mother babysits. At Parcels, I can work 24 hours spread over three days. And I have Saturdays off every other week. Besides, Parcels is the future.

‘I was able to keep my fixed contract when I switched roles and had a few days of on-the-job training before I started. I don’t have a fixed route yet, so I sometimes need to look a bit harder to find an address. And if I get an early shift, I have to ask my mother to take my daughter to school. But it’s worth it. ‘I do notice that parcel delivers aren’t treated with a lot of respect. If I’m five minutes late, customers will tell you. But I am also a steward at soccer club NAC, so I know how to respond when people become vocal.’

### Giving parcel deliverers more control of planning

Until 2018, route planning was developed based on delivery time and order. However, during the evaluation of operational performance, we noted our deliverers were experiencing difficulties in meeting the delivery time-window given to recipients. To tackle this, towards the end of 2018 we introduced changes to our route planning. While we still suggest a route, each deliverer can now change the delivery order themselves. This gives them more freedom and improves delivery quality.

### Focus on internal mobility

During the year we paid more attention to the internal mobility

of our people, in particular those colleagues in Mail whose work is impacted by volume decline. The approach was effective, with only a small number of employees unable to find a new opportunity internally. For example, we managed to relocate employees from the preparation locations we closed in 2018. With the opening of the IMEC, we also successfully relocated employees from the old international mail and parcels sorting centres on a voluntary basis. A key element in our approach is to focus on careful communication about the reasoning behind changes in our organisation. As a result of the strong growth across parts of our business, new interesting positions are opening up. This is one of the reasons we actively stimulated voluntary internal mobility through internal recruitment campaigns.

## 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 2018, we published a group policy on human rights in which we describe the measures safeguarding relevant human rights aspects. The table below shows which human rights articles as defined in the Universal Declaration of Human Rights of the United Nations are covered by our policy. Based on our risk assessment (see chapter 14), human rights have not been identified as significant risk and we did not identify a meaningful performance indicator. We evaluate our human rights policies qualitatively. We plan to carry out an assessment in 2019 to identify any potential improvement areas to our current policies and mechanisms.

### Human rights in our policy

Elements of PostNL Group Human Rights Policy	Subject covered	reference to UDHR
Collective labour agreements	Stimulate trade union and work 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	article 18
OHSAS 18001 certification	Work conditions	Art. 23.1
Complaints and support processes	Freedom of opinion and expression	Art. 19



## Our contribution to a liveable society

As a large company with deep roots in society, we believe in giving something back in addition to our business activities. Our sponsorship policy aims to help those people who need extra support to stay connected with society. And sponsorship also means we can provide our employees with an opportunity to give greater meaning to their jobs and make closer connections with society. We choose initiatives where we can add value with pro bono services. Our employees spend time on a voluntary basis and we donate the use of our materials, equipment and networks.

### Jarige Job Foundation

Stichting Jarige Job is a foundation that helps more than 60,000 children in the Netherlands who are unable to celebrate their birthday because there is no money or not enough money at home. The foundation prepares birthday gift boxes for these children to surprise them on their birthday. PostNL delivers these giftboxes free of charge and also helps the foundation with the collection of unused Christmas presents donated by our employees.

### National Elderly Fund

The National Elderly Fund estimates that around one million elderly people feel lonely and that around 200,000 of these are alone during Christmas. One of the fund's initiatives is to give these people attention during the festive season. For the Elderly Fund, PostNL delivers a free Christmas card to more than 6 million households and asked everyone to send this card to a special someone who deserves a little extra attention.

### King games

In 2018, PostNL delivered food packages for the King Games to all participating schools for the fifth year in a row. We enable schools in the Netherlands and the Caribbean to participate in this sports event by sending parcels and promoting health. This is possible by partnering with the Foundation for Dutch Education Abroad and the King Games organisation. In 2018, we delivered 6,000 food packages.

## 9 Environmental value

As a logistics service provider, we are aware of the impact we have on the environment. Because we deliver to every street in the Netherlands and Belgium, our objective is to develop innovative solutions to help us reduce our environmental impact. We want to be the most sustainable player in our sector in the markets and countries in which we operate, with emission-free last-mile delivery across the Benelux by 2030. To help achieve this, we are working with our employees, our customers, our partners and our suppliers to make the supply chain more sustainable. Benefitting us, benefitting them and benefitting the environment.



### Environmental value Key performance indicators

Emission free delivery  
CO<sub>2</sub> efficiency index  
Relative emissions compared to base year 2007

**38.6** (↓ 4%)  
2017: 40.2

### Key results and highlights

In October 2018 we announced long-term goals to deliver emission-free in 25 Dutch city centres by 2025, and deliver emission-free in the last-mile throughout the Benelux by 2030. This includes greenhouse gas emissions, NO<sub>x</sub> and PM<sub>10</sub>. Innovation and efficiency, green kilometres and sustainable buildings are the areas we will focus on to achieve these goals. We will start reporting about the progress on these long term goals in our Annual Report 2019.

During the year, we improved our CO<sub>2</sub> efficiency by 4% compared to 2017. Since 2007, PostNL has reduced its relative emissions for scope 1 and 2 combined by 61.4%.

The reduction of mail sorting and preparation locations has helped us become more efficient and further cut our energy use. Using heat pumps instead of gas in our Parcels sorting centres is an example of how we have further reduced our emissions. We also concentrated on innovation and efficiency, for example by developing a smart packaging solution with Futurumshop. This cuts waste and also contributes to lower CO<sub>2</sub> emissions.

Continuous investment in cleaner vehicles has helped reduce emissions from our fleet, and in 2018 we continued replacing diesel vans with cleaner alternatives, for example biogas vans or, where feasible, e-cargo bikes. We also introduced electric vans and installed power chargers at our new parcel centre in Amsterdam. And the first trucks using liquefied natural gas (LNG) were introduced. We will continue to increase the number of electric and low-emission trucks and vans we use to

collect and deliver mail and parcels.

We built new parcel sorting and delivery centres that conform to the highest energy-efficiency standards, for example by installing solar panels. Our focus on sustainable buildings resulted in our three new sorting and delivery centres in the Netherlands being built in accordance with the BREEAM Outstanding classification. And our environmental management system is ISO 14001 certified and helps us remain focused on continuously evaluating and further reducing our environmental impact.

In 2018 PostNL started to set new science-based targets (SBT) on emission reduction towards 2030. Our aim is to reduce our total absolute direct (scope 1) and energy indirect (scope 2) emissions by 60% compared to 2017. Our ambition on absolute reduction of all our emissions, including these of subcontractors (scope 3), is 18%. These targets are based on volume growth in our Parcels business. In addition to absolute targets, we strive to reduce our relative combined scope 1 and 2 emissions in CO<sub>2</sub> per kilometre by 80%.

We expect these targets to be validated by the SBT initiative on short notice. We expect to make some scope changes in our emissions reporting and we will report on SBT progress for the first time in the 2019 annual report.

This chapter provides more detailed information about how we create environmental value.

## Main developments

PostNL designed and implemented an environmental management system in almost all its locations, which is certified under ISO 14001. This helps us to approach environmental management systematically and focus on continuous improvement. In 2018 we were recognised by the Carbon Disclosure Project (CDP) for the progress we have made. Based on an independent assessment, PostNL was rated A- in 2018 (2017: B) and we are now close to the highest rating possible.

### The Big challenge: Growth and green

Environmentally, the world faces a huge challenge. In line with the Paris Climate Agreement, the world's temperatures should stay within a maximum of a two degree increase by 2050. The Netherlands has committed to this agreement, setting a goal to reduce CO<sub>2</sub> by 49% by 2030 and be almost CO<sub>2</sub> neutral by 2050. We realise that PostNL, as a postal and logistics company, has an important impact on CO<sub>2</sub> emission. That is why we have committed to reducing our CO<sub>2</sub> emissions by 55% by 2020 compared to 2007 and by 78% by 2030. In order to push further reduction measures, we aim to apply internal carbon prices in our (strategic) investment decisions in the near future.

### Innovation and efficiency

Our goal is to increase the efficiency of deliveries along our entire supply chain, helping to cut unnecessary mileage. We achieve this primarily through better cooperation in the chain. One example is by bundling shipments together so that a deliverer can pick up and deliver everything along one route.

### Smart packaging

In many cases, parcels sent by our customers contain a lot of air. In addition, most packages are disposable. PostNL identified opportunities to manage packages more efficiently. We are in discussions with large customers about how they can remove air from their parcels by using smaller packages. This saves space in delivery vans, and at the same time CO<sub>2</sub> emissions during delivery and waste treatment. We will continue this initiative in 2019 and aim to achieve tangible results.

As mentioned in the Customer value chapter, the pilot with Futurum Shop also contributes to lower CO<sub>2</sub> emissions and is a good example of a smart holistic approach to add value in different domains.

### Contribute to a more circular economy

With thousands of vans returning empty from their delivery route, PostNL has the capacity to fill these with return packages. While this part of the value chain is still in its infancy, we began to see some traction in 2018 and we want to further develop this area in the near future. The first concrete example is the KPN Circulair Manifest we signed in 2018. We are developing a service to take back old KPN equipment when we deliver new products on behalf of KPN. Returning old devices to

KPN enables our customers to source materials from used products which contributes to the circular economy.

### Funding innovation

The share of energy consumed by PostNL from renewable sources is growing and we plan to increase this share in the near future. However, we also take responsibility for our remaining CO<sub>2</sub> emissions from fossil fuel sources. Together with our customers, we run a program called "Green post". The programme lets customers compensate the CO<sub>2</sub> emissions generated by the post they send. The money is then donated to sustainable projects aimed at supporting innovation in renewable energy generation. PostNL has doubled the €25,000 that customers invested in the program to €50,000. All these projects have the Gold Standard-quality standard.

For the electricity PostNL purchases, we offset our CO<sub>2</sub> emissions through purchasing and retiring guarantees of origin. Our investment supports the development in renewable energy generation, such as wind energy.

### Green kilometres

We aim to make each kilometre we travel as efficient and sustainable as possible. As e-commerce continues to drive the growth of Parcels higher each year, our focus is on delivering to consumers sustainably. By 2025, our aim is to have emission-free parcel delivery in 25 city centres across the Netherlands, and by 2030 to have emission-free last-mile delivery across the Benelux. However, we are not starting from scratch. Mail deliverers have been delivering by foot or bike for years, for example. And we also use biogas and electric vehicles, and are currently discussing with airlines how to make the flights that transport our parcels more sustainable.

### City Logistics

PostNL identified that the combination of the expected long-term growth in the e-commerce market and our current business model are not sustainable in densely populated cities, given the impact it would have on climate change, air quality and traffic congestion. As a consequence, we decided to take a pro-active approach towards the debate on future city logistics. In 2018, PostNL developed a view on possible alternative business models that facilitate growth, while minimising the negative impact on climate, air quality and congestion. At the end of this chapter we detail our view including some examples.



## City hub paves the way for sustainable delivery

In Amsterdam, PostNL is helping the Amsterdam University of Applied Sciences (AUAS) and the University of Amsterdam (UvA) to take the lead in sustainable logistics. Working together with moving company SimplyMile, PostNL delivers a number of orders from the institutions' suppliers from one logistic center to 36 different locations within the city center, using electric vehicles.

Susanne Balm, project manager at AUAS's research program Urban Technology, explains the benefits. 'Our suppliers used to make 16,000 separate deliveries, driving in total 70 times around the world each year. We knew we had to do better than that. Large suppliers now bring their deliveries to a city hub near Duivendrecht, on the outskirts of Amsterdam. The city hub works like a funnel. The suppliers can leave their goods there and don't need to drive into the city center themselves. PostNL, working with SimplyMile, does that for them. They sort and bundle the deliveries into one or more trips. This means the number of journeys into and out of the city are reduced, cutting the impact on the environment, while our employees still get their deliveries quickly.'

### Sustainable delivery fleet

We are making our delivery fleet more sustainable on a daily basis. In 2018, we made use of 263 e-bikes, 24 electrical scooters, 65 electrical cargo bikes, 828 buses driving on bio-gas, and 12 small electric vehicles. Additionally, all our vehicles meet the Euro 5 or Euro 6 standards, and 44% of our delivery buses drive on green gas (and our aim is to have this percentage up to 60% by 2020). The expansion of our electric vehicle fleet will help us making progress towards our long term goal to deliver emission free in the last-mile.

In 2017 we started using e-cargo Stints to deliver parcels and mail across a number of city centres in the Netherlands. This proved to be a promising vehicle for PostNL, as it could be

parked on pavements, thereby reducing traffic congestion. In 2018 the Dutch government introduced a ban on their use, following a fatal accident, which was unconnected to PostNL. Although this means we are currently unable to use our fleet of 79 e-cargo Stints, the ban has had no impact on our ability to deliver parcels and mail, and where possible we now deliver using e-bikes and e-cargo bikes. We began with 100% emission-free delivery on the Wadden Islands, and we replaced 200 petrol scooters with sustainable scooters.

### Lean & Green Logistics

PostNL aims to be a frontrunner in its approach towards environmental management. In addition to our ISO 14001 certification, we have also been evaluated by Lean & Green Logistics on the progress we are making to become more sustainable in our Parcels business. In 2018, PostNL received its second Lean & Green Star as a recognition on its progress on emission reductions. Alongside this evaluation, we also engaged with Lean & Green Logistics on a tool called Lean & Green analytics. PostNL is one of the first pilot companies that voluntarily had their activity data analysed by this tool to obtain valuable insights in further areas for improvement.

### Sustainable buildings

As we look to our 2030 environmental goals, our aim is that all our future buildings and sorting centres are CO<sub>2</sub> neutral, or even CO<sub>2</sub> positive. We are also working as sustainable and efficient as possible at our locations. For example, we are installing LED lighting to lower our energy consumption, while 40% of the electricity used at our parcel processing and distribution centres is generated sustainably by solar panels.

### Opening new parcel processing and distribution centres

All three of our new parcel processing and distribution centres have been built in accordance with the BREEAM Outstanding classification for design. This shows our commitment towards maximising our energy efficiency in our buildings. The centres were built using a range of sustainable materials, have been fitted with LED lighting and solar panels, and are gas-free, which contributes to a healthier working environment. Additionally, the centre we opened in Amsterdam includes a loading dock for 15 e-vehicles, reflecting our ongoing shift towards emission-free deliveries over the last-mile.

### Centralising mail sorting capacity

In our Mail operations we managed to close six preparation locations across the country and one sorting centre. These closures have helped us further reduce our CO<sub>2</sub> emissions.



## How Lean & Green is PostNL?

Leon Simons is Development Manager at BigMile, an initiative of Topsector Logistiek, Connekt and the Lean & Green program, and he has been following PostNL's sustainability development.

'PostNL got a second star from Lean & Green in 2018, which means that they have reduced their CO<sub>2</sub> emissions by 10 percent since they were last measured in 2015. That is a very decent achievement, given that they have managed it while parcel volumes continue to increase.

'In addition, PostNL started three new projects to further increase its sustainability. One of them is BigMile. Using BigMile, PostNL can analyse how effective their measurements really are, and then inform web shops and e-tailers of their CO<sub>2</sub> impact, right down to the level of a single delivery.

'Together, PostNL and BigMile are able to gather a useful transport data. Studying hundreds of millions of deliveries can provide a range of useful insights. Ultimately, our collaboration helps us work towards reaching the climate goals set down in the climate agreement, meaning PostNL can deliver parcels in a more sustainable way.'

## Sustainable value chain

PostNL works together with various organisations to help the e-commerce sectors reduce its environmental impact. We participate in the branch organisation Thuiswinkel.org together with other big players in the e-commerce sector. We sponsor the organisation for the development of a tool to calculate the CO<sub>2</sub> impact of each parcel which is used to monitor the climate change impact of e-commerce and create consumer awareness by showing the CO<sub>2</sub> footprint in their webstore checkout page. PostNL is one of the founding members of Shopping Tomorrow, a network platform where PostNL provides resources to participate in different expert groups to discuss the future consumer behaviour and impact on the e-commerce sector. Through our collaboration with Weee Netherlands we collect electrical appliances from consumers for the Weeelectric program. Weee Netherlands picks up the appliances from our sorting centre and sustainably dismantles these. This contributes to a more circular economy. We also collaborate with customers through sharing expertise on sustainable delivery, for example with Bol.com.

## Our view on future city logistics

The increase in city traffic is making it challenging to deliver goods swiftly and efficiently, while reducing the impact on the environment. Over the last few years, PostNL has been working hard to optimise our logistic processes, both from an efficiency and an environmental perspective.

We believe that future city logistics that are sustainable will require the development of new delivery business models, which is why we continued to develop our vision on possible sustainable city logistics in 2018.

In our approach we applied three important principles:

- Future-oriented
- Sustainable
- Nuisance-free

In general, cities can be divided into three areas. Small and very densely populated historical city centres, densely populated areas with wider streets and more spacious outskirts. Given the rise in air pollution and traffic congestion issues, city councils are likely to enforce emission-free delivery in historic city centres. This may be unrestricted for light electric vehicles, such as cargo bikes, but include restrictions, such as access during specific times, for electric vans.

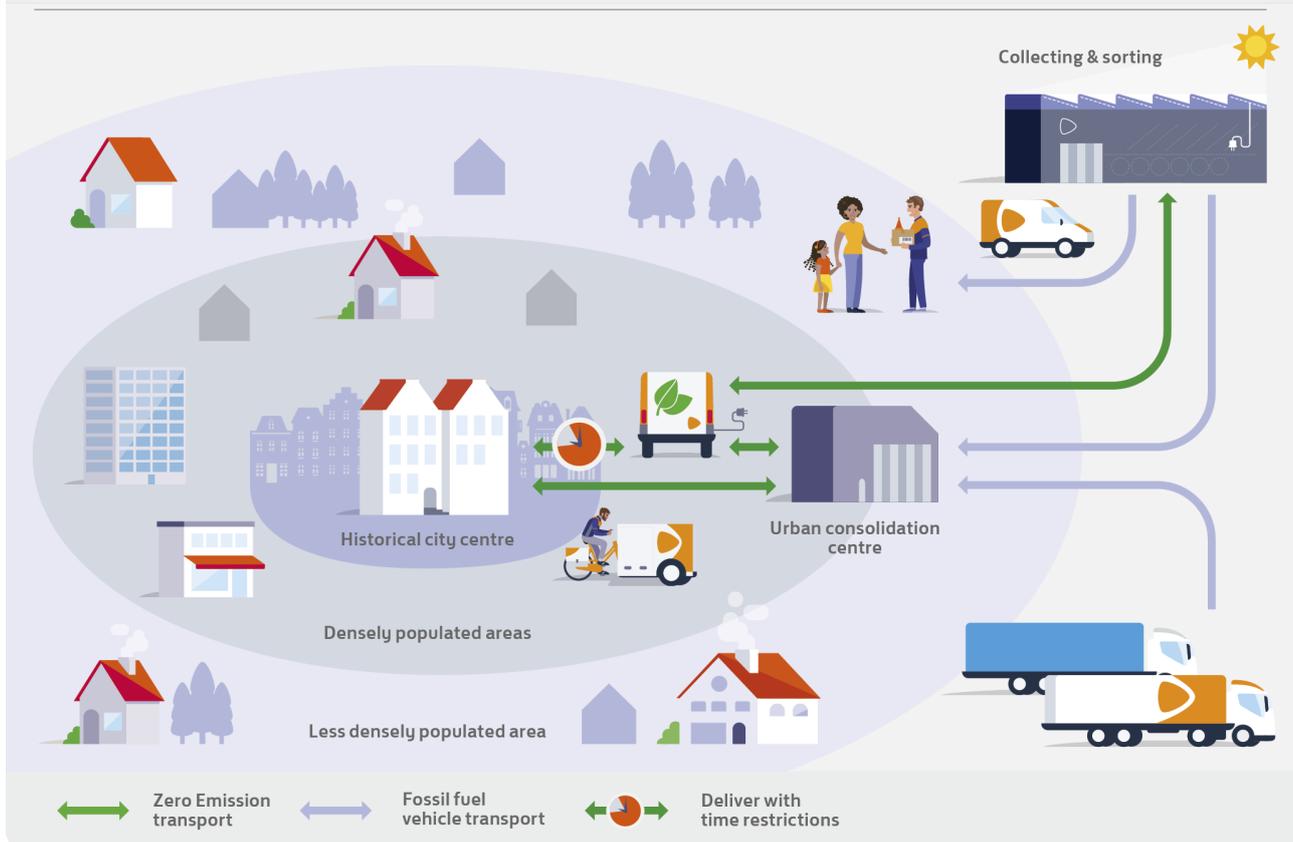
Densely populated areas will also probably become emission free. The use of Parcel and Mail Machines (Pakket en Brievenbus Automaten) and retail shops in these areas could create

opportunities to deliver batches of parcels more efficiently, reducing traffic. Low-emission vehicles and emission-free vehicles are likely to be the new norm in these areas.

At the border of these areas, we expect consolidation centres to play an important role in reducing the number of journeys into and out of the city from other locations. For example, the consolidation of goods would lead to cleaner, more efficient city deliveries using electric vans instead of larger trucks, which are still commonly used today. This delivery model is visualised in the infographic below.

At PostNL, we have identified five key areas where we believe we can help shape the future of city logistics:

- **Sustainable operations**  
One example is the emission-free delivery we already make in the inner city of Leeuwarden
- **Sustainable propositions**  
Together with our partner SimplyMile we currently run a consolidation centre in Amsterdam
- **Use of digital solutions and data to optimise our processes**
- **Optimising our network integration in cities**
- **Representation**  
This could be through stakeholder dialogues, thought leadership with Smart City Network and dialogues with city councils.



# 10 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 2018 and concludes with an outlook for 2019.

## Decision to divest Nexive and Postcon

In line with PostNL's strategy to accelerate our transformation to be *the* logistics and postal solutions provider in the Benelux, PostNL has decided to divest its Italian and German business lines Nexive and Postcon. Both business lines are reported as held for sale and the full-year 2018 results and cash flows are reported as discontinued operations. The comparative figures for 2017 of both the income and cash flow statement have been represented for the change to discontinued operations.

## Change in segment reporting

The business lines Nexive, Postcon and Spring were previously reported in the segment International. The decision to divest Nexive and Postcon, and subsequent classification of these business lines as discontinued operations, triggered a change in segment reporting. As of 2018, PostNL reports two operating segments Parcels (including Spring) and Mail in the Netherlands, and one other segment PostNL Other. All financials hereafter are based on continuing operations, except where noted.

## Key results



## Revenue

In 2018, Group revenue increased by 1.7% or €47 million to €2,772 million (2017: €2,725 million). Adjusted for FX effects, the increase was 1.9%. The revenue contribution from e-commerce related activities increased to 48% (2017: 44%), highlighting that the challenges and opportunities we face are accelerating our transformation.

In Parcels (excluding Spring) volumes grew significantly, by 21.5% (2017: 17.2%). Our domestic 2B and 2C volumes showed strong growth, following the trend of increasing e-commerce. This resulted in record high volumes during our peak season in the fourth quarter. In total, we delivered 252 million parcels in 2018 (2017: 207 million).

Parcels revenue (excluding Spring) increased by 19.8% or €220 million to €1,330 million (2017: €1,110 million). The main driver for this growth was volume increase, partly offset by a negative price/mix effect. We also saw strong growth from logistic solutions. Overall demand for additional services, such as same day delivery, and in new markets, such as food and health, further increased.

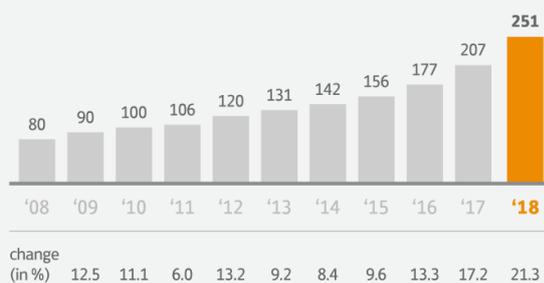
In Spring, revenue declined by 6.8% or €19 million to €259 million (2017: €278 million). Adjusted for FX effects, the decline was 4.7%. The competitive environment remains fierce, especially in Asia.

Total revenue in Parcels, including Spring, increased by 12.5% or €173 million to €1,555 million (2017: €1,382 million).



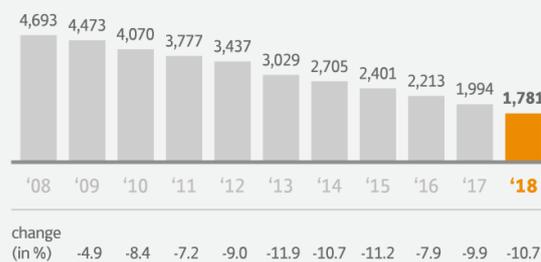
## Parcels Volume development

(in millions of items)



## Mail in the Netherlands Volume development

(in millions of items)



In Mail in the Netherlands, volume decline in 2018 was 10.7% (2017: 9.9% decline). The decline is driven by ongoing high substitution, particularly in single mail, and loss to competition, with the ratios of substitution and loss not materially differed from 2017. Supported by regulation, we have seen postal operators collecting more mail items. Part of these volumes are returned to PostNL via regulated network access, resulting in pressure on our average prices. At the same time, consolidators delivered more mail through their own networks, impacting our bulk mail volumes.

In 2018, revenue decreased by 5.9% or €105 million to €1,678 million (2017: €1,783 million), with volume decline of 10.7% 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 2018, the Group's underlying operating income was €209 million (2017: €297 million) with a resulting margin of 7.5% (2017: 10.9%). Underlying operating income excludes exceptional items, which were €24 million in 2018 (2017: €13 million). The Group's underlying cash operating income, in which underlying operating income is adjusted for non-cash costs of pensions and provisions, was €188 million (2017: €241 million) with a resulting margin of 6.8% (2017: 8.8%).

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

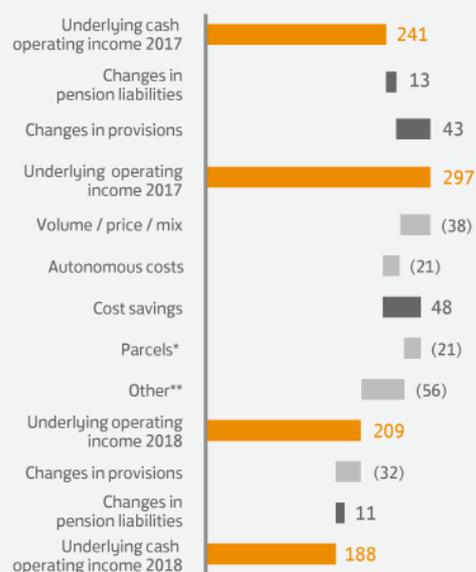
The performance of Parcels (excluding Spring) in 2018 benefited from strong volume growth, partly offset by a negative price/mix effect and higher operational costs, explained by the tight labour and transport market and capacity costs to absorb the swings in daily volume. IT costs related to further development of our digital services increased. Additionally, performance in our logistic solutions activities improved.

At Spring, the fierce competitive environment put pressure on revenue and margin, resulting in a lower performance than 2017.

In 2018, the underlying operating income of Parcels, including Spring, was €121 million (2017: €142 million) with a resulting margin of 7.8% (2017: 10.3%). Underlying cash operating income in 2018 was €117 million (2017: €140 million) with a resulting margin of 7.5% (2017: 10.1%). The decrease in margin was almost entirely caused by the performance of Spring.

## PostNL Underlying (cash) operating income development

(in € millions)



\* Parcels Benelux, International and Logistic Solutions €(1) million and Spring €(20) million

\*\* Other includes, among others, higher pension expenses, higher IT costs, lower bilaterals and lower contribution from other services in Mail in the Netherlands

Mail in the Netherlands performance in 2018 was below last year. 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 and lower cash out related to pensions and provisions were largely offset by autonomous cost increases and lower results from export and other effects.

Our cost saving plans include a number of initiatives, such as adjusting our sorting and delivery process, the optimisation of our retail network and the streamlining of staff. In 2018, we achieved total cost savings of €48 million, as expected slightly below our initial guidance of between €50 million and €70 million. With achieved savings of €30 million in the second half of the year, we saw the run-rate in savings increase during the year.

As explained in chapter 4: Our operating context, in September 2018 the CbB annulled the ACM's decision on SMP. Because of the CbB verdict, we have adjusted the expected financial impact related to the ACM's measures to between €40 million to €45 million on an annualised basis (from between €50 million to €70 million), fully visible in 2020. In Q4 2018, both revenue and result were supported by a related retroactive invoice to postal operators of €7.5 million.

In December 2018, the ACM published a new draft decision on SMP. Based on the new draft SMP decision, we adjust the expected impact from ACM measures to between €50 million and €70 million on an annualised basis, fully visible in 2021.

In 2018, the underlying operating income of Mail in the Netherlands was €133 million (2017: €177 million) with a resulting margin of 7.9% (2017: 9.9%). Underlying cash operating income in 2018 was €93 million (2017: €125 million) with a resulting margin of 5.5% (2017: 7.0%).

## Other financial indicators



### Profit from continuing operations

In 2018, profit from continuing operations decreased by €52 million to €127 million (2017: €179 million). Lower operating income of €99 million was only partly offset by €18 million lower net financial expenses, a €10 million better result from investments in joint ventures/associates and €19 million lower income taxes.

The decrease in net financial expenses relate to lower interest on long-term borrowings of €18 million resulting from the redemption of bonds in November 2017 and in August 2018. The €10 million stronger result from investments in joint ventures/associate is largely related to a one-off impairment charge of €9 million in 2017 related to Postkantoren/Bruna.

Income taxes amounted to €34 million in 2018 (2017: €53 million). The effective tax rate was 21.1% in 2018 (2017: 22.8%), which is lower than the statutory income tax rate of 25% in the Netherlands, mainly influenced by the impact of tax rate changes in the Netherlands on our deferred tax positions.

### Result from discontinued operations

The decrease in the result from discontinued operations of €63 million is mainly explained by a fair value impairment of €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 performance of discontinued operations is further explained in note 3.8 to the consolidated financial statements.

## PostNL

### Summary consolidated income statement

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
Total operating revenue	2,725	2,772
Other income	24	21
Total operating expenses	(2,465)	(2,608)
Operating income	284	185
Net financial income/(expense)	(42)	(24)
Results from investments in jv's/associates	(10)	0
Income taxes	(53)	(34)
Profit/(loss) from continuing operations	179	127
Profit/(loss) from discontinued operations	(31)	(94)
Profit for the year	148	33
Earnings per share (in € cents) <sup>1</sup>	33.0	7.1
Earnings from continuing operations per share (in € cents) <sup>1</sup>	39.9	27.5
Earnings from discontinued operations per share (in € cents) <sup>1</sup>	(6.9)	(20.4)

1. Earnings per ordinary share are in 2018 based on an average of 462,015,866 outstanding ordinary shares (2017: 448,645,255).

### Net cash from operating and investing activities

In 2018, net cash from operating and investing activities was €(19) million (2017: €11 million). The decrease of €30 million is the total of €93 million lower net cash from operating activities offset by €63 million lower net cash used in investing activities.

The decrease in net cash from operating activities of €93 million is explained by €122 million lower cash generated from operations, partly offset by €13 million lower interest paid and €16 million lower income taxes paid. Cash generated from operations was substantially impacted by a negative change in net working capital of €(83) million, explained by higher settlements with foreign postal operators, lower employee-related accrual and phasing effects.

The decrease in net cash used in investing activities of €63 million is mainly explained by €20 million lower net cash used for capital investments and disposals and no net cash used for acquisitions (2017: €(33) million).

### Net cash used in financing activities

In 2018, net cash used in financing activities of €(285) million was mainly used for the redemption of a eurobond of €223 million in August 2018 and (interim) dividend payments of €63 million.

## PostNL

### Summary consolidated statement of cash flows

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
Cash generated from operations	216	94
Interest paid	(39)	(26)
Income taxes paid	(55)	(39)
Net cash (used in)/from operating activities	122	29
Net cash used for capital investments and disposals	(69)	(49)
Net cash used for acquisitions	(33)	0
Net cash from other investing activities	(9)	1
Net cash (used in)/from investing activities	(111)	(48)
Net cash from operating and investing activities	11	(19)
Net cash from debt financing activities	67	(222)
Net cash for dividend and other equity changes	(40)	(63)
Net cash (used in)/from financing activities	27	(285)
Total change in cash from continuing operations	38	(304)

### Net debt

At the end of 2018, net debt amounted to €149 million (2017: net cash of €27 million). The decrease of €176 million includes a movement related to discontinued operations of €72 million. The remaining decrease of €104 million mainly resulted from the negative cash flow related to our operating and investing activities of €19 million, (interim) dividend payments of €63 million and additional finance lease liabilities of €23 million.

## PostNL

### Debt cash outflows (including interest)

2018, in € millions

	< 1 yr	1 - 3 yr	> 5 yr
Eurobonds	4	8	412
Financial leases	3	6	17
Total	7	14	429

Our short and long-term debt (excluding interest) amounted to €424 million at 31 December 2018. Including interest, the total debt cash outflow amounted to €450 million. Phasing thereof is shown in the following table.

PostNL has a €400 million committed revolving credit facility, which was fully undrawn at the end of 2018. PostNL has no material short-term credit facilities or other debt refinancing. There are no financial covenants. Our latest S&P credit rating was BBB+ with negative outlook.

## Consolidated equity

Consolidated equity attributable to equity holders amounted to €46 million at 31 December 2018 (2017: €34 million). The increase of €12 million is mainly explained by the €33 million net profit in 2018, actuarial gains related to pensions of €30 million and a fair value remeasurement of our stake in Whistl of €11 million, both recorded in other comprehensive income, partly offset by (interim) dividend payments of €63 million.



## Dividend proposal 2018

In accordance with our dividend policy, we target a dividend pay-out ratio of around 75% of the underlying net cash income. In 2018, PostNL's underlying net cash income amounted to €138 million (2017: €154 million). The decrease of €16 million is explained by a lower underlying cash operating income of €53 million, offset by €18 million lower net financial expenses and €19 million lower tax expenses.

