Building our future

Annual Report 2016

Cautionary note with regard to "forward-looking statements"
Some statements in this Annual Report are "forward-looking statements". By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. These forward-looking statements involve known and unknown risks, uncertainties and other factors that are 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.

You are cautioned not to put undue reliance on these forward-looking statements, which 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.

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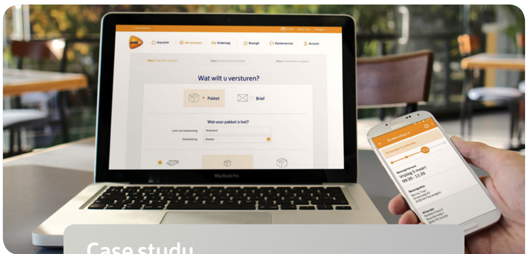
Case studies

Throughout this report you will find various testimonials and background stories illustrating the implementation of our strategy and how this affects our customers, our employees, our investors and other stakeholders. The full versions of these stories can be read on our website.

Smarter shopping
How IT makes receiving parcels easier

International growth
Ordered from China, delivered by PostNL



Case study
The PostNL App

How to read this report

Business Report
This section provides an overview of the internal and external factors that are shaping our business, the actions we implemented in 2016, and how we plan to continue realising long-term value for our stakeholders and the business going forward.

Governance
This section provides an overview of the governance framework we had in place in 2016, an outline of the key topics the Board of Management and the Supervisory Board dealt with during the year, and related information.

Performance Statements
This section includes the Financial Statements and Corporate Responsibility (CR) Performance Statements.

1 We are PostNL

We are...

The postal and logistic solutions provider

We are PostNL. For our customers, we are the essential link between the physical and the online world. We facilitate communications between people and companies. On average, we deliver 550,000 parcels and nine million letters a day throughout the Netherlands. We continue to grow our service offerings, through a combination of smart networks, digital applications, and the right communications channels. In doing so, we aim to make the lives of our customers easier.

We operate the largest and most modern mail, parcels and e-commerce network in the Benelux, globally through our Spring sales force, and continue to grow in Italy and Germany. With our loyal workforce of approximately 46,000 people, our extensive networks, and our innovative drive, we are ideally placed to realise our ambition of being *the* postal and logistic solutions provider in our chosen markets.

The essential link for our customers

Our customers are an important driver in everything we do – whether we are introducing innovative services, building a new digital platform, or creating one customer experience throughout the company.

We provide our customers with a reliable, trustworthy service and control over their deliveries, whether they are major e-tailers or consumers. And we are always close by: our deliverers reach every address, through rain, hail, sleet and snow.

A people company that cares for everyone

If it were not for our people, there would be no PostNL. Our people make the difference, from the truck drivers in the early morning to the mail sorters late at night; from the call-center employees to our web designers; and of course our mail and parcel deliverers. We aim to provide a working environment in which our people feel at home. We created this environment by focusing on engaged people, a diverse and inclusive workforce, and sustainable employability.

With our thousands of deliverers, we have eyes and ears in every street across the Benelux. We use this unique presence to contribute to a more vital and social society. Furthermore, we continuously look for opportunities to reduce our environmental impact, with cleaner vehicles and more efficient processes. That is how we invest in a sustainable future, both for our company, for society, and for the people who work for and with us.

The number-one network connecting the world

We have operated at the heart of the community for more than 200 years. Our networks have always kept pace with the changing needs of society, enabling us to find the most efficient route for every letter or parcel. Our extensive network of post offices, post boxes, and parcel points, supported by our delivery solutions, enable us to deliver wherever, whenever, and however the customer wants.

And as well as delivering mail and parcels to businesses and consumers, we also offer a broad array of services, such as direct marketing, logistics and installation services, and fulfilment services.

Through our international sales network Spring, we connect local businesses all around the world to consumers globally, using our Dutch-based sorting locations as a gateway to Europe and the rest of the world.

We continue to invest in our networks, nationally and internationally, offering innovative solutions that make our customers' lives easier.

We are...

Bringing our core values to life

At PostNL, our culture is built upon three core values: Connected, Passionate, and Inventive. Together, these values guide us in how we treat our customers, how we conduct our business, and how we behave towards one another. The following examples illustrate how we live these values each and every day, helping us realise our ambition to be *the* postal and logistic solutions provider in our chosen markets.

Connected every day

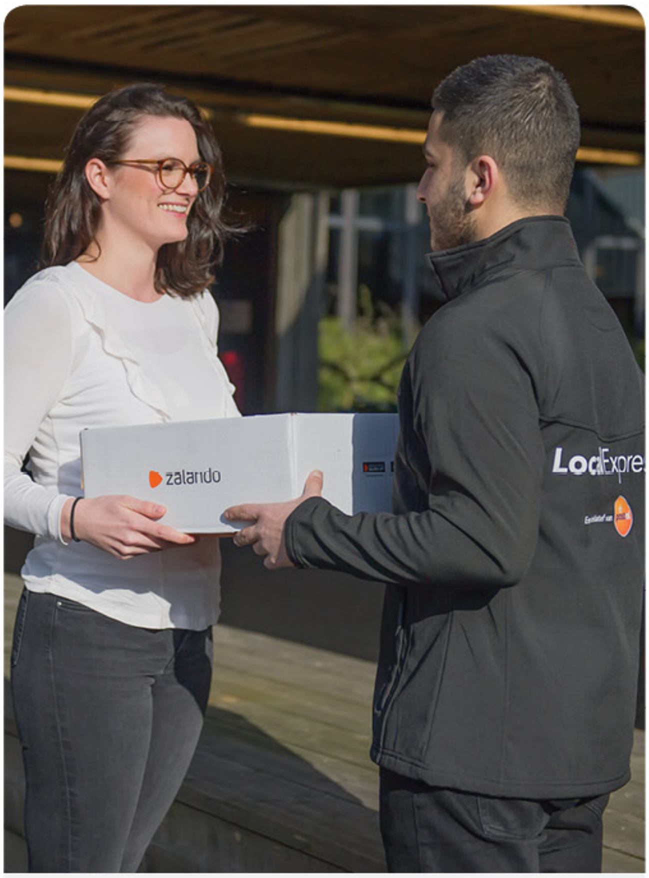
Delivering mail and parcels is our core business, and making connections is what we do. This also means remaining connected to our millions of customers, getting to know their needs and wishes, and being able to provide them with relevant solutions and personal service.

But remaining close to our customers takes on many shapes and forms across the company. For instance, we offer customers the possibility to connect with us wherever, whenever and however it suits them best, from a quick Twitter conversation to close collaboration to realise new logistic solutions. For everyone within the company, putting the customer first is the only way of working.

Read more about how we stay connected in our ***Story: Close to our customer***

More on postnl.nl/customer

Passionate every day



Our people are passionate about making the lives of our customers easier every day.

In 2016, we piloted a Return on Demand service in two Dutch cities for a leading fashion and shoe e-tailer. Return on Demand takes return solutions to the next level. It provides consumers with the ease of returning goods the same day without having to leave their own homes.

Launched as a pilot project in 2016, we used our agile way of working to accelerate the service and launch it nationwide for this e-tailer before the end of the year. This and other innovative delivery options focused on making online shopping easier and more convenient are driven by our strong IT capabilities.

Read more about how we stay passionate in our *Story: Smarter Shopping*

More on postnl.nl/technology

Inventive every day

Our inventive people provide our customers with cutting-edge solutions. We stimulate innovation throughout the company in a number of ways. One example is the annual 'My idea, Your Idea' competition, which challenges employees across PostNL to come up with ideas that can help the company grow and innovate or become more efficient.

One recent winning example is the Parcel and letter locker. After testing a number of prototypes, we began piloting this locker in 2016. This locker not only lets consumers send mail and parcels, it also enables them to receive parcels, which they can access by scanning a personal barcode on their smartphone.

Read more about how we stay inventive in our *Case study: My Idea, Your Idea*

More on postnl.nl/ideas

We are...

Realising our future

In 2016, we continued to take important steps towards transforming PostNL into a strong, efficient, flexible, customer oriented and financially healthy company. We are adapting our organisation to the ongoing volume growth in the domestic and international parcels market, and continuing volume decline in mail. Additionally, we continued to invest in our three growth domains: convenient shopping, network logistics, and connected community. In combination with our robust financial performance, this gives us the confidence that we are well prepared to realise our ambition, including our aim to realise progressive dividend.

PostNL
Working together as one

Customer satisfaction

87%

target: above 86%

Reputation score

67.8

score 2015: 67.7

PostNL
Be *the* postal and logistic solutions provider in our chosen markets

Revenue
(in € millions)
3,413

Underlying cash operating income
(in € millions)
245

Employees
(headcount)
46,456

Mail in the Netherlands
Deliver sustainable cash flow

Revenue
(in € millions)
1,877

Underlying cash operating income
(in € millions)
160

Employees
(headcount)
36,411

Delivery quality Mail in the Netherlands

96.4%

preliminary

target: above 95%

CO_2 efficiency index

49.5

target: below 51.4

Employee engagement

67%

target: above 64%

Parcels

Create further profitable growth

Revenue
(in € millions)
967

Underlying cash operating income
(in € millions)
106

Employees
(headcount)
3,588

International

Enhance cash profitability

Revenue
(in € millions)
1,017

Underlying cash operating income
(in € millions)
14

Employees
(headcount)
5,467

The results and data in the charts reflect our 2016 results on our key performance indicators.

We are...

Being recognised for our progress

We focus on being an innovative, diverse, sustainable, and forward-thinking company. In 2016 we were recognised by a number of external bodies for progress we have made on these and other topics. We have highlighted a few of those that have made us especially proud.

Proud to be award winners

Dow Jones Sustainability Indexes

Awarded the 2016 Transport and Transportation Infrastructure global industry leader in the Dow Jones Sustainability Index.

We won a Dutch Interactive Award, with customers recognising the ease with which they can use the PostNL App and the online platform.

Awarded the Most Engaged Network by Workplace Pride, an organisation that defends the interests of LGBTs in the workplace.

The first logistics company to be awarded In-Use Sustainability Hallmarks by BREEAM-NL, the Dutch Green Building Council.

fiRA

The first Dutch logistics company to be awarded a Gold status by Fira for our corporate responsibility reporting.

2 Message from Herna Verhagen

Accelerating transformation

Delivering promises

With underlying cash operating income of €245 million in 2016, we continue to deliver on our promises. This solid performance, supported by the sale of our stake in TNT Express, resulted in a further improvement of our financial position: we now have a net cash position and our consolidated equity position is close to positive territory. This highlights how seriously we take our priority to realise shareholder value.

Supported by our 2016 results, we have confidence in our strategy which we are currently implementing and executing successfully. We have made significant progress in transforming PostNL into an efficient, flexible, customer-oriented and financially-healthy company over the past few years, creating sustainable stakeholder value. This has brought us another step closer to realising our ambition to be *the* postal and logistic solutions provider in our chosen markets.

In this Annual Report you will find inspiring examples that substantiate how well we are transforming our company, in line with the key market trends that we have identified. Some of these stories are based on initiatives that we started a long time ago and which have continuously shown their results, such as the adjustment of our mail organisation to the ongoing volume decline. Others we started only very recently, and are in their first stages. One example is the pilot we launched with the Municipality of Rotterdam to identify loneliness among the elderly.

We strive to accelerate this transformation to further improve our value proposition. With additional cost savings and targeted price increases, we remain focussed on delivering a sustainable cash flow in Mail in the Netherlands. Strong growth in local and global e-commerce sales require us to make smart investments in our Parcels' infrastructure, which in turn enables us to enhance our capacity and capabilities to provide all our Benelux customers with value-creating solutions. This will accelerate the strengthening of our position as the leading e-commerce logistics company in the Benelux, creating further profitable growth. At International, our focus is on capturing opportunities created by accelerating global e-commerce growth, using our cross-border operations, and on further building Nexive's and Postcon's position. Together, this will result in enhanced cash profitability of our International segment.

We also continue to further strengthen our information technology and data capabilities, supporting our transformation. For example, our strong IT capabilities have helped us standardise and simplify our back-office processes, further improving efficiency and cost savings.

Strategic progress

At Mail in the Netherlands, we used cost savings and price increases to continue to effectively mitigate the impact from the ongoing volume decline. We began adapting our network of post offices and post boxes to reflect postal volume developments and customer needs, and continued to roll out our next-generation sorting machines. The latter allowed us to further reduce the number of mail preparation centres from 80 to 54. We redesigned our car company, restructuring about 30 hubs, and began using a few hundred e-bikes. This initiative helps speeding up the delivery process and reduce our carbon footprint. We also reorganised Mail in the Netherlands' management structure, resulting in cost savings that correspond with the diminishing operations. Overall, we realised cost savings of €64 million. We also increased our prices in a balanced manner, ensuring we do not materially impact volumes.

At Parcels, investments in our best-in-class infrastructure proved to be successful. We had a good holiday season, resulting in record-breaking volume peaks. We continued to introduce new services and solutions, anticipating customers' demands. These included same-day delivery and Return on Demand. We developed the latter in cooperation with a major e-tailer, and we are now expanding the service to other customers. We also saw strong growth of our Belgian volumes, helped by the fact that our customers can now benefit from the same high quality service levels in Wallonia as they are used to in Flanders.

We strengthened our position as a strong cross-border player, boosted by the rapid growth in international e-commerce volumes and the introduction of new solutions, such as Tag & Trace, which we rolled out across the majority of our markets.

This resulted in volume growth both to and from Asia, and within Europe. We also concluded our strategic review of Postcon, and decided to continue to invest in our German operations. This included making a number of acquisitions to help realise the growth potential in the German market. We faced tough market conditions in both Germany and Italy in 2016, and the expected recovery, particularly in Italy, was delayed. However, we also saw promising developments in our nationwide Italian parcel network, which doubled its parcels volume. We are confident that we will reverse the recovery delay in 2017, and going forward.

Approaches by bpost

In 2016 we were twice approached by bpost, resulting in discussions about the possibility of merging our two companies. The first set of discussions ended in May, with neither party able to agree on the terms of such a transaction. In early November we were again approached by bpost. The Supervisory Board and the Board of Management decided unanimously to reject bpost's second proposal, after carefully considering the interests of all of PostNL's stakeholders.

The Boards recognised that bpost's final proposal represented a considerable shareholder premium, provided that a transaction could be completed, and we realise that our rejection of bpost's proposal in December 2016 was a disappointment to many of our shareholders. However, the Boards were not convinced that a combination of the two businesses would be successful, nor were they convinced a transaction with bpost could ultimately be realised. We explained this in a letter to our shareholders, dated 7 December 2016, which can be found in appendix 4.

The human factor

Our people have played and will continue to play a vital role in our transformation process. Successful transformation requires specific skills and demands flexibility from our people. It also requires a safe working environment, where people are respected and enjoy a culture that promotes close collaboration across the company's business segments. It is our responsibility to create these conditions, such as by focusing on diversity, inclusion and engagement.

Our people are given the opportunity to improve their personal and professional skills through our online learning academy, which offers a broad range of learning modules, 24/7. Continuous training not only improves the employability of our people, it also makes them more open for change. For example, having our mail deliverers work with smartphones not only significantly improved the efficiency of our mail delivery and made the tracking and tracing of our letterbox parcels possible, it also granted some of our mail deliverers access to the digital age.

It is stories like these, as well as the countless other examples of hard work and effort our people deliver each and every day, that reaffirms my confidence that we will realise our strategy and accelerate the transformation of PostNL. This will enable us to safeguard a healthy and sustainable future for our company and create long-term value for all our stakeholders.

We want to be an employer of choice for everyone who works for and with us. We work hard to create an atmosphere where people are passionate and proud to work for PostNL. Our people should enjoy working for us and feel responsible for the collective results. To monitor our progress in this area, each year we carry out an employee engagement survey. In 2016 engagement increased to 67% from 64% in 2015.