### PostNL

#### Underlying net cash income

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
Underlying cash operating income	241	<b>188</b>
Net financial expense (adjusted) <sup>1</sup>	(34)	<b>(16)</b>
Tax expenses	(53)	<b>(34)</b>
<b>Underlying net cash income</b>	<b>154</b>	<b>138</b>

1. Excluding interest on pensions of €8 million (2017: €8 million).

Over 2018, PostNL will recommend to the Annual General Meeting of Shareholders the payment of an election dividend of €0.24 per ordinary share (2017: €0.23). This represents a pay-out ratio of around 80%, as indicated during 2018 exceeding our targeted pay-out ratio to underline our commitment to our shareholders to pay a progressive dividend. €0.07 per share was paid as interim dividend in August 2018. After approval by the AGM, the final dividend of €0.17 will be paid, at the shareholder's election, either in ordinary PostNL shares or in cash (default). The dividend in shares will be paid out of additional paid in capital as part of the distributable reserves, free of withholding tax in the Netherlands.

We refer to chapter 17: PostNL on the capital markets, for a description of our dividend policy and chapter 18: Financial statements, for more information on the appropriation of profit.

## Subsequent events

On 25 February 2019, we have made a joint announcement with Sandd regarding our intention to create one strong national postal network in the Netherlands. PostNL and Sandd have filed a request for approval with the regulator, which is the formal start of this process. The transaction appreciates Sandd at an enterprise value of €130m and provides for the purchase of all (100%) Sandd shares. The acquisition will be funded through cash on hand and external funding. The acquisition is conditional on approval of the combination of Sandd and PostNL by the authorities, consultation with the relevant works councils and trade unions, and agreement on the final transaction documentation.

## Outlook 2019

Please note that the following outlook for 2019 is based on the situation before the joint announcement of PostNL and Sandd on 25 February 2019 to form one strong national postal network for the Netherlands. The acquisition will be funded through cash on hand and external funding.

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

In Mail in the Netherlands we expect our addressed mail volumes to decline by 8% to 10% in 2019 which will be partly offset by price increase. An important project is the switch to an equal flow model, a step change in business model that enables us to adapt the organisation to future volume decline. We expect cost savings of between €45 million and €65 million. Based on the new draft decision on Significant Market Power we adjust the expected impact from ACM measures to between €50 million and €70 million on an annualised basis, fully visible in 2021.

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

Our aim to pay progressive dividend remains unchanged.

The table below shows our outlook for 2019 on revenue and underlying cash operating income (margin).

### PostNL

#### Outlook

2018-2019, in € millions

	Operating revenue		Underlying cash operating income (margin)		
	2018	outlook 2019	2018		outlook 2019
Parcels	1,555	+ low teens	117	(7.5%)	7.5% to 9.5%
Mail in NL	1,678	- mid single digit	93	(5.5%)	3% to 5%
PostNL Other / eliminations	(461)		(22)		
<b>Total</b>	<b>2,772</b>	<b>+ low single digit</b>	<b>188</b>		<b>170 to 200</b>

### Other financial indicators for 2019:

- Cost savings of between €45 million and €65 million (2018: €48 million)
- Regular employer pension expenses of around €125 million of which around €120 million in operating expenses and around €5 million in financial expenses (2018: €134 million of which €126 million in operating expenses and €8 million in financial expenses)
- Regular employer pension contributions of around €115 million (2018: €115 million)
- Cash outflow from provisions of between €20 million and €30 million (2018: €36 million)
- Cash capital expenditures of at most €100 million (2018: €95 million)

### Other non-financial targets for 2019:

- Highly satisfied customers at the level of 2018 (2018: 30%)
- Delivery quality above minimum required level of 95% (2018: preliminary 95%)
- Employee engagement above the level of 2018 (2018: 65%)
- CO<sub>2</sub> efficiency index below the level of 2018 (2018: 38.6) - this indicator will change to reflect our new 2030 ambitions



# Governance



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# 11 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](http://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 chapter 14: 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 2018. 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 2018, PostNL implemented material organisational and IT changes and improvements. 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 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 2018, 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 a going 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 chapter 14: 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 2018 give a true and fair view of the assets, liabilities, financial position and profit or loss of PostNL and its consolidated companies
- The additional management information disclosed in the Annual Report gives a true and fair view of PostNL and its consolidated companies as at 31 December 2018, the state of affairs during the financial year to which the report relates, 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, 25 February 2019  
The Board of Management

# 12 Report of the Supervisory Board

## Message from Jan Nooitgedagt, chairman of the Supervisory Board of PostNL N.V.

Dear stakeholders,

It is my pleasure to present the report of the Supervisory Board for the financial year 2018, my first year as member and Chairman of the Supervisory Board. The report aims to give you an overview of the performance of our Supervisory Board.

### Looking back on 2018

In 2018 PostNL took further steps in realising our strategy and ambitions to be the postal and logistics solution provider in the Benelux. In Parcels we continue to see impressive volume growth translating into double-digit revenue increase and a 21.5% growth of our volumes excluding Spring. We also further improved our service propositions by developing innovative services. And in line with our strategy, PostNL decided to divest Nexive and Postcon. Furthermore, progress was made with the program to find new profit pools through diversification in the growth domains. Examples of the above can be found throughout this Annual Report. And the fact that 48% of PostNL's revenue was related to e-commerce by year-end, exemplifies that the transformation is accelerating fast. This comes with challenges and opportunities.

Overall we have seen a decline in customer satisfaction, overall reputation scores and employee engagement. The continuously fast-growing e-commerce market requires us to speed up and increase our investments in the capacity of Parcels' infrastructure, both in the Netherlands and in Belgium. Volume decline in Mail is developing in line with expectations, caused by the same drivers as we have seen in the past: substitution in particular, and increased competition supported by regulation. We realised lower than anticipated cost savings due to delays in the roll-out of the sorting code and other adjustments in the operational process. For Spring, the competitive environment remains fierce, especially in Asia, putting pressure on margin and performance. Although e-commerce in Europe is still growing, the decline in performance in Asia offsets the growth of e-commerce in Europe.

Furthermore, we have to deal with continuously changing markets, with technology developing rapidly. As mentioned by Mr Wallage last year, digitalisation and the increasing 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.

As Mr Wallage rightly mentioned in the Annual Report 2017: when reading through this Annual Report or browsing on PostNL's website, you will read about and experience many of the things PostNL is doing to adjust to or stay ahead of technological changes.

2018 was also a year in which we have seen major developments in the regulatory environment. We have welcomed the recommendations of the postal dialogue and in June, the related conclusions of the state secretary of Economic Affairs and Climate Policy, Ms Keijzer. The recognition by the state secretary of Economic Affairs and Climate Policy that regulation should reflect the strongly declining postal market is an important step. We consider consolidation of networks the best solution to safeguard the accessibility and reliability of postal delivery for everyone in the Netherlands in the years to come. The broad parliamentary support for the conclusions of the state secretary of Economic Affairs and Climate Policy after the postal dialogue is crucial. The road towards consolidation, however, is not straightforward due to anti-trust regulation and the involvement of several stakeholders. Furthermore, on September 4 the Trade and Industry Appeals Tribunal (College van Beroep voor het bedrijfsleven, CBb) in The Hague sided with PostNL in the appeals procedure against the Authority for Consumers and Markets (ACM) analysis decision on significant market power (SMP), and annulled that decision. Following this judgement, we have adjusted conditions and tariffs for network access for postal operators, taking into account the interests of our stakeholders, the postal operators and the postal sector as a whole. Unfortunately, on December 24 the ACM announced a new draft market analysis decision on SMP, which again will be an important subject in 2019.

As the Supervisory Board, we believe that PostNL has found the right balance between adjusting the mail operations in the challenging Dutch postal market and expanding its footprint as an e-commerce solutions provider, creating long-term value for all stakeholders, including our shareholders. We are monitoring the successful implementation of PostNL's strategy closely and with great interest.

In doing so, we believe it is key to take not only financial indicators but also non-financial indicators into account. When creating long-term value, we must balance the interests of all the company's stakeholders. We have identified two Sustainable Development Goals (SDGs) which we consider most relevant for PostNL, being decent work and economic growth and climate action, and which are outlined in the business report of this Annual Report. The next step will be to use these SDG targets as input for our long-term strategy. Furthermore, we continue to strive for diversity, which for us comprises more than a balanced male/female ratio, a balanced age structure or recruiting and promoting multicultural talent within all levels of management.

It also relates to fostering identity acceptance (LGBT), creating opportunities for people with a distance to the labour market, or creating teams with diverse mind-sets.

In performing our duties as Supervisory Board we have constructive discussions and stimulate openness and accountability within the Supervisory Board and in the relationship with the Board of Management, and stimulate behaviour that is in keeping with the cultural values of PostNL. As such we believe it is beneficial to once every few years have an external evaluator perform an evaluation of the functioning of the Supervisory Board as a whole, the Committees and the individual members and the interaction with the Board of Management. This external evaluation was performed in 2018, and the main outcomes of such evaluation are mentioned in this chapter.

We are pleased with the way Ms Verhagen and Mr Berendsen are leading the company through its transformation. In this regard, we as a Supervisory Board are very pleased that Ms Verhagen is available to continue as CEO of PostNL in this important phase of the company's journey. Ms Verhagen's knowledge, experience and network are instrumental in helping to lead PostNL through current developments. Therefore, we have announced our intention to reappoint Ms Verhagen for a four-year term as CEO of PostNL as of the Annual General Meeting of Shareholders in 2019.

### A view on 2019

Following extensive deliberation on consolidation throughout the year between the Board of Management and the Supervisory Board we today announced the intended acquisition of Sandd. We hope to receive approval for the intended acquisition during the year and as such complete the consolidation in line with the broad parliamentary support for the conclusions of the state secretary of Economic Affairs and Climate Policy after the postal dialogue.

In 2019 PostNL will also continue to face other important challenges. Overall it is important to alter the trend on customer satisfaction, reputation scores and employee engagement. We expect the outcome of the consultation under the members of the trade unions on the new PostNL collective labour agreement and a new collective labour agreement for Saturday deliverers by the end of February 2019.

In our business performance for Mail, the continued focus on customer satisfaction and quality, combined with the ongoing strategy of offsetting volume decline with balanced pricing and cost savings, remain vital. In this regard the implementation of the 'Nieuwe route van de post' will be a crucial next step. For Parcels, we are taking advantage of and benefitting from the opportunities available in the fast-growing e-commerce business in the Benelux, as well as from technological developments.

While these support PostNL's performance ambitions, the company will need to increase its infrastructure investments to maintain its strong position in the parcel market.

For Spring, stabilising the Asia business will be important whilst growing the business in Europe. And in realizing the above, due attention for IT is required in order to adjust to or stay ahead of technological changes.

Additionally, we expect a decision on Brexit and insights on the impact this will have on our UK cross-border business activities, and we expect the divestment of Postcon and Nexive to be completed. Furthermore, in terms of new legislation in 2019 we will prepare for the implementation of the shareholders rights directive into Dutch legislation.

We strongly believe 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.

### Closing remark

In June 2018 I was appointed as Chairman of the Supervisory Board, replacing Jacques Wallage, who himself replaced Mr Boersma as Chairman in early 2017. I would like to take this opportunity to thank Jacques for his excellent work as Chairman. I am glad Jacques is still around as vice-chairman of the Supervisory Board.

## Meetings of the Supervisory Board

### Number of meetings and attendance rate

The Supervisory Board met ten times and had four meetings by telephone in 2018. All meetings were also attended by the full Board of Management. Eight meetings were held at PostNL's head office in The Hague, one meeting was held at the office of PS Nachtdistributie in Vianen, and one at the location of the 2018 AGM in The Hague. Additionally, the Supervisory Board organised three informal dinners which took place at locations not related to PostNL.

The overall attendance percentages and the individual attendance per meeting can be found in the tables below and on the next page.

### PostNL

#### Attendance

2018, in %

	Attendance percentage
Supervisory Board (meetings only)	91%
Supervisory Board (incl. conference calls)	91%
Audit Committee	89%
Remuneration Committee	100%
Nomination Committee	89%

## PostNL

### Attendance Supervisory Board members

2018

Name	Supervisory Board meetings	Supervisory Board conference calls	Audit Committee	Nomination Committee	Remuneration Committee
Jan Nooitgedagt <sup>1</sup>	6/6	3/3	3/3	2/2	-
Jacques Wallage	10/10	4/4	-	4/4	3/3
Eelco Blok	10/10	4/4	5/5	-	3/3
Marc Engel	10/10	3/4	5/5	-	3/3
Agnes Jongerius	10/10	4/4	-	4/4	-
Thessa Menssen <sup>2</sup>	6/10	3/4	3/5	3/4	-
Frank Rövekamp	8/10	4/4	-	3/4	-

<sup>1</sup> Mr Nooitgedagt was appointed as member of the Supervisory Board throughout the year, only meetings during his tenure are taken into account. He was present as an observer at the other 4 meetings and 1 conference call of the Supervisory Board in 2018.

<sup>2</sup> Mrs Menssen was unable to attend the meetings in April until August for private reasons.

### Topics discussed

At every meeting, the Supervisory Board discussed business, financial, market, and regulatory developments in PostNL's business segments. In 2018, mail volume decline, the execution of the cost savings plans, regulation including the ACM decision on significant market power (SMP), the annulment of this decision by the Trade and Industry Appeals Tribunal (College van Beroep voor het bedrijfsleven) and the impact thereof, consolidation, growing parcel volumes, the strategy of Parcels and investments in the capacity of Parcels' infrastructure, the decision to divest Nexive and Postcon, developments within Spring, and the progress of our accelerating transformation were recurring topics. These topics were constructively and particularly critically discussed in the Supervisory Board and with the Board of Management. Other topics discussed include PostNL's financial position, IT developments, PostNL's IT strategy and related topics, such as cyber security, online strategy, privacy including the implementation of the GDPR, digital transformation and business continuity, (interim) dividend and PostNL's dividend policy, growth, the company's culture and investor feedback after management roadshows. Furthermore, the Supervisory Board discussed the investments in PostNL's infrastructure and acquisitions, the adjustment of the segment reporting as a consequence of the decision to divest Nexive and Postcon, the appointment of a new corporate secretary, the preparation of the AGM and the compliance with the Code.

The adjustment of PostNL's organisation and networks to the declining mail volumes and increasing parcel volumes was, and remains, an important topic in strategic discussions. This also applies to the impact of regulatory developments on the company's organisation and performance, as well as competition in each of the business segments, Parcels and Mail. The Supervisory Board also discussed new products and services, innovation and potential areas for growth in the Netherlands and in the other countries where PostNL operates.

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 (in prior years called corporate responsibility) related issues, including labour conditions and the collective labour agreement negotiations, pensions, career and management development, the reputation of PostNL, customer satisfaction, employee engagement, PostNL's culture, diversity and inclusion, PostNL's CO<sub>2</sub> efficiency index including measures to improve this index, 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.

The Supervisory Board discussed the 2017 annual results, the 2018 quarterly and half-yearly results and the 2019 budget. Additionally, the 2017 auditor's report by PostNL's external auditor EY and the 2017 Annual Report (including Financial Statements and Corporate Responsibility Performance Statements) were discussed. EY reported that the main areas of risk (Key audit matters) are discontinued operations (including deferred tax asset), valuation of Mail investment, deferred revenue and revenue related accruals (stamps and terminal dues) and impact of laws and regulation. Compared to the key audit matters identified in 2017, the accounting for discontinued operations has been added as a key matter following the decision to divest Nexive and Postcon. Pensions no longer qualifies as a key audit matter since EY concluded based on the actual coverage ratio of the pension fund the current risk in relation to an additional funding requirement as per 31 December 2018 to be remote. EY furthermore reported that during the year PostNL took various measures in mitigating (previously) identified control deficiencies, especially in relation to contract and document management. EY is comfortable that PostNL is addressing the risks, they however stress the importance to implement effective preventive and automated IT application controls including sufficient test control documentation.

Each business segment presented its strategic plan and the Board of Management presented the strategic plan for PostNL as a whole, including financial objectives, outlook and the main risks for PostNL. 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 chapter 14: Risk management.

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 Supervisory Board discussed its composition and that of its committees and the profile of the Supervisory Board. The Supervisory Board also discussed the succession of Mr Bos, including the appointment and remuneration of Mr Berendsen as the new CFO, and the reappointment of Ms Verhagen as CEO.

More details about the Supervisory Board can be found in chapter 13: Corporate Governance and is, as such, part of this Report of the Supervisory Board.

## Meetings of the committees of the Supervisory Board

### Audit Committee

The Audit Committee met five times in 2018. In general, all meetings are attended by the CFO, director Audit & Security, director Finance, 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 2018, the Audit Committee discussed PostNL's full-year 2017 results, the outlook for 2018, the 2018 first quarter, half-year and third quarter results and the related press releases, and the 2019 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 2018 Annual Report.

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 (interim) dividend and dividend policy, PostNL's pension obligations, the divestment of Postcon and Nexive, and the relevant 2018 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 EY's audit plan and EY'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. The external audit fees were discussed and approved, and the contract with EY, ending following the audit over 2018, was discussed.

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 2017 were discussed. Fortunately, no material fraud-related incidents were reported in 2018.

### Nomination Committee

The Nomination Committee met four times in 2018. Supervisory Board reappointments were discussed, as were the composition of the Supervisory Board and its committees. The Nomination Committee discussed the selection and appointment for the CFO position. The Nomination Committee also discussed succession planning and talent management in respect of the Supervisory Board, the Board of Management and senior management and the appointment of an external evaluator to perform the evaluation of the Supervisory Board. Furthermore, the Nomination Committee discussed the reappointment of Ms Verhagen as CEO.

### Remuneration Committee

In 2018, the Remuneration Committee held three meetings. 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 2018 AGM. Further details on remuneration for the Board of Management and the Supervisory Board can be found in chapter 15: 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 2018.

## 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 2018, the Supervisory Board decided to have an external evaluator perform the evaluation. The evaluation process consisted of interviews by the external evaluator with all Supervisory Board members, the members of the Board of Management and the corporate secretary, leading to an evaluation report, which was discussed in the February 2019 meeting of the Supervisory Board.

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.

There is also room for improvement, for example in acting as a sparring partner to the Board of Management, in taking more time for reflection on business developments and strategy (rather than discussing only the contents of the meeting documents), and in addressing less effective behavior in meetings if such occurs. Furthermore the Supervisory Board could take more time for discussion with the Supervisory Board only. Also, taking into account the rotation plan of the Supervisory Board and the transformation PostNL is in, even more attention is required for the composition of the Supervisory Board for the coming years.

# 13 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.**

## Board of Management

### The Board of Management and its duties

The Board of Management manages PostNL. It is collectively responsible for setting and implementing 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, legal director, investor relations director, communications director, 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 chapter 14, 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 and Parcels and Logistic solutions), Customer Excellence, HR and IT. 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 2018, 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. Mr Berendsen, previously director International and Growth, was appointed CFO as per 18 April 2018. In light of the appointment of Mr Berendsen, the composition of the Executive Committee was changed as per the same date, whereby the responsibility for Postcon and Nexive was vested with the CFO, the responsibility for Cross Border Solutions (CBS) was vested with the director Customer Excellence and the responsibility for Growth was vested with the director IT. As such, the number of Executive Committee members was decreased from eight to seven.

At year-end 2018, the Executive Committee consisted of the following seven members:

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

### **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 and reappointed per 14 April 2015 for a period of 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), 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 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.

#### **P. 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 and Postcon, 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, [www.postnl.nl](http://www.postnl.nl).

### Composition of the Supervisory Board

At the Annual General Meeting of Shareholders held on 17 April 2018, the shareholders appointed Mr Nooitgedagt as member of the Supervisory Board for a period of four years. At the same time, Mr Wallage was reappointed for a period of two years. As per 19 June 2018, Mr Nooitgedagt was appointed chairman of the Supervisory Board, and Mr Wallage was appointed vice chairman.

At year-end 2018, 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; Mr Engel; and Mr Rövekamp.

At the Annual General Meeting of Shareholders in April 2019, Ms Menssen will be available for reappointment as Supervisory Board member for a period of two years.

The following table provides an overview of the composition of the Supervisory Board committees per year-end 2018.

#### PostNL

##### Composition of Supervisory Board committees

2018 Committee	Audit	Remuneration	Nomination
Chair	Thessa Menssen	Jacques Wallage	Jan Nooitgedagt
Member	Eelco Blok	Eelco Blok	Jacques Wallage
Member	Marc Engel	Marc Engel	Agnes Jongerius
Member			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, [www.postnl.nl](http://www.postnl.nl). 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 administration and accounting 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 a clear and understandable remuneration policy to be pursued and 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 members for submission to the General Meeting of Shareholders.

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 provision 2.1.7 of the Code. Their ages range from 51 to 72. 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 chairman of the Supervisory Board of TMG and member of the supervisory board of Bank Nederlandse Gemeenten and Rabobank. Additionally, his other positions include chair of the board of VEVO (Association of listed AEX companies) and foundation Nyenrode, member of the audit committee of the ministry of Security and Justice, 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 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 five 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 an honorary professor at the University of Groningen, 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 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.

#### 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, non-executive director of Telstra and advisor to the board of 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).

Mr Blok 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.W.M. (Marc) Engel (1966, Dutch, male)

Mr Engel was appointed member of the Supervisory Board on 16 April 2013. His current term expires in 2021. He is Chief Supply Chain Officer and member of Unilever Leadership Executive, London.

Since 1995, he has held several positions within the Unilever group. Before that, he worked at Shell International.

Mr Engel 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.

#### 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.

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

Ms Menssen was appointed member of the Supervisory Board on 25 May 2011. Her current term expires in 2019. She is a member of the Supervisory Board of the Dutch Development Bank (FMO), the Kröller Müller Museum and the National Maritime 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, and member of the Supervisory Board of the Rotterdam Philharmonic Orchestra.

Ms Menssen 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.

### 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, Vereniging Vluchtelingenwerk Nederland, Royal Theatre Carré and Kasteel de Haar.

He was a non-executive member of the Board of UNIT4, member of the Executive Committee and group Chief Commercial Officer of Vodafone Group, 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 2018, 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 2018, 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.

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

2017-2018, number of shares

	31 Dec 2017	31 Dec 2018
Board of Management		
Herna Verhagen	220,417	247,840
Pim Berendsen	23,222	34,851

*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 actual remuneration in 2018. The information in this table is publicly available at [www.afm.nl](http://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 PostNL website.

Pursuant to the Dutch Civil Code, at least 30% of the seats on PostNL's Board of Management and Supervisory Board should be filled by men and at least 30% by women, in order to qualify as balanced. 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. Consequently, the Board of Management and the Executive Committee have a balanced representation of men and women. The Supervisory Board has seven members, of which two are women, i.e. 28.6% of the seats filled by women. Consequently, the Supervisory Board does not fully meet the required 30% female representation.

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 2018, Mr Wallage was up for reappointment as member of the Supervisory Board. Mr Berendsen was appointed as CFO of the Board of Management replacing Mr. J.P.P. Bos, who stepped down from his position. Other than the departure of Mr Bos, the composition of the Executive Committee remained unchanged in 2018.

## 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 2018

On 17 April 2018, PostNL held its Annual General Meeting of Shareholders in The Hague, the Netherlands. The attendance rate was 33.92% of the total outstanding share capital.

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

- The adoption of the 2017 financial statements,
- The appropriation of profit over the financial year 2017
- The release of the Board of Management and Supervisory Board from liability for the performance of their respective duties during the financial year 2017
- The appointment of Mr Nooitgedagt and the reappointment of Mr Wallage as members of the Supervisory Board
- Extension of the mandate granted to the Board of Management to issue ordinary shares until 17 October 2019 (limited to 10% of the issued capital at the time of issue and an additional 10% of the issued capital at the time of issue in case of a merger or an acquisition)
- Extension of the mandate granted to the Board of Management to limit or exclude pre-emptive rights to issue ordinary shares until 17 October 2019 (limited to 10% of the issued capital at the time of issue and an additional 10% of the issued capital at the time of issue in case of a merger or an acquisition).

With respect to the last two 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 chapter 17: 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. At date of publication 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.

As per 31 December 2018, 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 chapter 17: 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 chapter 19: 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 audit 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 in April 2019, we will propose to reappoint Ernst & Young Accountants LLP 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 director, 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, 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.

# 14 Risk management

In this chapter we look at how we manage our risks. Additionally, we provide an overview of the main risks to the strategic objectives and how we mitigate each of those risks.

## 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 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 in line with the Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission and the Code.

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.

The head office functions are responsible for ensuring that the regulatory compliance objectives are achieved, and that decision-making is facilitated and supported by transparent, accurate and relevant information. The Board of Management and the Supervisory Board monitor the effectiveness and efficiency of the enterprise risk management, framework. They are supported by the Internal Audit department.

Understanding strategic, operational, regulatory, and financial risks, including risks relating to corporate responsibility, is a vital element of our management decision-making process. Management reviewed the risk profile regularly throughout 2018 and will continue to do so during 2019. Risks are identified by means of both a bottom-up (line management) and top-down (Board of Management and business segment management) approach, covering the entire business. For those risks deemed material, (the Board of) Management develops and reviews comprehensive risk response plans.

## 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 2018 did not materially change compared to 2017. Our risk appetite differs per risk type:

Risk appetite	Low	Medium	High
<b>Strategic risks</b> We aim to deliver on our strategic ambitions and priorities, and are willing to accept reasonable risks to achieve this.		■	
<b>Operational risks</b> 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 efficiency, while ensuring our quality standards are unaffected.	■	■	
<b>Regulatory risks</b> We strive to be fully compliant with our code of conduct and national and international laws and regulations of the markets in which we operate and do not accept deviations.	■		
<b>Financial risks</b> 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 less than 2 and only accept risks that do not threaten this.	■		

The risks described in this chapter cover the main risks to our strategic objectives as described in chapter 5: Value creation and strategy; and have been used as input for the stakeholder materiality matrix as described in chapter 4: Our operating context. 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)

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.

However, no risk management or internal control system can provide an absolute safeguard against failure to achieve corporate objectives, fraud or breach of rules and regulations.

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.

### Internal control over financial and non-financial reporting

In 2018, 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 representatives of the risk management & internal control, internal audit and the group finance departments. The external auditor also attends the ICC meetings. The ICC met four times in 2018.

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 group legal, the manager people development, the director operations of Parcels and the director transformation of Mail in the Netherlands.

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 on the guidelines for disciplinary actions. It also 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. More information on Integrity Committee and related activities can be found on our website.

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. Our aim is to educate management and employees about our Business Principles, and the desired behaviour based on these principles. Additional to the

e-learning module, we regularly publish integrity related news items and dilemma polls on our intranet.

In accordance with the requirements of the Corporate Governance Code, we also performed an assessment connected to the organizational awareness with our business principles. The 'employee engagement monitor 2018' addressed employee's 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 2018 showed that 84% (2017: 81%) of the responders is (partly) familiar with the PostNL Business Principles.' 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 680 investigations in response to integrity-related reports. These investigations covered issues such as theft of mail or parcels, bribery and corruption, or failure to follow workplace practices. As per the end of 2018, 620 (91%) of these investigations were closed. This led to 303 discontinued work relations. To the best of our knowledge, we had no cases of bribery or corruption, which had significant impact on our business.

## 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 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.

## Main risk related events that occurred in 2018

Some elements of the risks described in our 2017 Annual Report occurred in 2018. We were mainly impacted by ongoing and intensifying substitution and competition. The political discussion regarding the postal market in the Netherlands (the so-called postal dialogue) is developing favourably. No unforeseen significant events, which were not included in our risk profile 2017, occurred in 2018.

Within Parcels in the Benelux region, where competition is already strong, we see competition intensifying from both established logistics players and new (last-mile delivery) 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 higher than average growth leading to a change in market dynamics.

Performance in our Cross Border Solutions business did not show the expected improvement in 2018, which was due to fierce price competition, declining mail volume for Spring, and the implementation of stricter rules on the transportation of dangerous goods. We are continuously assessing the impact of the Brexit decision on our UK cross-border business activities. The announcement of a Chinese e-commerce platform to build a new warehouse in Belgium demonstrates the increasing competition in the region.

Ongoing digitalisation continues to result in substitution, leading to a further decrease in mail volumes. The trend amongst customers and consumers moving to digital alternatives and the related decline of physical mail volumes was in line with our expectations in 2018. Both competition and substitution risks contain elements that are related to disruptive trends, which may have an adverse effect on our business.

PostNL welcomed the conclusions of the state secretary of Economic Affairs and Climate Policy to the postal dialogue which underlined that the current competitive situation on the Dutch postal market is not sustainable. Adjustment of current regulation, as announced, to the realities of the strongly declining postal market is a precondition to safeguard the accessibility and reliability of the postal service for everyone in the Netherlands in the coming years. The outcome of the postal dialogue was that consolidation of networks is the best way of safeguarding an affordable and relevant postal service in the Netherlands. Consolidation also allows for managing volume decline in a social responsible manner. This notion was broadly supported in Parliament. In 2018 important steps have been taken towards short term consolidation in the Dutch postal market.

In line with our strategy to be *the* postal and logistic solutions provider in the Benelux, we have decided to divest Nexive and Postcon and we hope to finalise this in 2019.

An overview of the most important regulatory developments in 2018 can be found in chapter 4, Our operating context. The main risks in relation to regulatory developments in 2018 were:

- On 12 April 2018 final agreements were reached regarding the mail deliverer CLA applicable for the period from 1 October 2017 to 30 September 2019.
- On 3 September 2018 the Trade and Industry Appeals Tribunal (College van Beroep voor het Bedrijfsleven - CBB) annulled the additional measures with regard to market

access and tariff obligations imposed on PostNL by the Netherlands Authority for Consumers and Markets (ACM).

- On 31 October 2018, the ACM announced the preparation of a new market analysis, which may lead to an obligation for PostNL to provide other postal carriers with access to their own delivery network on the basis of cost-oriented tariffs.
- On 24 December 2018, the ACM announced the draft conclusions from their additional analysis that PostNL has a dominant position in the 24-hour business mail market. This may lead to the reinstatement of the measures imposed earlier by the ACM.

Cyber-attacks and online fraud attempts become more attractive for criminals and increase the likelihood of this risk materialising. We are collaborating with governmental institutions, businesses and research bodies to combat internet crime. In 2018 a fake look-a-like of the MyPostNL app was discovered, which was designed to access the user's log-in information for internet banking and was using the telephone's contact list to distribute itself further. Cutting-edge technology in supporting retail activities is required in the increasingly complex postal industry. We have experienced some issues in relation to IT retail support in the course of the year which led to short disruptions in the mail and parcel distribution schedule.

In 2018 several risks materialised related to the implementation of our strategic change programme, resulting in delays in IT implementation projects for new commercial and back-office systems and processes. In addition, the volume of change related to agile transformation of the IT function and our digitalisation initiatives are increasing.

The risk of insufficient network capacity was mitigated in a timely manner during our peak period in the last quarter of 2018. New distribution centre locations were opened before the start of the seasonal peak. Furthermore, we hired additional workforce to limit capacity issues. However, the tension with the FNV trade union and the announced strikes during the Christmas period were a growing concern for our network capacity risk. On 13 December 2018 a court ruled in an interim order that the FNV is not allowed to organise any actions at PostNL during the Christmas season that could disrupt operations. The judge allowed FNV to take action up to 15 minutes per day until 6 January 2019.

In 2018 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.

The key risks we face in executing our strategy and business processes are described in the following tables. For each risk, we determine the risk level based on impact and likelihood of occurrence, using a three-point system classifying risks as major, moderate or low. In addition, we have indicated for each risk whether the risk trend is decreasing, increasing or remained stable compared to 2017.

## Strategic Risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
● ● ●	<p><b>Competition</b></p> <p>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 parcels and international businesses, as markets become more competitive and volatile. 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.</p>	=	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 chapter 4: Our operating context.	✉ 📦
● ● ●	<p><b>Substitution</b></p> <p>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 €8 million in underlying cash operating income.</p>	=	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 adapt more flexible to future volume declines. More information can be found in the Business report.	✉

## Operational Risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
● ● ○	<p><b>Information Technology</b></p> <p>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.</p>	↑	<p>Cyber Security is centrally governed, managed by a central Cyber Security Office with decentral cyber security coordinators.</p> <p>Given our full (public) cloud strategy, management of our cloud suppliers is one of the most important processes and subject to a strict control framework (so-called CRA methodology). Appropriate attention for cyber security in all stages of the IT development process is secured via the Security by Design principle and as such explicitly addressed in architecture and design documents, testing and implementation plans, and awareness programs, etc. All critical applications are frequently measured and tested against our resilience criteria and actions are taken to keep the application up to date with the required levels.</p>	✉ 📦
● ● ●	<p><b>Execution of cost saving initiatives</b></p> <p>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. As of 2018, the risk level increased to high mainly due to financial performance of our mail and international businesses.</p>	↑	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.	✉ 📦

## Operational Risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
	<p><b>Implementation of strategic change programme</b></p> <p>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. These all require significant change and stakeholder management, as well as project management expertise. (More information on these developments can be found in the Business report.) 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. PostNL 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.</p>		<p>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 the PI planning events every three months to ensure aligned with the PostNL 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.</p>	
	<p><b>Network peak capacity</b></p> <p>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.</p>		<p>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 the expected growth in the short-term we keep investing in new sorting centres, depots and transport vehicles, and we also invest in recruitment, development and retention of our personnel. In the long-term we are investigating the future logistical model for Parcels.</p> <p>Operational efficiency in road transport is an ongoing area of focus for us. This includes for example optimisation of packaging and route planning to increase the occupancy rate of our road transport. Furthermore, we have launched a program called "city logistics" to explore the potential of future parcel delivery business models in cities. This includes city hubs, zero emissions transport and other sustainable solutions.</p>	
	<p><b>Labour-related developments</b></p> <p>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.</p>		<p>We make use of innovative online recruitment techniques and are continuously improving the employee experience (for example by improving the onboarding process). 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.</p>	 

## Regulatory Risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
	<p><b>Regulatory requirements</b></p> <p>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 (including developments with respect to significant market power, potentially leading to measures by the Netherlands Authority for Consumers and Markets (ACM)), regulation related to dangerous and prohibited goods, labour outsourcing (subcontractors), data protection, environmental and privacy requirements. Changes in legal and regulatory requirements had, and may continue to have, an adverse material impact on our business operations, our reputation and on our financial performance.</p>		<p>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 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.</p>	 

## Regulatory risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
	<p><b>USO regulation</b></p> <p>In the Netherlands we provide the Universal Service Obligation (USO), the basic postal service that ensures postage remains accessible 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 and regulatory developments and changes in customer demand in a timely and effective way. New legislation is being developed and will be introduced in 2019 while the implementation is due by 2020. However, the related uncertainty and potentially negative financial consequences remain a risk.</p>		<p>We are operating in line with the required legislation. In addition, we continue dialogue with governmental and non-governmental stakeholders about USO regulations at both EU and national levels.</p>	
	<p><b>Climate change and air pollution</b></p> <p>As a result of the Paris agreement to reduce the GHG emissions internationally in order to limit global warming, there is increasing pressure on businesses to contribute to achieving this goal. As a postal and logistics service provider we produce GHG emissions from our national and international operations. In addition, we produce nitrogen oxides (NO<sub>x</sub>) and particulate matter (PM) emissions that negatively impact air quality. The main risk related to climate change and air pollution is that (local) governments will put restrictions on emissions to be produced, introduce taxes (carbon pricing) on emissions, or even put a complete ban on any emissions. As we rely on access to infrastructure and cities in order to deliver all mail and parcels, this could have a material impact on our business.</p>		<p>We have been working on reducing GHG emissions for more than a decade and this remains an area of focus for us.</p> <p>In 2018, we have set Science Based Targets to reduce our CO<sub>2</sub> footprint in such a way that we positively contribute to the goals set at COP21 in Paris. We are committed to deliver 100% of the last mile of our mail and parcel volumes in the Benelux carbon emission free in 2030. As an intermediate step, we commit to perform our delivery in 25 Dutch city centres with zero emissions in 2025, which also relates to NO<sub>x</sub> and PM emissions from fuel combustion. We will reduce our environmental impact by making use of alternative fuel or advanced technology vehicles in our fleet, use renewable energy in our buildings and continuously invest in further operational efficiencies.</p>	

## Financial risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
	<p><b>Collective labour agreements</b></p> <p>Being a good employer is vitally, important to us, which primarily depends on the terms and conditions (CLAs) based on which we employ our workforce. CLAs are agreed between the company and the trade unions. If in the future no agreements could be reached with the Dutch trade unions, our financial performance could be affected by higher than anticipated labour costs and/or losses due to strikes. In 2018 PostNL agreed with the trade unions on a new CLA for mail deliverers, applicable till 30 september 2019. Since November 2018, we have also been negotiating the new PostNL CLA, and in early 2019 we signed a principle agreement with three of the four trade unions. Unfortunately, the fourth trade union disagrees with the proposed improvement for our employees. In February, all trade union members have the opportunity to vote about this agreement.</p>		<p>We maintain good relations with the trade unions and social partners based on mutual recognition of shared interests. We agreed to a new Social Plan in 2015, which came into force in 2016, and remains in place until 2020. In 2017 we reached agreements regarding the PostNL CLA and the Saturday mail deliverer CLA, which included salary increases. These CLAs were in force until 31 December 2018. On 12 April 2018 final agreements were reached regarding the mail deliverer CLA applicable for the period from 1 October 2017 to 30 September 2019. We continue to negotiate with trade unions and aim to agree on the new CLA during the course of 2019. More information can be found in chapter 8: Social value.</p>	

## Financial risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
	<p><b>Volatility of pension provision</b></p> <p>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 by us.</p>		<p>We hold open and regular discussions with the pension fund trustee board, which is independent of PostNL.</p> <p>We have reduced the volatility risk of pension provision in recent years by revising our finance agreement with the pension fund. Furthermore, the pension fund's 12-months average coverage ratio further improved during 2018 to 116% as per 31 December 2018. 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.</p>	
	<p><b>Financial risk management</b></p> <p>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 relates to the impact of fluctuation on the valuation of the pension provision.</p>		<p>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. This lowered our interest expenses and improved our ratios. For more information, see note 4.4 to the consolidated financial statements.</p>	
	<p><b>Liability of loss or damage</b></p> <p>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.</p>		<p>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.</p>	

# 15 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 for adoption.

## Remuneration policy 2018

The remuneration policy is based on the remuneration policy as adopted by the Annual General Meeting of Shareholders of PostNL on 16 April 2013. The objective of the remuneration policy is to retain, motivate and attract qualified members of the Board of Management of the highest caliber essential for the successful leadership and effective management of a large company. The main principles of PostNL's 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.

## Review against peer group

To provide a consistent review of the level and structure of the total remuneration, which is aligned with best market practice, all remuneration components for the members of the Board of Management are reviewed and benchmarked at least every three years against a peer group. The Supervisory Board regularly reviews the peer group to ensure a balanced representation of the relevant labour market. The Supervisory Board established a new peer group in consultation with and after discussion in the Remuneration Committee. In line with the previous (2015) peer group, the main criteria for the new peer group are Dutch listing and comparability to PostNL in terms of size. The new peer group consists of a mix of both AEX- (4) and AMX-listed (10) companies.

## PostNL

### Dutch peer group

2018

Aalberts Industries (AEX)	KPN (AEX)
Arcadis (AMX)	VolkerWessels (AMX)
BAM Group (AMX)	Royal Boskalis Westminster (AEX)
DSM (AEX)	Sligro (AMX)
Fugro (AMX)	TKH Group (AMX)
Grandvision (AMX)	Refresco (AMX) <sup>1</sup>
IMCD (AMX)	Signify (AMX)

1. Refresco was delisted in 2018

In 2018, all remuneration components were reviewed and benchmarked against the new peer group. The outcome of the benchmark assessment shows that the base salary for both members of the Board of Management is positioned between the 25th percentile and the median of the peer group. Total direct compensation (base salary, target short-term incentive and annualized value long-term incentive) for both members of the Board of Management is positioned well below the 25th percentile of the peer group. Consequently, the gap between the remuneration policy and the way this is put in practice is increasingly widening. In accordance with previous years, the Remuneration Committee and Supervisory Board - taking note of individual Board of Management members' views with regard to the amount and structure of their own remuneration - agreed to leave the Board of Management's remuneration as is. All comparisons are made on a euro basis. The remuneration policy of the Board of Management is in conformity with principle 3.1.2 of the Code.

## Variable remuneration

The variable remuneration has the following characteristics:

- the total variable remuneration potential is capped at 75% of the annual base salary
- a short-term incentive (STI) and long-term incentive (LTI) plan, where the members of the Board of Management have the opportunity to earn an incentive based on annual targets (STI) and three-year targets (LTI). Both STI and LTI are capped at 37.5% of the annual base salary.

## Short-term incentive

The STI represents a potential reward of 37.5% of the annual base salary, which is based on annual targets. A target can only contribute to the STI payout if it is fully met, which means there is no stretch and no threshold on the annual targets. The STI plan provides a cash payment reflecting the realised achievement of targets. The focus areas for the STI are in line with the current remuneration policy and represent a multi-stakeholder approach as shown in the following table.

### PostNL

#### Short-term incentive targets

2018, in %

	2018
Underlying cash operating income	30%
Adjusted net cash flow from operating and investing activities	30%
<b>Total financial targets</b>	<b>60%</b>
Employees	
Employee engagement	10%
Customers	
Customer satisfaction	10%
Quality score	10%
Environment	
CO <sub>2</sub> reduction	10%
<b>Total non-financial targets</b>	<b>40%</b>

## Long-term incentive

The LTI represents a potential reward of 37.5% of the annual base salary. The LTI plan contains the following characteristics:

- it is a conditional share plan based on three-year internal targets
- shares are conditionally allocated to the members of the Board of Management. A conditional dividend equivalent is added to the conditional shares equal to the dividend rights of ordinary shares, if applicable
- the conditional shares and their conditional dividend equivalents will vest after a performance period of three years
- vesting is subject to the achievement of long-term targets supportive to the attainment of PostNL's strategy
- the vested shares will remain restricted for a period of two years following the three-year performance period, which is in accordance with the Code
- if a member of the Board of Management leaves the company due to circumstances involving fraud or gross misbehaviour, any accrued rights on the long-term incentive plan will 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.

### PostNL

#### Long-term incentive targets

2016-2018, in %

Underlying net cash income	33.3%
Cost savings	33.3%
New growth initiatives	33.3%
<b>Total long-term targets</b>	<b>100.0%</b>

PostNL discloses target ranges in general terms. The vesting schemes and actual target outcomes are specific and thus contain competition-sensitive information. These are therefore not disclosed.

## Pensions

The main features of the applicable career average pension scheme are:

- retirement age of 68 years
- pensionable income capped at statutory maximum salary (2018: €105,075), offset for state pension (2018: €14,297)
- annual accrual rate for old age pension of 1.615%
- benefits conditionally indexed during accrual
- employee contribution amounts to 6% of pensionable base
- structural annual allowance of 19% of the gross base salary above the statutory maximum and a temporary allowance of 2% of the gross base salary above the statutory maximum (decreasing by 1% per year over five years as from 2015) to enable the Board of Management to arrange their own pension provision for that part of the salary exceeding €105,075. The temporary allowance does not apply for the current CFO.

## Other

Besides the elements of the remuneration package as described above, the remuneration policy contains the following (contractual) arrangements and provisions.

## Severance payments

The contractual severance payments for the CEO can be summarised as follows:

- as a policy, a severance payment, other than one related to a change of control, amounts to one-year of base salary
- a severance payment in the event of a change of control is equal to 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
- a severance payment will not be awarded if the agreement is terminated early at the initiative of CEO (except in the event of a change of control), or in the event of seriously culpable or negligent behaviour on the part of the CEO.

The contractual severance payments for the CFO can be summarised as follows:

- as a policy, a severance payment, amounts to one-year of base salary
- a severance payment will not be awarded if the agreement is terminated early at the initiative of CFO, or in the event of seriously culpable or negligent behaviour on the part of the CFO.

The company does not grant loans, including mortgage loans, or advance payments. Nor have guarantees been provided to the members of the Board of Management.

## Claw-back

The Supervisory Board has the power to partially or in whole claim back the variable remuneration from a Board of Management member if it is granted on the basis of incorrect information on achieving the targets relating to the variable remuneration component or on the circumstances the variable remuneration component depended on.

## Discretionary authority

In general, the Supervisory Board has the authority to adjust the variable pay components of members of the Board of Management upwards or downwards. Furthermore, the Supervisory Board has the discretionary authority to decide on one-off payments to members of the Board of Management in special circumstances. If and when such a discretionary adjustment is made, a transparent substantiation will be provided to the shareholders, explaining the Supervisory Board's motivation for making use of this discretionary authority.

The Supervisory Board has the discretionary authority to adjust the value of variable pay components originally awarded if the outcome proves to be unfair as a result of exceptional circumstances during the performance period.

## Contractual arrangements

The CEO has entered into an employment contract for an indefinite period of time. The employment contract ends either on the date of retirement or by notice of either party.

The current CFO has entered into a service agreement for an indefinite period of time. The service agreement ends either on the date of retirement, by notice of either party or in case of no re-appointment. Termination of the contractual arrangements of the Board of Management requires a written notice period of six months.

Members of the Board of Management are appointed for a period of four years. On expiry of the four-year term, a member of the Board of Management may be reappointed for a successive term of four years. Details of each member's appointment are set out below.

On 1 January 2013, the Dutch Management and Supervision (Public and Private Companies) Act (Wet Bestuur en Toezicht) came into force. With the introduction of this legislation, the relationship between directors and listed public companies is no longer governed by employment law. This legislation will be applicable for any future members of the Board of Management. Since the current CFO is appointed after 1 January 2013, his contractual arrangement is governed by aforementioned legislation.

## PostNL

### Appointment details

2018

	Herna Verhagen	Pim Berendsen
Employed since	June 1993	February 2015
Term of employment/service	Indefinite	Indefinite
Board member since	2011	2018
Year of (re)appointment	2019	2022
Term of appointment	Four years	Four years

## CFO Jan Bos stepped down

Jan Bos stepped down as CFO of PostNL on 17 April 2018 and acted as advisor to the Board of Management until 1 June 2018. Mr. Bos' leave was settled in accordance with arrangements made and disclosed in last year's remuneration chapter. For further details, see note 5.1 to the consolidated financial statements.

## Actual remuneration in 2018

The table below summarises the 2018 remuneration elements of the members of the Board of Management calculated in accordance with IFRS and the remuneration policy for 2018. In accordance with the Code, the individual Board of Management members' views with regard to the amount and structure of their own remuneration have been taken into account by the Remuneration Committee when drafting the proposal. Note that IFRS amounts expensed for the period do not necessarily represent the actual compensation payout. For detailed disclosure on the remuneration of the members of the Board of Management, see note 5.1 to the consolidated financial statements.

## PostNL

### Remuneration Board of Management

2017-2018, in €

	Herna Verhagen	Pim Berendsen	Former member - Jan Bos <sup>3</sup>
<b>Fixed remuneration</b>			
Base salary	625,000	333,819	197,917
<b>Variable remuneration</b>			
Accrued for short-term incentive	93,750	50,073	29,687
Accrued for long-term incentive	265,803	82,127	86,259
Other periodic compensation <sup>1</sup>	196,006	77,039	129,198
Pension costs <sup>2</sup>	24,110	23,854	10,606
<b>Total 2018</b>	<b>1,204,669</b>	<b>566,913</b>	<b>453,668</b>
Total 2017	1,127,609	n/a	822,655

1. Other periodic compensation include company costs related to tax and social security, pension allowances, study costs, company car and other compensation. Also in 2018, Jan Bos received a jubilee payment (25 years in service) of one month's gross salary.

2. Pension costs represent the service costs of the defined benefit scheme.

3. Jan Bos stepped down as CFO of PostNL on 17 April 2018 and acted as advisor to the Board of Management until 1 June 2018. As advisor to the Board of Management, no changes were made to his contractual arrangements.

The following scorecard contains a summary of achievements of the 2018 STI targets.

## PostNL

### Scorecard against target

2018

	2018
<b>Financial targets</b>	
Underlying cash operating income	✓
Adjusted net cash flow from operating/investing activities	x
<b>Non-financial targets</b>	
<b>Employees</b>	
Employee engagement	x
<b>Customers</b>	
Customer satisfaction	x
Quality score <sup>1</sup>	x
<b>Environment</b>	
CO <sub>2</sub> reduction	✓

1. Target exceeds regulatory threshold

The Remuneration Committee assessed the achievements of the members of the Board of Management over the three-year LTI period 2016-2018 on the basis of the following targets: underlying net cash income, cost savings and new growth initiatives. Overall, an average score of 71% was achieved. The applicable number of performance shares from 2016 will vest in 2019.

PostNL discloses targets in general terms. The vesting schemes and actual target outcomes are specific and thus contain competition-sensitive information. These are therefore not disclosed.

## Internal pay ratios

The ratio between the annual total remuneration for the CEO<sup>1)</sup> and the average annual total remuneration for an employee<sup>2)</sup> was 24.6 : 1 for 2018. The table below shows the ratio development over the last 5 years.

## PostNL

### Internal pay ratios

2014 - 2018

	2014	2015	2016	2017	2018
Internal pay ratio	32.1	32.5	30.4	24.5	24.6

<sup>1)</sup> Based on total remuneration costs of the CEO €1,204,669 as reported in this chapter.

<sup>2)</sup> Based on €1,002 million being the total salaries, pensions and social security contributions, excluding the CEO €1,204,669 divided by the average number of FTEs minus one (20,420) as reported in chapter 18: Financial Statements, note 2.1.3.

## Remuneration policy 2019

In 2019, the following adjustments will apply for the career average pension scheme:

- pensionable income capped at increased statutory maximum salary of €107,593
- annual accrual rate for old age pension adjusted from 1.615% to 1.652% at retirement age 68
- temporary allowance of the gross base salary exceeding the statutory maximum salary for the CEO decreased to 1%.

No further changes in the remuneration policy are expected for 2019.

## Remuneration 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 mortgage loans, advance payments, guarantees and options or shares to any member of the Supervisory Board.

### PostNL

#### Remuneration of Supervisory Board

2018, in €

		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

For disclosure on the remuneration of individual members of the Supervisory Board, see note 5.1 to the consolidated financial statements.

# 16 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 policies 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

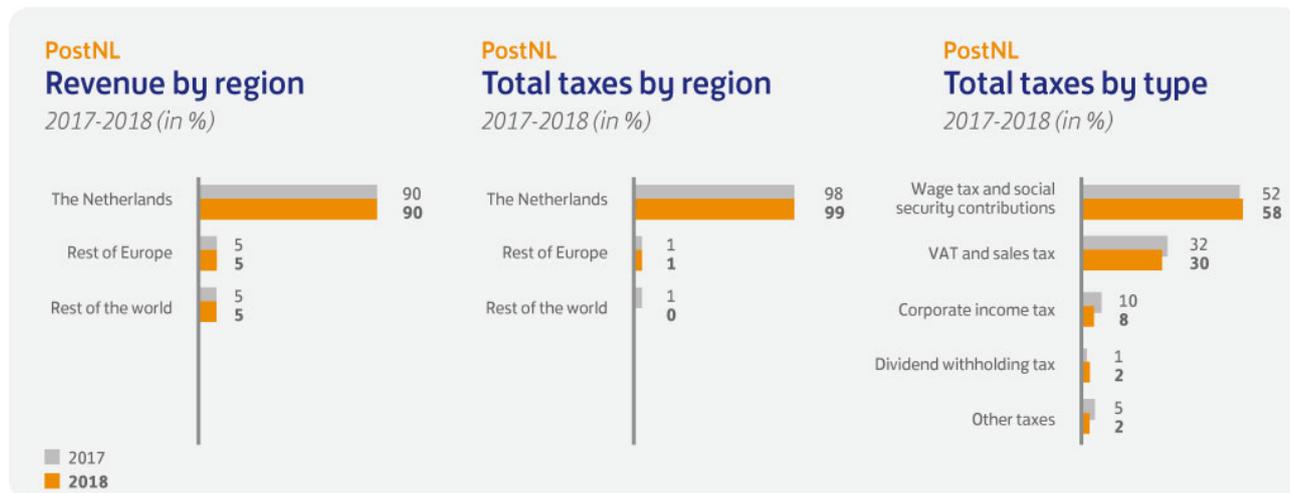
We have mechanisms in place to be able to adhere to these tax principles. We acknowledge that a robust governance framework is required to maintain control over tax matters and related risks. As an important topic, also foreseen to remain important for the coming years, Group Tax has increasing attention for tax technology (data analytics and more automated compliance and reporting in particular) to further enhance its control framework.

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.

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 quarterly 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 2018, we paid € 511 million (2017: €566 million) in tax. A breakdown of these by type and region is shown in the charts below. Our revenue breakdown is included for comparison. Note that due to the fact that Nexive and Postcon are reported as held for sale, the breakdown by region below has changed compared to 2017.



We monitor (inter)national developments (including the OECD project on base erosion and profit shifting and country-by-country reporting) 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 (most) of the other countries. During 2018, 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.

# 17 PostNL on the capital markets

In this chapter we provide information about our capital structure, the role of investor relations, our dividend, our financial calendar for the year ahead and contact details.

## 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 2018, 1,048 million PostNL shares were traded on Euronext Amsterdam (2017: 923 million shares). The average daily number of shares traded was 4.1 million (2017: 3.6 million). The market capitalisation of PostNL was €937 million at the end of 2018 (2017: €1,849 million).

### Relative performance PostNL compared to AMX-index, 2018



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 469,199,776 on 31 December 2018 (2017: 453,530,195 shares). All shares in issue are fully paid. In 2018, 15,165,535 shares were issued as stock dividend (2017: 9,920,567) and 504,046 for the share plan for employees (2017: 804,549). No preference shares B were issued and outstanding. For more information on PostNL's equity, see note 4.5 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 (>3%)

31 December 2018, in %

Date of notification	Company	(Indirect) Holding	Holding of (indirect) voting rights
18 December 2018	Capfi Delen Asset Management	4.32%	4.32%
14 December 2018	BlackRock, Inc	3.08%	3.18%
26 September 2018	Edinburgh Partners	5.08%	4.90%
12 November 2015	J.H.H. de Mol	5.04%	5.04%

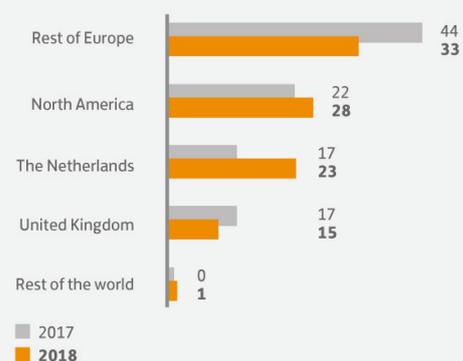
## Shareholder base

The distribution of our shares between retail, 15% (2017: 9%), and institutional shareholders, 85% (2017: 91%), changed compared to 2017. PostNL has a broad base of international shareholders.

### PostNL

#### Institutional shareholders by region

2017-2018 (in %)



## Bonds and credit rating

In August 2018, PostNL redeemed the bond with an outstanding amount of £177 million and a coupon of 7.5%. PostNL currently has one Eurobond outstanding, listed on Euronext Amsterdam:

- PNL 1.0% 2024 (ISIN XS1709433509), nominal value outstanding €400 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). The most recent credit rating is as follows:

### PostNL

#### Credit ratings

2018

	Long-term rating	Outlook
S&P	BBB <sup>+</sup>	Negative

## 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 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 workshops. 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 2018, PostNL visited investors in major financial cities in Europe and North America. We meet with investors regularly to ensure the investment community receives 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 2018 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.

We propose to increase the dividend to €0.24 per ordinary share for 2018 (2017: €0.23). This will be proposed to the Annual General Meeting of Shareholders to be held on 16 April 2019. The final dividend would then amount to €0.17 per ordinary share, taking into account an interim dividend of €0.07 per ordinary share that was paid in August 2018. The dividend will be paid, at the shareholder's election, either in ordinary PostNL shares or in cash, which remains the default option. The dividend in shares will be paid out of additional paid in capital as part of the distributable reserves, free of withholding tax in the Netherlands. If the dividend proposal is adopted, the ex-dividend date is 18 April 2019.

## Important dates in 2019

### PostNL

#### Financial calendar

2019

25 February	Results fourth quarter and full year 2018
16 April	Annual General Meeting of Shareholders
7 May	Results first quarter 2019
5 August	Results second quarter and half year 2019
4 November	Results third quarter 2019

### PostNL

#### Dividend calendar

2019

18 April	Ex-dividend date
24 April - 8 May (3.00 PM CET)	Election period final dividend 2018
10 May	Payment final dividend 2018
7 August	Ex-dividend date
9 - 23 August (3.00 PM CET)	Election period interim dividend 2019
27 August	Payment interim dividend 2019

## Contact details

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# Financial Statements



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# 18 Financial statements

## Consolidated primary statements

PostNL

### Consolidated income statement

2017-2018, in € millions

Year ended at 31 December	Notes	2017 represented	2018
Revenue from contracts with customers	2.1.1	2,709	2,758
Other operating revenue		16	14
<b>Total operating revenue</b>		<b>2,725</b>	<b>2,772</b>
Other income		24	21
Cost of materials		(56)	(63)
Work contracted out and other external expenses	2.1.2	(1,222)	(1,308)
Salaries, pensions and social security contributions	2.1.3	(1,001)	(1,003)
Depreciation, amortisation and impairments	2.1.4	(70)	(83)
Other operating expenses	2.1.5	(116)	(151)
<b>Total operating expenses</b>		<b>(2,465)</b>	<b>(2,608)</b>
<b>Operating income</b>		<b>284</b>	<b>185</b>
Interest and similar income		4	3
Interest and similar expenses		(46)	(27)
<b>Net financial income/(expense)</b>	2.2	<b>(42)</b>	<b>(24)</b>
Results from investments in jv's/associates	3.6	(10)	0
<b>Profit/(loss) before income taxes</b>		<b>232</b>	<b>161</b>
Income taxes	2.2	(53)	(34)
<b>Profit/(loss) from continuing operations</b>		<b>179</b>	<b>127</b>
Profit/(loss) from discontinued operations	3.8	(31)	(94)
<b>Profit for the year</b>		<b>148</b>	<b>33</b>
Attributable to:			
Non-controlling interests		0	0
Equity holders of the parent		148	33
Earnings per ordinary share (in € cents) <sup>1</sup>	2.2	33.0	7.1
Earnings per diluted ordinary share (in € cents) <sup>2</sup>	2.2	33.0	7.1
Earnings from continuing operations per ordinary share (in € cents) <sup>1</sup>		39.9	27.5
Earnings from continuing operations per diluted ordinary share (in € cents) <sup>2</sup>		39.9	27.4
Earnings from discontinued operations per ordinary share (in € cents) <sup>1</sup>		(6.9)	(20.4)
Earnings from discontinued operations per diluted ordinary share (in € cents) <sup>2</sup>		(6.9)	(20.3)

1. Earnings per ordinary share are in 2018 based on an average of 462,015,866 outstanding ordinary shares (2017: 448,645,255).

2. Earnings per diluted ordinary share are in 2018 based on an average of 463,179,101 ordinary shares on a fully diluted basis in the year (2017: 449,124,010).

The accompanying notes form an integral part of the financial statements.

**PostNL****Consolidated statement of comprehensive income**

2017-2018, in € millions

Year ended at 31 December	Notes	2017 represented	2018
<b>Profit for the year</b>		<b>148</b>	<b>33</b>
Actuarial gains/(losses) pensions, net of tax	3.4	13	32
Pension asset ceiling/minimum funding requirement, net of tax	3.4	(10)	(2)
Impact tax rate change related to OCI pensions			(3)
Change in value of financial assets at fair value through OCI	4.2		11
<b>Other comprehensive income that will not be reclassified to the income statement</b>		<b>3</b>	<b>38</b>
Currency translation adjustment, net of tax		(3)	0
Gains/(losses) on cashflow hedges, net of tax		3	1
<b>Other comprehensive income that may be reclassified to the income statement</b>		<b>0</b>	<b>1</b>
<b>Total other comprehensive income for the year</b>		<b>3</b>	<b>39</b>
<b>Total comprehensive income for the year</b>		<b>151</b>	<b>72</b>
Attributable to:			
Non-controlling interests		0	0
Equity holders of the parent		151	72

The accompanying notes form an integral part of the financial statements.

## PostNL

### Consolidated statement of cash flows

2017-2018, in € millions

Year ended at 31 December	Notes	2017 represented	2018
Profit/(loss) before income taxes		232	<b>161</b>
Adjustments for:			
Depreciation, amortisation and impairments		70	<b>83</b>
Share-based payments		2	<b>3</b>
(Profit)/loss on disposal of assets		(22)	<b>(19)</b>
Interest and similar income		(4)	<b>(3)</b>
Interest and similar expenses		46	<b>27</b>
Results from investments in jv's/associates		10	<b>0</b>
<b>Investment income</b>		<b>30</b>	<b>5</b>
Pension liabilities		(55)	<b>(22)</b>
Other provisions		(24)	<b>(14)</b>
<b>Changes in provisions</b>		<b>(79)</b>	<b>(36)</b>
Inventory		(1)	<b>0</b>
Trade accounts receivable		(22)	<b>(40)</b>
Other accounts receivable		2	<b>15</b>
Other current assets		(25)	<b>2</b>
Trade accounts payable		24	<b>(24)</b>
Other current liabilities excluding short-term financing and taxes		(17)	<b>(75)</b>
<b>Changes in working capital</b>		<b>(39)</b>	<b>(122)</b>
<b>Cash generated from operations</b>		<b>216</b>	<b>94</b>
Interest paid		(39)	<b>(26)</b>
Income taxes paid		(55)	<b>(39)</b>
<b>Net cash (used in)/from operating activities</b>	2.3.1	<b>122</b>	<b>29</b>
Interest received		4	<b>3</b>
Dividend received		0	<b>0</b>
Acquisition of subsidiaries (net of cash)		(33)	
Disposal of subsidiaries		1	
Investments in jv's/associates			<b>(2)</b>
Capital expenditure on intangible assets		(35)	<b>(40)</b>
Capital expenditure on property, plant and equipment		(66)	<b>(55)</b>
Proceeds from sale of property, plant and equipment		32	<b>46</b>
Changes in other loans receivable		(6)	<b>1</b>
Other changes in (financial) fixed assets		(8)	<b>(1)</b>
<b>Net cash (used in)/from investing activities</b>	2.3.2	<b>(111)</b>	<b>(48)</b>
Dividends paid		(40)	<b>(63)</b>
Proceeds from long-term borrowings		398	<b>3</b>
Repayments of long-term borrowings		(2)	<b>0</b>
Repayments of short-term borrowings		(328)	<b>(223)</b>
Repayments of finance leases		(1)	<b>(2)</b>
<b>Net cash (used in)/from financing activities</b>	2.3.3	<b>27</b>	<b>(285)</b>
<b>Total change in cash from continuing operations</b>		<b>38</b>	<b>(304)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>640</b>	<b>645</b>
Cash transfers to discontinued operations			<b>(72)</b>
Total change in cash from continuing operations		38	<b>(304)</b>
Total change in cash from discontinued operations		(33)	
<b>Cash and cash equivalents at the end of the year</b>		<b>645</b>	<b>269</b>
Total change in cash from discontinued operations	3.8	(33)	<b>(52)</b>

The accompanying notes form an integral part of the financial statements.

## PostNL

### Consolidated statement of financial position

2017-2018, in € millions

	Notes	At 31 December 2017	At 31 December 2018
<b>Assets</b>			
Goodwill		141	97
Other intangible assets		116	115
<b>Intangible fixed assets</b>	3.3	257	212
Land and buildings		318	322
Plant and equipment		154	155
Other		21	12
Construction in progress		17	5
<b>Property, plant and equipment</b>	3.2	510	494
Investments in joint ventures/associates	3.6	9	3
Other loans receivable	4.1	7	6
Deferred tax assets	3.7	29	66
Financial assets at fair value through OCI	4.2	5	17
<b>Financial fixed assets</b>		50	92
<b>Total non-current assets</b>		817	798
Inventory		6	5
Trade accounts receivable	3.1.1	386	313
Accounts receivable	3.1.1	50	12
Income tax receivable		9	2
Prepayments and accrued income		157	99
Cash and cash equivalents	4.1	645	269
<b>Total current assets</b>		1,253	700
Assets classified as held for sale	3.8	10	200
<b>Total assets</b>		2,080	1,698
<b>Equity and liabilities</b>			
Equity attributable to the equity holders of the parent		34	46
Non-controlling interests		3	3
<b>Total equity</b>	2.4	37	49
Deferred tax liabilities	3.7	43	31
Provisions for pension liabilities	3.4	359	296
Other provisions	3.5	23	19
Long-term debt	4.1	400	420
Accrued liabilities		2	4
<b>Total non-current liabilities</b>		827	770
Trade accounts payable		220	146
Other provisions	3.5	40	21
Short-term debt	4.1	225	4
Other current liabilities	3.1.2	150	126
Income tax payable		4	3
Contract liabilities	3.1.3	93	80
Accrued current liabilities	3.1.4	484	378
<b>Total current liabilities</b>		1,216	758
Liabilities related to assets classified as held for sale	3.8		121
<b>Total equity and liabilities</b>		2,080	1,698

The accompanying notes form an integral part of the financial statements.

## PostNL

### Consolidated statement of changes in equity

2017-2018, in € millions

	Issued share capital	Additional paid-in capital	Currency translation reserve	Hedge reserve	Financial assets at fair value OCI	Other reserves	Retained earnings	Attributable to equity holders of the parent	Non-controlling interests	Total equity
<b>Balance at 31 Dec 2016</b>	<b>36</b>	<b>157</b>	<b>3</b>	<b>(4)</b>	<b>0</b>	<b>(561)</b>	<b>290</b>	<b>(79)</b>	<b>3</b>	<b>(76)</b>
Total comprehensive income			(3)	3		3	148	151	0	151
Appropriation of net income						633	(633)	0		0
Final dividend previous year							(25)	(25)		(25)
Interim dividend current year							(15)	(15)		(15)
Share-based compensation		3				(1)		2		2
<b>Balance at 31 Dec 2017</b>	<b>36</b>	<b>160</b>	<b>0</b>	<b>(1)</b>	<b>0</b>	<b>74</b>	<b>(235)</b>	<b>34</b>	<b>3</b>	<b>37</b>
Total comprehensive income				1	11	27	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
<b>Balance at 31 Dec 2018</b>	<b>38</b>	<b>160</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>54</b>	<b>(217)</b>	<b>46</b>	<b>3</b>	<b>49</b>

## Section 1: Basis of preparation

This section sets out the Group's accounting principles that relate to the consolidated financial statements as a whole. At the beginning of each section, we give an overview of the items explained in that section. Where an accounting policy is specific to one note, the policy is described in the section's note to which it relates.

This section further describes the critical accounting estimates and judgements, or areas where assumptions and estimates are significant to the consolidated financial statements, such as post-employment benefits and restructuring.

This section also explains the changes in accounting policies and disclosures, resulting from new and amended accounting standards and interpretations, whether they are effective in 2018 or later years, and their impact.

### 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, Germany and Italy with an extensive range of services for their mail and parcels needs. Through our international sales network Spring, we connect local businesses around the world to consumers globally. PostNL's services involve collecting, sorting, transporting and delivering letters and parcels for the company's customers within specific timeframes. The company also provides services in the area of data and document management, direct marketing and fulfilment.

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 25 February 2019 and are subject to adoption at the Annual General Meeting of Shareholders on 16 April 2019.

### 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 comparative figures of 2017 of both the income and cash flow statement have been represented for the change to 'discontinued operations'. For further details, see note 3.8 Assets classified as held for sale.

#### Change in segment reporting

The business lines Nexive, Postcon and Spring were previously reported in the segment International. The decision to divest Nexive and Postcon and classification of these business lines as discontinued operations triggered a change in segment reporting. As of 2018, PostNL reports two operating segments Parcels (including Spring) and Mail in the Netherlands, and one other segment PostNL Other.

#### 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. During 2018, consolidated equity attributable to the equity holders of the parent improved by €12 million to €46 million. Corporate equity decreased by €137 million to €2,593 million. As at 31 December 2018, the balance of cash and cash equivalents amounted to €269 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 3.4 to the consolidated financial statements.

#### Restructuring

Restructuring charges mainly result from restructuring of our operations and overhead 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. For details on the current restructuring provision, see note 3.5 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 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 3.7 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 3.8 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 3.9 to the consolidated financial statements.

## 1.4 Changes in accounting policies and disclosures

The following table 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.

### Changes in accounting policies

	Description	Date of adoption	Effect on the financial statements
<b>Standards that are adopted</b>			
IFRS 9 'Financial instruments'	IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities.	1 January 2018	There has not been a material impact from the adoption of this standard, see below.
IFRS 15 'Revenue from contracts with customers'	IFRS 15 specifies how and when revenue should be recognised and requires to provide users of financial statements with more informative disclosures.	1 January 2018	There has not been a material impact from the adoption of this standard, see below and note 2.1.1 to the consolidated statements.
<b>Standards that are not yet adopted</b>			
IFRS 16 'Leases'	IFRS 16 establishes the principles that entities would apply to report useful information to investors and analysts about the amount, timing and uncertainty of cash flows arising from a lease. To meet that objective, a lessee should recognise assets and liabilities arising from a lease.	1 January 2019	The standard will mainly effect the accounting of the Group's operating leases.