Outlook 2017

Over the past few years, our growth as an e-commerce logistics company has increasingly contributed to our revenue and results, while the mail business is decreasing due to volume decline. As I mentioned earlier, we expect this process to continue, driven by market trends. In 2017 we will start accelerating the transformation of PostNL into an e-commerce company, to realise our ambition to be *the* postal and logistic solutions provider in our chosen markets and to further improve our value proposition.

In doing so, one of our biggest challenges will be continuing to find the right balance between adjusting our mail operations to the decreasing volumes in a competitive and highly regulated market, while managing the fast-growing e-commerce business in the Benelux and cross-border business internationally. However, this also creates opportunities. For example, by continuously looking for synergies between the businesses, and introducing the technological developments and innovative solutions developed across the company, such as in our innovation studio.

Closing remark

I would like to take this opportunity to thank each and every one of our people for their contribution and hard work in 2016. I would also like to thank our customers for their continuing loyalty, and for working with us to develop new and innovative services and solutions, helping them enter new markets, stay relevant in current markets, and stay ahead of their competitors. Finally, I would like to emphasise our commitment to prioritising and delivering stakeholder value. Following the sale of our stake in TNT Express, with the sensitivity of our pension obligation to interest rate fluctuations limited, and given our solid results in 2016, our consolidated equity has improved significantly. As a result, we will recommend our shareholders to approve the reinstatement of our dividend, with a first payment based on our 2016 results.

On the basis of our outlook for 2017, we trust that we will realise a positive consolidated equity in the course of 2017. This belief, combined with our increased ambition for 2020, has led us to adjust our dividend policy going forward, with the aim of paying a progressive dividend. This supports our commitment to create long-term shareholder value.

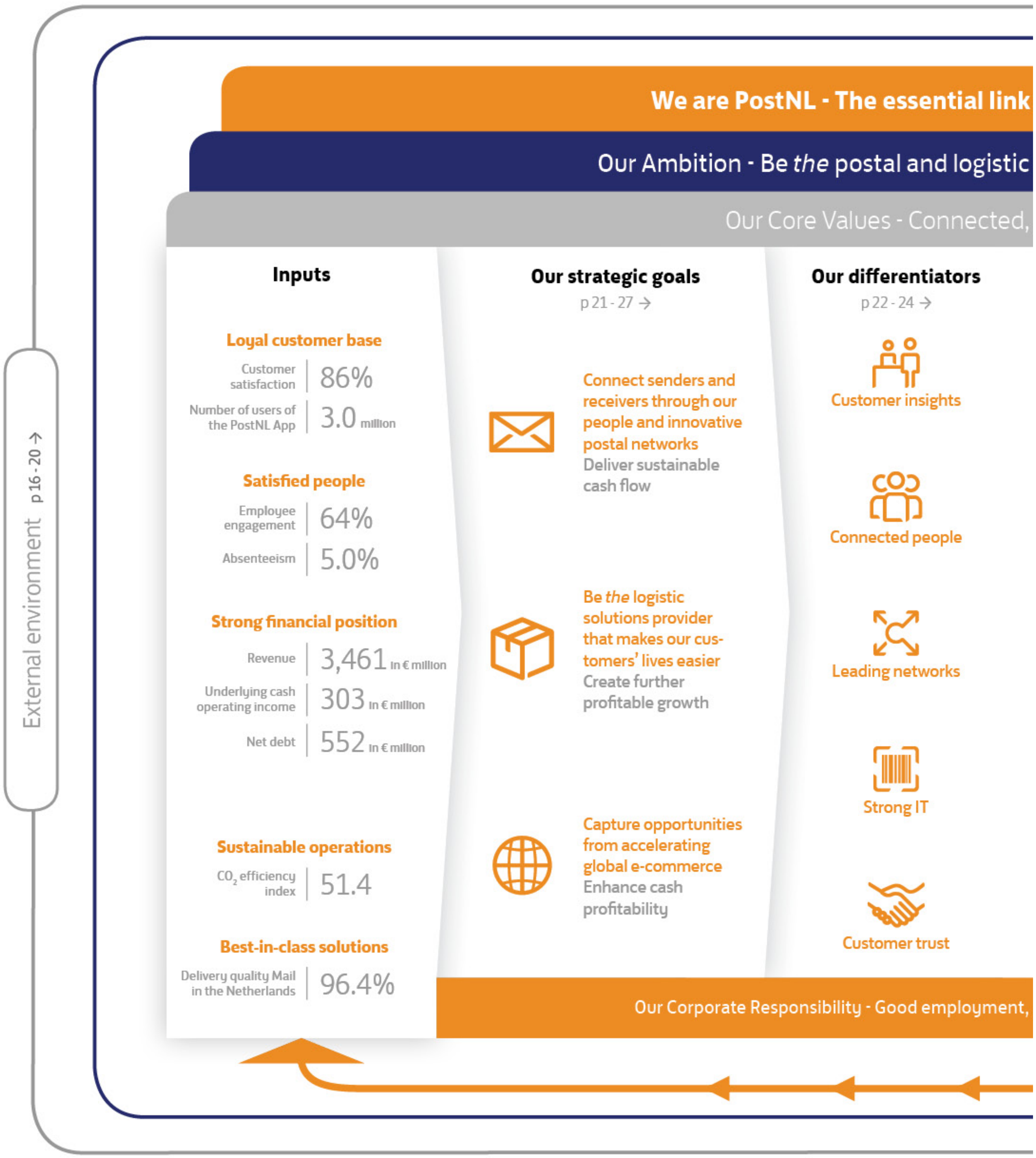
Kind regards,

Herna Verhagen

CEO

3 Our value creation process

We hold a prominent position in society, with a presence at millions of front doors every day. We want to positively impact the communities in which we operate. We focus on the needs of our customers, our people, our investors, society, and other stakeholders. It is only by carefully balancing all their needs that we are able to create long-term value.



As the essential link between the physical and the online world, our ambition is to be *the* postal and logistic solutions provider in our chosen markets. Our core values and our corporate responsibility are the two pillars our business is built upon. They guide us in the way we develop our business. Our differentiators enable us to realise our ambitions by creating a number of strong outputs. These outputs include profitable postal and logistic solutions, enhancing business through innovation, sustainable employability, and social responsibility.

More information on these outputs can be found in the Our strategy and Implementing our strategy in 2016 chapters.

Measuring and interpreting a variety of outcomes enable us to track the progress we are making towards achieving our ambition 2020. More information on the outcomes can be found in the Performance 2016 and outlook 2017 chapter. The other elements of our value creation process are explained in greater detail throughout the rest of the Business Report.

between the physical and the online world

solutions provider in our chosen markets p 21 →

Passionate and Inventive p 4 - 5 →

Outputs

p 14 - 15 →

Profitable postal and logistic solutions
Fulfilling our customers' needs with high quality services at competitive prices, creating value for our shareholders

Enhancing business through innovation
Developing our core activities and creating innovative solutions, resulting in long-term shareholder value

Sustainable employability
Working towards an inclusive and safe workforce, helping to improve our company's performance

Social responsibility
Matching business opportunities and our operations with our responsibility to take care of the environment and society

Sustainable operations and Liveable society

Outcomes

p 50 - 63 →

Loyal customer base

Customer satisfaction	87%
Number of users of the PostNL App	3.6 million

Satisfied people

Employee engagement	67%
Absenteeism	5.1%

Strong financial position

Revenue	3,413 in € million
Underlying cash operating income	245 in € million
Net cash	86 in € million
Dividend	12 in € cents

Sustainable operations

CO_2 efficiency index	49.5

Best-in-class solutions

Delivery quality Mail in the Netherlands	96.4%

Governance p 66 - 81 → Risk management p 82 - 87 →

How our outputs benefit society

Our business impacts the world around us. For example, our innovative services and solutions, which we develop to make the lives of consumers easier and to help our customers grow their business. Our broad range of delivery options help bring new markets online, while our fulfilment services enable small- and medium-sized e-tailers to provide their customers with better service levels.

As a large employer, we take our social responsibility seriously. We have created a work environment in which our people feel at home, by focusing on engaged people, a diverse and inclusive workforce, and sustainable employability. For example, we support people with a distance to the labour market by working with them at our Parcels' sorting and delivery centres.

With our trusted deliverers visiting every street, every day, we connect society. We are always close by, and are uniquely positioned to provide trusted services, such as ID check at the door.

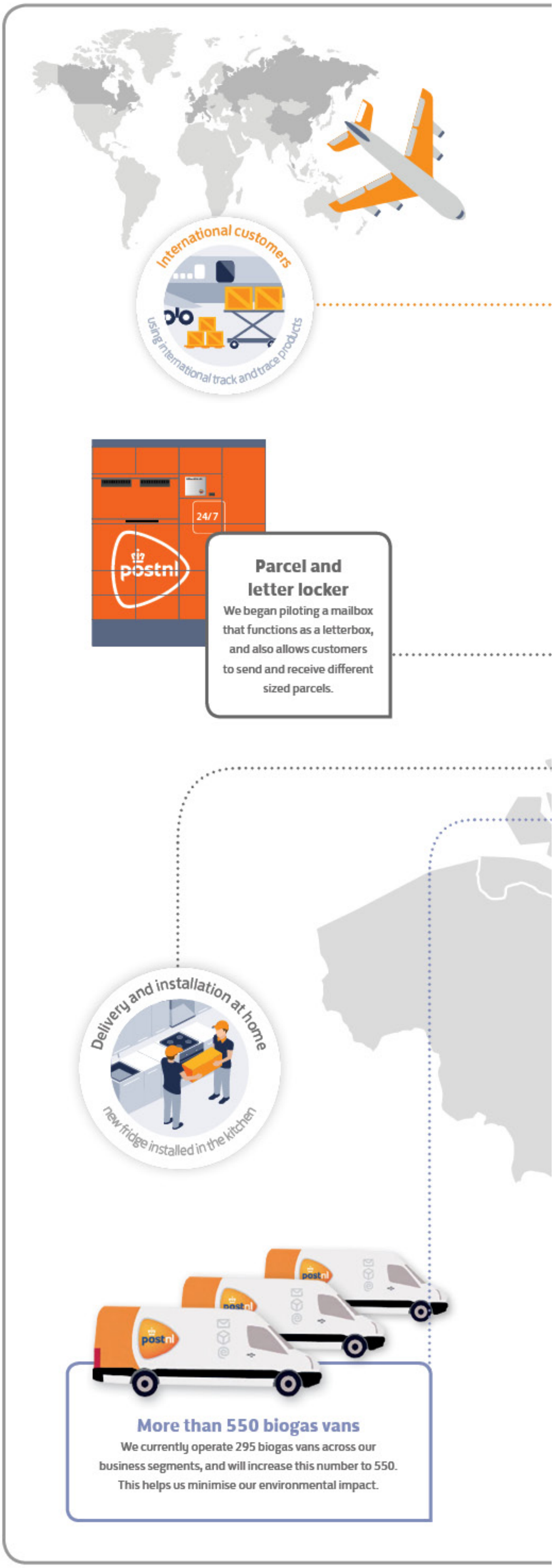
And while we have an environmental impact, we introduce innovative solutions to limit our emission levels. For example, by operating biogas vehicles and fitting solar panels to our Parcels' sorting and delivery centre roofs.

Profitable postal and logistic solutions
- International customers
- Receiving a birthday card
- Nationwide delivery in Italy
- Post box network

Enhancing business through innovation
- Food supplier
- Finding new customers
- Delivery and installation at home
- Parcel and letter locker

Sustainable employability
- Diverse workforce
- People with distance to the labour market

Social responsibility
- Solar panels
- More than 550 biogas vans
- Always close by




Senders
Finding new customers
combining our on- and offline marketing services
Receiving a birthday card
delivered on the special day
Proud to serve
As the Universal Service Provider, we deliver nine million letters per day.
Solar panels
By installing solar panels on the roofs of all our sorting and delivery centres, we can produce 40% of the centres' annual electricity needs.
Always close by
Our deliverers reach their destination through rain, sleet and snow across the Benelux, Italy and Germany.
Post box network
Working with local communities to make our post box network future-proof.
People with distance to the labour market
Around 85% of the parcels we deliver are sorted by people with a distance to the labour market.
Food supplier
using our unique food delivery box
Diverse workforce
At PostNL, diversity is not about getting the numbers right, it is about creating a workforce that represents society.
Nationwide delivery in Italy
We operate a nationwide parcels network across Italy.
Receivers

4 Our view on the market

In 2016 we continued to implement the strategy we introduced in 2015, called PostNL 2020. Our strategy is influenced by the world around us and how it is changing and impacting our business. This includes key market trends, competition and regulatory developments.

We have identified three key market trends that are shaping the lives of our customers and PostNL. Looking ahead, we have also identified three growth domains that, given our unique skills and capabilities, we believe offer the greatest potential for PostNL. Below we outline the key market trends and the three growth domains and explain how they impact us.

Each market in which we operate is also impacted uniquely by competition and regulatory developments, and we discuss these developments separately for each of our business segments.

Key market trends and growth domains

When determining PostNL 2020, we identified three key market trends: accelerating e-commerce, technological developments, and sustainable society. These three market trends are described in greater detail in the table below.

Key market trends

Accelerating e-commerce	Technological developments	Sustainable society
This is the shift from purchasing goods and services offline to online. This includes worldwide shopping, globalisation of e-commerce players, and retailers moving to omni-channel.	Technology has become pervasive across society. Current and future trends that will affect our sector include robotisation, transforming data into knowledge, the Internet of Things, and digitisation.	Societal trends - including urbanisation, an ageing population, the collaborative economy and sustainability - are impacting the way goods and services are delivered.

To maintain a sustainable business model and further strengthen our results, we identified three substantial growth domains: convenient shopping, network logistics, and connected community. These growth domains are outlined in more detail in the table below.

Growth domains

Convenient shopping	Network logistics	Connected community
The entire world is becoming our store front. The internet means we are shopping across borders, 24/7. And enjoying the convenience of having our goods delivered anytime, anywhere.	We are buying and selling goods to one another around the world. Ensuring these goods are delivered at the right time to the right place, requires a large, reliable network. Consumers have increasingly high expectations about the way goods are delivered.	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 getting more important than ownership. Additionally, technology is playing an ever-greater role in our lives.

Below we describe how the key market trends and the identified growth domains are connected, and how they impact the way we do business today and will shape the way we do business in the future.

Accelerating e-commerce requires a convenient shopping experience

The growth in e-commerce is impacting all our business segments. And its potential is huge. Already around 15 percent of retail sales in our home market is through e-commerce, and this is growing rapidly.

Customers are increasingly ordering goods online, both in their home markets and from abroad. They are demanding greater control over when and where their goods are delivered. Same day, evening, Sunday delivery, and return options are now services that many customers demand and expect. And they are moving into new sectors, such as ordering perishable goods online. They enjoy the ease of delivery, which removes the need to travel to the shops and carry the shopping home.

When buying online, consumers increasingly expect to obtain relevant offerings based on their personal preferences. As a result of the Internet of Things, by 2020 it is expected that over 50 billion devices worldwide will be connected to the internet. This opens up many opportunities, such as pro-active and efficient home pantry management. For example, smart fridges will keep track of their contents and will order groceries when needed.

These services require IT expertise, customer knowledge, innovative delivery solutions and the high quality networks that we can provide. For example, our revolutionary food delivery box, which can maintain a range of temperatures for 18 hours, enables us to deliver the boxes as regular parcels, including offering such options as same day and evening delivery. Examples of how we are already accelerating e-commerce can be found throughout the Implementing our strategy in 2016 chapter.