### IFRS 9 'Financial instruments'

PostNL has performed the business model assessment and solely payment of principal and interest test for all financial instruments and classified those in the appropriate IFRS 9 business model categories. The impact of the adoption of IFRS 9 is as follows:

- On hedge accounting, the company determined that all existing hedge relationships previously designated as effective hedge relationships will continue to qualify for hedge accounting under IFRS 9.
- On impairment, IFRS 9 requires the company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The company applies the simplified approach and records lifetime expected losses on all trade receivables. The impact of adoption was limited to €0.2 million net of tax and has been recorded in 2018's opening equity.
- On classification, the equity shares in non-listed companies that were previously held as available-for-sale with gains and losses recorded in other comprehensive income (OCI) are under IFRS 9 classified as financial assets at fair value through OCI. The other financial assets, mainly loans receivable and trade accounts receivable, are under IFRS 9 measured at amortised cost.

The company has aligned its policies to reflect the changes resulting from IFRS 9. Comparative information of 2017 has not been restated.

### **IFRS 15 'Revenue from contracts with customers'**

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'. Adoption of IFRS 15 does not impact the company's revenue and profit or loss resulting from these services. Revenue will remain 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). Adoption of IFRS 15 also does not impact the company's revenue and profit or loss resulting from these services.

Where contracts entitle customers to a volume discount, 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.

The company adopted the new standard using the modified retrospective method.

### **IFRS 16 'Leases'**

The standard will impact the accounting of the Group's operating leases, mainly related to rent and lease of buildings and transport fleet. At year-end 2018, the Group has non-cancellable operating lease commitments related to continuing operations of €133 million (refer to note 3.9). The related impact on the balance sheet per 1 January 2019 is an increase in lease assets and liabilities of €132 million. The impact on operating income and net profit is expected to be non-material, although straight line lease expenses will be replaced by depreciation and interest expenses (with a related increase of €46 million and €1 million respectively). The cash flow statement will show 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 will increase by €36 million per 1 January 2019.

The Group plans to adopt this standard using the modified retrospective method, with the lease assets set equal to the lease liabilities.

## Section 2: Result for the year

This section sets out the Group's results and performance over 2018, from a profit, cash flow and equity perspective. It concludes with the performance of our reportable segments.

We analyse the Group's profit for the year in two separate steps. First we focus on our operating income by reference to the activities performed by the Group and an analysis of our key operating costs. Thereafter we focus on the net profit and earnings per share by exploring the financial results –which mainly consists of interest expenses– and the income tax charge.

Next, we analyse this year's cash flow performance of the Group. The cash flow-generating capability of the Group is essential for the continuity of our company. We explain the difference in accounting for income and expenses from actual cash in and cash out flows. In our analysis, we separate the cash flow performance of our operating, investing and financing activities.

Thirdly, we disclose the material developments underlying the equity performance of the year. Together with the net profit for the year, equity is mainly impacted by developments in our pension liabilities and our financial instruments at fair value through OCI.

This section concludes with segmental information of our performance. We disclose the contribution of our reportable segments to total operating revenue and operating income. Furthermore, we report on our non-recurring and exceptional items during 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.

#### PostNL

##### Revenue from contracts with customers

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
Parcels	1,374	1,547
Mail in the Netherlands	1,775	1,672
PostNL Other	76	74
Eliminations	(516)	(535)
<b>Total</b>	<b>2,709</b>	<b>2,758</b>

The comparative figures have been represented for adjusted segment reporting and the impact of the discontinued operations in Italy and Germany. 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

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
The Netherlands	2,431	2,483
Rest of Europe	141	148
<b>Europe</b>	<b>2,572</b>	<b>2,631</b>
Rest of the World	137	127
<b>Total</b>	<b>2,709</b>	<b>2,758</b>

## 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.

#### Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (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

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
Parcels	553	655
Mail in the Netherlands	429	383
PostNL Other	25	33
<b>Work contracted out</b>	<b>1,007</b>	<b>1,071</b>
Rent & lease expenses	66	67
External temporary staff	149	170
<b>Total</b>	<b>1,222</b>	<b>1,308</b>

Costs of work contracted out and other external expenses increased by €86 million in 2018 mainly due to increased volumes and service expansion within Parcels.

### 2.1.3 Salaries, pensions and social security contributions

## PostNL

### Salaries, pensions and social security contributions

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
Salaries	758	756
Social security charges	119	115
<b>Salaries and social security charges</b>	<b>877</b>	<b>871</b>
Defined benefit plans	96	114
Past service costs/settlements	(11)	
Defined contribution plans	11	12
<b>Pension charges</b>	<b>96</b>	<b>126</b>
Net addition to restructuring provisions	26	3
Share-based payments	2	3
<b>Total</b>	<b>1,001</b>	<b>1,003</b>

In 2018, pension charges increased by €30 million, resulting from higher regular defined benefit charges and lower contribution from past service costs. More detailed information on pensions is included in note 3.4. For the net additions to restructuring provisions reference is made to note 3.5 Other provisions.

## PostNL

### Labour force

2017-2018, as indicated

	2017 represented	2018
<b>Headcount</b>		
Parcels	4,619	5,722
Mail in the Netherlands	33,305	30,753
PostNL Other	1,041	1,310
<b>Total at year end</b>	<b>38,965</b>	<b>37,785</b>
External agency staff at year end	7,477	7,309
<b>Full-time equivalents (FTEs)</b>		
Parcels	3,953	4,664
Mail in the Netherlands	15,810	14,547
PostNL Other	1,028	1,210
<b>Total year average</b>	<b>20,791</b>	<b>20,421</b>

*Including temporary personnel on our payroll; the external agency staff are additional.*

The total headcount of PostNL decreased by 1,180 employees, which mainly relates to the reduction within Mail in the Netherlands due to the impact of volume decline and cost savings initiatives, partly offset by an increase within Parcels due to growth in parcel volumes. The labour force is also measured in FTEs based on the hours worked divided by the local standard. In 2018, the average number of FTEs decreased by 370 FTEs compared to 2017. The average number of employees working in the Netherlands was 19,827 FTEs (2017: 20,220) and outside the Netherlands was 594 FTEs (2017: 571).

## 2.1.4 Depreciation, amortisation and impairments

### PostNL

#### Depreciation, amortisation and impairments

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
Amortisation of intangible assets	17	25
Depreciation property, plant and equipment	53	53
Impairment of property, plant and equipment	0	5
<b>Total</b>	<b>70</b>	<b>83</b>

In 2018, amortisation of intangible assets related to software for €22 million (2017: €15 million) and other intangibles for €3 million (2017: €2 million). The increase in amortisation of software relate to increased investments in IT projects. 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 €151 million (2017: €116 million) consist of IT, communication, office, travel, consulting and training expenses and other shared services costs.

In 2018, total incurred EY audit fees amounted to €2.2 million (2017: €2.5 million).

### PostNL

#### Audit fees

2017-2018, in € millions

Year ended at 31 December	2017	2018
Audit fees	1.5	1.3
Audit-related fees	0.6	0.9
Tax advisory fees	0.0	0.0
Other non-audit services	0.4	0.0
<b>Total</b>	<b>2.5</b>	<b>2.2</b>

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, 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 €1.7 million (2017: €1.9 million).

## 2.2 Net profit and earnings per share

### 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)

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
Interest expenses on long-term borrowings	32	14
Interest on net defined benefit pension liabilities	8	8
Interest on taxes	1	0
Other	5	5
<b>Interest and similar expense</b>	<b>46</b>	<b>27</b>
Other interest and similar income	(4)	(3)
<b>Net financial expense/(income)</b>	<b>42</b>	<b>24</b>

In 2018, interest expenses on long-term borrowings decreased mainly as a result of the repayment of bonds in November 2017 and in August 2018, which were replaced by a new bond with a lower interest rate.

## 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

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
Current tax expense	44	45
Changes in deferred taxes	9	(11)
<b>Total income taxes</b>	<b>53</b>	<b>34</b>
Income taxes paid	55	39

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 3.7 to the consolidated financial statements.

In 2018, the income taxes paid relate almost completely to income taxes paid in the Netherlands and include payments related to prior years. The 2018 difference between the total income taxes (€34 million) and the income taxes paid (€39 million) can be explained by the changes in deferred taxes (€11 million) and the 2018 movements of the net income tax payable position (€(6) million).

## PostNL

### Effective income tax rate

2017-2018, in %

Year ended at 31 December	2017 represented	2018
Dutch statutory income tax rate	25.0	25.0
Adjustment regarding statutory income tax rates other countries	(0.1)	(0.4)
<b>Weighted average statutory tax rate</b>	<b>24.9</b>	<b>24.6</b>
Tax effects of:		
Non and partly deductible costs	1.2	1.5
Exempt income	1.3	(0.3)
Other	(4.6)	(4.7)
<b>Effective income tax rate</b>	<b>22.8</b>	<b>21.1</b>

The line 'Non and partly deductible costs' mainly relates to non deductible costs relating to subsidiaries, the non deductible treatment of our share based payments and of the so-called mixed expenses (e.g., meals, entertainment). 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 (-3.9%), investment allowance (energy and environmental incentives) in the Netherlands (-0.7%) and several smaller effects (-0.1%).

## Earnings per ordinary share: 7.1 eurocents (2017: 33.0 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

2017-2018, in shares

Year averages and numbers at 31 December	2017	2018
Number of issued and outstanding ordinary shares	453,530,195	469,199,776
Shares held by the company to cover share plans	0	0
Average number of ordinary shares per year	448,645,255	462,015,866
Diluted number of ordinary shares per year	478,755	1,163,235
Average number of ordinary shares per year on a fully diluted basis	449,124,010	463,179,101

At 31 December 2018, PostNL had potential obligations under share plans to deliver 1,163,235 shares (2017: 478,755 shares), calculated based on the share price of €1.997 as at 31 December 2018 (31 December 2017: €4.076).

## 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 2018, net cash from operating activities of €29 million (2017: €122 million) resulted from €94 million of cash generated from operations (2017: €216 million) reduced by €26 million interest paid (2017: €39 million) and €39 million income tax paid (2017: €55 million).

#### Cash generated from operations

The decrease in cash generated from operations of €122 million is explained by €82 million lower profit before income tax adjusted for non-cash items and investment income and a change in working capital of €(83) million, partly offset by a lower change in pension liabilities of €33 million and a lower change in other provisions of €10 million.

## PostNL

### Cash generated from operations

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
Total profit before tax adjusted for non cash items and investment income	334	252
Pension expense defined benefit plans	96	114
Past service pension cost/settlements	(11)	
Cash contributions defined benefit plans	(108)	(103)
Payment unconditional funding obligation	(32)	(33)
<b>Change in pension liabilities</b>	<b>(55)</b>	<b>(22)</b>
Additions to/releases from provisions	19	9
Withdrawals	(43)	(23)
<b>Change in other provisions</b>	<b>(24)</b>	<b>(14)</b>
<b>Changes in working capital</b>	<b>(39)</b>	<b>(122)</b>
Total cash generated from operations	216	94

For the changes in provisions, reference is made to note 3.4 Provisions for pension liabilities and to note 3.5 Other provisions. The higher investments in working capital mainly related to higher trade accounts receivable within Parcels and a reduction of trade accounts payable and the accrual for terminal dues within Mail in the Netherlands.

### Interest paid

The interest paid is explained as follows:

## PostNL

### Interest paid

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
Interest on long-term borrowings	34	20
Bank charges and other	5	6
<b>Total</b>	<b>39</b>	<b>26</b>

The interest paid on long-term borrowings decreased mainly as a result of the repayment of a bond in 2017, which was replaced by a new bond with a lower interest rate.

### Income taxes paid

The income taxes paid of €39 million (2017: €55 million) mainly related to income taxes paid in the Netherlands and include payments related to prior years.

## 2.3.2 Net cash (used in)/from investing activities

## PostNL

### Net cash investing activities

2017-2018, in € millions

Year ended at 31 December	2017 represented	2018
Acquisition of subsidiaries (net of cash)	(33)	
Capital expenditure on intangible assets and property, plant and equipment	(101)	(95)
Proceeds from sale of property, plant and equipment	32	46
Changes in other loans receivable	(6)	1
Other	(3)	
<b>Net cash (used in)/from investing activities</b>	<b>(111)</b>	<b>(48)</b>

### Acquisitions

In 2017, cash outflow net of cash for acquisitions related to the acquisition of PS Nachtdistributie (€22 million), the acquisition of JP Haarlem (€2 million), the acquisition of Shops United (€6 million) and the acquisition of Cheap Cargo (€3 million).

### Capital expenditure on intangible assets and property, plant and equipment

In 2018, capital expenditures on intangible assets of €40 million (2017: €35 million) mostly related to software including prepayments for software. The capital expenditures on property, plant and equipment amounting to €55 million (2017: €66 million) mainly related to the new processing and distribution centres within Parcels. 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 2018, proceeds from the sale of property, plant and equipment amounted to €46 million (2017: €32 million) and mainly related to the sale of several buildings.

### Changes in other loans receivable

In 2017, changes in other loans receivable included a lessor loan of €6 million relating to the finance lease of a sorting machine by Bol.com.

## 2.3.3 Net cash (used in)/from financing activities

In 2018, the net cash used in financing activities of €(285) million (2017: €27 million) mainly related to the final 2017 cash dividend paid of €47 million (2017: final 2016 cash dividend: €25 million), interim 2018 cash dividend paid of €16 million (2017: interim 2017 cash dividend: €15 million) and the repayment of a eurobond of €223 million (2017: €328 million). In 2017, the net cash used in financing activities included the proceeds of a new eurobond of €398 million. The proceeds from long-term borrowings of €3 million relate to a sale and financial leaseback transaction of a Parcel sorting centre. Refer to note 3.2 for further information on the financial leases we have concluded in 2018. Reference is made to note 4.1 Net debt and note 4.5 Financial instruments.

## 2.4 Other comprehensive income and equity development

The increase of total equity from €37 million on 31 December 2017 to €49 million on 31 December 2018 is mainly explained by net profit for the year of €33 million and other comprehensive income of €39 million, partly offset by the payment of cash dividends of €63 million in total. Other comprehensive income mainly consisted of a positive impact from pensions of €30 million and the increase in value of the investment in Whistl by €11 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 2018, issued share capital amounted to €38 million (2017: €36 million) and additional paid-in-capital amounted to €160 million (2017: €160 million). For details on Issued share capital and Additional paid-in capital, reference is made to note 4.6.

### Currency translation reserve

As at 31 December 2018, the translation reserve amounted to €0 million (2017: €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 2018, the hedge reserve amounted to €0 million (2017: €(1) million). The tax impact on the cash flow hedges included in the hedge reserve as at 31 December 2018 is €0 million (2017: €1 million). For more information, see note 4.5 to the consolidated financial statements.

### Financial assets at fair value through OCI

As at 31 December 2018, the reserve related to the financial assets at fair value through OCI amounted to €11 million (2017: €0 million). The increase in 2018 related to the increase in value of the investment in Whistl by €11 million. For more information, see note 4.2 to the consolidated financial statements.

### Other reserves

As at 31 December 2018, the other reserves amounted to €54 million (2017: €74 million). In 2018, the other reserves decreased by €20 million mainly resulting from the appropriation of net income from 2017 of €(48) million and a positive pension effect within other comprehensive income (net of tax) of €30 million. For details on pensions, reference is made to note 3.4.

### Retained earnings

As at 31 December 2018, retained earnings amounted to €(217) million (2017: €(235) million). In 2018, retained earnings increased by €18 million due to the appropriation of net income from 2017 of €48 million and total profit for the year of €33 million in 2018, partly offset by the payment of cash dividends of €63 million in total.

The Board of Management has proposed to make an amount of €96 million out of the distributable part of the shareholders' equity 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 2018 segment information relating to the income statement of the reportable segments. Segment information relating to the balance sheet is reported in note 3.10.

### PostNL

#### Segmentation

2018, in € millions

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
<b>Total operating revenue</b>	<b>1,555</b>	<b>1,678</b>	<b>74</b>	<b>(535)</b>	<b>2,772</b>
Other income	1	19	1		21
Depreciation/impairment property, plant and equipment	(21)	(31)	(6)		(58)
Amortisation/impairment intangibles	(9)	(11)	(5)		(25)
<b>Total operating income</b>	<b>119</b>	<b>100</b>	<b>(34)</b>		<b>185</b>
Net financial income/(expense)					(24)
Results from investments in jv's/associates					0
Income taxes					(34)
Profit/(loss) from discontinued operations					(94)
<b>Profit for the year</b>					<b>33</b>
Underlying cash operating income	117	93	(22)		188

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

2018, in € millions

Year ended at 31 December	Reported operating income	Project costs and settlements	Impairment building	Restructuring related charges	Payment unconditional funding obligation pensions	Consolidation effect discontinued operations	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)	24			(28)	(7)	(45)	(4)	27	(22)
<b>Total 2018</b>	<b>185</b>	<b>24</b>	<b>4</b>	<b>3</b>	<b>0</b>	<b>(7)</b>	<b>209</b>	<b>(32)</b>	<b>11</b>	<b>188</b>

### From reported to underlying operating income

In 2018, underlying operating income totalled €209 million (2017: €297 million). Underlying operating income excludes exceptional items, which amounted to €24 million in 2018 (2017: €13 million). In 2018, project costs of €24 million mainly related to regulatory-related advisory costs and settlements within PostNL Other. In 2018, the fourth 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 2018, underlying cash operating income totalled €188 million (2017: €241 million). The changes in provisions of €(32) million in 2018 (2017: €(43) million) represent the difference between the underlying net addition for restructuring and other provisions of €4 million (2017: €(6) million) and the underlying cash payments of €36 million (2017: €37 million). The changes in pension liabilities of €11 million in 2018 (2017: €(13) million) represent the difference between the recorded underlying pension expenses of €126 million (2017: €107 million, excluding the positive effect of past service pension costs of €11 million), and the underlying cash payments of €115 million (2017: €119 million), which excludes the fourth instalment of the unconditional funding obligation of €33 million (2017: €32 million). The decrease of €53 million in underlying cash operating income comprised lower results at Parcels (€23 million), Mail in the Netherlands (€32 million), only slightly offset by a higher result in PostNL Other (€2 million).

The following tables present the reconciliation of the 2017 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 3.10.

## PostNL

### Segmentation

2017, in € millions

Year ended at 31 December 2017	Parcels	Mail in NL	PostNL Other	Eliminations	Total
Revenue from contracts with customers	1,204	1,505	0		2,709
Intercompany sales	170	270	76	(516)	
Other operating revenue	8	8			16
<b>Total operating revenue</b>	<b>1,382</b>	<b>1,783</b>	<b>76</b>	<b>(516)</b>	<b>2,725</b>
Other income	1	20	3		24
Depreciation/impairment property, plant and equipment	(18)	(28)	(7)		(53)
Amortisation/impairment intangibles	(5)	(7)	(5)		(17)
<b>Total operating income</b>	<b>138</b>	<b>145</b>	<b>1</b>		<b>284</b>
Net financial income/(expense)					(42)
Results from investments in jv's/associates					(10)
Income taxes					(53)
Profit/(loss) from discontinued operations					(31)
<b>Profit for the year</b>					<b>148</b>
Underlying cash operating income	140	125	(24)		241

## PostNL

### From reported to underlying (cash) operating income

2017 represented, in € millions

Year ended at 31 December	Reported operating income	Project costs	Restructuring related charges	Payment unconditional funding obligation pensions	Past service pension costs/settlements	Consolidation effect discontinued operations	Underlying operating income	Changes in provisions	Changes in pension liabilities	Underlying cash operating income
Parcels	138		2	2			142	0	(2)	140
Mail in NL	145		17	27	(12)		177	(34)	(18)	125
PostNL Other	1	9	6	(29)	1	(10)	(22)	(9)	7	(24)
<b>Total 2017</b>	<b>284</b>	<b>9</b>	<b>25</b>	<b>0</b>	<b>(11)</b>	<b>(10)</b>	<b>297</b>	<b>(43)</b>	<b>(13)</b>	<b>241</b>

Actuals 2017 represented for adjusted segment reporting and the impact of the discontinued operations in Italy and Germany.

## Section 3: Operating assets and liabilities

This section sets out the Group's assets used to generate trading performance and the liabilities incurred as a result. Liabilities related to the Group's financing activities are addressed in section 4.

The main operating assets included in this section are: working capital, property, plant and equipment and intangible fixed assets. The main operating liabilities included in this section are: provision for pension liabilities and other provisions.

The other disclosures included in this section are: investments in joint ventures and associates, deferred income tax assets and liabilities and commitments and contingencies.

This section concludes with segmental information, where we split the relevant total operating assets and liabilities according to our reportable segments and according to a geographical segmentation.

### 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

2017-2018, in € millions

At 31 December	2017	2018
Trade accounts receivable - total	401	323
Allowance for expected credit losses	(15)	(10)
<b>Trade accounts receivable</b>	<b>386</b>	<b>313</b>
VAT receivable	26	3
Other accounts receivable	24	9
<b>Accounts receivable</b>	<b>50</b>	<b>12</b>
<b>Total accounts receivable</b>	<b>436</b>	<b>325</b>

As at 31 December 2017, total accounts receivable included an amount of €136 million related to discontinued operations. Further disclosure hereafter only relates to continuing operations.

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 concentration of the trade accounts receivable per customer is limited. The top 10 trade accounts receivable accounted for 18% of the outstanding balance as at 31 December 2018 (2017: 13%). The concentration of the trade accounts receivable portfolio over the different regions can be summarised as follows:

- Netherlands €278 million (2017: €238 million),
- Rest of Europe €18 million (2017: €21 million), and
- the rest of the world €17 million (2017: €14 million).

The ageing analysis of the trade accounts receivable past due is presented below.

## PostNL

### Ageing trade accounts receivable past due

2017-2018, in € millions

At 31 December	2017	2018
Up to 1 month	39	40
1-3 months	25	26
3-6 months	8	7
6-12 months	5	5
Over 12 months	9	8
<b>Total</b>	<b>87</b>	<b>86</b>

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

2017-2018, in € millions

	2017	2018
<b>Balance at 1 January</b>	<b>8</b>	<b>9</b>
Provided for during financial year	3	6
Releases	0	0
Receivables written off during year as uncollectable	(2)	(5)
<b>Balance at 31 December</b>	<b>9</b>	<b>10</b>

Set out below is the information about the credit risk exposure on the trade accounts receivable using a provision matrix.

## PostNL

### Expected credit losses

2017-2018, in € millions

At 31 December	Months past due					Total
	Up to 1 month	1-2 months	2-3 months	3-4 months	over 4 months	
Expected credit loss rate	1%	2%	9%	15%	21%	
Gross amount of trade accounts receivable	213	25	17	2	25	282
Expected credit loss 2017	2	1	1	0	5	9
Expected credit loss rate	1%	3%	9%	27%	25%	
Gross amount of trade accounts receivable	255	32	12	3	21	323
Expected credit loss 2018	2	1	1	1	5	10

### 3.1.2 Other current liabilities

#### PostNL

##### Other current liabilities

2017-2018, in € millions

At 31 December	2017	2018
VAT payable	57	42
Social security contributions payable	27	21
Payments from customers received in advance	44	52
Other	22	11
<b>Total</b>	<b>150</b>	<b>126</b>

As at 31 December 2017, the other current liabilities included an amount of €21 million related to discontinued operations.

### 3.1.3 Contract liabilities

#### PostNL

##### Contract liabilities

2017-2018, in € millions

At 31 December	2017	2018
Deferred revenue from unused stamps	59	54
Deferred revenue from franking machines	10	9
Rental of mailboxes	12	10
Other amounts received in advanced from customers	12	7
<b>Total</b>	<b>93</b>	<b>80</b>

As at 31 December 2017, the contract liabilities included an amount of €7 million related to discontinued operations.

We expect to perform almost all services related to the outstanding contract liabilities at 31 December 2018 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

2017-2018, in € millions

At 31 December	2017	2018
To be paid to third parties	177	131
To be paid to personnel	47	20
Vacation days/vacation payments	81	77
Terminal dues	170	147
Interest payable	7	1
Other accrued current liabilities	2	2
<b>Total</b>	<b>484</b>	<b>378</b>

As at 31 December 2017, the accrued current liabilities included an amount of €48 million related to discontinued operations. Further disclosure hereafter only relates to continuing operations.

Main items within the expenses to be paid to third parties included payables to business partners of €16 million (2017: €13 million), claims of €5 million (2017: €5 million), discounts to be paid of €2 million (2017: €3 million) and various other expenses to be paid.

Expenses to be paid to personnel included accrued wages and salaries of €14 million (2017: €15 million), the accrual for voluntary termination agreements is reduced to nil (2017: €13 million).

The accrual for terminal dues relates to payables to foreign postal operators relating to the years 2018 and before. The change reflects both the regular course of business as well as settlements of outstanding positions.

## 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.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in long-term debt. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

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

2017-2018, in € millions

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Depreciation percentage	0%-10%	10%-33%	10%-33%	0%	
Historical cost	838	477	82	23	1,420
Accumulated depreciation and impairments	(517)	(335)	(63)		(915)
<b>Balance at 31 Dec 2016</b>	<b>321</b>	<b>142</b>	<b>19</b>	<b>23</b>	<b>505</b>
Capital expenditure in cash	20	35	8	11	74
Capital expenditure in financial leases		1			1
Acquisition of subsidiaries	3	2	1		6
Disposals	(3)				(3)
Internal transfers and reclassifications	12	3	2	(17)	
Depreciation	(21)	(29)	(9)		(59)
Transfers to assets held for sale	(14)				(14)
<b>Total changes</b>	<b>(3)</b>	<b>12</b>	<b>2</b>	<b>(6)</b>	<b>5</b>
Historical cost	815	505	89	17	1,426
Accumulated depreciation and impairments	(497)	(351)	(68)		(916)
<b>Balance at 31 Dec 2017</b>	<b>318</b>	<b>154</b>	<b>21</b>	<b>17</b>	<b>510</b>
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)
<b>Total changes</b>	<b>4</b>	<b>1</b>	<b>(9)</b>	<b>(12)</b>	<b>(16)</b>
Historical cost	780	487	61	5	1,333
Accumulated depreciation and impairments	(458)	(332)	(49)		(839)
<b>Balance at 31 Dec 2018</b>	<b>322</b>	<b>155</b>	<b>12</b>	<b>5</b>	<b>494</b>

Capital expenditures in 2018, including new finance leases, are above the level of 2017. Investments were made in the new sorting centres 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.

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 finalized, 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 capitalized in 2017. The cash proceeds are reported as 'Proceeds from long-term borrowings' in the cash flow statement. At 31 December 2018, two sorting centres are under construction and will be finalised in 2019.

## PostNL

### Finance leases

2017-2018, in € millions

Year ended at 31 December	2017	2018
Land and buildings - leasehold rights and ground rents		
Historical cost	22	17
Accumulated depreciation	(9)	(7)
<b>Bookvalue</b>	<b>13</b>	<b>10</b>
Land and buildings - sorting centres Parcels		12
Other equipment	1	15
<b>Total bookvalue finance leases</b>	<b>14</b>	<b>37</b>

The other leased equipment mainly relate to sorting machines and cash registers. The minimum lease payments to be paid under these contracts represent the discounted value.

The leasehold rights and ground rent contracts related to land and buildings in the Netherlands. Those expiring:

- between 1 and 5 years amount to €0 million (2017: €0 million),
- between 5 and 20 years amount to €0 million (2017: €0 million),
- between 20 and 40 years amount to €4 million (2017: €7 million),
- thereafter amount to €6 million (2017: €6 million), and
- with indefinite terms amount to €0 million (2017: €0 million).

### 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.

#### PostNL

##### Intangible fixed assets

2017-2018, in € millions

	Goodwill	Software	Other	Total
<b>Amortisation percentage</b>		10%- 35%	0%- 35%	
Historical cost	300	238	45	<b>583</b>
Accumulated amortisation and impairments	(177)	(194)	(7)	<b>(378)</b>
<b>Balance at 31 Dec 2016</b>	<b>123</b>	<b>44</b>	<b>38</b>	<b>205</b>
Additions	20	26	12	<b>58</b>
Acquisition of subsidiaries		1	15	<b>16</b>
Disposals	(2)			<b>(2)</b>
Internal transfers/reclassifications		18	(18)	
Amortisation		(17)	(3)	<b>(20)</b>
<b>Total changes</b>	<b>18</b>	<b>28</b>	<b>6</b>	<b>52</b>
Historical cost	318	265	68	<b>651</b>
Accumulated amortisation and impairments	(177)	(193)	(24)	<b>(394)</b>
<b>Balance at 31 Dec 2017</b>	<b>141</b>	<b>72</b>	<b>44</b>	<b>257</b>
Transfers to assets held for sale	(44)	(6)	(12)	<b>(62)</b>
Additions		28	14	<b>42</b>
Internal transfers/reclassifications		9	(9)	
Amortisation		(22)	(3)	<b>(25)</b>
<b>Total changes</b>	<b>(44)</b>	<b>9</b>	<b>(10)</b>	<b>(45)</b>
Historical cost	143	257	42	<b>442</b>
Accumulated amortisation and impairments	(46)	(176)	(8)	<b>(230)</b>
<b>Balance at 31 Dec 2018</b>	<b>97</b>	<b>81</b>	<b>34</b>	<b>212</b>

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). The net movement of €0 million included additions of €3 million and amortisation of €3 million.

## 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 2017, the CGU structure has not changed.

In 2017, the additions to goodwill related to the acquisition of PS Nachtdistributie (€10 million), JP Haarlem (€2 million), Shops United (€6 million) and Cheap Cargo (€2 million). The goodwill of all acquisitions is allocated to the CGU Parcels. The disposals of goodwill of €2 million related to the sale of Print Management (CGU Mail in the Netherlands).

## PostNL

### Goodwill per CGU

2017-2018, in € millions

Year ended at 31 December	2017	2018
Parcels	32	32
Mail in the Netherlands	65	65
Germany	42	
Italy	2	
Total	141	97

Based on the 2018 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 nine-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 10% (2017: 9% to 13%).

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 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

2017-2018, in € millions

Year ended at 31 December	2017	2018
Internally-generated software	65	74
Purchased software	7	7
Software under construction	11	16
Customer lists	33	18
Total	116	115

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 decrease in customer lists related mainly to the transfer to assets held for sale of Postcon.

The estimated amortisation expenses for software and other intangible assets are:

- 2019: €31 million,
- 2020: €29 million,
- 2021: €24 million, and
- thereafter: €31 million.

PostNL does not conduct significant research and development activities and therefore does not incur research and development costs.

### 3.4 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 2018

In 2015, PostNL started the payment of the unconditional funding obligation to the main fund by a first instalment of €32 million. In 2016, 2017 and 2018, the following instalments were paid. At 31 December 2018, the outstanding funding obligation amounted to €33 million, which will be paid in 2019.

#### 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 €105,075 (level 2018), minus a state pension offset.

Pension (cash) contributions are bounded by a minimum level of 21.5% and a maximum level of 27.5% of the pensionable salary base. The calculations are based on the main fund's expected return on plan assets. The resulting contributions are increased by 10% if the coverage ratio is below 120% and by 5% if the coverage ratio is between 120% and 130%. 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 2018 and 2019 has been set at 1.615% and 1.652% 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 2018, the month-end coverage ratio of the main fund amounted 112.1% (2017: 115.8%), including the outstanding payment of the unconditional funding obligation of €33 million by PostNL. The decreased coverage ratio is mainly explained by a negative effect from a decrease of the interest rate and the negative return on plan assets. The 12-months average coverage ratio amounted 116.0% per 31 December 2018 (2017: 113.4%).

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 73% 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

2017-2018, in %

At 31 December	Actual mix 2017	Actual mix 2018
Equities	32%	28%
Fixed interest and inflation linked bonds	61%	65%
Real estate and alternative investment	8%	8%
Swaps	-1%	-1%
<b>Total</b>	<b>100%</b>	<b>100%</b>
<b>Return</b>	<b>5.5%</b>	<b>-0.6%</b>

### 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 2018.

## PostNL

### Statement of changes in provision for defined benefit plans

2017-2018, in € millions

	Balance at 31 December 2017	Transfers to 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 2018
Dutch main pension plan	(65)		(105)	106	34	(3)	(33)
Dutch transitional plans	(283)		(17)	30	8		(262)
Other plans	(11)	9	0	0	1		(1)
<b>Provision for post-employment benefit plans</b>	<b>(359)</b>	<b>9</b>	<b>(122)</b>	<b>136</b>	<b>43</b>	<b>(3)</b>	<b>(296)</b>

The transfers to liabilities relating to assets held for sale of €9 million related to discontinued operations and represents the balance as at 1 January 2018 (3 August 2018: €9 million). The net movement of €0 million included expenses of €2 million and employer contributions of €2 million.

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

2017-2018, in € millions

	2017 represented	2018
Regular defined benefit costs	(104)	(122)
Past service costs/settlements	11	
Defined contribution costs	(11)	(12)
<b>Total employer pension costs</b>	<b>(104)</b>	<b>(134)</b>
Of which included within salaries, pensions and social security contributions	refer to note 2.1.3	(96)
Of which included within interest and similar expenses	refer to note 2.2	(8)
Defined benefit cash contributions	108	103
Defined benefit payment unconditional funding obligation	32	33
Defined contribution cash contributions	11	12
<b>Total employer pension cash contributions</b>	<b>151</b>	<b>148</b>
Actuarial gain/(loss) due to:		
Change in discount rate	from 2.0% to 1.8% (2017: from 1.8% to 2.0%)	300
Change in rate of benefit increases	from 1.5% to 1.1% (2017: from 1.1% to 1.5%)	(643)
Change in rate of benefit accrual		(13)
Changes in demographic assumptions		6
Experience adjustments		84
<b>Actuarial gain/(loss) on benefit obligations</b>	<b>(266)</b>	<b>277</b>
Actuarial gain/(loss) on plan assets	283	(234)
<b>Total actuarial gain/(loss)</b>	<b>17</b>	<b>43</b>
<b>Net charge within Other Comprehensive Income</b>	<b>13</b>	<b>32</b>
Adjustment for pension asset ceiling		(20)
Adjustment for minimum funding requirement	(14)	17
<b>Total gross adjustment</b>	<b>(14)</b>	<b>(3)</b>
<b>Net charge within Other Comprehensive Income</b>	<b>(10)</b>	<b>(2)</b>

The actuarial loss of €9 million (2017: loss of €13 million) resulting from a change in the rate of benefit accrual follows from the maximum level of pension (cash) contributions of 27.5% of the pensionable base. Given current low interest rates and the applicable financing arrangements, it is expected that the benefit accrual rate will be lower than the basis level of 1.875% for the coming years.

The negative adjustment of €3 million is the consequence of the slight increase in the main fund's funded status (on the basis of IAS 19 accounting) during 2018, triggering asset ceiling and adjustment of the recorded minimum funding requirement.

For 2019, we expect total cash contributions of around €146 million (2018: €148 million), including the fifth and last instalment of the unconditional funding obligation of €33 million (2018: €33 million).

For 2019, we expect total employer pension costs of around €125 million (2018: €134 million). The decrease is mainly explained by the lower rate of benefit increases, reflecting the development of the coverage ratio of the main fund. As the net liability of the main pension plan is limited to the outstanding funding obligation, we expect an actuarial gain of around €25 million recorded in other comprehensive income.

## 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

2017-2018, in € millions

	2017	2018
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	(8,542)	(8,826)
Transfers to liabilities relating to assets held for sale		9
Service costs	(105)	(122)
Interest costs	(153)	(176)
Past service costs	11	
Settlements	1	
Actuarial (losses)/gains	(266)	277
Benefits paid	228	231
<b>Benefit obligation at end of year</b>	<b>(8,826)</b>	<b>(8,607)</b>
Of which funded benefit obligations	(8,534)	(8,345)
Of which unfunded benefit obligations	(292)	(262)
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	8,165	8,515
Transfers to liabilities relating to assets held for sale		0
Assumed return on plan assets	146	169
Employee contributions	18	18
Employer contributions	141	136
Other costs	(9)	(9)
Settlements	(1)	
Actuarial (losses)/gains	283	(234)
Benefits paid	(228)	(231)
<b>Fair value of plan assets at end of year</b>	<b>8,515</b>	<b>8,364</b>
<b>Change in funded status</b>		
Funded status at the beginning of year	(377)	(311)
Transfers to liabilities relating to assets held for sale		9
Operating expenses	(85)	(113)
Interest (expenses)/income	(7)	(7)
Employer contributions	141	136
Actuarial (losses)/gains	17	43
<b>Funded status at end of year</b>	<b>(311)</b>	<b>(243)</b>
Impact of pension asset ceiling		(20)
Impact of minimum funding requirement	(48)	(33)
<b>Netted pension liabilities</b>	<b>(359)</b>	<b>(296)</b>
<b>Components of employer pension expenses</b>		
Service costs (net of employee contributions)	(87)	(104)
Interest (expenses)/income	(8)	(8)
Past service costs/settlements	11	
Other costs	(9)	(9)
<b>Total post-employment benefit income/(expenses)</b>	<b>(93)</b>	<b>(121)</b>
<b>Weighted average assumptions as at 31 December</b>		
Discount rate	2.0%	1.8%
Rate of benefit increases	1.5%	1.1%
Life expectancy 65 year old men/women (in years)	21.2/23.5	21.3/23.2

## 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 2018 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

2018, as indicated

	%-change in assumptions	impact on defined benefit obligation
<b>Benefit obligation at end of year (in € millions)</b>		<b>8,607</b>
Discount rate	+ 0.5%	-8.5%
Rate of benefit increases	+ 0.5%	10.1%
Life expectancy men/women	+ 1 yr	4.1%
<b>Benefit obligation at end of year (in € millions)</b>		<b>8,607</b>
Discount rate	- 0.5%	9.7%
Rate of benefit increases	- 0.5%	-8.3%
Life expectancy men/women	- 1 yr	-4.1%

## 3.5 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

2017-2018, in € millions

	Other employee benefit obligations	Restructuring	Claims and indemnities	Other	Total
Non-current other provisions	13	1	6	3	23
Current other provisions	4	26	2	8	40
<b>Balance at 31 Dec 2017</b>	<b>17</b>	<b>27</b>	<b>8</b>	<b>11</b>	<b>63</b>
Transfers to liabilities related to assets held for sale			(1)	(8)	(9)
Additions	4	7	3	3	17
Withdrawals	(2)	(18)	(2)	(1)	(23)
Releases		(4)	(3)	(1)	(8)
<b>Total changes</b>	<b>2</b>	<b>(15)</b>	<b>(3)</b>	<b>(7)</b>	<b>(23)</b>
Non-current other provisions	12	1	5	1	19
Current other provisions	7	11		3	21
<b>Balance at 31 Dec 2018</b>	<b>19</b>	<b>12</b>	<b>5</b>	<b>4</b>	<b>40</b>

The estimated utilisation of the other provisions in 2019 is €21 million, in 2020 €8 million, in 2021 €3 million and in 2022 and thereafter €8 million.

The transfers to liabilities relating to assets held for sale of €9 million related to discontinued operations and represents the balance as at 1 January 2018 (3 August 2018: €5 million). The net movement of €(4) million included additions of €5 million and withdrawals of €9 million.

### Other employee benefit obligations

As at 31 December 2018, the other employee benefit obligations related to jubilee benefits of €14 million and long term disability benefits of €5 million.

### Restructuring

The additions in restructuring provision of €7 million mainly relates to restructuring programmes within operations (€3 million), and head office departments (€1 million).

The restructuring provisions are mainly related to the implementation of coding system and further centralization within operations and the restructuring of our communication services department. The restructuring within head office departments results from adjusting the employee base to the volume decline within Mail in the Netherlands and Parcels.

The withdrawals of €18 million concerned severance payments under the cost saving programmes totaling €17 million related to around 200 FTEs and payments for other initiatives totalling €1 million related to around 40 FTEs.

The release of €4 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. 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

Other provisions consist of dilapidation costs in relation to restructurings and guarantees provided to third parties.

### 3.6 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.

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

2017-2018, in € millions

	2017	2018
Balance at 1 January	17	9
Share in net result	(1)	
Transfers to assets held for sale		(8)
Additions		2
Capital contribution	6	
Impairment Postkantoren/Bruna	(9)	
Transfer Whistl to financial assets at fair value through OCI	(3)	
Dividend received	(1)	
Balance at 31 December	9	3

As at 31 December 2018, the investments in joint ventures mainly related to the 50% interest in Postkantoren B.V, a joint venture with ING Bank N.V, within Mail in the Netherlands. The investments in associates mainly related to minority shareholdings in MyParcel.com and RoamlerCare, within Parcels. All joint ventures are private companies and there is no quoted market price available for their shares.

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 2017, Whistl replaced the PostNL guarantee of £32 million by a guarantee of an external party. The release of the guarantee was accompanied by other shareholding relationship changes, that led to PostNL losing its significant influence on the investment. As a result the investment in associate Whistl has been transferred to financial assets at fair value through OCI.

In 2017, Postkantoren B.V. completed the sale of its 100% subsidiary Bruna B.V. Completion was accompanied by a recapitalisation of Bruna of €5 million, which was preceded by a recapitalisation of Postkantoren of €6 million. The impairment of Postkantoren/Bruna of €9 million reflected the further deteriorated financial situation following the reduced performance of Bruna during 2017 for €4 million and the write-down of the sale-related recapitalisation of Bruna for €5 million.

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 (2017: €(3) million). The profit/(loss) of all immaterial investments in associates amounted to €(1) million (2017: €4 million).

### 3.7 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 2018:

#### PostNL

##### Statement of changes deferred taxes

2018, in € millions

	Net balance 31 December 2017	Changes via income statement	Changes via other comprehensive income	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	
<b>Deferred tax assets/liabilities</b>	<b>(14)</b>	<b>11</b>	<b>(13)</b>	<b>(6)</b>	<b>57</b>	<b>35</b>	<b>98</b>	<b>63</b>
Offsetting							(32)	(32)
<b>Net deferred taxes</b>	<b>(14)</b>	<b>11</b>	<b>(13)</b>	<b>(6)</b>	<b>57</b>	<b>35</b>	<b>66</b>	<b>31</b>

Of the deferred tax assets at 31 December 2018, €8 million (2017: €2 million) is to be recovered within 12 months and €58 million (2017: €27 million) after 12 months. Of the deferred tax liabilities at 31 December 2018, an amount of €20 million (2017: €8 million) is to be settled within 12 months and an amount of €11 million (2017: €35 million) after 12 months.

The changes via other comprehensive income of €(13) 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 transfer to held for sale of €6 million related to discontinued operations and represents the balance as at 1 January 2018 (3 August 2018: €8 million). The net movement of €2 million included additions related mainly to losses carried forward of €2

million. The other changes of €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 3.8).

The total accumulated losses available for carry forward at 31 December 2018 amounted to €112 million (2017: €230 million). With these losses carried forward, future tax benefits of €30 million could be recognised (2017: €67 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 realized. 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 €24 million (2017: €56 million) of the potential future tax benefits and has recorded deferred tax assets of €6 million at 31 December 2018 (2017: €11 million).

The expiration of total accumulated losses is as follows:

- 2019: €5 million,
- 2020: €5 million,
- 2021: €1 million,
- 2022: €5 million,
- 2023 and thereafter: €26 million, and
- Indefinite: €70 million.

The following table shows the movements in deferred taxes in 2017:

## PostNL

### Statement of changes deferred taxes

2017, in € millions

	Net balance 31 December 2016	Changes via income statement	Changes via other comprehensive income	Acquisition of subsidiaries	Net balance 31 December 2017	Assets	Liabilities
Provisions	33	(8)			25	25	
Intangible assets	(19)	(4)		(4)	(27)	1	28
Property, plant and equipment	(23)	(8)		1	(30)	16	46
Losses carried forward	9	2			11	11	
Other	(2)	9			7	10	3
<b>Deferred tax assets/liabilities</b>	<b>(2)</b>	<b>(9)</b>	<b>0</b>	<b>(3)</b>	<b>(14)</b>	<b>63</b>	<b>77</b>
Offsetting						(34)	(34)
<b>Net deferred taxes</b>	<b>(2)</b>	<b>(9)</b>	<b>0</b>	<b>(3)</b>	<b>(14)</b>	<b>29</b>	<b>43</b>

### 3.8 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. The comparative figures of 2017 of the income statement and the cash flow statement have been represented for the change to discontinued operations.

As at 31 December 2018, assets classified as held for sale amounted to €200 million (2017: €10 million) and related for €5 million to buildings held for sale in the Netherlands (2017: €10 million) and for €195 million to Nexive and Postcon. The liabilities related to assets classified as held for sale of €121 million related to Nexive and Postcon.

#### 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'. The divestment process is on track. We expect to make further announcements before the summer of 2019.

The following table presents the financial performance and cash flow information of the discontinued operations for the years 2017 and 2018.

#### PostNL discontinued operations

##### Financial performance and cash flow

2017-2018, in € millions

	2017	2018
Revenues	775	757
Expenses	(806)	(798)
<b>Operating income</b>	<b>(31)</b>	<b>(41)</b>
Results from investments in jv's/associates		3
Income taxes		3
<b>Profit/(loss) after taxes</b>	<b>(31)</b>	<b>(35)</b>
Impairment to fair value		(59)
<b>Profit/(loss) from discontinued operations</b>	<b>(31)</b>	<b>(94)</b>
Net cash used in operating activities	(24)	(45)
Net cash used in investing activities	(9)	(7)
Net cash from financing activities	0	0
<b>Changes in cash and cash equivalents</b>	<b>(33)</b>	<b>(52)</b>

The fair value impairment of €(59) million includes a positive tax effect of €57 million (refer to note 3.7). The fair value measurement is based on inputs not based on observable market data (level 3).

Fair value represents the price that would be received when selling an asset in an orderly transaction between willing market participants. Our valuations have initially been measured by using an income approach with the most critical inputs operating income and discount rate. Those valuations are market-corroborated based on confirmatory non-binding indicative offers received. In case the confirmatory non-binding indicative offers deviated from the value as calculated through the income approach, management considered the reasons for deviations and made adjustments where deemed necessary.

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

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

## PostNL discontinued operations

### Condensed balance sheet

2017-2018, in € millions

	2018
Total non-current assets	7
Trade accounts receivable	87
Other current assets	81
Cash and cash equivalents	20
<b>Total assets</b>	<b>195</b>
Provisions	11
Trade accounts payable	48
Other current liabilities	62
<b>Total liabilities</b>	<b>121</b>

The main part of the provisions of €11 million related to the unfunded defined benefit plan Trattamento di Fine Rapporto (TFR) of €7 million in Italy (applying a discount rate of 1.6%).

The average number of employees working for the discontinued operations was 4,908 employees (2017: 5,298) with a comparable number of FTEs of 4,256 FTEs (2017: 4,488).

As a specific contingent tax liability, at the end of December 2018 a tax dispute exists relating to the years 2012 and 2013 which can be estimated, using a probability-weighted assessment, at €7 million. Although we believe that this risk is in the low possibility range (20%-30%), supported by external advice, the outcome of the matter will depend upon the result of any negotiations with the relevant tax authorities and the outcome of related litigation. Furthermore, it is uncertain whether comparable tax disputes will arise for the years as from 2014 onwards.

## 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 2018 and 2017.

## PostNL

### Property, plant and equipment

2017-2018, in € millions

	2017	2018
Balance at 1 January	4	10
Disposals	(8)	(8)
Impairments	0	0
Transfers to/from property, plant and equipment	14	3
Balance at 31 December	10	5

## 3.9 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

2017-2018, in € millions

At 31 December	2017	2018
Rent and operating lease	153	133
Finance lease		39
Capital expenditure	37	20
Purchase commitments	74	123

As at 31 December 2017, rent and operating lease commitments included an amount of €17 million related to discontinued operations. Further disclosure hereafter only relates to continuing operations.

As at 31 December 2018, €155 million of the commitments indicated above are of a short-term nature (2017: €155 million).

#### Rent and operational lease contracts

In 2018, operational lease expenses (including rental) in the consolidated income statement amounted to €67 million (2017: €66 million). There were no significant individual lease contracts as at 31 December 2018. Future payments on non-cancellable existing lease contracts mainly relating to real estate, computer equipment and other equipment are as follows:

### PostNL

#### Repayment schedule rent/operational leases

2017-2018, in € millions

At 31 December	2017	2018
Less than 1 year	50	51
Between 1 and 2 years	33	34
Between 2 and 3 years	23	22
Between 3 and 4 years	15	12
Between 4 and 5 years	6	6
Thereafter	9	8
Total	136	133

#### Finance lease

As at 31 December 2018, commitments in connection with finance leases amounted to €39 million and are related to property, plant and equipment under construction. The leases will commence in 2019 with repayments in 10 years. These commitments primarily relate to the new sorting centres of Parcels.

#### Capital expenditure

As at 31 December 2018, commitments in connection with capital expenditure amounted to €20 million (2017: €37 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 2018, PostNL had unconditional purchase commitments of €123 million (2017: €74 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 tax planning, regulatory reviews

and audits. 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.

In this regard, a contingent tax asset exists around PostNL's Dutch VAT position. In Q4 2018, we started a discussion with the Dutch tax authorities around the method to calculate our non-deductible VAT. These discussions have not been finalised to date. For the year 2018 this can result in a lower amount of non-deductible VAT of multiple millions.

#### **Guarantees**

As at 31 December 2018, PostNL, on behalf of its subsidiaries, had various parental 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 claim 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 2018, no events had occurred that triggered disclosure of a significant contingent asset or liability following the aforementioned agreement with TNT Express.

### **3.10 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

2018, in € millions

At 31 December 2018	Parcels	Mail in NL	PostNL Other	Asstes/liabilities held for sale	Total
Intangible assets	72	112	28		212
Property, plant and equipment	283	195	16		494
Trade accounts receivable	140	172	1		313
Other current assets	58	68	261		387
<b>Total assets</b>	<b>566</b>	<b>554</b>	<b>383</b>	<b>195</b>	<b>1,698</b>
Trade accounts payable	40	82	24		146
Other current liabilities	159	432	21		612
<b>Total liabilities</b>	<b>299</b>	<b>723</b>	<b>506</b>	<b>121</b>	<b>1,649</b>
Cash out for capital expenditures	52	30	13		95

A reconciliation of the segment information relating to the balance sheet of the reportable segments as at 31 December 2017 is presented below. The figures have been represented for adjusted segment reporting and the impact of the discontinued operations.

## PostNL

### Segmentation - balance sheet and capital expenditures

2017, in € millions

At 31 December 2017	Parcels	Mail in NL	PostNL Other	Reconciliation to the balance sheet	Total
Intangible assets	68	103	24	62	257
Property, plant and equipment	242	229	20	19	510
Trade accounts receivable	103	168	2	113	386
Other current assets	55	71	632	109	867
<b>Total assets</b>	<b>482</b>	<b>587</b>	<b>690</b>	<b>321</b>	<b>2,080</b>
Trade accounts payable	33	107	29	51	220
Other current liabilities	154	495	260	87	996
<b>Total liabilities</b>	<b>266</b>	<b>842</b>	<b>784</b>	<b>151</b>	<b>2,043</b>
Cash out for capital expenditures	44	46	11		101

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

2017-2018, in € millions

At 31 December	2017			2018		
	Intangible assets	Property, plant and equipment	Financial fixed assets	Intangible assets	Property, plant and equipment	Financial fixed assets
The Netherlands	194	489	30	211	492	91
Germany	57	11	9			
Italy	5	8	10			
Rest of Europe	1	2	1	1	2	1
<b>Europe</b>	<b>257</b>	<b>510</b>	<b>50</b>	<b>212</b>	<b>494</b>	<b>92</b>
Rest of the World						
<b>Total</b>	<b>257</b>	<b>510</b>	<b>50</b>	<b>212</b>	<b>494</b>	<b>92</b>

In 2018, the assets of Germany and Italy mainly related to the discontinued operations, reported as assets held for sale and further disclosed in note 3.8.

## Section 4: Capital structure and financing costs

This section sets out the Group's capital structure and related (financing) costs.

We start by exploring our net asset / net debt position, the Group's key measure used to evaluate total cash resources net of the current outstanding debt. We next disclose how the Group manages its financial risks. PostNL's activities expose the company to a variety of financial risks, such as market risks, credit risk and liquidity risk. PostNL's overall risk management programme focuses on mitigating these risks, which arise in the normal course of business. We continue with a summary of the Group's financial instruments.

We conclude this section with the disclosure of our equity structure, the individual components therein and an analysis of the movements during the year.

### Accounting policies

PostNL distinguishes the following categories of financial assets and liabilities:

- financial assets and financial liabilities at fair value through profit or loss,
- financial assets and financial 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.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges (hedges of the fair value of recognised assets and liabilities of a firm commitment);
- 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.

### Fair value 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

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 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 financial 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 Net debt

As at 31 December 2018 net debt amounted to €149 million (2017: net cash of €27 million) and included the items disclosed hereafter. The decrease of €176 million includes a movement related to discontinued operations of €72 million. The remaining decrease of €104 million mainly resulted from negative net cash from operating and investing activities of €19 million, (interim) dividend payments of €63 million and new finance leases of €23 million.

### Other loans receivable

As at 31 December 2018, other loans receivable of €6 million (2017: €7 million) mainly include a lessor loan of €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

2017-2018, as indicated

At 31 December	Nominal amount	Average amount	Effective interest rate
Cash at bank and in hand	253		
Bank deposits	100	120	(0.20%)
Money Market Funds	292	217	(0.33%)
<b>Total cash and cash equivalents 2017</b>	<b>645</b>		
Cash at bank and in hand	137		
Bank deposits	10	60	(0.35%)
Money Market Funds	122	203	(0.39%)
<b>Total cash and cash equivalents 2018</b>	<b>269</b>		

As at 31 December 2018, included in cash and cash equivalents was €0 million (2017: €0 million) of restricted cash. The fair value of cash and cash equivalents approximated the carrying value.

## Debt

As at 31 December 2018, debt consists of long-term debt of €420 million (2017: €400 million) and short-term debt of €4 million (2017: €225 million).

### PostNL

#### Total borrowings - maturity schedule

2018, in € millions

	Eurobonds	Financial leases	Other loans	Total
2019		3	1	4
2020		3		3
2021		3		3
Thereafter	398	16		414
<b>Total borrowings</b>	<b>398</b>	<b>25</b>	<b>1</b>	<b>424</b>
Of which included in long-term debt	398	22		420
Of which included in short-term debt		3	1	4

The decrease in debt in 2018 is due to the redemption of our eurobond in August 2018. Refer to note 4.5 for more details on the current outstanding eurobonds.

The non-cash changes in debt amounted to €21 million and related for €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

2017-2018, in € millions

	2017	2018
Balance at 1 January	1	5
Additions	1	1
Remeasurement recognised in OCI		11
Transfer Whistl from investments in associates	3	
<b>Balance at 31 December</b>	<b>5</b>	<b>17</b>

As at 31 December 2018, 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 and external valuation insights, if available. In 2018, the fair value remeasurement of €11 million related to our stake in Whistl.

## 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 2018: 1.9);
- 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 2018, PostNL's gross interest-bearing borrowings, including finance lease obligations, totalled €424 million (2017: €625 million), all at fixed interest rates. Financial assets are on average of a short-term nature.

At 31 December 2018, 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 €3 million higher (2017: €6 million). The potential profit increase is entirely attributable to interest income on the cash and cash equivalents. Equity would be positively affected by €3 million (2017: €0 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 2018, 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 2018, 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 (2017: €0 million). In 2018, 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 2017. Equity would have been positively impacted by €4 million (2017: €8 million negative), 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 18% of outstanding trade receivables as at 31 December 2018.

## 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 2018, the €400 million committed credit facility (maturity date: 10 April 2022) was undrawn (2017 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

2017-2018, in € millions

At 31 December	Less than 1 year	Between 1 and 3 years	Thereafter	Book value
Eurobonds	243	8	416	597
Financial leases		2		2
Interest rate and cross-currency swaps - outgoing	239			26
Foreign exchange contracts - outgoing	215			
Trade accounts payable	220			220
Other current liabilities	66			66
<b>Total outgoing flows</b>	<b>983</b>	<b>10</b>	<b>416</b>	<b>911</b>
Interest rate and cross-currency swaps - incoming	239			
Foreign exchange contracts - incoming	215			
<b>Total mitigation via incoming flows</b>	<b>454</b>			
<b>Total liquidity risk 2017</b>	<b>529</b>	<b>10</b>	<b>416</b>	<b>911</b>
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
<b>Total outgoing flows</b>	<b>423</b>	<b>14</b>	<b>429</b>	<b>633</b>
Interest rate and cross-currency swaps - incoming	0			
Foreign exchange contracts - incoming	206			
<b>Total mitigation via incoming flows</b>	<b>206</b>			
<b>Total liquidity risk 2018</b>	<b>217</b>	<b>14</b>	<b>429</b>	<b>633</b>

## 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

2017-2018, in € millions

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	7			7
Other financial fixed assets		level 3			5	5
Accounts receivable	3.1.1	level 2	436			436
Foreign exchange contracts <sup>1</sup>		level 2		2		2
Cash and cash equivalents	4.1		645			645
<b>Total assets as per balance sheet 2017</b>			<b>1,088</b>	<b>2</b>	<b>5</b>	<b>1,095</b>
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 <sup>1</sup>		level 2		3		3
Cash and cash equivalents	4.1		269			269
<b>Total assets as per balance sheet 2018</b>			<b>600</b>	<b>3</b>	<b>17</b>	<b>620</b>

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 recurring level 3 financial assets at fair value through OCI our valuations have historically been measured by using an income approach with the most critical inputs operating income and discount rate. We applied the market approach as per 31 December 2018. This has resulted in an increase in fair value by €11 million, which has been accounted for through other comprehensive income.

### PostNL

#### Financial instruments - liabilities

2017-2018, in € millions

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&2 <sup>2</sup>	400		400
Trade accounts payable		level 2 <sup>1</sup>	220		220
Short-term debt	4.1	level 1&2 <sup>2</sup>	199	26	225
Other current liabilities <sup>3</sup>	3.1.2	level 2 <sup>1</sup>	65	1	66
<b>Total liabilities as per balance sheet 2017</b>			<b>884</b>	<b>27</b>	<b>911</b>
Long-term debt	4.1	level 1&2 <sup>2</sup>	420		420
Trade accounts payable		level 2 <sup>1</sup>	146		146
Short-term debt	4.1	level 2 <sup>2</sup>	4		4
Other current liabilities <sup>3</sup>	3.1.2	level 2 <sup>1</sup>	62	1	63
<b>Total liabilities as per balance sheet 2018</b>			<b>632</b>	<b>1</b>	<b>633</b>

1. We consider the fair value equal to the book value as these items will be settled within short-term and therefore level 2.

2. Eurobonds level 1 and finance leases and derivatives level 2.

3. Other current liabilities include 'Payments from customers received in advance' for €52 million (2017: 44) and 'Other' for €11 million (2017: 22), 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

2017-2018, in € millions

At 31 December	Nominal value	Costs/discount to be amortised	Hedge accounting	Carrying value	Fair value
7.500% eurobond 2018 (£177 million)	223	0	Yes	199	207
1.000% eurobond 2024	400	2	No	398	400
<b>Total outstanding eurobonds 2017</b>	<b>623</b>	<b>2</b>		<b>597</b>	<b>607</b>
1.000% eurobond 2024	400	2	No	398	389
<b>Total outstanding eurobonds 2018</b>	<b>400</b>	<b>2</b>		<b>398</b>	<b>389</b>

## Financial leases

For the details on the outstanding financial leases, see the table below.

### PostNL

#### Outstanding financial leases

2017-2018, in € millions

At 31 December	Nominal value	Fixed/floating interest	Hedge accounting	Carrying value	Fair value
Total outstanding financial leases 2017	2	fixed	No	2	2
Total outstanding financial leases 2018	25	fixed	No	25	25

## Derivatives - Cross-currency swaps

As at 31 December 2018, PostNL does not have cross-currency swaps outstanding. At 31 December 2017 PostNL had £177/€223 million cross-currency swap outstanding to hedge the foreign exchange exposure on the matured £177 million eurobond. These swaps matured in August 2018.

For the details on the outstanding cross-currency swaps, see the table below.

### PostNL

#### Outstanding swaps

2017-2018, in € millions

At 31 December	Nominal value	Forward Starting	Currency	Outstanding	Pay	Receive	Hedge	Fair value
Total cross-currency swaps 2017	223	No	GBP/EUR	Yes	fixed	fixed	cash flow	(26)
Total cross-currency swaps 2018								

The fair value of the outstanding long-term cross-currency swaps is recorded as a liability in 'short-term debt' and includes credit and debit valuation adjustments.

## Derivatives - Foreign currency exchange contracts

For the details on the outstanding foreign exchange contracts, see the table below.

### PostNL

#### Outstanding foreign exchange contracts

2017-2018, in € millions

At 31 December	Carrying value	Fair value	Nominal value	Hedge	Amount in equity
Asset	2	2	135	fair value/ cashflow	1
Liability	1	1	80	fair value/ cashflow	0
<b>Foreign exchange contracts 2017</b>					
Asset	3	3	154	fair value/ cashflow	0
Liability	1	1	52	fair value/ cashflow	0
<b>Foreign exchange contracts 2018</b>					

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 2018, 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 (2017: €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 2018, the company's issued share capital amounted to €38 million (2017: €36 million). The number of authorised, issued and outstanding shares by class of share is as follows:

### PostNL

#### Shares

2017-2018, number of shares

Before proposed appropriation of profit	2017	2018
Authorised by class		
Ordinary shares	750,000,000	750,000,000
Preference shares B	750,000,000	750,000,000
<b>Total authorised</b>	<b>1,500,000,000</b>	<b>1,500,000,000</b>
Issued and outstanding		
Per 1 January of the reported year	442,805,079	453,530,195
Issued for stock dividend	9,920,567	15,165,535
Issued under its incentive schemes	804,549	504,046
<b>Per 31 December of the reported year</b>	<b>453,530,195</b>	<b>469,199,776</b>
Issued and outstanding per 31 December by class		
Ordinary shares	453,530,195	469,199,776
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	1,625,690	1,667,191
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 504,046 ordinary shares in 2018 (2017: 804,549 shares) under its incentive schemes to 'Stichting Managementparticipatie PostNL' (Foundation Management Participation PostNL). The

company did not purchase any ordinary shares in 2018 (2017: 0 shares) to cover its obligations under the existing share plans. At 31 December 2018, the total number of shares held for this purpose was nil (2017: 0 shares). The company also held no ordinary shares for cancellation at 31 December 2018 (2017: 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 1,667,191 shares (2017: 1,625,690 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 2018 no preference shares B were issued.

#### **Additional paid-in capital**

At 31 December 2018, additional paid-in capital of €160 million (2017: €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

This section includes the notes not explained elsewhere in the financial statements. We disclose the following items in the following order:

- The components of the remuneration of the Supervisory Board, Board of Management and senior management.
- The related party transactions and balances from trading relationships with joint ventures and unconsolidated companies in which PostNL holds minority stakes.
- Business combinations.
- A summary of all remaining accounting policies.

We conclude this section with a description of subsequent events, where we provide information received between 31 December 2018 and the date of this report about material events applicable for understanding our year-end position.

### 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

### PostNL

#### Remuneration Supervisory Board

2017-2018, in €

	Base compensation	Meeting fees <sup>1</sup>	Total remuneration
Mr J. Nooitgedagt	36,236	7,500	43,736
Mr J. Wallage	47,047	10,500	57,547
Mr E. Blok	40,000	13,000	53,000
Mr J.W.M. Engel	40,000	14,000	54,000
Ms A.M. Jongerius	40,000	5,500	45,500
Ms T. Menssen	40,000	9,500	49,500
Mr F.H. Rövekamp	40,000	4,500	44,500
<b>Total 2018</b>	<b>283,283</b>	<b>64,500</b>	<b>347,783</b>
Total 2017	269,792	75,000	344,792

1. Payments of meeting fees relating to number of Supervisory Board committee meetings attended and number of meetings held.

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 2018, the total remuneration of the Board of Management consisted of:

- base salary,
- variable remuneration,
- other periodic compensation, and
- pension costs.

### PostNL

#### Remuneration Board of Management

2017-2018, in €

	2017		2018		
	Herna Verhagen	Former member - Jan Bos	Herna Verhagen	Pim Berendsen	Former member - Jan Bos <sup>3</sup>
<b>Fixed remuneration</b>					
Base salary	625,000	475,000	625,000	333,819	197,917
<b>Variable remuneration</b>					
Accrued for short-term incentive	70,313	53,438	93,750	50,073	29,687
Accrued for long-term incentive	212,688	125,564	265,803	82,127	86,259
Other periodic compensation <sup>1</sup>	199,123	146,914	196,006	77,039	129,198
Pension costs <sup>2</sup>	20,485	21,739	24,110	23,854	10,606
<b>Total remuneration</b>	<b>1,127,609</b>	<b>822,655</b>	<b>1,204,669</b>	<b>566,913</b>	<b>453,668</b>

1. Other periodic compensation include company costs related to tax and social security, pension allowances, study costs, company car and other compensation. Also in 2018, Jan Bos received a jubilee payment (25 years in service) of one month's gross salary.

2. Pension costs represent the service costs of the defined benefit scheme.

3. Jan Bos stepped down as CFO of PostNL on 17 April 2018 and acted as advisor to the Board of Management until 1 June 2018. As advisor to the Board of Management, no changes were made to his contractual arrangements.

### 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.

### Accrued for short-term incentive

The short-term incentive represents a potential reward of 37.5% of the annual base salary which is based on challenging but achievable annual targets. A target can only contribute to the short-term incentive payout if it is fully met, which means there is no stretch and no threshold on the annual targets. This short-term incentive plan rewards with a yearly cash payment reflecting the realised achievements of targets. The focus areas for the short-term incentive are in line with the current remuneration policy and represent a multi-stakeholder approach, with 60% financial targets and 40% non-financial targets.

PostNL accounts for the short-term incentive on the basis of the performance of the year reported. In 2018, an amount of €173,510 was accrued for. In accordance with the remuneration policy, this amount will be paid in cash in 2019. In 2018, an amount of €123,750 was paid to the members of the Board of Management in relation to the short-term incentive of 2017.

### Accrued for long-term incentive

In 2018, the total share-based payment costs relating to the long-term incentive for the members of the Board of Management amounted to €434,189 (2017: €338,252), which related to the performance share plan as shown below.

### Performance share plan

The Board of 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 internal targets. The performance share plan contains the following characteristics:

- it is a conditional equity-settled share plan based on three-year internal targets,
- shares are conditionally allocated to the Board of Management from 2013 onwards,
- 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 extent to which the long-term targets supportive to the attainment of PostNL's strategy have been achieved,
- 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, and
- 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 retention period for vested shares expires after two years or at termination of employment/service if this occurs earlier. For compliance reasons, a sale of shares may not occur earlier than six months after 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.

### Settlement agreement Jan Bos

Jan Bos stepped down as CFO of PostNL on 17 april 2018 and acted as advisor to the Board of Management until 1 June 2018. No changes were made to his contractual arrangements. No notice period and severance payment were applicable. Mr. Bos has a good leaver status, whereby pro rate vesting of the LTI plans 2016-2018 and 2017-2019 have been applied regarding time and performance. For his period of service in 2018 all regular remuneration elements have been applied time-based. Also the STI 2018 will be paid pro rata, based on actual performance over 2018, and will be payable in 2019 upon adoption of the 2018 annual accounts by the general meeting of shareholders.

## PostNL

### Performance share plan Board of Management

2018, number of shares

	Year of grant	Vesting period	Number outstanding 1 Jan 2018	Transfer shares new CFO <sup>1</sup>	Granted during 2018 <sup>2</sup>	Dividend shares <sup>3</sup>	Settled during 2018	Forfeited during 2018	Number outstanding 31 Dec 2018
Herna Verhagen	2015	7 May 2015 to 7 May 2018	55,247			2,989	(57,073)	(1,163)	0
	2016	10 May 2016 to 10 May 2019	64,318			5,110			69,428
	2017	9 May 2017 to 9 May 2020	51,771			4,113			55,884
	2018	9 May 2018 to 9 May 2021	0		74,053	1,780			75,833
Pim Berendsen	2016	10 May 2016 to 10 May 2019	0	29,758		716			30,474
	2017	9 May 2017 to 9 May 2020	0	24,791		596			25,387
	2018	9 May 2018 to 9 May 2021	0		56,280	1,353			57,633
Former member - Jan Bos	2015	7 May 2015 to 7 May 2018	41,988			2,272	(43,376)	(884)	0
	2016	10 May 2016 to 10 May 2019	24,781			1,341	(26,122)		0
	2017	9 May 2017 to 9 May 2020	4,689			255	(4,943)		0
<b>Total</b>			<b>242,794</b>	<b>54,549</b>	<b>130,333</b>	<b>20,525</b>	<b>(131,514)</b>	<b>(2,047)</b>	<b>314,639</b>

1. The outstanding shares of Mr Berendsen as member of senior management are transferred to the outstanding shares of the Board of Management.