The effect technology is having on our business and our network logistics

Technology is impacting the way businesses operate. Omnichannel e-commerce is growing fast, and customers expect total flexibility in terms of when, where, and how they order their goods. One of the consequences of these developments is shifting supply chains, which are becoming much more complex. Producers are not just delivering to wholesalers and retailers, but also directly to the end consumer. Whether consumers receive parcels, or small packages sent through the mail network, they have ever-greater expectations. For example, they expect international service levels to equal domestic service levels by providing real-time alerts about the status of their deliveries, by SMS or push notification. They also expect to be able to follow the status of their mail or parcels in real time, using our Track & Trace services.

To help manage this, smart stock management has become a necessity. Wholesalers and retailers are demanding state-of-the-art warehousing and spot-on fulfilment. With the most comprehensive network in the Benelux, and a broad range of specialised solutions, we not only understand our customers' needs, we are able to supply them with a future-proof supply chain.

Using our networks, knowledge and people, we are well positioned to capture the opportunities that these growth domains will offer in the coming years, enabling us to become *the* postal and logistic solutions provider in our chosen markets. Examples of how we are already delivering services and solutions within these domains can be found throughout the Implementing our strategy in 2016 chapter.

The effect of sustainable society on our business and realising a connected community

More people are settling in urban areas, increasing the strain on the country's road and transport infrastructure, and life expectancy is also increasing. By 2030, for example, the Dutch government estimates that the number of elderly people in the Netherlands will have increased from 2.7 million in 2012 to over 4 million.

Both trends create opportunities. Cities are creating environmental zones, resulting in the demand for more sustainable delivery solutions. At the same time, an ageing population will require a range of different services and solutions, including delivery of medication and warm meals. We are ideally positioned to provide such solutions in these areas, given our presence in the Netherlands at more than seven million front doors.

By responding to the trends and developments in the growth domains, we are and always will be close by. Our focus on developing smart and efficient solutions makes our customers' daily lives easier and more enjoyable. More information can be found in the Our strategy and Implementing our strategy in 2016 chapters.

Competition and regulatory developments

We provide postal and logistic services in chosen markets. Within the Benelux we are the leading mail and parcels company, and in Italy and Germany we hold the number-two position in the mail market through our Nexive and Postcon businesses. Spring Global Delivery Solutions (Spring) provides our customers with cross-border mail, parcels and packets solutions. When developing PostNL 2020, we looked at the unique impact competition and regulatory landscapes could have on each of these businesses. We discuss these developments and how they could affect our business segments below.

Competition and regulatory developments

Competition	Regulatory developments
Competition - which can be defined as other players operating in our markets and substitution - is a constant factor in our business.	We operate in markets regulated by national and international authorities, each of which stipulate different rules and standards.

The development of competition in our markets

Mail in the Netherlands

Competition in Mail in the Netherlands is impacted by digitisation and other postal operators. Digitisation leads to declining market volumes because of a range of digital alternatives for mail, such as electronic invoicing or other digital marketing services. The shrinking mail market leads to intensified competition between postal operators, and is impacted by regulation.

Competition from other postal operators comes from operators which (mainly) use their own networks and from operators which are (mainly) consolidators. In terms of network competition, there is one alternative nationwide network operated by Sandd, and various regional networks, which partly use the PostNL network and each other's networks. These regional players are targeting specific markets with specific propositions on either price, quality or added value. Consolidators are bundling batches of mail items from different customers and delivering them as one batch to PostNL for delivery to the end receiver through the PostNL network. By doing so, the consolidators benefit from arbitraging between the prices they charge to their customers and the price they have to pay to PostNL.

We continuously review and innovate both our operational structure and our commercial propositions. This keeps costs at a level that enables us to stay competitive, and allows us to enhance our propositions to the market.

Parcels

Competition in the Benelux region, which is already strong, is intensifying from both established logistics players and new (last mile) entrants, attracted by growth in the e-commerce market. They are investing in their networks to meet the service levels demanded by customers and the end consumer. By continuing to innovate and strengthen our service offerings, we remain the leading e-commerce player in the Benelux.

In logistic solutions, there is increasing demand for service companies to offer warehousing, fulfilment, distribution and collection along the supply chain. Competition is intensifying, as existing market participants choose to focus on integrated delivery services. Our position within the logistics market differs, from being market leader through our Extra@Home proposition to market challenger in fulfilment services.

International

The cross-border mail market is highly competitive. In the markets in which Spring operates, competition comes mainly from the incumbent postal operators, and partially from consolidators. The cross-border parcels market is also very competitive, with incumbent players challenged by new entrants, all searching for opportunities in a growing market.

In Italy, we saw the competitive environment intensify as Poste Italiane increased its price pressure on the market. Italy's parcel market is growing and competitive. With Nexive's parcel proposition, we differentiate ourselves by offering a number of products at different price levels. For example, our Sistema range gives customers the choice between the full-service Completo through to the no-frills Economy.

Through Postcon, our German business, we are the main competitor to Deutsche Post. Our focus is on leveraging our price-leadership and continuing to deliver on our quality promise. We made a number of acquisitions during the year, raising our profile in the market. Postcon maintained its volume share and remains the number two player in the market. The move by Deutsche Post to increase its 2016 tariffs on various products creates opportunities for Postcon.

The impact of the regulatory environment on our markets

Political and regulatory stakeholders have paid a fair amount of attention to the postal market in recent years. This attention was both to the Universal Service Obligation (USO) and to the non-USO. USO discussions in recent years have primarily been about the level of services and the cost allocation regulation. Additionally, attention has focused on the competitiveness of the domestic and international parcel market and on the working conditions for parcel deliverers.

Mail in the Netherlands

Concerning the USO, the most important developments in 2016 were:

- The adjusted Postal Act 2009 became effective 1 January 2016, after a political process of four years. Provisions to the USP can now be changed more easily as specifications of USO requirements have been moved to the Postal policy rather than the Postal Act. This allows the Minister to change the level of requirements for the USP without adjusting the Act, making the political process for adjustments easier and quicker. This legislative adjustment enables us to adapt our network of post boxes and post offices.
- The Authority for Consumers and Markets (ACM) set the tariff headroom for the USO in 2017. We increased our 2017 tariffs within this headroom.

These developments enable PostNL to adjust to decreasing domestic mail volumes and changing customer needs. Our long-term view on these issues is explained in the Our strategy chapter, while the measures we took in 2016 can be found in the Implementing our strategy in 2016 chapter. An evaluation of the USO by the Minister of Economic Affairs is expected by the end of the first quarter of 2017.

Concerning the non-USO, the following important regulatory developments took place in 2016:

- ACM published a draft decision in June 2016 on the 24-hour business mail market that demands PostNL grant access to its sorting and delivery network. The final decision is expected to be published in 2017. It is based on the so-called instrument for Significant Market Power (SMP) and authorises ACM to impose obligations on postal operators with significant market power. SMP is based on the provisions about access regulation as laid down in the Postal Act 2009.
- The Minister of Economic Affairs announced it will review its 2013 postal market policy in the first half of 2017 to address the effects of declining postal volumes and market developments.
- At the end of 2016 the Minister of Economic Affairs published a long-term study on the Dutch postal market. This study, in combination with the above-mentioned USO evaluation, will be used as input for the policy review of the Dutch postal market. It is expected to be sent to Parliament in the first quarter of 2017.
- In December the Minister of Economic Affairs published a policy guideline to ensure no adverse regulatory measures are implemented in the period before the publication of the postal market policy review. The policy guideline provides additional guidance on the application of the SMP by ACM as to ensure this regulatory instrument is used cautiously and proportionally and takes into account to long-term quantitative and qualitative effects.
- Article 9 of the Postal Act 2009, which was the legal basis for the disputes, will be repealed by 1 July 2017. The above-mentioned SMP instrument will serve as its replacement.
- During 2016, ACM and PostNL had several legal disputes on tariffs and conditions for postal operators using the services of PostNL. In November, PostNL won the final appeal at the Trade and Industry Appeals Tribunal about the principle of third party access as laid down in the Dutch Postal Act 2009. The appeal was about whether PostNL is allowed to give volume discounts to businesses offering bulk mail from one and the same sender, where it does not give volume discounts to other postal operators that offer bundled mail from different senders. The Tribunal decided on 8 November 2016 that a ruling given to PostNL by ACM allowing arbitrage was not adequately substantiated.

PostNL has submitted views on the SMP and the policy guideline. As communicated in October 2015, we expect the financial impact of ACM's measures to be between €30 million and €50 million annualised, with the full effect visible over a 3 to 4 year period (2016-2019).

Parcels

The parcel market was frequently discussed by political and public stakeholders at both the national and European level. In the Netherlands in particular, the working conditions of parcel deliverers drew attention. We continued talks with our independent parcel deliverers in 2016.

In March we finalised an important part of the sustainable delivery model in the Netherlands, which offered our independent parcel deliverers the choice of becoming a PostNL employee or remaining independent with higher rates. About 10 to 15% of our independent parcel deliverers chose to become PostNL employees, with around 70% choosing to remain independent with higher rates. The remaining independent parcel deliverers chose to end their contract with PostNL or merged with other independent parcel deliverers. We saw the number of independent parcel delivers drop in 2016, and expect to see this continue in the future.

In October, ACM published a study on the Dutch parcel market. ACM analysed the market players, their position in the market and customer behaviour in the market for national and international parcel distribution. ACM has announced it will repeat this monitoring study yearly as part of its annual postal monitor.

International

In 2015 the European Commission published its Digital Single Market Strategy (DSM). The goal of the DSM is to allow countries to benefit from faster, better and cheaper cross-border e-commerce in Europe. Building on the DSM, the Prime Ministers of the Netherlands, Belgium and Luxembourg signed a joint digital certificate 'Digital Benelux' in October 2016. They are focusing on making the Benelux a frontrunner in Europe, with the aid of initiatives in the fields of online and mobile payments, reforming the rules for parcel delivery, and joint monitoring of the market.

In Italy the postal market still has a reserved area for Poste Italiane, the USO provider, which includes services such as the notification of judicial correspondence and fines. The Italian Communications Regulatory Authority (AGCOM) started an enquiry into the compensation that the Italian government grants to Poste Italiane to fulfil its USO.

In Germany, Deutsche Post appealed the initial conclusion of Germany's Federal Cartel Office that the company violated German antitrust law as well as European antitrust law as part of its pricing strategy for national key account customers, especially in the telecom industry. In April, the Düsseldorf Higher Regional Court confirmed Germany's Federal Cartel Office decision. Postcon is following the recent developments and considering next steps.

General regulatory information

A more detailed description of the regulatory environment across all our markets can be found on: postnl.nl/regulation

5 Our strategy

Our ambition is to be *the* postal and logistic solutions provider in our chosen markets.

Our overall company ambition is contained in our strategy PostNL 2020. This ambition is translated into clear steps for PostNL and each of our business segments. We want our customers to experience PostNL as one company. We achieve this by creating networks that can exchange goods, knowledge, data and IT solutions seamlessly, while standardising and simplifying our back office. Additionally, our culture fosters an environment that promotes even greater collaboration within the company. Taken together, this adds up to a financially healthy company that creates long-term value for all of our stakeholders.

Of course, our ambition does not end in 2020. This is why it is vital that we maintain a sustainable business model and cash flow in the years beyond. Introducing new services and solutions that help our customers, and looking into value-creating growth, is crucial to the company's long-term prosperity. We have identified three substantial growth domains – convenient shopping, network logistics, and connected community – which we believe have the potential to further strengthen our sustainability going forward.

The table below illustrates how PostNL 2020 is supported by our drivers and is translated into the individual business segment ambitions.

PostNL 2020

Be *the* postal and logistic solutions provider in our chosen markets

Mail in the Netherlands

Connect senders and receivers through our people and innovative postal networks

- Continue to focus on customer satisfaction and quality
- Create innovative solutions to enhance our portfolio and meet customer demands
- Compensate volume decline with balanced pricing and cost savings, taking into account the competitive and regulatory environment
- Continue to focus on cost savings across the total value chain.

Ambition: Deliver sustainable cash flow

Parcels

Be *the* logistic solutions provider that makes our customers' lives easier

- Strengthen our position as leading e-commerce logistics company in the Benelux
- Continue to create innovative and market-driven solutions that add value for our customers
- Continue to enhance our best-in-class infrastructure.

Ambition: Create further profitable growth

International

Capture opportunities from accelerating global e-commerce

- Expand our cross border business through our position as a strong player in the international e-commerce market
- Nexive: be the smart challenger in Italy
- Postcon: strengthen our position in Germany.

Ambition: Enhance cash profitability

OnePostNL

Developing our differentiators	Committed to our stakeholders	Delivering growth	Strong financial position

Our business segment strategies are supported by OnePostNL and our differentiators. They support the way we operate as a company, creating a strong framework and providing us with the elements that make us a unique company. We begin this chapter by explaining how these elements contribute to the execution of our strategy going forward, and go on to outline the individual strategies of our business segments.

OnePostNL

By realising cooperation across the segments, we improve our services and increase efficiency, creating long-term value for our shareholders and other stakeholders. This enables us to capture sales and operational synergies, such as by standardising our IT back office, including accounting and HR systems, and further developing and integrating our networks. We also focus on customers experiencing us as a fully integrated company. We achieve this by continuing to implement one customer base, providing us with a 360-degree customer view. This enables us to offer our customers the right service at the right time. This total customer experience is also supported by continually improving the integration of our online solutions, postnl.nl and the PostNL App. For example, the PostNL App enables consumers to re-route parcel deliveries and purchase stamps online. Additionally, we continued to focus on developing an environment that encourages closer collaboration internally, as well as sustainable employability. We call this OnePostNL.

Developing our differentiators

We believe a number of differentiators set us apart in the market, which will enable us to achieve PostNL 2020. These are: customer insights, connected people, leading networks, strong information technology, and customer trust. These differentiators are explained in greater detail below.

Customer insights

Satisfied customers are the measure of our success, which is why we focus on being their favourite deliverer every day. One example is customers who increasingly expect companies such as PostNL to use this data to create a more personalised and seamless customer experience, while respecting consumers' privacy. For example, we currently offer e-tailers address verification services, which helps increase first-time delivery rates and adds value for both the e-tailer and the consumer. For end consumers, we use our data to offer the option to select a new delivery time and place from the second delivery attempt. In 2016, consumers used this rerouting option over 850,000 times, highlighting the value they place in it. Delivery options include evening delivery at home, the following day to their work, or to a selected pick up point.

Another vital part of customer satisfaction is ensuring they can interact with us whenever and wherever they want. Increasingly, customer contact is taking place online, where we use machine learning models to improve customer service. One example is the postnl.nl website, where we provide each visitor with a personalised homepage.

To better connect with our customers and to further improve their loyalty, we are active on the online channels where our customers are. Today, we interact with customers extensively through social media, including on Twitter, Facebook, Instagram and LinkedIn. And the PostNL App, which currently has over 3.6 million users, is an increasingly important tool to communicate with customers. Going forward, we will continue to take advantage of artificial intelligence and machine learning models to further improve our online customer service.

Connected people

One of our focus areas is creating a work environment where people feel engaged, and are passionate and proud to work for PostNL. We also work hard on creating an environment that promotes closer collaboration internally. We call this OnePostNL, where we work on a culture that advocates four leading behaviours: working together for OnePostNL; being fact-based and decisive; taking ownership for results and timely delivery; and being innovative and customer oriented. Alongside growth potential, we take these leading behaviours into account when promoting senior managers internally.

Our ambition is to operate a workforce that reflects diversity within society. This is why we hire or work with motivated and qualified people who fit within our culture, irrespective of their ethnicity, gender, age or sexual orientation.

Another focus area is providing an environment where we care for people’s physical and mental well-being, and offer a range of training and education initiatives. For example, we work to reduce absenteeism and accident prevention by running preventative programmes, making employees aware of their health.

We also recognise our social responsibility, and aim to develop a sustainable parcels market through our sustainable delivery model. This programme focuses on helping deliverers feel satisfied about their work, and provides them with fair and competitive working conditions. It also aims to increase their commitment by stimulating cultural diversity, innovation, and entrepreneurship. More information on our connected people programmes can be found in the Implementing our strategy in 2016 chapter and our CR Performance Statements.

Leading networks

Our customers want smooth postal and logistic solutions. We are able to provide these high service levels with our reliable and dense networks, from full-coverage mail networks to dedicated value-goods’ networks.

In mail operations, where volumes are declining, our strategy is to introduce a number of measures to keep mail accessible and reliable going forward. These measures include investing in next-generation sorting and coding machines that make our mail processes more efficient. We are also adjusting our network to the declining by reducing staff, reducing the number of preparation centres, and reducing the number of post boxes and post offices across the Netherlands.

In parcels operations, we see strong growth nationally and internationally. To take advantage of this, we are expanding our networks and capabilities, either through acquisitions or internal development. Additionally, our focus is on introducing innovative solutions, which help bring new markets online. We are also investing in our cross-border solutions, fulfilment services, Extra@Home and our Pharma & Care network, as we expect these markets to grow in the coming years.

Strong information technology (IT)

Our strong IT supports our strategy by aiming to provide the best technology at an acceptable cost level. To achieve this, we are focusing on three key areas which have unique requirements. For business support services we are switching to cloud-based, standardised solutions. For customer focus and our logistic operations our focus is on best-in-class solutions, which will help us differentiate ourselves in the market. Below we outline our IT strategy for each of these key areas.

Customer focus: To provide a more customer-centric experience, we continually improve our online services, our PostNL App, and our online platform. In 2016 the PostNL App had 34 million customer visits, while the postnl.nl website received over 224 million visitors, highlighting how our continual focus on innovating and improving our online customer services is paying off. Offering an integrated customer service also ensures senders and receivers have a seamless experience, whether they use our parcels, mail, or logistic services. We are growing our technological capabilities to take advantage of opportunities created from ongoing digitisation and the development of e-commerce. This helps us develop logistic services of the future, staying ahead of our customers' ever-changing needs.

We have set up standardised application programming interfaces (API), which enable our customers to have a better link with PostNL. This means customers can tap into some of our rich data sources, such as on routes and track and trace information. In 2016, for example, our Track & Trace service was used on 191 million occasions, through both the PostNL App and our website. By improving the information our customers can offer the end consumer, we aim to create a more efficient delivery process and greater customer satisfaction.

Logistics: Strong technology also plays a vital role in enhancing our best-in-class networks. For example, IT enables us to support our logistic processes and services using the right information at the right time. By providing customers with real-time information flows, we enable them to better manage their day-to-day business operations. This helps us remain the leading e-commerce company in the Benelux. IT also enables us to support our internal logistics processes. For example, by using data analytics to optimise the use of our roll containers, to increasing the operation efficiency of our sorting processes. More information on how our strong IT supports our logistic processes can be found in the Implementing our strategy in 2016 chapter.

Business support: To support our business, we switched to an all-cloud strategy and expect to finalise the implementation fully in 2017. We are one of the first major companies in Europe to use cloud-only IT, and expect the market to follow this strategy in the coming years. As part of the strategy we evaluated our back-office processes, which led us to switch some to standardised, best-of-practice examples from the market. This has enabled us to redesign our accounting, HR, and sales processes to be more efficient and flexible, strengthening our business.

The changes we made to our sales processes focused on cleaning up our customer data by removing duplications. This has enabled us to create a single customer account across our business segments. We also improved our business portal on the PostNL website. In 2017, we will connect our cloud-based sales system and our business portal with our sales processes, creating better insights into our customers' behaviour and needs, enabling us to better solve customer queries and further improve the quality of our service and advice.

Strong IT supports OnePostNL

Simplifying and standardising processes

IT has helped us standardise and simplify our back office processes. One example is our full cloud strategy, in which we moved our accounting and HR systems in the Netherlands to the cloud. Implementing the new cloud-based accounting system has also allowed us to standardise and simplify our financial processes. In 2017 we aim to migrate our billing systems towards a new environment, which means we can provide customers with a breakdown of all the services they have purchased across the company in one location. Within HR, we have migrated our IT solutions to one environment and digitised a range of personnel services. For example, in 2016 we were able to increase online job applications to around 50,000. In 2017 we will continue to digitise our core HR processes into a single IT environment, further improving efficiency and saving costs.

Customer trust

Our customers and society trust us because they know we deliver on our promises, which is one of the reasons why our reputation in the Netherlands performs well against our peer group. Society values our services and solutions and sustainability performance. We have been recognised by the European Institute for Brand Management as being one of the top brands 'People cannot live without' in the most recent bi-annual survey. Our strategy is to continue to increase this trust and reputation. This gives us a license to perform additional services requiring trust, such as our ID check at the door service. More information on the responsibilities that offering our trusted services and solutions brings can be found in the Implementing our strategy in 2016 chapter.

Committed to our stakeholders

We are committed to our stakeholders, and focus on the interests of our customers, our people, our investors, the environment, and society. From providing our customers with innovative services and solutions, to creating a secure working environment and solid cash management that enables us to create value and restore dividend for our investors. As the Dutch Universal Service Provider, it is our responsibility to provide society with accessible and reliable mail services. As such, we continued to be in close contact with the ACM throughout 2016. We focus on maintaining long-term relationships with trades unions, based on mutual respect and recognition of our shared interests, and are in close contact with a broad range of stakeholders, including regular contact with our investors and daily contact with clients. We believe that carefully balancing the needs of our stakeholders is the way to create long-term value.

Delivering growth

Delivering growth is a vital part of our strategy, which we will realise through our core business and our three growth domains. We have developed a multi-track approach to achieve growth, based on four key areas: enhancing growth in our core activities; the Edison programme; mergers and acquisitions (M&A); and co-investments.

Enhancing growth in our core activities: In addition to new services and solutions that we develop within the business, we stimulate and enhance growth initiatives alongside our core activities. One example is the development of our Smart City solutions, such as reading water metres at people's homes for the utility company. Such growth initiatives are developed by dedicated teams within the business using an agile way of working to accelerate the way we get services and solutions to market.

We also stimulate individual employees to develop innovative ideas. One example is the 'My Idea, Your Idea' challenge, which challenges employees across PostNL to come up with ideas that can help the company grow and innovate or become more efficient.

Alongside 'My Idea, Your Idea', we also invest in a range of ideas that show potential, developing them outside of our day-to-day operations. Examples include letterbox packages (which are specially sized packages that fit through the letterbox) and our food delivery box, which were all developed as growth initiatives and have now been fully integrated into our core business.

Edison: The objective of the Edison program is to find a new profit pool through diversification. This involves encouraging employees to work in teams within one of the growth domains.These teams are mentored by a member of the Executive Committee. Examples include a recent pilot called Flown, a platform that allows consumers to use home appliances through a subscription-based model, rather than having to purchase them outright. This taps into the rise of the circular economy, as the manufacturer takes on the responsibility of the product from cradle-to-cradle. This results in products with greater longevity that can be more easily recycled.

M&A: We look for acquisition opportunities within our strategic growth platforms by exploring market segments for suitable candidates, identified against a range of pre-set criteria. The aim is to support the diversification of our portfolio and contribute to the creation of shareholder value. For example, in 2016 we acquired two advanced marketing services companies and a company that installs white goods.

Co-investments: In 2016 we invested in an equity fund, with a maximum commitment of €6 million. Through this investment we are better able to access and cooperate with companies connected to our growth domains. This enables us to jointly roll out pilots of new services and solutions. The accumulated knowledge will be brought in-house through regular meetings with PostNL and the fund's investment team to discuss sector developments.

Strong financial position

Our strong financial position and trust in our future business performance has made us decide to adjust our dividend policy going forward and aim to realise progressive dividend, creating long-term value for our shareholders. We will continue to focus on ongoing business improvement and solid cash management. Capital allocation will be directed at sustainable dividend and investing in growth. Our ambition towards 2020 is to have a strong financial position, realising an increased annual underlying cash operating income of between €310 million and €380 million. You can read more about the improvement of our financial position in the Implementing our strategy 2016 chapter.

Mail in the Netherlands

Our ambition for Mail in the Netherlands is to deliver sustainable cash flow, by connecting senders and receivers through our people and innovative postal networks. We will make this happen by realising a balanced mix of the four goals outlined in the table below.

Strategy

Connect senders and receivers through our people and innovative postal networks

- Continue to focus on customer satisfaction and quality
- Create innovative solutions to enhance our portfolio and meet customer demands
- Compensate volume decline with balanced pricing and cost savings, taking into account the competitive and regulatory environment
- Continue to focus on cost savings across the total value chain.

Ambition: Deliver sustainable cash flow

We continuously focus on improving our customer satisfaction and the quality of our services. From our customer satisfaction surveys, we know that customers rank high quality services, ease of use, fast and efficient resolution of problems, and good customer contact as the most important aspects of doing business with us. In 2016 we started a pilot with an innovative combined mail and parcel box. Customers can use this to send and receive parcels of different sizes, as well as sending letters. We are also expanding our data-driven marketing services solutions to e-tailers, helping them optimise their commercial effectiveness. Additionally, we introduced our MyMail App which allows recipients to preview mail items before being delivered.

We continued to focus on online and mobile solutions that give customers greater control over the sending and receiving of their deliveries, such as by using our Track & Trace service. These solutions are launched first as pilots, before being further developed based on customer feedback and released to the wider market.

In 2016, we further reduced our costs to keep them in line with the declining market volumes. Areas where we realised significant cost savings include at head office, where we cut overheads and streamlined our staff functions, the car company, and across our retail network. We also continued to further optimise our operations, for instance by continuing to centralise preparation activities and by implementing advanced sorting machines.

We expect the mail market to continue to decline. In 2017, we expect our addressed mail volume to decline between 7 percent and 9 percent. We continue to aim to offset the market volume decline for the period till 2020 through cost savings and balanced pricing. Our pricing strategy focusses on price increases well above inflation, combined with targeted discounts to protect our volumes. This also takes into account the competitive and regulatory environment.

The effectiveness of our strategy has enabled us to accelerate our planned cost savings. This, combined with the introduction of new cost saving plans, means we have been able to increase our cost savings target by €115 million, from €345 million to €460 million in the 2015 to 2020 period. These additional cost savings include overhead reductions and the optimisation of our product portfolio. Additionally, we will further simplify and streamline our operational and delivery processes. This includes continuing to automate and centralise our preparation processes, and introducing new transportation and delivery methods. One example is e-bikes, which allow us to extend our delivery routes. Our objective remains to safeguard a reliable and accessible mail network nationally, where quality and customer satisfaction remain our long-term key differentiators.

More information about the progress Mail in the Netherlands made in 2016 realising our current strategy, as well as how these achievements began contributing to PostNL 2020, can be found in the Implementing our strategy in 2016 chapter.

Keeping up the pace
Sorting faster and more flexible

PostNL is the first postal company in the world to work with the SMX: the sorting machine extra. This next-generation sorting machine enables new ways of processing and receiving mail, including digitally.

More on postnl.nl/smx

Parcels

Our ambition for Parcels is to create further profitable growth by being the logistic solutions provider that makes our customers' lives easier. We will make this happen by realising the three goals as outlined in the table below.

Strategy

Be *the* logistic solutions provider that makes our customers' lives easier

- Strengthen our position as leading e-commerce logistics company in the Benelux
- Continue to create innovative and market-driven solutions that add value for our customers
- Continue to enhance our best-in-class infrastructure.

Ambition: Create further profitable growth

We focus on facilitating the growth of the e-commerce market by extending our broad service offering. Understanding the needs of end consumers helps us develop market-leading services and solutions. Within Parcels Benelux we developed a number of innovative solutions that we believe will become industry standards, including evening delivery and same day delivery. We also started a Return on Demand service, which enables customers to select a one-hour pick up window between 8.00AM and 9.00PM, meaning they can return goods the same day without leaving their homes. Additionally, we focus on reducing our environmental impact by using lower-emission fuel types and reducing electricity usage.

We continue to expand the services and solutions we offer in the Benelux, and invest in our network across the region. We will begin constructing two new sorting and delivery centres in Belgium in 2017, which we aim to open in 2018 or 2019. In 2016 we realised strong growth in the 2C markets. Within 2C we are focusing on specific growth areas, which are food, home & garden, health & personal care, electronics and fashion. To further grow in these areas, we are developing innovations for perishable goods and return solutions for the fashion market.

We are a leading 2B player in the Netherlands. We realised strong volume growth in 2016, outpacing the market. One of our unique selling points is our ability to cover both the 2C and the 2B market. Our focus is on improving our core 2B propositions to meet our customers' needs. Hereto, we have introduced specific value-added services, such as guaranteed delivery before certain times, and combining parcel and pallet delivery. As we see customers' demands changing, in the coming years we will further integrate 2B deliveries into our 2C network. We will focus on specific industries with a demand for 2B and 2C solutions, such as health & personal care, electronics, and fashion.

Within Logistic Solutions we provide a range of services. For 2B these are Valid Express, Mikropakket and Pharma & Care. In 2C we operate Extra@Home and e-fulfilment services. Our ambition is to become a market-driven solutions provider, offering a tailored combination of services, supported by our parcels' network. For our customers in rapidly growing e-commerce sectors – food, home & garden, health & personal care, electronics, and fashion – we continue to develop innovative propositions, enabling growth of the online market. Customers are increasingly outsourcing delivery, and we are ideally positioned to service these customers in the Benelux. In 2016 we made a number of small acquisitions in installation services, which will allow us to enhance our Extra@Home service proposition.

To realise our ambitions across Parcels, we utilise our information systems, data knowledge and our focus on continuous improvement to enhance and expand our best-in-class networks. This enables us to manage our networks as one to offer our customers the best solutions at the highest quality levels. To keep pace with the ongoing growth in e-commerce, up to 2020 we will accelerate the expansion of our parcel infrastructure in the Netherlands by opening a number of new sorting and delivery centres, with the first opening in 2017. Additionally, we will work towards one service level across the Benelux, supported by our investment in two new sorting and delivery centres in Belgium.

More information about how our Parcels segment contributed to our current strategy, as well as how these achievements began contributing to PostNL 2020, can be found in the Implementing our strategy in 2016 chapter.

Smarter shopping

How IT makes receiving parcels easier

PostNL makes shopping online easier and more enjoyable for everyone by using technology to create innovative solutions.

More on postnl.nl/technology

International

Our ambition for International is to enhance cash profitability. We will make this happen by realising the three goals as outlined in the table below.

Strategy

Capture opportunities from accelerating global e-commerce

- Expand our cross border business through our position as a strong player in the international e-commerce market
- Nexive: be the smart challenger in Italy
- Postcon: strengthen our position in Germany.

Ambition: Enhance cash profitability

Cross-border business is an important contributor to our revenue, and the globalisation of e-commerce offers a great deal of growth potential. The global cross-border e-commerce market is estimated at more than one billion items per year, with average annual growth of 20 percent expected until 2020.

We are taking advantage of this growth by accelerating the expansion of our position in the cross-border market by leveraging the strengths across the company. Our strong Spring Global Delivery Solutions sales channels are attracting more inbound volumes from foreign customers both to Europe and the Benelux. We are also attracting volume through our cost effective and innovative solutions and by utilising our strong technological abilities to connect a range of networks. For example, we introduced cost effective postal solutions for small packets and international returns platforms. These examples illustrate how we are moving towards being an integrated mail, parcels and returns solutions provider.

Our ambition for Nexive is to increase our market share in the Italian mail market. We will achieve this by leveraging on our Formula Certa network and expanding our customer base. Additionally, we will further improve our network efficiency by capturing synergies between our mail and parcels networks. A key growth area is in the 2C parcels market. We are taking advantage of growth opportunities in e-commerce by introducing innovative products within our Sistema product range. These products are delivered via our Formula Certa network. This will be possible by leveraging our network improvements, using our partner networks, and through investments in our service offering to targeted e-tailers.