2. 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 2018 results (€3.165).

3. Dividend shares related to the final dividend 2017 and interim dividend 2018.

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 include vested shares under PostNL's performance share plan and variable remuneration.

In 2018, an amount of €434,189 (2017: €338,252) 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 (performance share plan (PSP) 2018-2020: €3.220 per share; PSP 2017-2019: €4.361 per share; PSP 2016-2018: €3.619 per share; PSP 2015-2017: €4.387 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, study costs, company car and other compensation.

#### Pension costs

The pension costs consist of the service costs for the reported year, net of employee contributions. The members of the Board of Management are participants in a career average defined benefit scheme.

#### Loans, advance payments or guarantees

No loans, advance payments or guarantees were granted to members of the Board of Management in 2018 (2017: 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 challenging but achievable annual targets. Of the realised achievements of targets 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 €1.2 million in 2018 (2017: €0.9 million). The realised amounts will be granted and paid in PostNL shares in 2019.

### 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 internal targets. The company sees the long-term incentive as 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 shareholders.

The performance share plan contains the same characteristics as the performance share plan of the Board of Management.

## PostNL

### Performance share plan senior management

2018, number of shares

	Year of grant	Vesting period	Number outstanding 1 Jan 2018	Transfer shares new CFO <sup>1</sup>	Granted during 2018 <sup>2</sup>	Dividend shares <sup>3</sup>	Settled during 2018	Forfeited during 2018	Number outstanding 31 Dec 2018
Performance share plan	2015	7 May 2015 to 7 May 2018	121,052			6,552	(125,055)	(2,549)	0
	2016	10 May 2016 to 10 May 2019	165,441	(29,758)		12,432			148,115
	2017	9 May 2017 to 9 May 2020	149,210	(24,791)		11,264			135,683
	2018	9 May 2018 to 9 May 2021	0		199,624	4,802			204,426
<b>Total</b>			<b>435,703</b>	<b>(54,549)</b>	<b>199,624</b>	<b>35,050</b>	<b>(125,055)</b>	<b>(2,549)</b>	<b>488,224</b>

1. The outstanding shares of Mr Berendsen as member of senior management are transferred to the outstanding shares of the Board of Management.

2. 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 2018 results (€3.165).

3. Dividend shares related to the final dividend 2017 and interim dividend 2018.

In 2018, an amount of €636,626 (2017: €680,594) 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 (performance share plan (PSP) 2018-2020: €3.220 per share; PSP 2017-2019: €4.361 per share; PSP 2016-2018: €3.619 per share; PSP 2015-2017: €4.387 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 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 and as of 2014 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, and

- 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

2018, number of shares

	Year of grant	Vesting period	Number outstanding 1 Jan 2018	Granted during 2018	Settled during 2018	Forfeited during 2018	Number outstanding 31 Dec 2018
Matching rights	2015	7 May 2015 to 7 May 2018	28,610		(28,610)		0
	2016	10 May 2016 to 10 May 2019	27,754		(380)	(1,198)	26,176
	2017	9 May 2017 to 9 May 2020	29,849			(774)	29,075
	2018	9 May 2018 to 9 May 2021	0	10,055		(248)	9,807
<b>Total</b>			<b>86,213</b>	<b>10,055</b>	<b>(28,990)</b>	<b>(2,220)</b>	<b>65,058</b>

In 2018, an amount of €83,310 (2017: €109,593) 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 (2018: €3.220 per share; 2017: €4.361 per share; 2016: €3.619 per share; 2015: €4.387 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 2018 (2017: 0) to cover its obligations under the existing share plans. As at 31 December 2018, the total number of shares held for this purpose was nil (2017: 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 2018, sales of PostNL to joint ventures and associates amounted to €0 million (2017: €2 million). Purchases of PostNL from joint ventures and associates amounted to €0 million (2017: €0 million). The net amounts due from the joint ventures and associates amounted to €0 million (2017: €0 million).

Related party transactions with PostNL's pension fund are presented in note 3.4 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

In 2018, PostNL did not acquire new business by the acquisition of the shares of other entities.

## 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 25 February 2019, we have made a joint announcement with Sandd regarding our intention to create one strong national postal network in the Netherlands. PostNL and Sandd have filed a request for approval with the regulator, which is the formal start of this process. The transaction appreciates Sandd at an enterprise value of €130m and provides for the purchase of all (100%) Sandd shares. The acquisition will be funded through cash on hand and external funding. The acquisition is conditional on approval of the combination of Sandd and PostNL by the authorities, consultation with the relevant works councils and trade unions, and agreement on the final transaction documentation.



# Corporate Financial Statements



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## Corporate primary statements

### PostNL N.V.

#### Corporate income statement

2017-2018, in € millions

Year ended at 31 December	Notes	2017	2018
Dividend income	6.2.1	104	73
Other income			1
Impairment Mail investments	6.2.2	(79)	(164)
Salaries, pensions and social security contributions	6.2.3	14	(2)
Other operating expenses		3	2
<b>Total operating expenses</b>		<b>(62)</b>	<b>(164)</b>
Operating income		42	(90)
Interest and similar income		1	0
Interest and similar expenses		(35)	(17)
<b>Net financial expense</b>	6.2.4	<b>(34)</b>	<b>(17)</b>
<b>Profit/(loss) before income taxes</b>		<b>8</b>	<b>(107)</b>
Income taxes	6.2.5	6	5
<b>Profit/(loss) for the year attributable to shareholders</b>		<b>14</b>	<b>(102)</b>

### PostNL N.V.

#### Corporate statement of comprehensive income

2017-2018, in € millions

Year ended at 31 December	Notes	2017	2018
Profit for the year attributable to shareholders		14	(102)
Actuarial gains/(losses) pensions, net of tax	6.4.2	21	25
Pension asset ceiling/minimum funding requirement, net of tax	6.4.2	(10)	(2)
<b>Other comprehensive income that will not be reclassified to the income statement</b>		<b>11</b>	<b>23</b>
Gains/(losses) on cashflow hedges, net of tax		1	2
<b>Other comprehensive income that may be reclassified to the income statement</b>		<b>1</b>	<b>2</b>
<b>Total other comprehensive income for the year</b>		<b>12</b>	<b>25</b>
<b>Total comprehensive income for the year</b>		<b>26</b>	<b>(77)</b>

The accompanying notes form an integral part of the financial statements.

**PostNL N.V.****Corporate statement of cash flows**

2017-2018, in € millions

Year ended at 31 December	Notes	2017	2018
Profit/(loss) before income taxes		8	<b>(107)</b>
Adjustments for:			
Impairment Mail investments		79	<b>164</b>
Share-based payments		0	<b>3</b>
Dividend income		(104)	<b>(73)</b>
Interest and similar income		(1)	<b>0</b>
Interest and similar expenses		35	<b>17</b>
<b>Investment income</b>		<b>(70)</b>	<b>(56)</b>
Pension liabilities		(20)	<b>(4)</b>
Other provisions		(3)	<b>(3)</b>
<b>Changes in provisions</b>		<b>(23)</b>	<b>(7)</b>
<b>Changes in working capital</b>		<b>(3)</b>	<b>(4)</b>
<b>Cash used in operations</b>		<b>(9)</b>	<b>(7)</b>
Interest paid		(32)	<b>(19)</b>
Income taxes received/(paid)		2	<b>8</b>
<b>Net cash used in operating activities</b>	6.3.1	<b>(39)</b>	<b>(18)</b>
Dividend received		104	<b>73</b>
Interest received		1	<b>0</b>
<b>Net cash from investing activities</b>	6.3.2	<b>105</b>	<b>73</b>
Dividends paid		(40)	<b>(63)</b>
Financing related to Group companies		(97)	<b>206</b>
Proceeds from long-term borrowings		398	
Repayments of short-term borrowings		(328)	<b>(198)</b>
<b>Net cash used in financing activities</b>	6.3.3	<b>(67)</b>	<b>(55)</b>
<b>Total change in cash and cash equivalents</b>		<b>(1)</b>	<b>0</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1</b>	<b>0</b>
Total change in cash and cash equivalents		(1)	<b>0</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>0</b>	<b>0</b>

The accompanying notes form an integral part of the financial statements.

## PostNL N.V.

### Corporate statement of financial position

2017-2018, in € millions

At 31 December	Notes	2017	2018
Before proposed appropriation of profit			
<b>Assets</b>			
Investments in Mail	6.4.1	3,239	3,075
Deferred tax assets	6.2.5	0	0
<b>Total non-current assets</b>		<b>3,239</b>	<b>3,075</b>
Accounts receivable from Group companies	6.4.3	188	
Other accounts receivable			3
Income tax receivable		4	
Cash and cash equivalents		0	0
<b>Total current assets</b>		<b>192</b>	<b>3</b>
<b>Total assets</b>		<b>3,431</b>	<b>3,078</b>
<b>Equity and liabilities</b>			
Issued share capital		36	38
Additional paid-in capital		160	160
Hedge reserves		(2)	
Revaluation reserve investments in Mail		2,332	2,168
Other reserves		205	345
Retained earnings		(1)	(118)
<b>Total shareholders' equity</b>	6.3.4	<b>2,730</b>	<b>2,593</b>
Provision for pension liabilities	6.4.2	65	33
Eurobonds	6.4.4	398	398
Other provisions		3	2
<b>Total non-current liabilities</b>		<b>466</b>	<b>433</b>
Accounts payable to Group companies	6.4.3	26	44
Eurobonds	6.4.4	199	
Income tax payable			7
Other current liabilities		10	1
<b>Total current liabilities</b>		<b>235</b>	<b>52</b>
<b>Total equity and liabilities</b>		<b>3,431</b>	<b>3,078</b>

## PostNL N.V.

### Corporate statement of changes in equity

2017-2018, in € millions

	Issued share capital	Additional paid-in capital	Hedge reserves	Revaluation reserve investments in Mail	Other reserves	Retained earnings	Total shareholders' equity
<b>Balance at 31 Dec 2016</b>	36	157	(3)	2,411	(517)	658	<b>2,742</b>
<b>Total comprehensive income</b>			1		11	14	<b>26</b>
Appropriation of net income					633	(633)	0
Final dividend previous year						(25)	(25)
Interim dividend current year						(15)	(15)
Share-based compensation		3			(1)		2
Reduction revaluation reserve				(79)	79		0
<b>Balance at 31 Dec 2017</b>	36	160	(2)	2,332	205	(1)	<b>2,730</b>
<b>Total comprehensive income</b>			2		23	(102)	<b>(77)</b>
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
<b>Balance at 31 Dec 2018</b>	38	160	0	2,168	345	(118)	<b>2,593</b>

The accompanying notes form an integral part of the financial statements.

## Section 6: Corporate financial statements

This section sets out the results and performance of the corporate company PostNL N.V. Similar to the approach applied in the consolidated financial statements, we have structured the disclosures and analyses in this section along the following categories:

- Basis of preparation
- Result of the year
- Balance sheet information
- Other notes

As a holding company for the Group companies of the PostNL Group, dividend received from these investments reflects the basic earnings included in the result for the year.

The other notes include a reconciliation between corporate and consolidated equity and comprehensive income, and a description of subsequent events, where we provide information received between 31 December 2018 and the date of this report about material events applicable for understanding our year-end position.

We conclude this section with the dividend proposal for 2018 of the Board of Management and the appropriation of profit.

### 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, Germany and Italy 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 25 February 2019 and are subject to adoption at the Annual General Meeting of Shareholders on 16 April 2019.

#### 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 2018.

#### 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 2018 was €73 million (2017: €104 million).

### 6.2.2 Impairment Mail investments

In 2018, an impairment of €164 million on the company's investments in Mail was accounted for (2017: €79 million). Reference is made to note 6.4.1 to the corporate financial statements.

### 6.2.3 Salaries, pensions and social security contributions

In 2018, salaries, pensions and social security contributions amounted to €2 million (2017: €14 million income). 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 offset the pension expense incurred, resulting in a limited 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)**

2017-2018, in € millions

Year ended at 31 December	2017	2018
Interest expenses on long-term borrowings	32	14
Interest on net defined benefit pension liabilities	2	2
Other interest and similar expense	1	1
<b>Interest and similar expense</b>	<b>35</b>	<b>17</b>
Other interest and similar income	(1)	0
<b>Net financial expense/(income)</b>	<b>34</b>	<b>17</b>

In 2018, interest expenses on long-term borrowings decreased as a result of the repayment of bonds in 2017 and 2018. 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.

**PostNL N.V.****Corporate income taxes**

2017-2018, in € millions

Year ended at 31 December	2017	2018
Current tax expense	(3)	3
Changes in deferred taxes	(3)	(8)
<b>Total income taxes</b>	<b>(6)</b>	<b>(5)</b>
<b>Income taxes paid/(received)</b>	<b>(2)</b>	<b>(8)</b>

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.

**PostNL N.V.****Corporate effective income tax rate**

2017-2018, in %

Year ended at 31 December	2017	2018
Dutch statutory income tax rate	25.0	25.0
Tax effects of:		
Non and partly deductible costs	1.1	(0.1)
Non deductible impairments	246.9	(38.3)
Exempt income	(335.5)	17.5
Other	(12.5)	0.6
<b>Effective income tax rate</b>	<b>(75.0)</b>	<b>4.7</b>

In 2018, the income taxes of €(5) million (2017: €(6) million) on the result before income taxes of €(107) million (2017: €8 million), resulted in an effective income tax rate of 4.7% (2017: (75.0)%). Adjusted for the tax-exempt dividend income of €73 million (2017: €104 million) and the non deductible impairment of €164 million (2017: €79 million), the result before income taxes would have been €(16) million (2017: €(17) million), which with income taxes unchanged at €(5) million (2017: €(6) million) would have resulted in an effective income tax rate of 31.3% (2017: 35.3%).

The following table shows the movements in deferred tax assets and liabilities.

## PostNL N.V.

### Statement of changes corporate deferred tax assets

2017-2018, in € millions

	Provisions	Other	Total
Deferred tax assets at 31 December 2016	0	1	1
Changes via other comprehensive income	(4)		(4)
Changes via income statement	4	(1)	3
Deferred tax assets at 31 December 2017	0	0	0
Changes via other comprehensive income	(8)		(8)
Changes via income statement	8		8
Deferred tax assets at 31 December 2018	0	0	0

Of the deferred tax assets as at 31 December 2018, €0 million (2017: €0 million) is to be settled within 12 months and €0 million (2017: €0 million) is to be settled after 12 months.

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.

## 6.3 Cash flow performance and equity development

### 6.3.1 Net cash from/(used in) operating activities

The decrease in net cash used in operating activities from €(39) million in 2017 to €(18) million in 2018 mainly related to the change in interest paid and income taxes received. In 2018, the total cash outflow for interest paid of €19 million (2017: €32 million) mainly related to interest on PostNL's long-term borrowings. In 2018, the company received income taxes totalling €8 million (2017: €2 million received) which include settlements relating to prior years and internal settlements with Group companies within the PostNL fiscal unity.

### 6.3.2 Net cash from investing activities

In 2018, net cash from investing activities amounted to €73 million (2017: €105 million). The total cash inflow from dividend received from the company's subsidiaries was €73 million (2017: €104 million).

### 6.3.3 Net cash used in financing activities

In 2018, the net cash used in financing activities of €55 million (2017: €67 million) mainly related to the final 2017 cash dividend paid of €47 million (2017: final 2016 cash dividend: €25 million), interim 2018 cash dividend paid of €16 million (2017: interim 2017 cash dividend: €15 million), the repayment of a eurobond of €198 million (2017: €328 million) and financing related to Group companies of €206 million (2017: €(97) million). Financing related to Group companies mainly relates to intercompany financing of PostNL by PostNL Finance B.V. and included the repayment of €25 million of the intercompany cross-currency swap relating to the eurobond. In 2017, the net cash used in financing activities included the proceeds of a new eurobond of €398 million.

### 6.3.4 Equity

As at 31 December 2018, equity amounts to €2,593 million (2017: €2,730 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 tax impact on the cash flow hedges included in the hedge reserve at 31 December 2018 is €0 million (2017: €0 million).

The revaluation reserve investments in Mail and the hedge reserve are legal reserves and are restricted for distribution.

As at 31 December 2018, the revaluation reserve of €2,168 million (2017: €2,332 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 €414 million.

During 2018, the other reserves increased to €345 million from €205 million, mainly due to a reclassification from the revaluation reserve of €164 million and a positive pension effect within other comprehensive income of €23 million, partly offset by the appropriation of net income for 2017 of €(48) 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.

The movement in the Investments in Mail is as follows:

#### PostNL N.V.

##### Investments in Mail

2017-2018, in € millions

	2017	2018
Balance at 1 January	3,316	3,239
Additions to capital	2	
Impairment	(79)	(164)
Balance at 31 December	3,239	3,075

The subsidiary undertakings of the company as at 31 December 2018, and the company's percentage interest, are set out below.

#### PostNL N.V.

##### Breakdown corporate investments

2018

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 2018. 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 nine-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 vary from 10% to 15% (2017: 9% to 13%).

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 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 €240 million (2017: €245 million). A change in operating income of 5% would impact the Mail investments by around €80 million (2017: €130 million).

The detailed review of the value of the Mail investments resulted in the recoverable value being €164 million lower than their carrying value. The recoverable value of the continuing operations was derived from the 2018 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 valuation of the Mail investments includes Nexive and Postcon, our discontinued operations, which value is based on fair value less costs to sell at year-end 2018. The value decrease mainly followed from reduced business plans within Mail in the Netherlands negatively impacted by a delay in costs savings, reduced business plans within Spring impacted by increased fierce competition and a negatively impacted discontinued operations' value, which for a large part was offset by improved business plans within Parcels reflecting a further increase in volume growth driving improved operating income. The value decrease related to Mail in the Netherlands was offset by a change in the method to calculate our non-deductible VAT. Management's best estimate of this change has been included in the valuation. Based on the detailed review, management concluded that an impairment of €164 million was present for the Mail investments. Consequently, management recorded an impairment charge of €164 million in 2018 (2017: €79 million). Within equity, the revaluation reserve associated with the initial revaluation of the Mail investments has been lowered by the impairment charge amount.

In 2017, the additions to capital of €2 million represented the company's compensation for equity-settled share-based payments to the investments' employees. As the company granted its shares directly to its investments' employees without charging its investments, the company recognised, in line with IFRS, the increase in the investments as a capital contribution.

## 6.4.2 Provisions for pension liabilities

### Accounting policies

For the accounting policies on pension liabilities, reference is made to note 3.4 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 almost offset the pension expense. As a result, the corporate financial statements record a defined benefit pension expense of €1 million (2017: income of €15 million), whereas the consolidated financial statements record defined benefit pension expenses of €122 million (2017: €93 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

2017-2018, in € millions

	2017	2018
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	(8,224)	(8,528)
Service costs	(97)	(114)
Interest costs	(148)	(171)
Past service costs	(3)	
Other movements	(28)	(25)
Actuarial (losses)/gains	(254)	268
Benefits paid	226	230
<b>Benefit obligation at end of year</b>	<b>(8,528)</b>	<b>(8,340)</b>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	8,159	8,511
Assumed return on plan assets	146	169
Other movements	34	29
Participants contributions	121	121
Employer contributions	3	3
Other costs	(9)	(9)
Actuarial (losses)/gains	283	(234)
Benefits paid	(226)	(230)
<b>Fair value of plan assets at end of year</b>	<b>8,511</b>	<b>8,360</b>
<b>Change in funded status</b>		
Funded status at the beginning of year	(65)	(17)
Operating expenses (incl. participants contributions)	17	1
Interest (expenses)/income	(1)	(1)
Employer contributions	3	3
Actuarial (losses)/gains	29	34
<b>Funded status at end of year</b>	<b>(17)</b>	<b>20</b>
Impact of pension asset ceiling		(20)
Impact of minimum funding requirement	(48)	(33)
<b>Netted pension liabilities</b>	<b>(65)</b>	<b>(33)</b>
<b>Components of employer pension expenses</b>		
Service costs	(97)	(114)
Interest (expenses)/income	(2)	(2)
Past service costs	(3)	
Other costs	(4)	(6)
Participants contributions	121	121
<b>Post-employment benefit income/(expenses)</b>	<b>15</b>	<b>(1)</b>
<b>Weighted average assumptions as at 31 December</b>		
Discount rate	2.0%	1.8%
Rate of benefit increases	1.5%	1.1%
Life expectancy 65 year old men/women (in years)	21.2/23.5	21.3/23.2

### 6.4.3 Accounts receivable from Group companies / Accounts payable to Group companies

As at 31 December 2018, accounts receivable from Group companies amounted to €0 million (2017: €188 million, of which €187 million related to PostNL Finance B.V.). Accounts payable to Group companies amounted to €44 million (2017: €26 million) and related to a payable to PostNL Finance B.V. As at 31 December 2017, the accounts payable to Group companies related to €26 million outstanding intercompany cross-currency swaps from 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 2018, the eurobonds amounted to €398 million non-current (2017: €398 million) and €0 million current (2017: €199 million). For the disclosure on the eurobonds, reference is made to notes 4.1 and 4.5 to the consolidated financial statements.

In 2018, there are no non-cash changes in the total debt including the accounts receivable from and accounts payable to Group companies.

## 6.5 Other notes

### Reconciliation corporate and consolidated equity and comprehensive income

#### PostNL N.V.

#### Consolidated to corporate equity and total comprehensive income

2017-2018, in € millions

Year ended at 31 December	2017		2018	
	Equity	Income	Equity	Income
Consolidated: Equity and total comprehensive income	34	151	46	72
Reconciliation items previous years	2,821		2,696	
Impairment Mail investments	(79)	(79)	(164)	(164)
Results from investments	(55)	(55)	29	29
Other comprehensive income (CTA/hedges/associates/pensions)	9	9	(14)	(14)
Other direct equity movements				
<b>Total reconciliation items</b>	<b>2,696</b>	<b>(125)</b>	<b>2,547</b>	<b>(149)</b>
Corporate: Shareholders' equity and total comprehensive income	2,730	26	2,593	(77)

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 €2,696 million in 2018 relate to the difference between the consolidated equity as at 31 December 2017 of €34 million and the corporate equity of €2,730 million at that date.

For details of the reversal of the impairment of the Mail investments recognised in the corporate financial statements in 2018, see note 6.4.1 to the corporate financial statements.

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 2017 results from investments were €55 million lower in the corporate financial statements and can be calculated from the result from the corporate income statement of €14 million, plus the impairment of the Mail investments of €79 million, minus the result from the consolidated income statement of €148 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 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. The 2017 difference in other comprehensive income of €9 million included €(8) million of actuarial gains on pensions, €(3) million of currency translation adjustments related to movements in exchange rate differences on converting foreign subsidiaries and €2 million other items.

## Commitments and contingencies

### Declaration of joint and several liability

At 31 December 2018, 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

2018

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 Pakketten Holding B.V.
Netwerk VSP B.V.	PostNL Real Estate B.V.
PostNL Communicatie Services 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.

### Guarantees

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 €11 million;
- ISDA agreements.

### Separation agreement TNT Express

For details on the separation agreement with TNT Express, see note 3.9 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

2017-2018, in € millions

Year ended at 31 December

	2017		2018	
	Transactions	Balances	Transactions	Balances
Dividend income PostNL Group companies	104		73	
Accounts receivable from PostNL Group companies/interest income		188		
Accounts payable to PostNL Group companies/interest expense			(1)	44
Hedge accounts receivable/(payable) to PostNL Group companies/hedge income/(costs)	(2)	(26)	(1)	
Net financing activities from Group companies	(97)		206	
Income tax received from/(paid to) PostNL Group companies	33		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

On 25 February 2019, we have made a joint announcement with Sandd regarding our intention to create one strong national postal network in the Netherlands. PostNL and Sandd have filed a request for approval with the regulator, which is the formal start of this process. The transaction appreciates Sandd at an enterprise value of €130m and provides for the purchase of all (100%) Sandd shares. The acquisition will be funded through cash on hand and external funding. The acquisition is conditional on approval of the combination of Sandd and PostNL by the authorities, consultation with the relevant works councils and trade unions, and agreement on the final transaction documentation.

### Subsidiaries and associated companies at 31 December 2018

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 2018

The Board of Management has decided, with the approval of the Supervisory Board, subject to shareholders approval at the 2018 Annual General Meeting of Shareholders, to declare a dividend of €0.24 per ordinary share over 2018, of which €0.07 per ordinary share has been paid as an interim dividend. The dividend will be paid, at shareholder's election, either in ordinary PostNL shares or in cash.

#### Appropriation of profit

The Board of Management, with the approval of the Supervisory Board, shall withdraw the corporate loss of €102 million from the reserves. For detailed information on PostNL's corporate performance, and the resulting loss, refer to section 6 of the financial statements. Furthermore, the Board of Management, with the approval of the Supervisory Board, proposes to make an amount of €96 million out of the distributable part of the shareholders' equity available for distribution of the proposed dividend.

Subject to the adoption of PostNL's financial statements by the General Meeting of Shareholders, and given an 2018 interim dividend of €0.07 per ordinary share has been paid, the proposed 2018 final dividend has been set at €0.17 per ordinary share of €0.08 nominal value, based on the outstanding number of 469,199,776 ordinary shares as per 31 December 2018. The dividend of €0.17 will be paid, at shareholder's election, either in ordinary PostNL shares or in cash. The dividend in shares will be paid out of additional paid in capital as part of the distributable reserves, free of withholding tax in the Netherlands.

The ex-dividend date will be 18 April 2019, the record date is 23 April 2019 and the election period will start on 24 April 2019 and will end on 8 May 2019 at 3PM CET. The conversion ratio will be based on the volume-weighted average share price for all PostNL shares traded on Euronext Amsterdam over the three trading day period from 6 May 2019 up to and including 8 May 2019. The value of the stock dividend, based on this VWAP, will, subject to rounding, be targeted at but not be lower than the cash dividend. There will be no trading in stock dividend rights. The dividend will be payable as of 10 May 2019.

Upon approval of this proposal, corporate result will be appropriated as follows, whereby the final dividend represents a cash dividend under the assumption of 100% cash election.

**PostNL****Appropriation of corporate profit**

2018, in € millions

	2018
Result attributable to the shareholders	(102)
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)	198
<b>Dividend on ordinary shares</b>	<b>96</b>
(Interim) dividend paid in cash	(16)
<b>Final dividend</b>	<b>80</b>

The Hague, 25 February 2019

**Board of Management**

H.W.P.M.A. Verhagen (CEO)

P. Berendsen (CFO)

**Supervisory Board**

J.J. Nooitgedagt (Chairman)

J. Wallage

E. Blok

J.W.M. Engel

A.M. Jongerius

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 2018.

## Independent auditor's report

To: the shareholders and Supervisory Board of PostNL N.V.

### Report on the audit of the financial statements 2018 included in the Annual Report

#### Our opinion

We have audited the financial statements 2018 of PostNL N.V. (hereinafter: 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 2018, and of its result and its cash flows for 2018, 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 2018
- The following statements for 2018: 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 N.V. 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.

#### Materiality

Materiality	€9.5 million (2017: €12.6 million)
Benchmark applied	5% of operating income
Explanation	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. The benchmark applied is in line with last year's audit.

We have also taken misstatements into account 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 €475,000, 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.

#### Scope of the group audit

PostNL N.V. 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.

Our group audit mainly focused on significant group entities of PostNL N.V. within the segments Parcels, Mail in the Netherlands and PostNL Other. Although Postcon and Nexive have been classified as discontinued operations and assets held for sale as of August 2018, specific scoping has been assigned to the most significant entities of Postcon and Nexive.

Due to their significance and/or risk characteristics, we performed full scope or specific scope audit procedures on the significant group entities within Parcels, Mail in the Netherlands and PostNL Other. Specific scope procedures were performed on several entities within discontinued operations (hereinafter referred to as Postcon and Nexive).

For the entities in scope within Parcels and Mail in the Netherlands, except Spring Hong Kong, the group engagement team performed the work. For Postcon, Nexive and Spring Hong Kong we used component auditors, 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.

Component materiality was determined by our judgment, based on the relative size of the component and our risk assessment. Component materiality did not exceed €6.0 million and the majority of our 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, 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:



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.

### 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.

Compared to the key audit matters identified in 2017, accounting for discontinued operations and assets held for sale, including the related deferred tax asset (collectively referred to as Discontinued operations) has been added as a key audit matter, following the decision of the Company to divest Postcon and Nexive. Pensions no longer qualifies as a key audit matter since we concluded, based on the actual coverage ratio of the pension fund, the current risk in relation to an additional funding requirement as per 31 December 2018 to be remote.

The key audit 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><b>Discontinued operations</b></p> <p>In August 2018 PostNL decided to divest its Postcon (Germany) and Nexive (Italy) business. Accordingly Postcon and Nexive are reported as assets classified as held for sale and the results and cashflows are reported as discontinued operations.</p> <p>As per 31 December 2018 the Company recorded a net impairment of €59 million to the original carrying value, which includes a €57 million positive tax effect as a result of the origination of a deferred tax asset in conjunction with the decision to divest and subsequently liquidate the Postcon and Nexive entities.</p> <p>We focused in our audit procedures on these areas given the significant management judgment involved in relation to the valuation of the assets classified as held for sale and the assessment of the recoverability of the deferred tax asset.</p> <p>Further reference is made to note 3.8 Assets classified as held for sale and note 3.7 Deferred income tax assets and liabilities to the consolidated primary statements.</p>	<p>The Company's management engaged third-party experts to provide valuation modelling support with respect to the determination of the fair value less costs to sell of the assets classified as held for sale under IFRS 5. We included valuation specialists in our team to assist us with the audit of the fair value determination. Our procedures consisted of the following:</p> <ul style="list-style-type: none"> <li>• Gained an understanding of the process around discontinued operations, and evaluated the control design in this area</li> <li>• Assessed the appropriateness and compliance of the Company's accounting policies in relation to assets held for sale and discontinued operations</li> <li>• Evaluated the valuation methodologies as applied by the Company and compared them to accepted industry practice</li> <li>• 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, adjusted for subsequent developments, have evaluated the historical accuracy of management's assessment of operating income by comparing the historical actual results to previously applied forecasts and verified the discount rate to external information</li> <li>• Corroborated the valuation as defined by management to confirmatory non-binding indicative offers (hereinafter "offers") received and assessed the reasonableness of adjustments to the Original valuation based on those offers</li> <li>• Reconciled the amounts presented as discontinued operations to the underlying trial balances and validated the costs to sell to supporting documentation</li> </ul> <p>With the involvement of our tax experts 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 Assets classified as held for sale as included in note 3.8 and the related deferred tax assets as included in note 3.7 Deferred income tax assets and liabilities of the consolidated primary statements.</p>	<p>Management valued the assets classified as held for sale by using an income approach and corroborated that value with confirmatory non-binding indicative offers subsequently received. In case the confirmatory non-binding indicative offers deviated from the value as calculated through the income approach, management considered the reasons for deviations and made adjustments where deemed necessary.</p> <p>By nature measuring fair value involve risk and uncertainty because the valuation is linked to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from the expectations as included in the measurement.</p> <p>We confirm that the Company's accounting policies in relation to assets classified for sale and discontinued operations were appropriately applied and we consider management's assumptions applied in the valuation of the assets classified as held for sale and in the valuation of the deferred tax asset to be reasonable.</p> <p>Furthermore, we assessed that the disclosures in note 3.8 Assets classified as held for sale and the note related to deferred tax assets as included in note 3.7 Deferred income tax assets and liabilities of the corporate primary statements are appropriate.</p>
<p><b>Valuation Mail investments (corporate primary statements)</b></p> <p>At 31 December 2018 the value of Mail investments, as included in the corporate primary statements, amounted up to €3,075 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>We focused on this area given the significant judgment and complexity of valuation methodologies used to determine whether the carrying value of Mail investments is appropriate, which includes assessing the assumptions used within the models to support the recoverable amount of Mail investments.</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 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 (cash flows, internal forecasts) 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. We challenged the assumptions used by the Company in their valuation model by comparing to external information such as expected inflation rates, discount rates and implied growth rates. We confirmed that the cash flow projections are appropriate and consistent with the information approved by the executive committee, reconciled the carrying value to financial information from the accounting system.</p> <p>On top of the procedures mentioned before, 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 €164 million in 2018. We agree with management's conclusion.</p>

Risk	Our audit approach	Key observations
<p><b>Deferred revenue and revenue related accruals (stamps and terminal dues)</b></p> <p>Various assumptions are being made in the measurement (model inputs) of deferred revenue and revenue related accruals. The accounting hereof is important to our audit given the significant judgment involved and the estimates used in the calculation of the deferred revenues and revenue related accruals can have an impact on the operating revenues and accrued liabilities. Further reference is made to note 3.1.3 and 3.1.4 to the consolidated primary statements. In addition, the general accounting policy around deferred revenue and revenue related accruals is disclosed in note 1.3 of the consolidated primary statements.</p>	<p>We have gained an understanding of the deferred revenue stamps and the terminal dues and its revenue related accruals process, performed walkthroughs of the revenue classes of transactions and evaluated the design and effectiveness of controls in this area.</p> <p>For deferred revenue stamps we performed detailed analytical procedures on the model used. We performed testing procedures on variables used as input for the deferred revenue balance and reconciled them to source documentation. We identified, challenged and verified the reasonableness of significant assumptions made by management and included in the model to calculate the deferred revenue stamps. Furthermore, we performed back testing procedures on the assumptions used by management.</p> <p>For terminal dues we performed detailed analytical procedures on the 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 deferred revenue, including the impact of the new revenue recognition standard (IFRS 15 Revenue from Contracts with Customers), which has been adopted as of 1 January 2018 and the adequacy of the Company's related disclosures as included in note 3.1.3 and 3.1.4 of the consolidated primary statements.</p>	<p>We confirm that the Company's revenue recognition accounting policies were appropriately applied. Furthermore, we have assessed that management's assumptions are within the acceptable range and the positions as per 31 December 2018 are management's best estimate. In addition, we assessed that the disclosures are appropriate.</p>
<p><b>Impact of laws and regulation on the valuation of the business of PostNL</b></p> <p>PostNL is obliged to provide services as stated in the Postwet and is bound to the related obligations. As a result, PostNL operates in a heavily regulated market. Monitoring of the compliance to these regulations is delegated by the Dutch government to the Autoriteit Consument en Markt (hereafter: ACM).</p> <p>In September 2018 the Dutch Trade and Industry Appeals Tribunal (CBb) annulled ACM's decision in relation to significant market power (SMP) and tariff setting. In December 2018 the ACM published a new draft SMP decision.</p> <p>In addition to the above, PostNL from time to time is involved as a party in legal proceedings.</p> <p>This area is important to our audit, as there is a risk that one of the current and/or future challenges and/or allegations could have an impact on future business and therefore on the valuation of Mail investments of the corporate financial statements. Further reference is made to note 6.4.1 Investments in Mail of the corporate primary statements and to note 3.5 Other provisions of the consolidated primary statements.</p>	<p>We have gained an understanding of the process related to regulatory proceedings.</p> <p>We furthermore inquired with both internal and external legal staff as well as with the Company's financial staff in respect of ongoing regulatory proceedings and investigations, inspected relevant correspondence, inspected the minutes of the meetings of the Audit Committee, Supervisory Board and Board of Management, requested and obtained a confirmation letter from the group's in-house legal counsel, requested and received lawyers letter from the external attorney to assess the position of management.</p> <p>We also assessed the adequacy of the Company's related disclosures as included in note 3.5 Other provisions of the consolidated primary statements and note 6.4.1 Investments in Mail of the corporate primary statements.</p>	<p>We note, that based on the information available to date and taking into account the inherent uncertainties, management has taken in consideration the impact of the regulatory developments and proceedings in its valuation of Mail investments. We consider management's assessment of the impact to be within the acceptable range. We consider management's conclusion on the predicted outcome and estimation of potential impact of other claims reasonable. Furthermore we assessed that the disclosures are appropriate.</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 Management Board
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code
- Non-financial performance 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 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 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 and other information pursuant to Part 9 of Book 2 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.