At our German business, Postcon, our ambition is to grow our market position. We will achieve this by focusing on cost leadership while providing the right quality levels, and reaping the benefits of working with high-profile customers. This growth, combined with further cost optimisation, will enable us to increase cash profitability. During the year we completed our review of our German business, and made the decision to continue to invest in our activities there. The decision was based on the improved performance of the business and its growth potential. We decided to sell our last mile operations in Frankfurt and buy out the minority shareholder of Postcon National. We acquired PIN Mail AG and took a majority shareholding in the Mail Alliance network.

More information about the progress International made in 2016 realising our current strategy, as well as how these achievements began contributing to PostNL 2020, can be found in the Implementing our strategy in 2016 chapter.

International growth

Ordered from China, delivered by PostNL

PostNL offers international e-tailers trustworthy and affordable services and solutions to connect with a growing international customer base.

More on postnl.nl/international

Analysis of strengths, weaknesses, opportunities, and threats

Our SWOT analysis provides us with clear markers that could impact or influence our ability to realise our strategy, PostNL 2020. We actively address each element to evaluate which steps to take to reduce threats, bolster weaknesses, maintain strengths, while exploiting opportunities. The threats are derived from the major risks further explained in the Risk management chapter included in the Governance section. The most important takeaways from our SWOT analysis are:

Strengths

- Customer focus and ability to realise innovative services and solutions
- Strong player in the international e-commerce market through our cross-border business and the number two position in Italy and Germany
- Ability to exceed customer expectations through efficient and cost effective networks
- Strong IT and data capabilities, supporting our logistic processes and the development of innovative services
- Financially healthy, following the transformation of a net debt into a net cash position
- Strong and trusted brand.

Weaknesses

- Substantial share of revenue comes from traditional, declining mail market
- Limited influence on the creation of a level playing field in the international regulatory environment
- Volatility of the pension obligation impacting the equity position.

Opportunities

- Ability to create operational efficiencies and develop new services and solutions for our customers and business by using data and knowledge management
- Continued strong growth of domestic and global e-commerce markets
- Cost savings potential by moving to the cloud, standardising IT systems and simplifying internal processes
- Taking advantage of the opportunities presented by the three growth domains, which have the potential to strengthen the sustainability of our business going forward.

Threats

- Exposure to sector-specific and other legal or regulatory changes
- Strong competition in the mail and parcels market
- Ongoing switch of mail senders to digital communication.

How we will use our strengths to balance our weaknesses and counteract threats

Our strong market position as a postal and logistic solutions provider, together with our key differentiator customer insights, enable us to balance our exposure to the declining mail market, the regulatory environment, and the remaining volatility of our pension obligations. In doing so, we are able to focus on value creation for all our stakeholders. This is supported by our well known and highly respected brand, which is an invaluable tool when communicating with our customers.

We provide high quality service to our customers through our skilled and motivated people and our best-in-class networks. We invest in developing the capabilities of our people, our online presence and information systems to optimise our networks.

Our solid financial position enables us to accelerate our transformation from being predominantly a postal company to increasingly being a parcels and logistics solutions provider. With mail volumes continuing to decline, we will use the cost savings achieved at Mail in the Netherlands to accelerate the growth of our Benelux and international parcels volumes. For example, by expanding our sorting and delivery centres in the Benelux and strengthening our IT and data capabilities. This, combined with our initiatives in identified growth areas, enables us to counter the continuing decline of the mail business.

We focus on having good working relationships with regulatory and supervisory authorities, and have built up extensive knowledge and experience of the postal and parcels environment over the course of many years. This helps us when preparing for new developments within the legal and regulatory environment.

We have reduced the volatility risk of pensions in recent years by revising our finance agreement with the pension fund. Triggered by the further reduction in interest rates during 2016, 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 impact cash and equity.

How we will take advantage of opportunities

Global acceleration of e-commerce and technological developments are changing the world and impacting our customers' day-to-day lives. As a central player in the digital and physical mail and parcel world, we are becoming increasingly aware of our customers' preferences and behaviour. This provides us with the unique opportunity to develop new services and solutions to satisfy their changing needs.

Our differentiators are essential in managing opportunities. For example, our strong IT and logistics capabilities have enabled us to develop a range of new market-leading solutions. These include evening delivery, Sunday delivery, and same day delivery, all of which provide our customers with intuitive and easy-to-use services. A crucial element in understanding customers' preferences and needs is data, since customers increasingly expect a more personalised and seamless experience. We create added value by providing data-driven solutions, from track and trace to increasing our first-time delivery rates.

We also continue to pro-actively adapt our infrastructure and delivery procedures to drive e-commerce growth by always providing customers with the best possible service. This not only strengthens our competitive position, it helps us further connect with our customers. We are implementing our full-cloud strategy, which focuses on moving our back office IT systems to market-leading, standardised IT systems, helping us save costs and simplify our processes.

Our three growth domains will further strengthen our core activities as well as extending our service offerings and capturing the large opportunities these areas offer. Pilot projects enable us to test new services and solutions that are close to our core mail and parcels businesses. The feasibility and success ratios of these pilot projects are closely monitored.

6 Implementing our strategy in 2016

In this chapter we explain the steps we took in 2016 towards becoming *the* postal and logistic solution provider in our chosen markets. This involved building on our PostNL 2020 ambitions, which we introduced in 2015. We then highlight the steps we will take for each of our business segments in 2017 and beyond.

In 2016 we realised a number of important developments within our differentiators. These played a vital role in enabling us to execute our strategy, and begin contributing to achieving the goals of each business segment. As a result, we begin this chapter by outlining the progress made within OnePostNL and our differentiators, before going on to explain the steps we took implementing the strategy across our business segments.

OnePostNL

OnePostNL played an important role in implementing our strategy in 2016. For example, it helped us roll-out our full-cloud strategy, and standardise and simplify our back-office processes. Additionally, it supported us in providing a more customer-centric experience. Examples include rolling out additional functionality through the PostNL App and strengthening our IT and data capabilities to expand our delivery options. Detailed information on how OnePostNL contributed to the development of our differentiators and the execution of our business segment strategies can be found in these and other examples later in this chapter.

Developing our differentiators

Our differentiators help us to adapt to the rapidly changing external environment. They have played a vital role in the implementation of our strategy and will continue to play an important role in the years to come. Where possible, we have described these differentiators for the entire business. The differentiators leading networks and customer trust impact the business segments in unique ways. As a result, the progress we made in 2016 regarding these two differentiators has been integrated into the business segment reports.

Customer insights

In 2016 we made progress in implementing a number of data-driven solutions that helped us further improve customer insights. For example, we currently offer e-tailers address verification services, and in the near future anticipate offering data-driven predictions of consumers' preferred time of delivery. These services and solutions benefit all parties. The receiver benefits by receiving the delivery at the most convenient moment, while the sender (e-tailer) benefits from being able to use just-in-time shipping. We benefit from the success of delivering first-time-right, which increases customer satisfaction.

Connected people

Caring for everyone who works for and with us: for PostNL, that is good employment. Creating an atmosphere where people are passionate and proud to work for PostNL makes our company stronger and more future-proof. We want our people to enjoy working for PostNL, that they feel responsible for the collective results, and thereby contribute to the success of the company. This is why we ensure that our people feel safe and secure and have the opportunity to invest in their future. We do this in a variety of ways, such as by focusing on engagement, diversity and inclusion, and sustainable employability.

Engagement: We want to be an attractive employer for everyone who works for and with us. But engagement is also about creating a OnePostNL culture – an environment that promotes customer focus, closer collaboration internally, and sustainable employability. Each year we carry out an employee engagement survey. In 2016 engagement increased to 67% from 64% in 2015.

Diversity and inclusion: We strive for a diverse workforce. At PostNL, diversity is not about getting the numbers right, it is about creating a workforce that represents society and feels safe and secure. Diversity makes us stronger. In 2016 we continued to focus on hiring and promoting female and cultural talent, helping people with a distance from the labour market rejoin the workforce, and the creation of a safe and inclusive work environment. The progress we made on these three topics is explained in more detail below.

In 2016 we continued with our successful Women Inclusion Network (WIN) initiative and mentoring programmes. For example, we grew the number of participants in our mentoring programme by 25% in 2016, and have 25% women in senior management positions. Our aim is to further increase this percentage in the years to come.

We trained approximately 200 managers and employees on cultural awareness and how to act as a role model, including over 50 at our International segment. These trainings included team brainstorming sessions on how managers can introduce relevant cultural aspects into their day-to-day operations. Focusing our efforts on growing trust and collaboration between operational employees enabled us to improve cross-cultural communication. This helped us to hiring 16% of managers and trainees with a multi-cultural background, well above our ambition for 2016 of 11%.

We continue to create work experience opportunities for people with limited access to the labour market. We establish partnerships with social employment and network organisations in the Netherlands. We target people with a labour impairment, and give them the required work experience, either as a deliverer or at one of our 18 parcels sorting and delivery centres. In 2016, around 650 people participated in these programmes, sorting approximately 85% of our parcels in the Netherlands.

In 2016, we rolled out a number of diversity-awareness programmes across the company. These programmes were broad in scope, focusing on a range of topics from multi-cultural, sexual, ethnic and gender inclusivity through to the value of diverse personality types and behavioural backgrounds within teams. Additionally, as part of our engagement survey we asked employees a number of questions related to diversity. The results indicated that while 89% of employees felt accepted within the company, some of the participants did not feel included. This and other insights enable us to roll out a number of programmes and action plans to further improve on diversity and, as such, our business success.

Sustainable employability: At PostNL, sustainable employability is about helping employees at all phases of their career be productive, skilled and well trained, highly motivated, and healthy enough to work inside or outside the company, today and in the future. To help achieve this, we are focusing on ensuring our employees remain employable and stay fit and healthy.

In 2016 we continued to promote our online PostNL Academy. This digital learning portal enables employees to further expand their personal and professional development in a variety of ways, improving their skills and, ultimately, their employability. The PostNL Academy is available 24/7, and employees can select which learning modules to follow themselves. Our efforts resulted in an almost 120% increase of subscribers to the Academy during the year. In particular areas, such as personal development, subscribers increased by 400%. Additionally, we trained 350 people on a range of sustainable employability topics, your personal brand, how to write an inspiring curriculum vitae, and how to be successful in the job market. In Germany we established a training programme called Good Habits. This offers a range of models to help employees develop their leadership skills, such as lean management, story telling, and how to overcome stress.

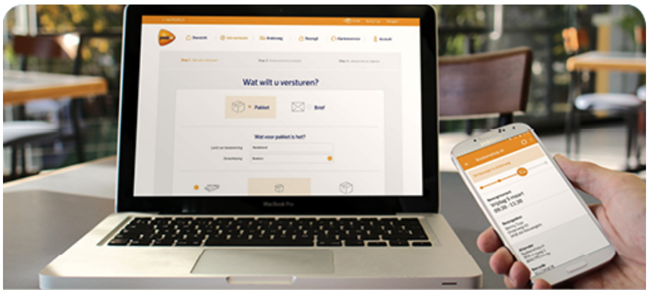
We also focus on creating a safe working environment by operating accident prevention and safety programmes for our drivers. These programmes are focused on reducing accidents and driving more sustainably. More information about the results of these programmes can be found in the CR Performance Statements.

Strong information technology (IT)

We made improvements across a number of areas in 2016, ranging from customer focus to logistics and business support.

Customer focus: As part of our ongoing goal to improve customer focus, we continued to improve the PostNL website and PostNL App in 2016. These improvements led to us winning a Dutch Interactive Award in the service category, with customers praising the ease of use of the PostNL website and App. During the year our PostNL website attracted over 224 million visitors. In the Netherlands, over two million customers have now created a PostNL account through the website or the PostNL App. This close customer interaction helps us improve our delivery processes and enables us to extend our service offerings. In 2016, there was continued strong interest in the PostNL App, which had 3.6 million users at the end of the year.

During the year we introduced a number of new digital services, including connecting with the leading classified 2C advertising platform operating in the Netherlands, which is comparable to e-bay; adding Track & Trace for international shipments; and offering a digital stamp service for mail. More information on our digital services can be found in our *Case study: The PostNL App*.



Case study
The PostNL App
"Over 3.6 million consumers already recognise the benefits of the PostNL App"

More on postnl.nl/postnl-app

Logistics: In order to improve our logistics network, we piloted Smart Mailboxes at a number of locations in the Netherlands. These mailboxes feature a smart lock, which can only be opened by the mail deliverer using his smartphone. They have been introduced to reduce the chance that third parties can intercept other people's mail, limiting the possibility of mail fraud, and increasing the trust of PostNL in society. We will evaluate the results of these mailboxes in 2017.

Additionally, we used our IT capabilities to track Mail and Parcels roll containers using wireless sensors. From this we learned that around 70% of the containers sit empty at customers' locations for more than 24 hours at a time. These insights will help us come up with a solution to use the containers more efficiently and improve our network, thereby saving costs.

We also introduced a pilot project at one of Parcels' sorting and delivery centres aimed at increasing the operational efficiency of our sorting processes. Using Artificial Intelligence, we have been able to assist our parcel sorters identify in which container a parcel needs to be placed. Using a laser to project the container number onto the parcel, the new technology means sorters do not have to read the postal code on the parcel, saving time. They can also now collect multiple parcels at once. We aim to roll out this technology across all sorting and delivery centres in 2017.

Business support: In 2016 we migrated to cloud-based, standardised accounting systems for all main entities in the Netherlands. This supports our goal of standardisation and simplification contributing to our cost saving initiatives. We also began migrating our main HR systems within the Netherlands to one IT environment. Given the seasonal nature of many of our sorting and delivery roles, we have a relatively high turnover of personnel. One way we better manage this turnover is to digitise our personnel services, which helps us increase efficiency and start to realise cost savings. In 2017 we will continue to digitise our core HR processes, with the aim of further improving efficiency and contributing to our cost saving plans.

Committed to our stakeholders

We focus on the interests of all of our stakeholders in different ways, while balancing their needs. We are in close daily contact with our customers, which provides us with the knowledge required to outperform customer expectations by delivering innovative services and solutions.

In 2016 we continued to have good relations with trades unions, and constructive dialogue with the Central Works Council, the European Works Council, and other works councils about the working environment and sustainable employability.

During 2016, we continued our open dialogue with our shareholders. In our meetings and conference calls with (potential) shareholders and analysts we discussed our results, as well as our strategy and ambition PostNL 2020. Additionally, we explained the confidence we have in our standalone strategy, which we are implementing and executing successfully. We also carefully explained our motivation for rejecting the proposal of bpost, recognising that this represented a considerable premium for our shareholders, provided that a transaction could be completed. Neither the Board of Management nor the Supervisory Board were convinced that combining the bpost and PostNL businesses would be successful, nor were they convinced a transaction with bpost could ultimately be realised. We will focus on improving the value proposition for our shareholders.

Additionally, we engaged with a number of stakeholders in society. This helps us operate a sustainable business, enabling us to better understand our place and impact on society. Throughout the year we focused on ensuring mail remained accessible and reliable. In our discussions with the ACM and the Dutch ministry of Economic Affairs we focused on our role as the USO service provider, and how we can ensure that the market continues to provide customers with the best levels of service possible.

One of the outcomes of ensuring mail remains accessible and reliable is the reduction of post offices and post boxes across the country. As part of our connection with society, we worked closely with local communities to help make our post box network future-proof. We also began working with a number of municipalities across the Netherlands, with the aim that our mail deliverers begin contributing to a more liveable society.

When studying our impact on society, we also look for the most sustainable delivery solutions. For example, we use lower-emission fuels across our Dutch operations and are trialling e-cargo bikes in Amsterdam to deliver parcels.

And for the second consecutive year we asked the Kids Council to get involved with corporate responsibility issues that affect PostNL. The Kids Council is an initiative of the Missing Chapter Foundation and Unicef Nederland. Children aged between 10 and 12 visited PostNL and we asked them: 'How can we make sure that all employees are acting sustainably?' Their advice was to increase our internal and external communications on sustainability issues. Based on their feedback, we launched an internal campaign to stimulate sustainable behaviour amongst our people. More information on this topic can be found in Section 1: Basis of preparation of the CR Performance Statements.

Strong financial position

In 2016, we delivered on our promise to further strengthen our financial position, realising an underlying cash operating income of €245 million and net cash from operating and investing activities of €653 million, including the proceeds of the sale of the stake in TNT Express of €643 million. Our consolidated equity position further improved to -€79 million, while our net debt position converted into a net cash position of €86 million. This underpins both the solidity of our financial performance and our cash flow-generating capability, which are driven by further cost savings and price increases within Mail in the Netherlands, and profitable growth at Parcels and International.

The completion of the sale of our stake in TNT Express in 2016 enabled us to further reduce our long-term debt. At year-end, our cash balance of €640 million outweighed our remaining short- and long-term debt of €555 million, including our eurobonds due in 2017 (€328 million nominal value) and 2018 (£177 million nominal value).

We continued to analyse our pension risk, as decreasing interest rates in the first half of 2016 impacted our pension fund's coverage ratio. Taking into account the fund's resilience, we concluded that there is comfortable headroom for further interest rate declines before substantial top-up payments have to be made. In the second half of 2016, the interest rates partially recovered. Ultimately, although the fund's 12-months average coverage ratio declined to 103.6% (2015: 106.8%), the fund's month-end coverage ratio increased to 108.3% (2015: 106.0%).

The strong financial performance and improved financial position following the sale of our stake in TNT Express, in combination with the bond buy-back transaction, resulted in an upgrade of our credit rating, in line with our rating ambition. Our S&P rating was upgraded to BBB+ with stable outlook, while Moody's upgraded its outlook on our Baa2 rating from stable to positive.

Dividend

Following the sale of our stake in TNT Express, with the sensitivity of our pension obligation to interest rate fluctuations limited, and given our solid results in 2016, our consolidated equity has improved significantly, close to achieving a positive position. As a result, we will recommend our shareholders to approve the reinstatement of our dividend, with a first payment based on our 2016 results.

On the basis of our outlook for 2017, we trust that we will realise a positive consolidated equity in the course of 2017. This belief, combined with our increased ambition for 2020, has led us to adjust our dividend policy going forward, with the aim of paying a progressive dividend.

Based on our strong financial position and expected future results, we are confident that we will continue to be able to realise our financial ambitions and create long-term shareholder value. You can read more about the improvement of our financial position in the Performance 2016 and outlook 2017 chapter.

Mail in the Netherlands

Highlights 2016

- Introduction of Track & Trace for letterbox packages
- Acquisition of two companies specialised in advanced marketing services
- Finalisation of sorting machine extra (SMX) and start of roll-out sorting machine coding (SMC)
- Finalising the redesign of the car company
- Working with local communities to make our post box network future proof.

Mail in the Netherlands

Our ambition for Mail in the Netherlands continues to be to deliver sustainable cash flow. In the table below we summarise the business segment's strategy and its main achievements in 2016. Following this we discuss in detail the improvements we made during the year, and how these improvements contributed to the realisation of our strategy, PostNL 2020.

Strategy

Connect senders and receivers through our people and innovative postal networks

- Continue to focus on customer satisfaction and quality
- Create innovative solutions to enhance our portfolio and meet customer demands
- Compensate volume decline with balanced pricing and cost savings, taking into account the competitive and regulatory environment
- Continue to focus on cost savings across the total value chain.

Ambition: Deliver sustainable cash flow

Highlights 2016

- Introduction of Track & Trace for letterbox packages
- Acquisition of two companies specialised in advanced marketing services
- Finalisation of sorting machine extra (SMX) and start of roll-out sorting machine coding (SMC)
- Finalising the redesign of the car company
- Working with local communities to make our post box network future proof.

In 2016, it became more challenging to achieve our four strategic goals in tandem. This is because developments in the mail market do not always align with our ambition. For example, while customer satisfaction remains a priority, it could be adversely affected by the need to adapt the number of post boxes and post offices across the country. During the year we worked hard on maintaining the correct balance between each of our strategic goals, and will continue to do so in the years to come.

Continue to focus on customer satisfaction and quality

Our goal is to continue to improve the quality of our mail delivery and our customer satisfaction. Key elements in achieving this are focusing on our operational performance, informing our customers accurately, and enabling our employees to deliver high quality performance.

Improving our operational performance is partly done by streamlining the quality processes amongst our deliverers. We monitor the complaints that we get and take direct actions to learn from them. We also carry out one-on-one visits to customers who have complaints, a strategy customers have welcomed as they recognise how seriously we take any issues that affect them. In 2016, these and other measures resulted in improved key metrics. For example, the delivery quality at Mail in the Netherlands remained unchanged at 96.4%, well above the legally-required minimum of 95%. Additionally, our customer satisfaction level increased to 87% (2015: 86%). We continue to focus on improving these key metrics in 2017.

Another focus area is the information we provide to our customers, so they can track their deliveries. For example, we introduced Track & Trace for letterbox packages, which are specially-sized packages that fit through the letterbox. We also adjusted the process of delivering letterbox packages. In those cases where they cannot be delivered, for example because the letterbox is too small and the receiver is not at home, we divert them automatically to the nearest retail location. This is more convenient for the recipient, as they can collect their package the same day instead of having to wait an extra day for delivery through the parcels network.

Each year we evaluate the best way to deliver, whether it is on foot, by bike, by scooter or by car. This helps ensure that we continually work towards delivering in the most efficient and sustainable way. In 2016, for example, we began experimenting with e-cargo bikes, which enables deliverers to transport more, faster. Not only will this help us reduce car deliveries, it means we can extend the deliverers' routes and increase efficiency. We began using a few hundred e-bikes, speeding up the delivery process. These initiatives also help reduce our carbon footprint and contribute to our goal of delivering the most sustainable postal and parcels solutions. For example, one of the top-ten largest municipalities in the Netherlands is making use of our services specifically because of our sustainable delivery options.

Discover the path of a letter

Find out how we collect, sort and deliver 9 million letters a day utilising our best-in-class network

More on postnl.nl/letter

We also began piloting ergonomically-designed postal vests. These vests enable deliverers to carry additional mail bundles with less effort, which also helps improve the quality of delivery. We are also experimenting with smart wearables, incorporating technology that lets deliverers 'swipe' the letter over a sensor on their jacket, improving the Track & Trace information for our customers.

To help contribute to PostNL 2020, we will focus on the following in 2017:
- Full implementation of our Track & Trace services
- Further improving our delivery quality and customer satisfaction levels.

Create innovative solutions to enhance our portfolio and meet customers' demands

The rapidly changing mail market means we have to adapt to volume declines and manage shifting regulatory issues. To address volume declines, we look for cost savings wherever possible while simplifying and optimising processes. Below we outline how we continue to innovate across the business to create more value for our customers, despite the market challenges.

The continuing rapid growth in e-commerce, both in terms of the volumes of packages ordered online and the increasing numbers of e-tailers, creates opportunities for us. As e-commerce grows, the volume of letterbox packages through our network continues to increase.

Additionally, e-tailers also need a range of marketing services, such as direct mail and online marketing, to connect with their customers. Small- and medium-sized enterprises (SMEs) are able to attract customers through a mix of digital marketing, direct mail, and data services. These companies are attracted to this marketing mix because it has a higher sales conversion rate than digital marketing. To improve the direct marketing services we offer customers, we acquired two companies specialised in advanced marketing solutions: Yourzine and Searchresult.

Specifically for manufacturers, we offer a broad range of marketing options that includes the option of door-to-door leaflet delivery. These marketing solutions help us act as the essential link between senders and receivers in both the online and offline world.

During the year all mail deliverers began using smartphones. The smartphone, which includes an app, enables deliverers to scan items as they are delivered, a vital part of offering Track & Trace on letters and letterbox packages delivered through our postal network. The smartphone and app enabled us to launch a Return on Demand pilot project for one of the leading fashion and shoe e-tailers in the Netherlands. More information on this launch can be found in the Parcels section of this chapter. Both the smartphone and app were tested extensively among deliverers, who provided feedback to ensure it works the way they need it to. Training was supplied to those deliverers unused to working with a smartphone.

In 2016 we introduced a number of innovative customer services. These include the introduction of the MyMail service. This is a smartphone app that provides our customers with an image of the letter they will receive. MyMail is currently available for all post office (PO) box users, and is being piloted in specific areas for general consumers ahead of a nationwide roll out. We also trialled delivery and collection services in Amsterdam city centre, using e-cargo bikes.

More about how our strong IT helps Mail in the Netherlands to offer new services and solutions, can be found in the Strong IT supports Mail in the Netherlands box below.

Strong IT supports Mail in the Netherlands

Enabling us to offer new services and solutions

IT has long been a vital part of realising our Mail in the Netherlands strategy. Over the last few years it has helped us save costs. One example is the My Work App used by our mail deliverers, which was originally used to register working hours. And IT will continue to play a crucial role in the years to come, enabling us to offer new services and solutions to our customers. With more than 20,000 mail deliverers now using smartphones, we can now use the My Work App to provide services such as Track & Trace on letter box packages, which are increasingly delivered through the mail network. It also allows us to develop new business models and extend our service offering. One example is mail deliverers notifying local authorities about public services that need attention using the My Work App on their smartphones.

To develop services in the area of our growth domain connected community, we combined our technological expertise with our ambition to contribute positively to a livable society. We call these Smart City solutions. One example is the pilot project we began with the Municipality of Schiedam, where mail deliverers use the My Work App on their smartphones to notify the authorities about public services that need attention, such as overfull rubbish bins. We have already expanded this and similar services to other cities. More information can be found in our *Case study: Smart City solutions.*

Case study
Smart City solutions
"Developing our business through our unique presence in society"

More on postnl.nl/smartcity

We also began preparing for a project that will help elderly people remain independent and live at home longer. Called Thuis Onbezorgd Mobiel (Carefree Mobile Home), the elderly will be supported in their homes by a multi-disciplinary team, including local health professionals and our mail deliverers. They will also be provided with home care monitoring sensors, which can spot changes in their normal movement patterns, for example if they have a fall. Our deliverers will stop by regularly to see how they are, and will be able to provide help setting up and maintaining the monitoring sensors. The project is due to start in March 2017. With our people visiting every street in the country, we are ideally positioned to further develop opportunities in this area.

In 2017, we aim to implement several improvements across Mail in the Netherlands to realise PostNL 2020. These include:
- Grow the volume of letterbox packages while continually improving this service
- Further roll out and improve our Smart City solutions.

Compensate volume decline with balanced pricing and cost savings, taking into account the competitive and regulatory environment

Ongoing substitution by digitisation is causing a significant decrease in mail volumes. At the same time, competition within the physical mail market is intensifying. In 2016, we continued implementing our strategy to protect our volumes within the regulatory parameters. We increased our prices only to the level that it would not materially impact volumes.

Additionally, we continued providing our services to other (regional) postal operators at certain price levels and under conditions as set by the ACM in its rulings based on article 9 Postal Act. In November 2016, the highest Dutch court ruled in favour of PostNL on a dispute on this matter. This will influence our future offerings to other postal operators.

Since 2014, the ACM has been authorised to impose obligations on postal operators with significant market power (SMP). The ACM consulted with us and other postal operators on a number of draft SMP rulings, the latest being in summer 2016. We shared our position and discussed the scope of the intended obligations. It is unclear when the ACM will deliver a final decision. More information on this can be found in the Our view on the markets chapter.

In 2016 we also aligned our retail commission with others in the market and began streamlining the retailer processes.

With regard to the USO, the adjusted Dutch Postal Act, effective 1 January 2016, enables us to adapt our network of post boxes and post offices to reflect postal volume developments and customer needs. We reduced the number of post offices from approximately 2,300 to 1,800, and the number of post boxes across the country from around 18,000 to 17,000. In 2017 we will further reduce the number of post offices by approximately 200, and the number of post boxes by around 3,000.

We removed or transferred post boxes that were infrequently used. Those we transferred, we relocated to more regularly visited and busy locations. For example, close to supermarkets, train and bus stations, and the entrance to residential areas. When determining the best possible locations for post boxes, we work closely with municipalities and local community organisations. These reductions began contributing to our cost savings in 2016, and will be fully realised in 2018. More information on how we transform our businesses in order to respond to the volume decline can be found in our *Case study: Letter volume decline*.

Case study
Letter volume decline
"How we adapt our mail operations to a changing market environment"

More on postnl.nl/volume-decline

Continue to focus on cost savings across the total value chain

Declining mail volumes are leading to profound changes in the way we operate. In addition to reducing post boxes and post offices in the Netherlands, we are taking a number of measures to keep mail accessible and reliable into the future. These measures include reducing staff, scaling down our Retail network, and reducing the number of preparation centres across the country. Additionally, we are investing in next-generation sorting and coding machines that make our mail processes more effective and efficient. We also continue to look for ways to redesign or streamline our operations, as we did through the redesign of our car company.

We continue to look for the most sustainable redesign options, such as identifying internal employment opportunities for those employees impacted by restructuring. For example, following the redesign of the Mail in the Netherlands car company, starting in 2015 we transferred 280 drivers to our Parcels segment. Other ways we realise sustainable employability include through training and education, and operating a Mobility programme that helps employees move to a job outside PostNL. Since the Mobility programme began, it has helped around 8,200 employees.

Underpinning the importance of the ongoing cost savings within Mail in the Netherlands, we continued our constructive discussions with a range of works councils and trades unions. At the beginning of the year a new five-year social plan came into effect. This social plan, which runs until 31 December 2020, applies to all employees that fall under the PostNL collective labour agreement.

In 2016, we further reduced costs both through ongoing and new programmes. This included reducing our overheads and staff at our mail operations and at our corporate headquarters. We restructured our marketing and sales organisation, continued to realise savings from the 2014 restructuring at our operations organisation, and began preparing for new cost saving plans that will be carried out in 2017.

We concluded the redesign of the car company programme in 2016, which involved restructuring about 30 hubs, including 450 car routes and 900 scooter routes. The programme yielded total savings of around €18 million. Other initiatives that contributed to cost savings include the further reduction of our preparation centres, from around 80 to 54, and the downscaling of our mail retail network.

We also finalised the roll out of our sorting machine extra (SMX) and began introducing the new sorting machine coding (SMC). The SMC automates part of the manual preparation activities, and introduces more flexibility when realising delivery route optimisation. For example, the SMC adds codes to envelopes, which helps us simplify our preparation process. Together, this enables us to futher centralise our preparation centres.

The first SMCs were operational at the beginning of 2016, and a full roll out is envisaged for 2017. While both the SMX and the SMC are already contributing to our cost savings, we expect them to realise their full potential in the coming years. More information on how these machines are helping to make us future-proof can be found on postnl.nl/smx.

In 2017, we aim to implement several cost savings measures and improvements across Mail in the Netherlands to realise PostNL 2020. These include:

- In January 2017 we began implementing a new organisational structure for the management and staff of our operations organisation. This new structure is the next step in how we prepare for declining mail volumes and respond to technological developments. In this new structure we will integrate the entire chain, from collection to delivery. This enables us to further improve collaboration across the chain, while developing new services and solutions to satisfy customers' demands
- Complete the roll out of the new SMCs
- Further optimise our network of preparation locations, looking at opportunities to combine locations and optimise internal processes
- Simplify product portfolio and stimulate online sales.