### 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.

### Other non-prohibited services provided

In addition to the statutory audit of the financial statements we provided the following services:

- Assurance report on the Corporate Responsibility reporting included in the Annual Report
- Audit services on financial statements of group entities
- Assurance report on the ISAE 3402 report for third parties
- Agreed upon procedures to attest filings and assurance reports to regulatory authorities (ACM)
- Assurance report on basic data to be provided to the pension fund

## 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. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and 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
- 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

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.

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 Audit Committee 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, 25 February 2019

Ernst & Young Accountants LLP  
signed by S.D.J. Overbeek – Goeseije

# Non-financial Statements



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# 19 Non-financial statements

## Non-financial performance indicators

### Customer value

	Notes	2014	2015	2016	2017	2018
<b>Key Performance Indicators</b>						
Highly satisfied customers	2.1	not reported	not reported	38%	41%	30%
Progress on transformation (share of revenues related to e-commerce)	2.2	not reported	not reported	40%	44%	48%
Delivery quality of Mail in the Netherlands (preliminary)	2.3	97%	96%	96%	95%	95%
<b>Other Performance Indicators</b>						
Satisfied customers	2.1	80%	84%	86%	85%	82%
Reputation score	2.1	64.5	67.7	67.8	69.7	67.7

### Operational value

	Notes	2014	2015	2016	2017	2018
<b>Key Performance Indicators</b>						
Volume development Parcels (in millions of items)	3.1	142	156	177	207	251
Volume development Mail (in millions items)	3.1	2,705	2,401	2,213	1,994	1,781
Cost savings Mail (in € millions)	3.2	127	85	64	56	48
<b>Other Performance Indicators</b>						
ISO 9001 certification (percentage of total FTE working in certified sites)	3.3	91%	96%	100%	100%	100%

### Social value

	Notes	2014	2015	2016	2017	2018
<b>Key Performance Indicators</b>						
Employee engagement (% of engaged employees)	4.1	60%	64%	68%	67%	65%
Employee loyalty (% of employees expected to stay)	4.1	83%	86%	88%	86%	88%
<b>Other Performance Indicators</b>						
Headcount in Non Financial reporting scope	4.2	46,513	43,248	41,497	38,965	37,785
FTE in Non Financial reporting scope	4.2	21,614	20,372	20,730	20,791	20,421
Culture index	4.1	not reported	55	58	58	57
Training hours per FTE	4.3	19	22	17	17	22
Percentage of females in management positions	4.4	24%	25%	24%	21%	21%
Fatal accidents	4.5	2	3	1	1	2
Lost time accidents - per 100 FTEs	4.5	1.7	2.5	2.5	3.1	2.3
Absenteeism (% of total working hours)	4.5	5.3%	5.0%	5.0%	5.2%	5.9%
OHSAS 18001 certification (% of FTE working in certified sites)	4.5	88%	94%	100%	100%	100%

## Environmental value

	Notes	2014	2015	2016	2017	2018
<b>Key Performance Indicators</b>						
CO <sub>2</sub> efficiency index (2007=100)	5.1	53.5	50.4	45.7	40.2	38.6
<b>Other Performance Indicators</b>						
Scope 1 gross GHG emissions (in ktCO <sub>2</sub> e)	5.5	42	40	41	36	37
Scope 1 net GHG emissions (in ktCO <sub>2</sub> e)	5.5	40	37	39	30	31
Scope 2 gross GHG emissions (in ktCO <sub>2</sub> e)	5.5	40	37	42	38	39
Scope 2 net GHG emissions (in ktCO <sub>2</sub> e)	5.5	(1)	(1)	(2)	0	0
Scope 3 gross GHG emissions (in ktCO <sub>2</sub> e)	5.5	145	232	199	171	160
Scope 3 net GHG emissions (in ktCO <sub>2</sub> e)	5.5	137	224	194	166	154
NO <sub>x</sub> emissions in kg	5.4	51,894	42,692	39,420	37,668	35,935
NO <sub>x</sub> emissions (gr/km)	5.4	0.64	0.55	0.50	0.46	0.43
PM <sub>10</sub> emissions in kg	5.4	1,080	685	615	628	651
PM <sub>10</sub> emissions in (gr/km)	5.4	0.01	0.01	0.01	0.01	0.01
Vehicles complying with Euro 6	5.4	5%	8%	19%	48%	76%
Vehicles complying with Euro 5	5.4	91%	92%	81%	52%	24%
Vehicles not complying with Euro 6 or Euro 5	5.4	4%	0%	0%	0%	0%
ISO 14001 certification (percentage of total FTE working in certified sites)	5.6	90%	95%	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.

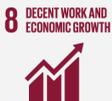
In addition to the GRI requirements, we apply supplemental reporting criteria specific to PostNL for reporting elements which are not covered by GRI. This includes specific reporting definitions as presented in appendix 3: Glossary and definitions.

#### 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. Appendix 6 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

PostNL evaluated the relevant SDGs in relation to our business activities. To identify our focus areas we looked at which sections of the underlying SDG targets (specified by the UN) are most relevant to our business. Specific examples of the progress we made in 2018 include the publication of our diversity policy (SDG 8) and setting long-term goals on emission-free delivery towards 2025 and 2030 (SDG 13). We continue to take relevant SDG targets into account as input for our long-term strategy. This helps us to define actions that will positively influence sustainable development.



**8** DECENT WORK AND ECONOMIC GROWTH

Explanation: Promote inclusive and sustainable economic growth, employment and decent work for all.



**13** CLIMATE ACTION

Explanation: Take urgent action to combat climate change and its impacts.

#### Relevant SDG targets for PostNL:

- Promote economic growth by offering new services
- Playing a proactive role in innovating our value chain
- Contribute to an inclusive economy with decent working conditions
- Offering training, education and other means of employee development
- Contribute to improving the efficiency and consumption of resources

For a. and b. we measure our results through the growth of e-commerce and customer satisfaction. Using social value performance indicators, we measure our progress on c. and d. We measure the efficiency of energy in our buildings as an example of e.

#### Relevant SDG targets for PostNL:

- Including the risks related to climate change and natural disasters in risk management
- Develop and implement programs aimed at reducing the impact on climate change

We measure our results based on the progress towards the reduction of climate change impact through our CO<sub>2</sub> efficiency index. From 2019, we will change to measuring our results on the progress of our Science-Based Targets.

## EU directive on non-financial information

As a large listed company in the Netherlands, PostNL is required to comply with the EU directive on non-financial information (2014/95/EU). This directive is implemented in Dutch law and applies to annual reports published after 1 January 2018. 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 Protocol (GHGP) to report its greenhouse gas (GHG) emissions. The production of direct and indirect CO<sub>2</sub> emissions represents the main greenhouse gas emissions of PostNL. We also take other GHG emissions into account, such as CH<sub>4</sub> and N<sub>2</sub>O and report our climate change impact in CO<sub>2</sub> 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. After meeting our internally-set CO<sub>2</sub> efficiency target in 2017, we evaluated our strategy and set new, long-term science-based emission reduction targets (see chapter 9: Environmental value, for more details). We expect these targets to be validated by the SBT initiative on short notice. In addition, we developed long-term targets for our last-mile delivery. This includes emission-free delivery in 25 city centres in the Netherlands by 2025 and emission-free last-mile delivery across the Benelux by 2030. This evaluation included a more risk-based approach in relation to our direct and indirect activities. During 2018, PostNL started to prepare a methodology to apply an internal carbon price in our (strategic) decision making. We aim to implement this methodology in 2019. This is aimed to support our management in making more informed decisions and further reduce our environmental impact to achieve our targets.

## 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; and*
- 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 appendix 5 provides references to sections with specific information in relation to the GRI requirements in this report.

## Description of reporting foundations

### Stakeholder engagement

PostNL's main stakeholder groups, and why these groups are relevant to us, are outlined in chapter 4: Our operating context. We interact with a variety of stakeholders on a regular basis to understand their expectations, needs and interests. In addition to dealing with our stakeholders' interests, needs and expectations directly through our day-to-day operations, we also engage with them through a stakeholder dialogue event. In 2018 this event was held on 30 October, where we discussed topics stakeholders are interested in and expect PostNL to take action on. Where relevant we discuss SDG-related topics for example on decent work with our people and on climate action in discussions with VBDO. 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.

The table below details the topics of interest and the means of engagement with each stakeholder group.

Stakeholder group	Description	Relevant topics	Our engagement
<b>Customers</b>	- Business customers - Consumers	- High quality logistic services - Innovative solutions - Convenient receiving options - Accessible and reliable services	- Daily contact about our services - Bi-annual customer satisfaction survey - Customer events and knowledge sessions - Annual stakeholder dialogue
<b>Our people</b>	- Employees, directly and via works council - Trade unions - People employed by contracted parties - Independent parcel deliverers	- Safe and secure work environment - Favourable working conditions - Development opportunities - Sustainable employability	- Daily contact about day-to-day work - Regular team meetings and round table discussions - Regular contact with trade unions and works councils - Annual employee engagement surveys - Annual stakeholder dialogue
<b>Investors</b>	- Shareholders - Banks - Financial analysts	- Financial performance and position - Short and long term value creation - Investment propositions	- Meetings and conference calls with analysts and shareholders - Quarterly results and presentations
<b>Government bodies</b>	- Federal government - Local governments - Regulators	- Market developments - City logistics - Compliance with regulations	- Round tables and meetings with (local) governments - Meetings and formal communication with regulators - Annual stakeholder dialogue
<b>Opinion leaders and society</b>	- Media - Academic and research institutions - NGO's - Local communities	- Market trends - Business events - Environmental issues - Social and societal issues	- Ad hoc communication about events - Collaboration on research projects - Annual discussion at shareholders meeting with NGO representatives - Annual stakeholder dialogue
<b>Business partners</b>	- Suppliers - Retail shops - Branch organisations	- Collaboration - Procurement practices - Business ethics	- 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 Annual Report.

### Materiality assessment

While PostNL interacts with its stakeholders on a variety of different topics, selecting the key material topics 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 44 topics as a first step in the assessment:

- Desktop research including:
  - Peer review;
  - Market trend;
  - Topics evaluated in prior years, through our Annual Reports;
  - Interests of benchmarks and guidelines (such as DJSI, CDP, GRI);
  - Media search;
- Evaluation of relevant SDGs;
- Stakeholder dialogue on 30 October 2018;
- Interviews with (senior) management representing certain stakeholder groups with whom they have regular contact.

### Selecting key-material topics

We first clustered topics based on their nature, resulting in a list of 34 remaining topics. The prioritisation of topics was performed based on the following process:

- Using the results of the external survey held at the end 2017 and an internal assessment as the basis
- Updating the wording of topics to report on more specific topics
- Categorising topics in different domains of value creation
- Updating the prioritisation of topics in the materiality matrix (see chapter 4: Our operating context) by the Annual Report project team. This was based on developments within PostNL and its operating environment and the relative importance of different stakeholders
- Discuss the prioritisation of topics through interviews with (senior) management representing relevant stakeholder groups and those responsible for PostNL's strategic plans
- 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 in chapter 4: Our operating context, section materiality.

### 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' and 'Emission-free delivery', for PostNL this influence is also impacted by indirect activities, mainly through activities carried out by others working for PostNL.



## Gathering great ideas Keeping in touch with our stakeholders

PostNL has the ambition to provide emission-free last-mile parcel and mail delivery across the Benelux by 2030. On our way to achieving this goal, we aim to operate emission-free in 25 inner cities in the Netherlands by 2025.

In 2018, we outlined these goals to more than 130 customers, employees, suppliers, and NGOs during our Sustainable Together stakeholder event. Liesbeth Kaashoek, director Parcels and Logistics, explained that it is important we understand how we can create value for our stakeholders. "This is why each year we invite a group of stakeholders to get together and discuss issues relevant to society. The aim is to gain insights and gather input that will help us shape our ambitions. In 2018 we sat with stakeholders to discuss their view on emission-free delivery, the future of city logistics and our shared contribution."

## 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.

We do not include information about joint ventures in the scope of non-financial information. In addition to PostNL employees, we provide indirect employment to associates and those employed by delivery partners. PostNL includes information about fatal accidents of our contracted business to external partners. We also include the CO<sub>2</sub> emissions from contracted business to external partners in the Benelux as well as international air transport of mail and parcels in the scope of reporting. For our cross border business the scope of reporting includes all transport where PostNL is involved in. Local transport outside our influence and last mile delivery by others outside the Benelux is excluded from the scope.

### 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 actual energy consumption and CO<sub>2</sub> emissions. Another reason is that 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 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. Contrary to our own fleet, which also includes electric and biogas vehicles, we do not know the kilometres driven by more sustainable vehicles.

#### *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 mass 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.

#### *CO<sub>2</sub>, NO<sub>x</sub> and PM<sub>10</sub> emissions*

To calculate CO<sub>2</sub> 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 conversion factors from activity data to CO<sub>2</sub> 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 CO<sub>2</sub> per euro revenue of PostNL, Deutsche Post DHL and Royal Mail. For PostNL we use our actual 2018 data, while for Deutsche Post DHL and Royal Mail we use data from their latest published Annual Reports.

The emissions of NO<sub>x</sub> and PM<sub>10</sub> 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<sub>x</sub> and PM<sub>10</sub> 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<sub>x</sub> and PM<sub>10</sub> 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.

### **Discontinued operations in 2018 and scope 3 emissions**

As a result of the decision to sell Nexive in Italy and Postcon in Germany, these entities are presented in the financial statements as discontinued operations. The performance of these entities is therefore presented separately and excluded from the main performance statements and descriptions in the Business report.

Our company-wide definition of a lost time accident includes accidents causing absence of at least one working day. Due to local requirements in Germany, our discontinued entity Postcon applied a different definition. The lost time accidents of Postcon are based on accidents causing absence of at least three days. This definition has been applied by Postcon for all years presented in the data revision table.

During our quality review on our scope 3 emissions for 2018, we noted two other elements requiring data revisions. We found out that the scope 3 emissions of our time critical network has been incomplete. We also noted a double counting in our scope 3 emissions for Spring. The effect of data revisions in relation to scope 3 emissions include the effect of outscoping Nexive and Postcon, addition of TGN scope 3 emissions and revising our scope 3 emissions for Spring. The individual effect of these changes are presented in a separate table.

The overview below provides insight into the comparative figures 2014 until 2017, reported and revised excluding Nexive and Postcon. In addition it provides insight into the impact of scoping out the discontinued operations for the main 2018 non-financial performance indicators. It also includes the effect of the other data revisions in our scope 3 emissions for the respective years.

## PostNL

### Effect of data revisions of discontinued operations and scope 3 emissions

2014 - 2018

	2014	2015	2016	2017	2018
<b>Workforce</b>					
<b>Headcount in non-financial scope</b>					
Headcount before data revision	50,522	47,277	46,456	44,263	42,693
Headcount after data revision	46,513	43,248	41,497	38,965	37,785
<b>FTE in non-financial reporting scope</b>					
Full time equivalents (FTE) before data revision	24,952	23,648	23,933	25,279	24,677
Full time equivalents (FTE) after data revision	21,614	20,372	20,730	20,791	20,421
<b>Customer value</b>					
<b>Progress on transformation (share of revenues related to e-commerce)</b>					
Before data revision	not reported	not reported	33%	38%	not applicable
After data revision	not reported	not reported	40%	44%	48%
<b>Health and safety</b>					
<b>Absenteeism (% of total working hours)</b>					
Before data revision	5.2%	5.0%	4.9%	5.3%	6.0%
After data revision	5.3%	5.0%	5.0%	5.2%	5.9%
<b>Fatalities</b>					
Before data revision	2	3	1	2	2
After data revision	2	3	1	1	2
<b>Lost time accidents - per 100 FTEs</b>					
Before data revision	2.2	2.9	2.9	3.5	3.3
After data revision	1.7	2.5	2.5	3.1	2.3
<b>Employee engagement (% of engaged employees)</b>					
Before data revision	59%	64%	67%	66%	64%
After data revision	60%	64%	68%	67%	65%
<b>CO<sub>2</sub> efficiency index</b>					
<b>CO<sub>2</sub> efficiency index (2007=100)</b>					
Before data revision	56.1	51.4	49.2	42.9	40.3
After data revision	53.5	50.4	45.7	40.2	38.6
<b>Scope 1 gross GHG emissions (in ktCO<sub>2</sub>e)</b>					
Before data revision	44	42	43	39	40
After data revision	42	40	41	36	37
<b>Scope 2 gross GHG emissions (in ktCO<sub>2</sub>e)</b>					
Before data revision	43	40	46	43	43
After data revision	40	37	42	38	39
<b>Scope 3 gross GHG emissions (in ktCO<sub>2</sub>e)</b>					
Before data revision	156	248	228	195	197
After data revision	145	232	199	171	160

The data revision for scope 3 emissions includes more elements than the effect of discontinued operations. The table on the next page provides a breakdown of the data revisions.

## PostNL

### Overview of data revisions for scope 3 emissions (in ktCO<sub>2</sub>e)

2014 - 2017

	2014	2015	2016	2017
Reported gross scope 3 emissions	156	248	228	195
Effect of discontinued operations	(25)	(28)	(34)	(35)
Effect of Spring	(5)	(7)	(14)	(8)
Effect of TGN	19	19	19	19
Revised gross scope 3 emissions	145	232	199	171

The total effect of data revisions in our scope 3 emissions is a decrease of 24 kilotonnes CO<sub>2</sub> in our 2017 comparative figures. This is a combination of effects from scoping our discontinued operations in Italy (Nexive) and Germany (Postcon), TGN and Spring. In line with the trend since 2014, the scope 3 emissions of Nexive and Postcon grew annually.

During our reporting process for 2018, we noted that certain transport volumes reported for our Spring business were double counted. We revised the comparative figures by adjusting the transport volumes and emissions for the related trade lanes. This resulted in a decrease of our 2017 scope 3 emissions of 8 kilotonnes.

In 2018 we calculated our baseline emissions for Science Based Targetting (SBT). We found that a part of our subcontracted TGN transport kilometres to external parties have not been included in our annual reporting. We obtained the information for 2018 resulting in 19 ktCO<sub>2</sub> which we added to our 2018 emissions. Due to the lack of data, we also assumed this amount of emissions was omitted in our comparative figures. As TGN has grown over the past few years, we deem this a conservative approach.

### Methodology change customer satisfaction

In 2018, we started using a revised method for measuring customer satisfaction. Instead of using a combined question measurement, a single question measurement was used. The overview below provides insight into the comparative figures 2014 until 2017, reported and revised.

## PostNL

### Effect of data revision methodology change

2014 - 2018

	2014	2015	2016	2017	2018
Customer value					
Satisfied customers (in %)					
Before data revision	85%	86%	87%	88%	82%
After data revision	80%	84%	86%	85%	82%

## 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.

## 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 forward-looking 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. These forward-looking statements 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 the reader 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 forward-looking 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 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 2018, 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](http://www.sustainability-index.com).



### 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 2018 we were awarded a Level A- score by the CDP for our climate reporting, improving from 2017's Level B score.



### 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 have identified two SDGs that are most relevant for us: Decent work and economic growth, and Climate action. In chapter 5, Value creation and strategy, 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](http://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.



### 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.



## FIRA

The FIRA Platform is an online register in which companies (suppliers) can display their CSR practices to their clients (buyers). The FIRA Platform is closely aligned with international standards, such as ISO 26000, ISO 20400, AA1000 and GRI. PostNL was audited on the basis of a complete CSR report.



## 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 program 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 Connect, an independent network for smart, sustainable and social mobility, and logistics. In 2018, we were awarded a Lean & Green second star.



## Section 2: Customer value performance indicators

PostNL

### Customer indicators

2014 - 2018

	2014	2015	2016	2017	2018
<b>Key Performance Indicators</b>					
Highly satisfied customers	not reported	not reported	38%	41%	30%
Progress on transformation (share of revenues related to e-commerce)	not reported	not reported	40%	44%	48%
Delivery quality of Mail in the Netherlands (preliminary)	97%	96%	96%	95%	95%
<b>Other Performance Indicators</b>					
Satisfied customers	80%	84%	86%	85%	82%
Reputation score	64.5	67.7	67.8	69.7	67.7

### 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. For 2018, we switched to a new service provider to measure our customer satisfaction. Over 69,000 customers, more than double the amount surveyed in 2017 were invited to participate. This includes both consumers and business customers of our mail and parcels operations. The response rate remained stable at 9% in 2018. International customers are not included. In our survey, we ask our customer about their opinion about 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.

As explained in the section data revision, we changed the method of measurement of customer satisfaction from combined to single question measurement, which impacted the comparative figures. We also introduced the percentage of highly satisfied customers for the first time as a key performance indicator in 2018. This indicator was already presented using the single question measurement method in the Annual Report of 2017.

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. The decrease in customer satisfaction is explained in chapter 6: Customer value, in the Key results and highlights section.

#### 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 in 2018. The drop in customer satisfaction and employee engagement negatively influenced the 2018 results. With specific focus on customers and employees in our strategy, we aim to strengthen our brand and our reputation going forward.

### 2.2 Progress on transformation

We use the share of e-commerce related revenues from contracts with customers of total revenues as a measure to evaluate our progress on transformation to the logistics and postal solutions provider in the Benelux. We use a simplified method to calculate our progress, which gives a conservative score on our performance. Some of our Mail services are also related to e-commerce. These revenues don't 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 chapter 6: 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. Although we experienced challenges in our mail delivery, for example due to temporary shortage of mail deliverers in certain areas in the Netherlands, the results show that we met this target in 2018. For information is provided in chapter 6: Customer value.

## Section 3: Operational value performance indicators

	2014	2015	2016	2017	2018
<b>Key Performance Indicators</b>					
Volume development Parcels (in millions of items)	142	156	177	207	251
Volume development Mail (in millions of items)	2,705	2,401	2,213	1,994	1,781
Cost savings Mail (in € millions)	127	85	64	56	48
<b>Other Performance Indicators</b>					
ISO 9001 certification (percentage of total FTE working in certified sites)	91%	96%	100%	100%	100%

### 3.1 Volume development

We use the volumes of mail and parcels to calculate our revenue. Therefore, we included disclosures on the quantitative volume developments are included in chapter 10: Financial value. One of our strategic objectives is to help our customer grow their business. More information on our qualitative evaluation and examples on our efforts to manage our volumes can be found in chapter 6: Customer value and chapter 7: Operational value.

### 3.2 Cost savings

In 2018 we achieved further cost savings of €48 million, slightly below our initial guidance of between €50 million and €70 million. More information about cost savings can be found in chapter 10: Financial value. We also describe the main cost saving initiatives in chapter 7: Operational value.

### 3.3 Quality management system

We also use our quality management system to manage overall quality. ISO 9001 provides guidance for managing continuous improvement across the company, with a focus on providing better service and quality. We encourage all PostNL companies to obtain independent ISO 9001 certification to confirm the appropriateness of our management system. In 2018, the percentage of FTEs working at ISO 9001-certified sites increased to 100%.

## Section 4: Social value performance indicators

### 4.1 Employee engagement, loyalty and culture

#### PostNL

##### Employee engagement

2014 - 2018

	2014	2015	2016	2017	2018
Employee engagement (% of engaged employees)	60%	64%	68%	67%	65%
Employee loyalty (% of employees expected to stay)	83%	86%	88%	86%	88%
Culture index	not reported	55	58	58	57

PostNL measures its company-wide employee engagement through an annual survey. For 2018, we added employee loyalty as a key performance indicator to measure the commitment of our workforce. This indicator is measured based on the response of our employees when asked if they plan to stay with PostNL.

The annual survey is company-wide and only included employees with a labour agreement with PostNL. In 2018, employee engagement decreased to 65% (2017: 67%), while employee loyalty increased to 88% (2017: 86%).

For a large group of hired people, namely deliverers working for delivery partners, we annually measure satisfaction through a collaboration barometer. This Dutch survey provides valuable insights on where we can improve.

More information can be found in chapter 8: Social value, in the Making connections section.

At PostNL, caring for everyone who works for and with us is the foundation of good employment. Creating an atmosphere where people are passionate and proud to work for PostNL makes our company stronger and more future-proof. This is why we believe having the right culture and behaviour is critical for the successful transformation of our company. Our score card includes different behavioural aspects: being customer focused, being results driven, working together, and innovating and improving. In 2018 the culture index decreased slightly to 57 (2017: 58).

### 4.2 Employment

#### PostNL

##### Workforce

2014 - 2018

	2014	2015	2016	2017	2018
<b>Workforce</b>					
Headcount	48,355	45,145	41,497	38,965	37,785
Headcount out of Non Financial reporting scope	1,842	1,897	0	0	0
Headcount in Non Financial reporting scope	46,513	43,248	41,497	38,965	37,785
Full time equivalents (FTE)	23,023	21,798	20,730	20,791	20,421
FTE out of Non Financial reporting scope	1,409	1,426	0	0	0
FTE in Non Financial reporting scope	21,614	20,372	20,730	20,791	20,421

The total workforce of PostNL decreased both in terms of headcount and FTEs. The decrease at the Mail division is partially offset by the increase at the Parcel division.

## PostNL

### New hires and turnover

2014 - 2018, as indicated

	2014		2015		2016		2017		2018	
	Male	Female								
<b>Workforce by gender</b>	28,456	23,812	24,703	21,810	22,226	21,022	21,021	20,476	19,612	19,353
Workforce at Jan 1	52,267		46,513		43,248		41,497		38,965	
<b>New hires</b>										
< 30	4,177	3,409	3,332	3,136	2,919	2,533	3,216	2,599	3,983	2,789
30-50	1,697	2,823	1,782	3,139	1,618	2,999	1,629	2,941	1,959	2,733
>50	1,818	1,003	2,251	1,354	2,311	1,608	1,892	1,620	2,361	1,707
Total new hires	7,692	7,235	7,365	7,629	6,848	7,140	6,736	7,160	8,303	7,229
% of total headcount	27%	30%	30%	35%	31%	34%	32%	35%	42%	37%
<b>Total combined</b>	14,927		14,994		13,988		13,896		15,533	
<b>Total turnover</b>										
< 30	5,723	4,142	4,532	3,499	3,389	2,759	3,387	2,609	3,623	2,744
30-50	2,463	3,369	2,073	3,121	1,788	2,908	1,952	3,204	1,908	3,161
>50	3,259	1,725	3,237	1,797	2,911	1,984	3,004	2,272	2,893	2,385
Total turnover	11,445	9,237	9,842	8,417	8,088	7,651	8,343	8,085	8,423	8,290
% of total headcount	40%	39%	40%	39%	36%	36%	40%	39%	43%	43%
<b>Total combined</b>	20,682		18,259		15,739		16,428		16,713	
	Male	Female								
Workforce by gender	24,703	21,810	22,226	21,022	20,986	20,511	19,414	19,551	19,492	18,293
<b>Workforce at Dec 31</b>	46,513		43,248		41,497		38,965		37,785	

In line with prior years we saw a decline in our headcount in 2018. The relative decrease of 3% is lower than in 2017 (6%). In mail the headcount reduced due to restructuring, while we grew our employee base in Parcels.

Over 2018, the employee turnover rate further increased and is much higher than we would like to see. We employ many people, especially in Mail, with small contracts. In the current economic environment with extreme low unemployment rates, people can easily switch jobs. We noted that the turnover rate was particularly high among new joiners. In 2018 we increased our efforts to make better connections with our (new) employees. We want to be a good employer offering interesting jobs for people. With the introduction of the New mail route (see chapter 5: Value creation and strategy, last page) we will offer our employees in mail larger work packages and more flexibility in the new model. Within Parcels, our focus is to manage the high workload and capacity challenges. We started different initiatives to improve our working conditions. Our goal is to bend the trend of the last two years by reducing the employee turnover rate for 2019.

More information about developments in our workforce and examples of improvement initiatives can be found in chapter 8: Social value, paragraph: Managing personnel capacity.

## 4.3 Recruitment and career development

PostNL

### Recruitment and career development

2014 - 2018

	2014	2015	2016	2017	2018
<b>Recruitment and career development</b>					
Training hours per FTE	19	22	17	17	22

The number of training hours per FTE increased significantly in 2018 to 22 (2017: 17). Since the introduction in 2017 of our online learning platform Mijn Leerplein, 2018 was the first year employees had a full-year's access to the expanded learning environment. We launched several campaigns during the year to build awareness with our employees on the broad learning possibilities within the company. Compared to 2017, we saw an increase in introductory trainings and external trainings from external learning partners. At the same time, in 2018 we introduced mandatory online trainings for office staff on the privacy law (GDPR) and integrity. We saw a sharp increase in the number of employees who voluntarily took agile trainings, as part of the roll-out of the change program around agile ways of working. As explained in chapter 8, Social value, we also put more focus on behavioural trainings in 2018, for example on multi-cultural craftsmanship.

## 4.4 Diversity and inclusion

PostNL

### Diversity and inclusion

2014 - 2018

	2014	2015	2016	2017	2018
<b>Diversity and inclusion</b>					
Percentage of females in management positions	24%	25%	24%	21%	21%

The company-wide percentage of females in management positions remained stable at 21%. Over 40% of our Executive Committee is female. 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, the percentage of females is lower company-wide. This is an area of focus for the coming years, as we aim to have a share of females in our management layers that better reflect the share of females in our workforce. We have specific programs in the Netherlands, for example to contribute to the Talent to the Top Charter.

## 4.5 Health and Safety

PostNL

### Health and safety

2014 - 2018

	2014	2015	2016	2017	2018
<b>Health and safety</b>					
Fatal accidents	2	3	1	1	2
Lost time accidents - per 100 FTEs	1.7	2.5	2.5	3.1	2.3
Absenteeism (% of total working hours)	5.3%	5.0%	5.0%	5.2%	5.9%
OHSAS 18001 certification (% of FTE working in certified sites)	88%	94%	100%	100%	100%

Despite our efforts and initiatives, we deeply regret having to report two fatal accidents across our Parcels operations in 2018 (2017: 1).

We measure the lost time accidents rate only of our own employees. We do not have information on the working hours of deliverers hired externally. In 2018 we had both internally and externally monitored our safety performance, which reduced the number of lost time accidents per 100 FTEs to 2.3 (2017: 3.1). This was caused by better communication on safe behaviour, especially for scooter deliverers. In 2019 we aim to focus less on lost time accidents, but broaden the scope to all accidents that result in injuries. This is in line with the new GRI403 standard. This also means we are looking to include serious accidents as of 2019.

The absenteeism rates increased to 5.9% (2017: 5.2%). See chapter 8: Social value for more information.

We obtained the OHSAS certificate for our health and safety policies and procedures.

## Section 5: Environmental value performance indicators

### 5.1 CO<sub>2</sub> efficiency index

PostNL

#### CO<sub>2</sub> efficiency index

2014 - 2018

	2014	2015	2016	2017	2018
<b>CO<sub>2</sub> efficiency index</b>					
CO <sub>2</sub> efficiency index (2007=100)	53.5	50.4	45.7	40.2	38.6

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. Our aim is to minimise our environmental impact by, for example, introducing environmentally friendly delivery methods and offering efficient packaging to decrease the amount of air that is transported. In our risk management process we evaluate physical, regulatory and reputational climate change-related risks. We identified that our main risks relate to our environmental impact in cities, for example due to possible future regulatory measures. No significant physical and reputational risks were identified during 2018.

Since 2008, we use the CO<sub>2</sub> efficiency index to measure our relative performance. The index consists of three components: buildings, small trucks and vans, and large trucks. We achieved our ambition to reduce the CO<sub>2</sub> efficiency index to 45 by 2020 (base year 2007 = 100). In 2018, we realised a CO<sub>2</sub> efficiency index of 38.6, well under our 2020 ambition. The main improvement in the CO<sub>2</sub> efficiency index in 2018 was as a result of the investment in additional biogas vehicles, which we increased from 731 to 828. For large trucks we introduced 17 LNG vehicles to our fleet. Below we explain the progress made on each of the components, buildings, small trucks and vans, and large trucks, in more detail.