Parcels

Highlights 2016

- Rolled out same-day delivery for all e-tailer customers in the Netherlands
- Delivered 23.8 million parcels over the Sinterklaas and Christmas holiday period
- Acceleration of investments in our parcel infrastructure, enabling us to keep pace with the ongoing growth in parcel volume.

Parcels

Our ambition for Parcels continues to be to create profitable growth. In the table below we summarise the business segment's strategy and its main achievements in 2016. Following this we discuss in detail the improvements we made during the year, and how these improvements contributed to the realisation of our strategy, PostNL 2020.

Strategy

Be *the* logistic solutions provider that makes our customers' lives easier

- Strengthen our position as leading e-commerce logistics company in the Benelux
- Continue to create innovative and market-driven solutions that add value for our customers
- Continue to enhance our best-in-class infrastructure.

Ambition: Create further profitable growth

Highlights 2016

- Rolled out same-day delivery for all e-tailer customers in the Netherlands
- Delivered 23.8 million parcels over the Sinterklaas and Christmas holiday period
- Acceleration of investments in our parcel infrastructure, enabling us to keep pace with the ongoing growth in parcel volume.

Strengthen our position as leading e-commerce logistics company in the Benelux

Developments in the 2C market in 2016 included rolling out the same day delivery option we piloted in 2015. We now offer this service to all our e-tailer customers, setting the standard in the Netherlands. Using our Local Express network, we launched a Return on Demand pilot project for one of the leading fashion and shoe e-tailers in the Netherlands, covering consumers in Amsterdam and Rotterdam. We expanded this service nationwide for this e-tailer in the second half of 2016. We offer consumers in Amsterdam and Rotterdam a one-hour pick up window, and the rest of the country a two-hour window, between 8.00AM and 9.00PM. This enables consumers to return goods the same day without leaving their homes. We expect to roll out this service for other e-tailers during 2017. More information on how we continue to create this and other innovative and market-driven solutions that add value for our customers can be found in our *Case study: Local Express*.

In 2016 we improved our offerings to SME e-tailers, a highly-valued customer group, by expanding the range of services they can use to manage their parcel shipments through a dedicated online platform. We currently service over 10,000 SME e-tailers through this platform, and expect this number to grow in the coming years.

The Belgian e-commerce market is expanding rapidly, with Belgians increasingly ordering from abroad, mainly from the Netherlands and France. In recent years, the percentage of e-commerce ordered abroad has doubled to around 50% of Belgium's total e-commerce spending. And with large international e-tailers rapidly gaining market share in the country, we expect to continue to increase deliveries in Belgium in the years to come. We are responding to this trend by working towards offering the same high service levels across the Benelux. This makes the ordering of goods online easier and more attractive for the end consumer, and helps e-tailers grow their business in Belgium and Luxembourg. Our customers in Wallonia can now enjoy the same service level as we offer in Flanders.

In 2015 we worked hard to improve our brand awareness in the 2B market, and improved our propositions to better serve the needs of 2B customers. In 2016 we extended our service levels, and now offer guaranteed delivery before 9.00AM, before 10.00AM, before 12.00PM, and before 5.00PM. In the 2B market we are focusing on fashion, electronics, mobility, health & personal care, and media & communications as we expect these markets to grow strongly. In 2016 we saw strong sales growth in the 2B market, outpacing the market in general. One of our main unique selling points is our ability to cover both the 2C and 2B markets. As a 2C player, we were able to seamlessly integrate 2B deliveries into our network, by adjusting our capabilities and improving our core 2B propositions to meet customers' needs.

Case study
Local Express
"We are the testing ground of new services for PostNL"

More on postnl.nl/local-express

During the year we organised a number of events for our customers, focused on knowledge-sharing across the e-commerce and 2B domain. For example, we ran specialised events on food fulfilment and organised the Art of Online event in Stedelijk Museum Amsterdam for potential 2B customers. As the thought leader in this area, we are able to help customers gain valuable insights into these market segments, helping them improve their businesses.

For Logistic Solutions, we have expanded the number of offerings and are focused on further increasing our level of service and quality. In 2016, one of our acquisitions was Witgoed Services. This acquisition enables us to expand our Extra@Home offerings by providing installation services for white goods. We also acquired HubHub, a platform designed for C2C delivery of large goods. The HubHub platform will enable consumers to easily access our logistic services for large goods.

In 2017 we aim to implement several improvements to realise PostNL 2020. These include:

- Improving the reliability of our time delivery window
- Extending our 2B customer base by further raising awareness of our guaranteed time slots - before 9.00AM, before 10.00AM, before 12.00PM, and before 5.00PM - in the market
- Offer customers in Belgium the same market-leading services we offer customers in the Netherlands.

Continue to create innovative and market-driven solutions that add value for our customers

We develop our services and solutions based on customer and market demands, while our technological developments are based on improving efficiency and saving costs. For example, one of e-tailers key issues is having to purchase large volumes of packaging material of the same size. As a consequence, e-tailers typically use an average of only three different box sizes. This results in shipments often containing small goods in large packages. Not only does this make the e-tailers logistic process inefficient, it also means we are transporting a lot of air. We responded to our customers' needs by creating a unique solution. We now offer them the option to order different sized boxes in lower quantities, enabling them to mix and match at no extra cost. This has led to our customers using an average of seven different box sizes, improving their operational efficiency and helping us minimise our impact on the environment.

We have also introduced a number of innovative packaging solutions, enabling customers to send specialised goods through our existing network, helping to bring new markets online. And due to the density of our network, customers can benefit from the full range of parcel delivery options we offer. Examples include packaging solutions for food and flowers, while we continue to develop options for other goods and items.

In 2016 we grew in the online food delivery market, and now have a range of customers using our food box including supermarkets, e-tailers providing meal food boxes, and other food outlets.

In 2017 we will continue to further improve the food box and strengthen our position in the online food market.

For SME e-tailers with lower volumes we developed a one-time usable food box. This food box, which is made of recyclable corrugated cardboard, can keep food at a constant 7 degrees Celsius for 24 hours, enabling us to deliver them as regular parcels, including delivery options such as same day and evening delivery.

Additionally, we are working on sustainable delivery methods across the country. For example, in early 2017 we will begin a pilot for one customer delivering parcels across Amsterdam using e-bikes. This pilot will give us the chance to study the delivery potential of e-bikes. Our aim is to provide clean delivery solutions to city centres that are becoming increasingly closed off to polluting vehicles, focus on delivery methods that are flexible and increase capacity, while fulfilling our sustainability goals.

Although many major markets have already made the shift to e-commerce, some continue to face difficulties selling online. We are focusing on those markets where we see potential to help bring new markets online. For example, the online sale of flowers and plants is underdeveloped compared to other markets. This is mainly due to the challenges faced with transporting a product that is both fragile and temperature sensitive. With the Netherlands the world's largest producer of flowers and plants, we have focused on developing a packaging solution that addresses these issues, tapping into a potentially large market. The product, called Flora, is now being used by an innovative Dutch flower e-tailer, enabling this e-tailer to expand their online sales beyond the Netherlands to Denmark, Germany, and the United Kingdom.

We continued to witness the benefits of being able to manage our networks as one, with the further roll out and refinement of our MyTime service. MyTime, which uses both our mail and our parcels network, enables customers to select a specific time window for their parcel deliveries.

We have also developed an application programming interface (API) that makes it easier for online market places to send parcels and goods. One example is the leading classified 2C advertising platform operating in the Netherlands, which is comparable to e-bay. We have embedded an application in their site, which takes users seamlessly to our platform without leaving their website. This offers a number of user benefits. First, shipping costs are automatically included in the advertisement price, creating greater transparency for buyers. Second, after a sale, advertisers can create a parcel label and pay shipping costs directly using the PostNL application at no extra cost. The purchaser's details are entered automatically, and the advertiser can then simply drop the parcel off. Track and trace information is sent automatically to both parties. This is just one example of around 20 APIs we developed in 2016. These APIs help us better connect with our customers in an increasingly technology-driven environment.

In 2017 we aim to implement several improvements to realise PostNL 2020. These include:

- Further improving the food box and strengthening our position in the online food market
- Developing new packaging solutions to help open up new markets
- Food delivery in Belgium. Following the successful roll out of our food boxes in the Netherlands, in 2017 we will begin offering this service in Belgium.

Continue to enhance our best-in-class infrastructure

In 2016 we invested in our best-in-class infrastructure to prepare for the ongoing increase in parcel volume, driven by the growth in e-commerce. Additionally, we are expanding our networks and capabilities, either through acquisitions or internal development. For example, we are investing in our fulfilment services and our Pharma & Care network, as we expect these markets to grow in the coming years.

In 2016 we faced a number of peaks in delivery demand which, combined with the ongoing growth in e-commerce, increased the volume load on our network. For example, volumes grew by 25% over the Sinterklaas and Christmas holiday period in the Netherlands, while delivery volumes in Belgium doubled during the Christmas period compared to normal levels. This trend is not only because people are ordering more online, but also as they are ordering closer to Christmas. This is due to the greater trust they have in us to deliver when and where we say we will. Delivering on our promises meant creating a flexible delivery system that can operate over and above our main network. However, despite all of our best efforts, things can still go wrong. During Sinterklaas a small number of parcels was not delivered on time. This was due to a systems failure, which was quickly rectified.

We are preparing for the ongoing growth in parcel volume by opening our nineteenth parcel sorting and delivery centre, which replaces one of our current sorting and delivery centres. The new centre includes a temperature-controlled cargo hub and a cross-dock to further streamline our internal flows. Going forward, we expect to open our twentieth parcel sorting and delivery centre in the Netherlands, in early 2018. Additionally, we are working on two new sorting and delivery centres in Belgium.

As well as extending capacity, we are also improving the day-to-day quality of our network and efficiency of our operations. One example is the automation of the pre-sorting of parcels before they are loaded into the delivery vans. This makes the delivery process more efficient. Our entrepreneurial employees are also developing innovative solutions. For example, one of our sorting and delivery centre process managers created a simple yet effective way to transport boxes of wine between depots. This involves replacing plastic wrap with a flexible, re-usable sheet. As well as saving time, the solution is also cheaper and more environmentally friendly. This is one example of how we bring our core value of being inventive every day to life.

Discover the path of a parcel

Find out how we collect, sort and deliver 550,000 parcels a day utilising our best-in-class network

More on postnl.nl/parcel

In 2016 we began installing approximately 22,000 solar panels on the roofs of our sorting and delivery centres, and expect to complete this by 2018. This enables us to contribute up to 40 percent of each center's annual electricity requirements.

During the year we began rolling out additional biogas vans across our Parcels and Mail in the Netherlands segments. By the end of 2017 we will operate 550 biogas vans, approximately 20 percent of all biogas vans in operation in the Netherlands.

Recognising our social responsibility, we introduced our sustainable delivery model (SDM) in 2015. This model aims to develop a sustainable parcels market that provides fair and competitive working conditions, and increases the commitment of our people by promoting cultural diversity and stimulating innovation and entrepreneurship.

In 2016 we finalised an important part of the implementation of the SDM, which offered our independent parcel deliverers the choice of becoming a PostNL employee or remaining independent with higher rates. About 10 to 15% of our independent parcel deliverers chose to become PostNL employees. Since 2015, we have hired 380 new employees, 280 from the car company and 100 through the SDM. We also made the independent parcel deliverers aware that they are required to have an EU transport licence (Eurovergunning), which allows them to professionalise their organisation, become more efficient in their routing, and to develop growth possibilities for themselves and for the company.

One important aspect of the SDM is that we ensure there is no internal competition between the independent deliverers and the parcel employees. In 2016, we saw the number of independent parcel delivers drop. When new vacancies arise, we either fill them internally or with one of the transport companies that already deliver for us. Specifically for evening deliveries, we also use our own employees or one of these transport companies.

Additionally, we continue to operate a dense network of parcel pick up points across the Benelux, enabling us to provide optimal flexibility for senders and receivers. Our goal is to have a balanced number of post offices and parcel points across the region, which reflects the development of parcel volumes and enables us to serve the click & collect needs of customers in the Benelux. In the coming years we expect to increase the number of parcel points from the current 3,400 to 4,000. We believe our strong technology enables us to develop new delivery solutions that fit customers' needs. For example, in 2016 we began piloting an innovative Parcel and letter locker at ten locations across one Dutch city. This locker not only lets customers send mail and parcels, it also enables them to receive parcels of different sizes. This makes it easier for consumers to shop online, and select where and when they want to receive their goods. The first results have been positive. The Parcel and letter locker was one of the winning ideas to come out of the My Idea, Your Idea initiative, which encourages employees to develop innovative services and solutions.

The rapid development of the e-commerce market is also impacting our Logistics Solutions business. Omnichannel has become a license to operate for retailers, who recognise that to sell articles online and live up to the expectations of increasingly demanding customers takes time, energy, money and an innovative fulfilment strategy.

For us this creates opportunities, which is why we are investing in expanding our fulfilment services and solutions. In 2016 we began constructing a state-of-the-art automated storage system within our fulfilment centre. The system picks and stores items efficiently, reducing space requirements by up to 60 percent. This warehouse will be operational in 2017. This will make it easier for SME e-tailers to utilise the full range of fulfilment services. Additionally, opening up the fulfilment market also creates greater choice for the end consumer.

In 2016 we also expanded our Pharma & Care network and capabilities, introducing a range of new services and solutions. Pharma & Care distributes temperature-controlled goods to pharmacies, health centres and hospitals. Our new propositions focus on combining 2B and 2C elements, such as bringing pharmaceuticals to consumers. To be able to deliver these services we are developing a temperature controlled hub at one of our parcels sorting and delivery centres. This new hub will enable us to provide the same quality levels in the Netherlands as we presently provide through Pharma & Care in Belgium. In Belgium we doubled our 2°C – 8°C temperature-controlled capacity in our fleet of vans. Until 2015, we only offered dual temperature-controlled services in large trucks. This change enables us to deliver more efficiently and sustainably across the country

In 2017 we aim to implement several improvements to realise PostNL 2020. These include:

- The opening of our nineteenth sorting and delivery centre in the Netherlands. This will include a temperature-controlled cargo hub and a cross-dock to further streamline our inter-depot flows
- Preparing our twentieth sorting and delivery centre in the Netherlands, which will become operational in early 2018
- Working on two new sorting and delivery centres in Belgium, which we aim to open in 2018 or 2019
- Opening a state-of-the-art fulfilment facility in the Netherlands.

Strong IT supports Parcels

Helping us capitalise on volume growth

We have adapted our IT infrastructure to enable the ongoing growth in parcel volumes. Over the last two years we have replaced our core IT systems, and in 2016 we began updating the hand terminals used by parcel deliverers. These new versions are not only faster, they are capable of handling more functionality, meaning we can increase our range of services. These IT investments have enabled us to extend our delivery options. We now offer same-day and evening delivery, as well as Return on Demand. Our strong IT capabilities also mean we can manage our networks as one. The result is the ability to deliver the same products, such as letter box parcels, through both the mail and parcels network. This creates significant opportunities, as we can select the optimal network on a case-by-case basis. This increases the efficiency of our logistics processes, while creating an even greater range of delivery options for our customers.

International

Highlights 2016

- Taking advantage of our strong position in the e-commerce market to grow our market share
- Spring: introduction of first international track and trace for sending low value goods
- Nexive: doubling of parcel volume across Italy
- Postcon: strengthened our position through a number of acquisitions.

International

Our ambition for International continues to be to enhance cash profitability. In the table below we summarise the business segment's strategy and its main achievements in 2016. Following this we discuss in detail the improvements we made during the year, and how these improvements contributed to the realisation of our strategy, PostNL 2020.

Strategy

Capture opportunities from accelerating global e-commerce

- Expand our cross border business through our position as a strong player in the international e-commerce market
- Nexive: be the smart challenger in Italy
- Postcon: strengthen our position in Germany.