### 5.2 CO<sub>2</sub> efficiency buildings

PostNL

#### Buildings

2014 - 2018

	2014	2015	2016	2017	2018
<b>Buildings</b>					
Efficiency (kg CO <sub>2</sub> per m <sup>2</sup> )	9.8	7.0	0.6	1.6	0.7
Electricity usage in kWh/m <sup>2</sup> building	105	103	105	105	112
Sustainable electricity usage (as % of total electricity usage)	89%	90%	94%	100%	100%
Gas usage in m <sup>3</sup> /m <sup>2</sup> building	6.2	7.0	7.1	6.0	6.2

In 2018, we used 84 million kWh of electricity (2017: 83 million) and our gas consumption fell to 3.5 million cubic metres (2017: 3.6 million). We aim to minimise our environmental impact and continued to install solar panels on all our parcel sorting and distribution centres in 2018. We will continue to fit solar panels on new parcel sorting and distribution centres going forward. In addition to our energy reduction initiatives, we also stimulate the use of sustainable electricity in our buildings. We also partly offset the remaining CO<sub>2</sub> emissions of our building using Guarantee of Origins for renewable energy and Gold Standard credits.

To aid long-term comparability of emissions, we use a correction factor called 'degree days' to eliminate the external effect of differences in average temperatures between years. This correction factor was used in the CO<sub>2</sub> efficiency numbers presented above (kg CO<sub>2</sub>/m<sup>2</sup>).

While our absolute gas consumption decreased by compared to 2017 by 5%, we used 1% more electricity in 2018. We closed down 6 mail preparation centres. These centres were heated by gas and consumed relatively low amounts of electricity as we did not use heavy machinery. We merged activities from different locations which improved the use of our buildings. Within Parcels, we opened three sorting centres and increased the sorting capacity in existing sorting centres. The parcel sorting centres are heated by electricity driven heat pumps and do not use natural gas for heating. Overall, the improvement in capacity utilisation of buildings led to an increase in electricity usage per m<sup>2</sup> of 4%, while the overall electricity consumption increased by only 1%. For gas, we reduced our absolute consumption by 5%, while the relative consumption per m<sup>2</sup> increased by 2%.

## 5.3 CO<sub>2</sub> efficiency trucks

PostNL

Trucks

2014 - 2018

	2014	2015	2016	2017	2018
<b>Small trucks and vans</b>					
Efficiency (gr CO <sub>2</sub> per km)	243	234	245	175	168
Fuel usage liters diesel/100 km	9.0	9.3	10.0	10.6	11.7
<b>Large trucks</b>					
Efficiency (gr CO <sub>2</sub> per km)	711	714	716	698	695
Fuel usage liters diesel/100 km	26.7	26.7	26.7	26.1	26.2

The CO<sub>2</sub> efficiency of small trucks and vans improved in 2018 to 168 (2017: 175). The improvement was due to the introduction of additional biogas vehicles, as well as the introduction of electric vehicles.

Going forward we will work towards delivering in the most efficient and sustainable way possible. We plan to continue to invest in biogas vehicles. At the same time we aim to increase the number of electric vans. For our last-mile delivery, we continue to look for the optimum mix of vehicles. One example is the replacement of vans by light electric freight transport vehicles (Licht elektrische vrachtoertuigen, or LEVV) such as e-cargo bikes, e-scooters and e-bikes. This development will contribute to our long-term objective to deliver emission-free in the last mile by 2030.

In 2018 the CO<sub>2</sub> efficiency of large trucks improved to 695 (2017: 698). We started to use a number of new LNG trucks in our fleet, which have lower CO<sub>2</sub> emissions than conventional diesel trucks. We plan to further increase these numbers in 2019.

## 5.4 Air quality

PostNL

Air quality

2014 - 2018

	2014	2015	2016	2017	2018
<b>Small trucks and vans</b>					
No <sub>x</sub> emissions in kg	15,979	14,375	13,766	12,501	9,949
No <sub>x</sub> emissions (gr/km)	0.30	0.28	0.27	0.24	0.19
PM <sub>10</sub> emissions in kg	662	323	263	267	269
PM <sub>10</sub> emissions in (gr/km)	0.01	0.01	0.01	0.01	0.01
<b>Large trucks</b>					
No <sub>x</sub> emissions in kg	35,915	28,317	25,654	25,167	25,986
No <sub>x</sub> emissions (gr/km)	1.29	1.07	0.94	0.87	0.83
PM <sub>10</sub> emissions in kg	418	362	352	361	382
PM <sub>10</sub> emissions in (gr/km)	0.02	0.01	0.01	0.01	0.01
<b>Total</b>					
No <sub>x</sub> emissions in kg	51,894	42,692	39,420	37,668	35,935
No <sub>x</sub> emissions (gr/km)	0.64	0.55	0.50	0.46	0.43
PM <sub>10</sub> emissions in kg	1,080	685	615	628	651
PM <sub>10</sub> emissions in (gr/km)	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 on the next page.

## PostNL

### Compliance with Euro emission norms

2014 - 2018

	2014	2015	2016	2017	2018
<b>Small trucks and vans</b>					
Vehicles complying with Euro 6	0%	2%	12%	46%	76%
Vehicles complying with Euro 5	96%	98%	88%	54%	24%
Vehicles not complying with Euro 6 or Euro 5	4%	0%	0%	0%	0%
<b>Large trucks</b>					
Vehicles complying with Euro 6	53%	57%	68%	68%	73%
Vehicles complying with Euro 5	47%	43%	32%	32%	27%
<b>Total</b>					
Vehicles complying with Euro 6	6%	8%	19%	48%	76%
Vehicles complying with Euro 5	91%	92%	81%	52%	24%
Vehicles not complying with Euro 6 or Euro 5	4%	0%	0%	0%	0%

In 2018 we further increased the percentage of vehicles complying with Euro 6 emission standards. In small trucks and vans we have more options for cleaner vehicles, therefore the share of euro 6 compliant vehicles grew harder than for our large trucks. This improvement resulted in both lower NO<sub>x</sub> (nitrous oxides) and PM<sub>10</sub> (soot) emissions per kilometre. Due to the sharp increase in parcel volumes, we had to invest in additional large trucks. These trucks are less clean than our small trucks and vans, which lead to an increase in our absolute NO<sub>x</sub> and PM<sub>10</sub> emissions. The increase in absolute NO<sub>x</sub> emissions caused by our large trucks is offset by the further reduction realised for our small trucks and vans due to biogas vehicles. In 2018, we started investing in large trucks fueled by liquified natural gas (LNG), which is among the cleanest available options. We aim to expand the use of LNG trucks in order to reduce our emissions, both related to climate change and air quality.

## 5.5 Carbon footprint

### PostNL

#### Carbon footprint

2014 - 2018, in ktonnes CO<sub>2</sub>e

	2014	2015	2016	2017	2018
<b>Small trucks and vans</b>					
<b>Absolute carbon footprint</b>					
Heating (gas, heating fuel)	9	8	8	7	6
Small trucks and vans	13	13	13	9	9
Large trucks	20	19	20	20	22
<b>Scope 1 gross GHG emissions</b>	<b>42</b>	<b>40</b>	<b>41</b>	<b>36</b>	<b>37</b>
Compensated carbon emissions buildings (credits)	(2)	(2)	(2)	(6)	(6)
Compensated carbon emissions greengas trucks (credits)	(0)	(1)	(0)	0	0
<b>Scope 1 net GHG emissions</b>	<b>40</b>	<b>37</b>	<b>39</b>	<b>30</b>	<b>31</b>
District heating	1	1	1	0	0
Electricity (including electric vehicles)	39	36	41	38	39
<b>Scope 2 gross GHG emissions</b>	<b>40</b>	<b>37</b>	<b>42</b>	<b>38</b>	<b>39</b>
Sustainably sourced carbon emissions (sustainable electricity)	(35)	(32)	(38)	(38)	(39)
Compensated carbon emissions buildings (credits)	(6)	(6)	(6)	0	0
<b>Scope 2 net GHG emissions</b>	<b>(1)</b>	<b>(1)</b>	<b>(2)</b>	<b>0</b>	<b>0</b>
Company cars	7	7	4	5	6
Business travel by air	1	1	1	0	0
Independent parcel deliverers and other subcontractors	137	224	194	166	154
<b>Scope 3 gross GHG emissions</b>	<b>145</b>	<b>232</b>	<b>199</b>	<b>171</b>	<b>160</b>
Compensated carbon emissions company cars (credits)	(7)	(7)	(4)	(5)	(6)
Compensated carbon emissions business travel by air (credits)	(1)	(1)	(1)	(0)	(0)
<b>Scope 3 net GHG emissions</b>	<b>137</b>	<b>224</b>	<b>194</b>	<b>166</b>	<b>154</b>
PostNL's own gross carbon footprint (total scope 1 and 2)	82	77	83	74	76
PostNL's net carbon footprint (total scope 1 and 2)	39	36	37	30	31
PostNL's total gross carbon footprint (total scope 1, 2 and 3)	227	309	282	245	236
PostNL's net gross carbon footprint (total scope 1, 2 and 3)	176	260	231	196	185

### Scope 1

Our gross scope 1 emissions increased slightly in 2018. The carbon emissions of our large trucks increased by 2 kilotonnes, due to the higher volumes of parcels we transported. This was partly offset by introducing LNG trucks with lower emissions. We aim to expand our LNG fleet in 2019. Our small trucks also drove more kilometers in 2018, causing more CO<sub>2</sub> emissions, but this was offset by introducing more biogas and electric vehicles. The decrease in natural gas consumption led to a decrease of 1 kilotonne direct CO<sub>2</sub> emissions.

### Scope 2

Our gross scope 2 emissions increased by 1 kilotonne in 2018 to 39 kilotonnes. Our nominal electricity usage increased to approximately 84 million kWh in 2018 compared to 83 million kWh in 2017. At a limited number of locations, we use district heating. The carbon emissions of district heating were lower than one kilotonne. We stimulate the use of sustainable electricity in our buildings. In addition, we offset the remaining CO<sub>2</sub> emissions of our buildings using Guarantee of Origins for renewable energy. This resulted in net scope 2 emissions of 0 kilotonnes.

### Scope 3

Our gross scope 3 emissions decreased to 160 kilotonnes in 2018 (2017: 171 kilotonnes) and relate to the emissions from our external delivery partners. The decrease in 2018 can be explained by:

- A decline in international air freight resulting from a decline in the export of milk powder to China and a move from air freight to transportation by trucks within Europe: Decrease of 10 ktCO<sub>2</sub>
- A decrease of emissions resulting from lower international mail volumes in line with overall mail volume decline: Decrease of 9 ktCO<sub>2</sub>
- Parcel volume growth increasing the emissions from external delivery partners in the Netherlands: Increase of 5 ktCO<sub>2</sub>.
- Other small fluctuations: Increase of 3 ktCO<sub>2</sub>

Additionally, we purchased Gold Standard credits to offset 6 kilotonnes of carbon emissions from company cars and business travel, resulting in a net scope 3 CO<sub>2</sub> emissions of 154 kilotonnes (2017: 166 kilotonnes).

## Scope 1

PostNL  
Net CO<sub>2</sub> emissions  
(2018, in kilotonnes)

31



Covers all direct CO<sub>2</sub> emissions generated by sources that are owned or leased by the company, such as operational vehicles and heating.

PostNL  
Gross CO<sub>2</sub> emissions  
(2018, in kilotonnes)



Compensated  
(2018, in kilotonnes)



## Scope 2

PostNL  
Net CO<sub>2</sub> emissions  
(2018, in kilotonnes)

0



Includes all CO<sub>2</sub> emissions from the generation of purchased electricity and district heating consumed by the company.

PostNL  
Gross CO<sub>2</sub> emissions  
(2018, in kilotonnes)



Sustainably sourced  
(2018, in kilotonnes)



## Scope 3

PostNL  
Net CO<sub>2</sub> emissions  
(2018, in kilotonnes)

154



Refers to indirect CO<sub>2</sub> emissions that are a consequence of the company's activities but arise from sources not owned or controlled by the company.

PostNL  
Gross CO<sub>2</sub> emissions  
(2018, in kilotonnes)



Compensated  
(2018, in kilotonnes)



## 5.6 Environmental Management system

PostNL

Other environmental indicators

2014 - 2018

	2014	2015	2016	2017	2018
Other environmental indicators					
ISO 14001 certification (percentage of total FTE working in certified sites)	90%	95%	100%	100%	100%

Our environmental management systems help us to continuously improve our environmental performance and management across the company. As in 2017, in 2018 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 2018 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 responsibility
- the thereto related events and achievements for the year 2018,

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 sections in the annual report: Introduction, Business report (excluding chapter Financial value) and chapter 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 non-financial 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.

## 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 non-financial 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.

## 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.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the non-financial 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.

The key audit matters were addressed in the context of our audit of the non-financial information as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our assurance engagement addressed the matter	Key observations
<p><b>Estimations and assumptions used for calculating CO<sub>2</sub> scope 3 emissions</b></p> <p>External delivery partners are a material part of PostNL's CO<sub>2</sub> emissions. The methodology for calculating the CO<sub>2</sub> 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) and uses, in the absence of complete information from its external delivery partners, estimates and underlying assumptions to report scope 3 CO<sub>2</sub> emissions.</p>	<p>Our procedures focused on understanding and evaluating the reasonableness of the estimates and assumptions used. 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 CO<sub>2</sub> emissions and the sufficiency of the related disclosures. In addition, we determined that the assumptions and estimations used did not change compared to prior year.</p>
<p><b>Methodology underlying indicators measured by third parties</b></p> <p>The reputation, employee engagement and the customer satisfaction indicators are at 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. 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 and 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 non-financial information.

The references to external sources or websites in the non-financial information are not part of the information as audited by us. We therefore do not provide assurance on this 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 the 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 is 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 judgement 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.

The procedures of our audit consisted amongst others of:

- 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 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 of PostNL N.V.
- 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 management and relevant staff at corporate and division level responsible for strategy, policy and results;
  - Interviewing relevant staff responsible for providing, carrying out internal control procedures on, and consolidating the non-financial information;
  - Determining the nature and extent of the audit procedures for locations. For this, the nature, extent and risk profile of these locations are decisive. Based thereon we selected the locations to visit. Our visits to Nexive (Milan) and Postcon (Ratingen) are aimed at, on a local level, validating source data and evaluating the design and implementation of the registration process of lost time accidents and fatal accidents for both Nexive and Postcon and scope 1 and 2 CO<sub>2</sub> emissions for Nexive;
  - 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 in the information submitted for consolidation at corporate level.
- Reconciling the relevant information with the financial statements
- Evaluating the consistency of the non-financial information in scope with other 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

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, 25 February 2019

Ernst & Young Accountants LLP  
signed by J. Niewold



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# Appendix 1: Other non-financial performance indicators

## PostNL

### Other non-financial performance indicators

2014 - 2018

	2014	2015	2016	2017	2018
<b>People indicators</b>					
Percentage of females in total headcount	47%	49%	49%	50%	48%
Employees with a disability	1,261	1,442	1,482	1,631	1,704
Disabled employees as percentage of total headcount	3%	3%	4%	4%	5%
<b>Environmental indicators</b>					
Waste (tonnes per FTE)	0.4	0.3	0.3	0.3	0.2
Recycling of waste in percentage of total waste	66%	69%	61%	64%	66%
Environmental incidents on site	7	3	8	1	2
Environmental incidents off site	2	1	2	0	2

## Appendix 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 tables below show an overview which scoping coverage resulted per line item in the Non-financial performance statements.

### Data coverage

	Actual data	Extrapolation
<b>Customer value</b>		
Highly satisfied customers	100%	0%
Progress on transformation	100%	0%
Delivery quality Mail in the Netherlands	100%	0%
<b>Operational value</b>		
Volume development Parcels	100%	0%
Volume development Mail	100%	0%
Cost savings Mail	100%	0%
ISO 9001 certification	99%	1%
<b>Social value</b>		
Employee engagement	100%	0%
Employee loyalty	100%	0%
Headcount in Non Financial reporting scope	100%	0%
FTE in Non Financial reporting scope	100%	0%
Culture index	100%	0%
Training hours per FTE	83%	17%
Percentage of females in management positions	88%	12%
Fatal accidents	100%	0%
Lost time accidents - per 100 FTEs	94%	6%
Absenteeism	99%	1%
OHSAS 18001 certification	90%	10%
<b>Environmental value</b>		
CO <sub>2</sub> efficiency index	88%	12%
Scope 1 gross GHG emissions	96%	4%
Scope 1 net GHG emissions	96%	4%
Scope 2 gross GHG emissions	84%	16%
Scope 2 net GHG emissions	84%	16%
Scope 3 gross GHG emissions	100%	0%
Scope 3 net GHG emissions	100%	0%
NO <sub>x</sub> emissions in kg	100%	0%
NO <sub>x</sub> emissions (gr/km)	100%	0%
PM <sub>10</sub> emissions in kg	100%	0%
PM <sub>10</sub> emissions in (gr/km)	100%	0%
Vehicles complying with Euro 6	100%	0%
Vehicles complying with Euro 5	100%	0%
ISO 14001 certification	99%	1%

## Appendix 3: Glossary and definitions

### Absenteeism

Total hours of absence divided by the total contractual working hours.

### 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 (*registeraccountant*) 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 CO<sub>2</sub> that has recently been extracted from the atmosphere as a result of growing plants and trees, and therefore does not influence the CO<sub>2</sub> 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 CO<sub>2</sub> levels in the atmosphere.

### Business travel

Business travel refers to all business-related air travel.

### Carbon neutral

Carbon neutral means that the net CO<sub>2</sub> equivalent emissions from activities are zero.

### Carbon-neutral electricity

Carbon neutral electricity 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.

### CO<sub>2</sub> efficiency

CO<sub>2</sub> efficiency expresses the efficiency of PostNL's business in terms of carbon emissions related to the number of square meters of buildings or the amount of kilometers driven by trucks and vans.

### 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.

### Culture index

Employees indicate in a survey the degree to which they recognise desired behaviour in the four cultural topics within the organisation. The culture index is calculated by averaging the topic specific scores.

### 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.

### 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](http://www.sustainability-index.com).

### E-commerce

The online buying and selling of products and service by businesses and consumers.

### 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.

### 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<sub>x</sub>) and particulate matter (PM<sub>10</sub>).

### 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](http://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](http://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](http://www.iso.org).

### 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.

### 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.

### 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.

### Letterbox parcel

Postal item containing goods weighing up to 2 kg, which generally fit through the slot of a letterbox.

### Lost time accident

A lost time accident is an occupational accident resulting in the absence of a PostNL employee for at least one working day. 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. Each lost time accident is only counted once and in the month it occurs.

### Materiality

Information is material if errors, omissions or incorrect presentation can influence the evaluation or decisions of users of the information.

### NO<sub>x</sub>

NO<sub>x</sub> (NO and NO<sub>2</sub>) refers to nitrogen oxides. Nitrogen oxides are produced during combustion, especially at high temperatures.

### 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.

### 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](http://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.

### **PM<sub>10</sub>**

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 PM<sub>10</sub> is used to describe particles of 10 micrometres or less.

### **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.

### **PostNL (Group)**

PostNL N.V. and its Group companies.

### **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.

### **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.

### **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.

### **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.

### **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 hours**

The total number of individually-calculated working hours adjusted for overtime, leave or similar deviations.

# Appendix 4: GRI Content Index

## GRI table

### General disclosures

Indicator nr.	Indicator	Details/reference
<b>Organisational profile</b>		
102-1	Name of the organization	PostNL N.V.
102-2	Activities, brands, products, and services	Chapter 1: At a glance; Chapter 6: Customer value
102-3	Location of headquarters	Prinses Beatrixlaan 23, 2595 AK The Hague, the Netherlands
102-4	Location of operations	Chapter 4: Our operating context; Chapter 5: Value creation and strategy
102-5	Ownership and legal form	Chapter 17: PostNL on the capital markets
102-6	Markets served	Chapter 4: Our operating context; Chapter 5: Value creation and strategy; Chapter 6: Customer value
102-7	Scale of the organization	Chapter 1: At a glance; Chapter 8: Social value; Chapter 10: Financial value; Chapter 18: Financial statements; Chapter 19: Non-financial statements
102-8	Information on employees and other workers	Chapter 8: Social value; Chapter 19: Non-financial performance statements
102-9	Supply chain	Chapter 4: Our operating context; Chapter 5: Value creation and strategy; Chapter 6: Customer value; Chapter 7: Operational value; Chapter 9: Environmental value; Chapter 19: Non-financial performance 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 5: Value creation and strategy: Our Strategy
102-11	Precautionary Principle or approach	Chapter 14: 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 19: Non-financial performance statements: Reporting principles; Guidelines and principles.
102-13	Membership of associations	We participate in several branche organisations: IPC, PostEurope, UPU.
<b>Strategy</b>		
102-14	Statement from senior decision-maker	Chapter 2: Message from Herta Verhagen
102-15	Key impacts, risks, and opportunities	Chapter 5: Value creation and strategy
<b>Ethics and integrity</b>		
102-16	Values, principles, standards, and norms of behavior	Chapter 3: Our identity
102-17	Mechanisms for advice and concerns about ethics	Chapter 13: Corporate governance
<b>Governance</b>		
102-18	Governance structure	Chapter 13: Corporate governance
102-19	Delegating authority	Chapter 13: Corporate governance
102-20	Executive-level responsibility for economic, environmental, and social topics	Chapter 13: Corporate governance
102-21	Consulting stakeholders on economic, environmental, and social topics	Chapter 13: Corporate governance
102-22	Composition of the highest governance body and its committees	Chapter 13: 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 13: Corporate governance
102-25	Conflicts of interest	Chapter 13: Corporate governance. No conflicts of interest occurred.
102-26	Role of highest governance body in setting purpose, values, and strategy	Chapter 13: Corporate governance
102-27	Collective knowledge of highest governance body	Chapter 12: Report of the Supervisory Board
102-28	Evaluating the highest governance body's performance	Chapter 13: Corporate governance
102-29	Identifying and managing economic, environmental, and social impacts	Chapter 12: Report of the Supervisory Board
102-30	Effectiveness of risk management processes	Chapter 13: Corporate governance
102-31	Review of economic, environmental, and social topics	Chapter 13: Corporate governance
102-32	Highest governance body's role in sustainability reporting	Chapter 13: Corporate governance
102-33	Communicating critical concerns	Chapter 13: Corporate governance
102-34	Nature and total number of critical concerns	There were no critical concerns in 2018
102-35	Remuneration policies	Chapter 15: Remuneration report
102-36	Process for determining remuneration	Chapter 13: Corporate governance

## GRI table

### General disclosures

Indicator nr.	Indicator	Details/reference
<b>Governance (continued)</b>		
102-38	Annual total compensation ratio	Chapter 15: 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 15: 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.
<b>Stakeholder Engagement</b>		
102-40	List of stakeholder groups	Chapter 4: Our operating context; Chapter 19: Non-financial statements, Section 1: Basis of preparation.
102-41	Collective bargaining agreements	Chapter 4: Our operating context; Chapter 19: Non-financial statements, Section 1: Basis of preparation.
102-42	Identifying and selecting stakeholders	Chapter 4: Our operating context; Chapter 19: Non-financial statements, Section 1: Basis of preparation.
102-43	Approach to stakeholder engagement	Chapter 4: Our operating context; Chapter 19: Non-financial statements, Section 1: Basis of preparation.
102-44	Key topics and concerns raised	Chapter 4: Our operating context; Chapter 19: Non-financial statements, Section 1: Basis of preparation.
<b>Reporting practice</b>		
102-45	Entities included in the consolidated financial statements	Chapter Financial performance. 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 19 Non-financial statements: 1.2 Reporting criteria
102-47	List of material topics	Chapter 4: Our operating context
102-48	Restatements of information	Chapter 19: Non-financial performance statements: Note 1.3 Safeguarding report quality
102-49	Changes in reporting	Chapter 4: Our operating context: Materiality; Chapter 19 Non-financial statements: Note 1.2 Reporting criteria
102-50	Reporting period	Full calendar year 2018
102-51	Date of most recent report	26 February 2018
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Please send us your comments by e-mail to <a href="mailto:corporatecommunications@postnl.nl">corporatecommunications@postnl.nl</a> or by sending a letter to PostNL Annual Report team: P.O. Box 30250, 2500 GG The Hague, The Netherlands
102-54	Claims of reporting in accordance with the GRI Standards	The scope of the report is part of the Assurance report of the independent auditor
102-55	GRI content index	
102-56	External assurance	Chapter 19 Non-financial statements: Note 1.3 Safeguarding report quality
102-37	Stakeholders' involvement in remuneration	Chapter 15: Remuneration report The views on stakeholders are sought indirectly through the stakeholder dialogues we have held.

## GRI table

### Topic specific disclosures

GRI Standard	Name of standard	Reference, explanation, omission
<b>Key material topics</b>		
<b>Customer experience</b>		
103-1	Explanation of the material topic and its Boundary	Chapter 6: Customer value Chapter 19: Non-financial statements, section 1.2 Reporting Criteria, paragraph: Description of reporting foundations
103-2	The management approach and its components	Chapter 6: Customer value
103-3	Evaluation of the management approach	Chapter 6: Customer value Chapter 19: Non-financial statements, section 1.3 Safeguarding report quality
PNL-1 Key	Highly satisfied customers	Chapter 6: Customer value Chapter 19: Non-financial statements, section 2: Customer value performance indicators
<b>Manage growth in e-commerce</b>		
103-1	Explanation of the material topic and its Boundary	Chapter 6: Customer value Chapter 7: Operational value Chapter 19: Non-financial statements, section 1.2 Reporting Criteria, paragraph: Description of reporting foundations
103-2	The management approach and its components	Chapter 6: Customer value Chapter 7: Operational value
103-3	Evaluation of the management approach	Chapter 6: Customer value Chapter 7: Operational value Chapter 19: Non-financial statements, section 1.3 Safeguarding report quality
PNL-2 Key	Progress on transformation (share of e-commerce revenue)	Chapter 6: Customer value Chapter 19: Non-financial statements, section 2: Customer value performance indicators
PNL-3 Key	Volume development Parcels	Chapter 6: Customer value Chapter 19: Non-financial statements, section 3: Operational value performance indicators
<b>Manage declining mail volumes</b>		
103-1	Explanation of the material topic and its Boundary	Chapter 7: Operational value Chapter 10: Financial value Chapter 19: Non-financial statements, section 1.2 Reporting Criteria, paragraph: Description of reporting foundations
103-2	The management approach and its components	Chapter 7: Operational value Chapter 10: Financial value
103-3	Evaluation of the management approach	Chapter 7: Operational value Chapter 10: Financial value Chapter 19: Non-financial statements, section 1.3 Safeguarding report quality
PNL-4 Key	Volume development Mail	Chapter 6: Customer value Chapter 19: Non-financial statements, section 3: Operational value performance indicators
PNL-5 Key	Cost savings	Chapter 10: Financial value
<b>Empowered people</b>		
103-1	Explanation of the material topic and its Boundary	Chapter 8: Social value Chapter 19: Non-financial statements, section 1.2 Reporting Criteria, paragraph: Description of reporting foundations
103-2	The management approach and its components	Chapter 8: social value
103-3	Evaluation of the management approach	Chapter 8: Social value Chapter 19: Non-financial statements, section 1.3 Safeguarding report quality
PNL-6 Key	Employee engagement	Chapter 8: Social value Chapter 19: Non-financial statements, section 4: Social value performance indicators
PNL-7 Key	Employee loyalty	Chapter 8: Social value Chapter 19: Non-financial statements, section 4: Social value performance indicators
401-1	New employee hires and employee turnover	Chapter 19: Non-financial statements, section 4: 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 19: Non-financial statements, section 4: 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 (needed to "Lost time accidents" of workers beyond our own employees is unavailable for PostNL, we only report these indicators for our own employees.
404-1	Average hours of training per year per employee	Chapter 19: Non-financial statements, section 4: Social value performance indicators
405-1	Diversity of governance bodies and employees	Chapter 13: Corporate governance, section: Diversity Chapter 19: Non-financial statements, section 4: Social value performance indicators
<b>Accessible and reliable postal services</b>		
103-1	Explanation of the material topic and its Boundary	Chapter 6: Customer value Chapter 19: Non-financial statements, section 1.2 Reporting Criteria, paragraph: Description of reporting foundations
103-2	The management approach and its components	Chapter 6: Customer value
103-3	Evaluation of the management approach	Chapter 6: Customer value Chapter 19: Non-financial statements, section 1.3 Safeguarding report quality
PNL-8 Key	Delivery quality Mail in the Netherlands	Chapter 6: Customer value Chapter 19: Non-financial statements, section 2: Customer value performance indicators

## GRI table

### Topic specific disclosures

GRI Standard	Name of standard	Reference, explanation, omission
<b>Key material topics</b>		
<b>Financial position and performance</b>		
103-1	Explanation of the material topic and its Boundary	Chapter 10: Financial value Chapter 19: Non-financial statements, section 1.2 Reporting Criteria, paragraph: Description of reporting foundations
103-2	The management approach and its components	Chapter 10: Financial value
103-3	Evaluation of the management approach	Chapter 10: Financial value Chapter 19: Non-financial statements, section 1.3 Safeguarding report quality
PNL-9 Key	Revenue	Chapter 10: Financial value
PNL-10 Key	Underlying operating income	Chapter 10: Financial value
PNL-11 Key	Underlying cash operating income	Chapter 10: Financial value
201-1	Direct economic value generated and distributed	Chapter 18: Financial statements, section: Consolidated primary statements
201-2	Financial implications and other risks and opportunities due to climate change	Chapter 14: Risk management, table: Regulatory risks
201-3	Defined benefit plan obligations and other retirement plans	Chapter 18: Financial statements, section: Provision for pension liabilities
<b>Emission free delivery</b>		
103-1	Explanation of the material topic and its Boundary	Chapter 9: Environmental value Chapter 19: Non-financial statements, section 1.2 Reporting Criteria, paragraph: Description of reporting foundations
103-2	The management approach and its components	Chapter 9: Environmental value
103-3	Evaluation of the management approach	Chapter 9: Environmental value Chapter 19: Non-financial statements, section 1.3 Safeguarding report quality
PNL-12 Key	CO2 efficiency index	Chapter 9: Environmental value Chapter 19: Non-financial statements, section 4: Environmental value performance indicators
305-1	Direct (scope 1) GHG emissions	Chapter 19: Non-financial statements, section 4: Environmental value performance indicators
305-2	Energy indirect (scope 2) GHG emissions	Chapter 19: Non-financial statements, section 4: Environmental value performance indicators
305-3	Other indirect (scope 3) GHG emissions	Chapter 19: Non-financial statements, section 4: Environmental value performance indicators
305-4	GHG emissions intensity	Chapter 19: Non-financial statements, section 4: Environmental value performance indicators
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Chapter 19: Non-financial statements, section 4: Environmental value performance indicators

# Appendix 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 8: Social value, paragraph: Human rights
2. Make sure that they are not complicit in human rights abuses	Chapter 8: Social value, paragraph: Human rights
3. Uphold the freedom of association and the effective recognition of the right to collective bargaining	Chapter 8: Social value, paragraph: Human rights Chapter 8: Social value, paragraph: Collective labour agreements
4. Uphold the elimination of all forms of forced and compulsory labour	Chapter 8: Social value, paragraph: Human rights
5. Uphold the effective abolition of child labour	Chapter 8: Social value, paragraph: Human rights
6. Uphold the elimination of discrimination in respect of employment and occupation	Chapter 8: Social value, paragraph: Human rights
7. Support a precautionary approach to environmental challenges	Chapter 9: Environmental value (e.g. city logistics)
8. Undertake initiatives to promote greater environmental responsibility	Chapter 9: Environmental value Chapter 19: Non-financial statements, Section 5: Environmental value performance indicators
9. Encourage the development and diffusion of environmentally friendly technologies	Chapter 9: Environmental value
10. Work against corruption in all its forms, including extortion and bribery	Chapter 14: Risk management, paragraph: Integrity

## Appendix 6: Summary of key figures

All numbers presented in this appendix are the reported numbers in the respective Annual Reports of 2014 till 2018, 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

2014-2018, in € millions, unless indicated otherwise

	2014	2015	2016	2017	2018
<b>Financial performance</b>					
Revenue					
Parcels	1,057	1,173	1,283	1,382	1,555
Mail in the Netherlands	2,044	1,961	1,877	1,783	1,678
PostNL	2,765	2,751	2,723	2,725	2,772
Underlying cash operating income					
Parcels	109	123	131	140	117
Mail in the Netherlands	230	204	160	125	93
PostNL Other	(45)	(22)	(37)	(24)	(22)
PostNL	294	305	254	241	188
Underlying cash operating income margin					
Parcels	10.3%	10.5%	10.2%	10.1%	7.5%
Mail in the Netherlands	11.3%	10.4%	8.5%	7.0%	5.5%
PostNL	10.6%	11.1%	9.3%	8.8%	6.8%
Net cash from operating & investing activities (excluding TNT Express)					
	141	135	10	11	(19)
Net cash / (net debt)					
	(683)	(552)	86	27	(149)
Consolidated equity attributable to the equity holders of the parent					
	(597)	(213)	(79)	34	46
Corporate equity					
	1,983	2,204	2,742	2,730	2,593
Month-end coverage ratio main pension fund					
	108.9%	106.0%	108.3%	115.8%	112.1%
12-months average coverage ratio main pension fund					
	111.8%	106.8%	103.6%	113.4%	116.0%
Cash out from pensions					
	168	179	164	151	148
Profit for the year (excluding TNT Express)					
	220	147	135	148	33
Earnings per share (excluding TNT Express in € cents)					
	49.9	33.3	30.5	33.0	7.1
<b>Operational performance</b>					
Parcels					
Parcel volume (in millions of items)	142	156	177	207	251
Volume growth percentage	8.4%	9.6%	13.3%	17.2%	21.5%
Mail in the Netherlands					
Addressed mail volume (in millions of items)	2,705	2,401	2,213	1,994	1,781
Volume decline percentage	(10.7%)	(11.2%)	(7.9%)	(9.9%)	(10.7%)
Delivery quality (2018 preliminary)	97%	96%	96%	95%	95%
Cost savings					
	127	85	64	56	48
<b>Corporate responsibility performance</b>					
Customer satisfaction (% of highly satisfied customers)	not reported	not reported	38%	41%	30%
Employee engagement (% of engaged employees)	60%	64%	68%	67%	65%
Absenteeism (% of total working hours)	5.3%	5.0%	5.0%	5.2%	5.9%
CO <sub>2</sub> efficiency index (2007 = 100)	53.5	50.4	45.7	40.2	38.6

**We look forward to receiving feedback on this report**

Please send us your comments by e-mail to

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