Ambition: Enhance cash profitability

Highlights 2016

- Taking advantage of our strong position in the e-commerce market to grow our market share
- Spring: introduction of first international track and trace for sending low value goods
- Nexive: doubling of parcel volume across Italy
- Postcon: strengthened our position through a number of acquisitions.

Expand our cross-border business through our position as a strong player in the international e-commerce market

While many e-tailers who deliver overseas would like to offer international Track & Trace on their shipments, the service is still not widely used. This is mainly because of the difficulties associated with tracking packages across multiple networks, and the high costs relative to the low value of the goods being sent. In 2016 we introduced a solution across the majority of our markets, called Tag & Trace. More about this service, which is the first of its kind for e-retailers who send goods cross-border, can be found in the Strong IT supports International box on the next page.

We also launched a new international returns solution, called Spring International Returns. The service, which was specifically developed for e-tailers, provides a number of return solutions supported by our international network. Using a customisable platform, Spring International Returns provides e-tailers with their own branded landing page for returns and enables them to connect easily with their own system using the application programming interface (API). This provides both e-tailers and consumers with a number of advantages. For example, e-tailers can send their goods tracked or untracked, while consumers can download return labels for free, or purchase Sender Pays or Sender Part Pays return labels. Other options available include package opening, inspecting or scanning the returned items. This speeds up re-stocking and refunding, benefiting both the e-tailer and consumer. In total, the network consists of more than 150,000 drop-off locations, including local post offices, and a worldwide pick-up solution.

We also continued to expand our overseas Gateway services, enabling senders and receivers to ship parcels from across the world via our hubs in Europe. We further expanded our offering to customers in China, enabling us to outperform market growth. We are currently expanding our Gateway services to customers in the United States.

A substantial part of our export volumes involve shipping milk powder to China. We saw huge shifts in volumes from the summer of 2016 onwards, with customers moving to competing channels. In response, we developed additional propositions and channels providing customers with a range of attractive delivery options. For example, we are the deliverer for products sent via Originalbabybrands.com. This platform enables customers in the Netherlands to send original Nutrilon products to family and friends in China. The products are dispatched by the manufacturer and shipped to China by PostNL.

We secured a number of new customers for our inbound Benelux proposition, including a large Spanish multi-national clothing and accessories retailer. For this multi-national, we have established a system that ensures even incorrectly addressed parcels will be delivered to the right address. In the past, if customers forgot to fill out their house number the parcel would be returned to the company's warehouse. By matching addresses to those in our database, we are now able to deliver such parcels to the correct address, meaning customers receive their deliveries faster. This, along with our high delivery quality, flexibility and dense network, is why the company chose to work with us. Such services are only possible because of the way we manage our data and IT systems. More information can be found in the Strong information technology section of this chapter.

In 2017 we aim to implement several improvements to realise PostNL 2020. These include:

- Implementing the MySpring portal, providing customers with a single portal for all their Spring-related activities
- Rolling out additional return solutions.

Nexive: be the smart challenger in Italy

In 2016 we continued transforming our mail business, which has a network that covers around 80 percent of households. This involved launching new value added products and services, such as digital stock notice for registered letters and express registered letters. These are delivered through the parcel network, creating synergies across our networks. In addition, we further concentrated on specific market segments, such as the public administration sector and SMEs.

During the year we also extended our parcels network. We now operate a nationwide parcels network and in 2016 we doubled our parcels volume. This was partially achieved through the launch of Sistema Slim, a new product within our Sistema product range. Sistema Slim is comparable to the letterbox package we offer in the Netherlands.

In 2014, Nexive tendered for and won a contract to provide delivery services to Agenzia delle Entrata. Poste Italiane challenged the legality of the contract, leading to a two-year delay. The issue was finally resolved in December 2016. The delay means that our anticipated revenue and underlying cash operating income growth at Nexive will now take place in 2017, later than expected.

We successfully implemented all cost saving initiatives, which will enable us to fully-realise the savings as originally projected.

Across Nexive, in 2017 we aim to implement several improvements to realise PostNL 2020. These include:
- Improving the quality of our Formula Certa network, which will help us stabilise the customer base
- Improving the reliability of the delivery window for Sistema Completo.

Postcon: strengthen our position in Germany

In 2016 we completed the strategic review of our German business, Postcon. We decided to continue to invest in our German operations, which we believe have growth potential in the German mail market. As a result of the review process, we decided to divest our last-mile operations in the Frankfurt-Main area, and take full ownership of our Postcon National business. Additionally, we completed the restructuring programme at Postcon, which helped us to lower our cost base.

To help realise the growth potential in the German market, in 2016 we made a number of additional acquisitions. We acquired all of the shares in our former joint venture with Holtzbrinck publishing group, which will significantly reinforce our network in the years to come. The acquisition means Pin Mail AG, a very successful end-to-end operator in the Berlin area, is now wholly-owned by Postcon, while we hold a majority stake in Mail Alliance. These acquisitions will help us achieve leadership in the alternative mail market, giving us greater network coverage across Germany.

Going forward, we will continue to focus on optimising our pricing strategy, leveraging our price differences with our main competitor DPAG for last mile deliveries. Within PostCon Consolidation, which provides bulk mail services, we will further increase our focus on pricing, ensuring that every customer contributes to profitable growth. At Postcon National, which manages our large corporate accounts, the focus will be on winning and re-attracting national customers in specific segments.

As part of our focus on greater efficiency and cost savings, we centralised three of our sorting centres into one, located in Essen. Additionally, we began a pilot at this new sorting centre that involves pre-planning mail deliverers' routes, making delivery faster and more accurate. We established a financial shared service centre in Ratingen, which centralises all finance and accounting services and incorporates the shared service centre that was located in Hamburg.

In 2016 we also introduced a works council for the head office, and continued to proactively promote workers' participation across the company. Furthermore, we continued to have constructive dialogue with both the Federal Network Agency (FNA) and the Federal Cartel Office (FCO), which support the market to continue to reduce barriers and discrimination.

At Postcon, in 2017 we aim to implement several improvements to realise PostNL 2020. These include:
- Optimising our depot locations and infrastructure, helping us improve delivery efficiency
- Providing Postcon business customers with greater control over their costs by introducing delivery network options. This includes the choice to use Postcon's own last mile delivery, or that of partners or DPAG, each of which has distinct price and quality levels.

Strong IT supports International

Providing affordable international track and trace

One of our goals is to expand our cross-border business through our position as a strong player in the international e-commerce market. Developing innovative IT solutions helps us achieve this ambition. In 2016, for example, we introduced an international track and trace product for e-tailers. Called Tag & Trace, e-tailers can now attach a cheap chip (RFID tag) to their shipment, enabling them to track low value goods internationally at an attractive price. Tag & Trace is the first solution of its kind for e-etailers who send goods cross-border. In 2017 we will concentrate on using our data-driven insights to streamline the connections between cross-border business and our logistic partners, creating greater flexibility for both us and our customers, while opening up growth opportunities.

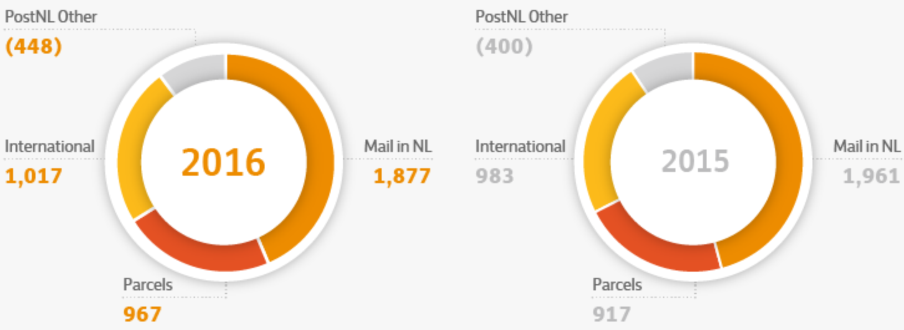
7 Performance 2016 and outlook 2017

Integrated Performance Dashboard

Financial performance

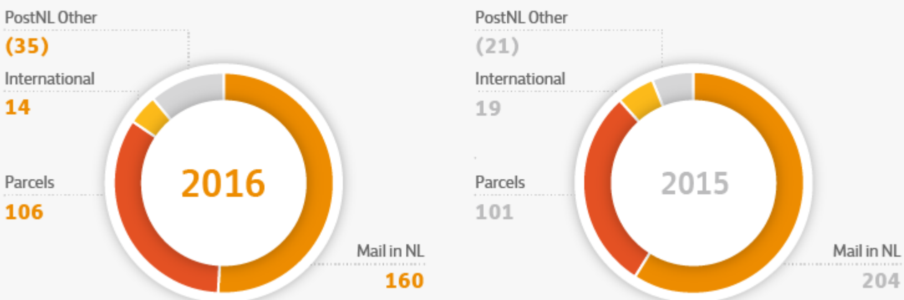
Revenue
(in € millions)

3,413



Underlying cash operating income
(in € millions)

245
(margin: 7.2%)



Cost savings
(in € millions)

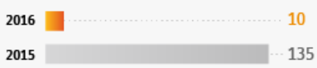
64

Profit for the year (excluding TNT Express)
(in € millions)

135

Net cash from operating & investing activities (excluding TNT Express)
(in € millions)

10



Operational and corporate responsibility performance

Mail in the Netherlands

Addressed mail volume

-7.9%

(in million items)

2016	2,213
2015	2,401

Parcels

Volume growth

+13.3%

(in million items)

2016	177
2015	156

Customer satisfaction

87%

2016	87%
2015	86%

Delivery quality Mail in the Netherlands

96.4%

preliminary

2016	96.4%
2015	96.4%

Employee engagement

67%

2016	67%
2015	64%

CO_2 efficiency index

49.5

2016	49.5
2015	51.4

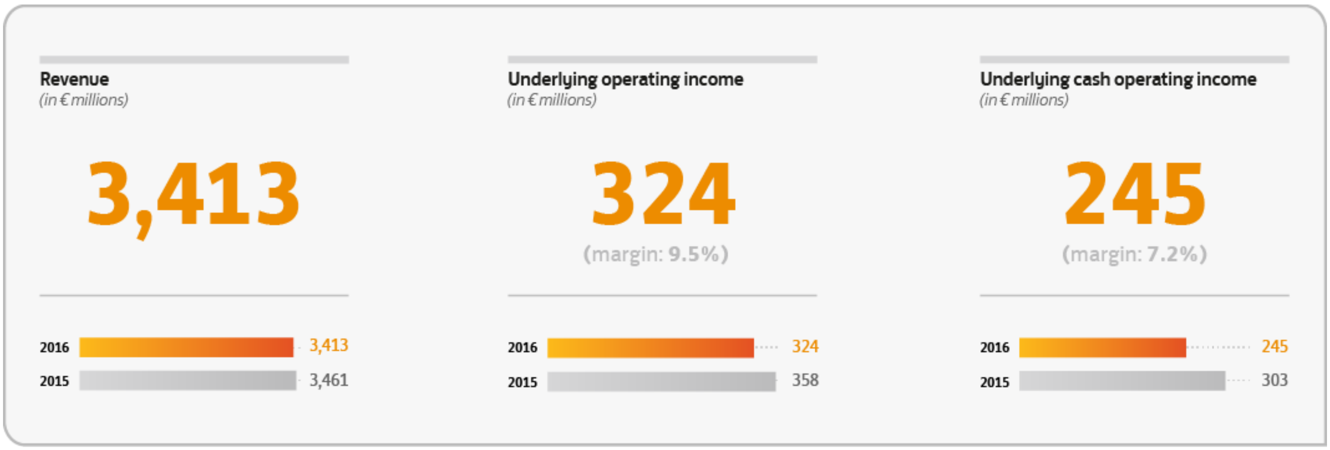
This chapter outlines the key financial and corporate responsibility performance of PostNL and the performance of our business segments. Thereafter, we explain the development of the other financial indicators. We conclude with the outlook for 2017.

Performance 2016

The key drivers of PostNL's performance include:

- the volumes of mail and parcels we deliver, the mix of services we provide to our customers, and the prices we receive for our services,
- the ability to adapt operating expenses to shifting volume levels, by creating a flexible workforce and implementing cost savings programmes,
- the level of pension fund obligations and total pension contributions,
- the sale of the stake in TNT Express in combination with the bond buy-back transaction, and
- in broader perspective the quality of our services, satisfied clients and a motivated and engaged workforce.

PostNL's financial results



In 2016, our revenue decreased by €48 million to €3,413 million (2015: 3,461). Revenue increases at Parcels and International were offset by a decrease in revenue in Mail in the Netherlands. Adjusted for foreign exchange rate changes, underlying revenue decreased by €42 million to €3,419 million.

Underlying operating income decreased by 9.5% to €324 million (2015: 358). The decrease of €34 million is explained by a negative volume/price/mix effect in addressed mail (-€84 million) within Mail in the Netherlands (including targeted discounts within specific segments following the adjusted market approach and the impact of regulation), autonomous cost increases (-€16 million), lower results within International (-€4 million) and other effects (-€33 million), partly offset by cost savings of €60 million (excluding pensions), decreased underlying pension expenses (€36 million) and higher results within Parcels (€7 million).

Underlying cash operating income amounted to €245 million (2015: 303). The decrease of €58 million is mainly explained by the decrease in underlying operating income of €34 million, corrected for a lower reduction in underlying pension cash contributions (-€15 million) than underlying pension expenses reduced.

Underlying (cash) operating income development

Management monitors the financial performance of the Group and the business segments via various key metrics. One of these is the earnings measure 'underlying cash operating income' as this focuses on the underlying cash performance, which is also the basis for the determination of dividend.

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 (defined benefit plans) 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.

In the tables below, the business segments are presented as Mail in the Netherlands, Parcels and International. 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.

From reported to underlying (cash) operating income 2016

(in € millions)

Year ended at 31 December	Reported operating income	Project costs	Book loss from disposal	Restructuring related charges	Payment unconditional funding obligation pensions	Past service pension costs/ settlements	Underlying operating income	Changes in provisions	Changes in pension liabilities	Underlying cash operating income
Mail in NL	181			18	27	(9)	217	(38)	(19)	160
Parcels	110				2		112	(2)	(4)	106
International	2	6	4	3			15	(1)	0	14
PostNL Other	(2)	6		7	(29)	(2)	(20)	(7)	(8)	(35)
Total 2016	291	12	4	28	0	(11)	324	(48)	(31)	245

From reported to underlying (cash) operating income 2015

(in € millions)

Year ended at 31 December	Reported operating income	Rebranding PostNL/ Project costs	Restructuring related charges	Payment unconditional funding obligation pensions	Past service pension costs/ settlements	Underlying operating income	Changes in provisions	Changes in pension liabilities	Underlying cash operating income
Mail in NL	237		1	26	(1)	263	(34)	(25)	204
Parcels	101		2	2		105	(2)	(2)	101
International	0	8	11			19	1	(1)	19
PostNL Other	2		(3)	(28)		(29)	(10)	18	(21)
Total 2015	340	8	11	0	(1)	358	(45)	(10)	303

From reported to underlying operating income

Underlying operating income totalled €324 million in 2016 (2015: 358). Compared to 2015, the underlying operating income of 2016 decreased by €34 million. Underlying operating income excludes exceptional items, which amounted to €33 million in 2016 (2015: 18). Underlying operating income margin was 9.5% in 2016 (2015: 10.3%).

In 2016, project costs of €12 million mainly relate to the strategic review of Germany (Postcon) and Italy (Nexive) within International and advisory costs related to bpost activities within PostNL Other. The book loss from disposal relates to the divestment of our last-mile operations in the Frankfurt-Main area within Germany. The restructuring related charges of International mainly relate to restructuring within Italy. The past service pension costs mainly relate to the impact of restructurings within Mail in the Netherlands.

In 2016, the second instalment of the unconditional funding obligation to the pension fund of €32 million was paid. The segments Mail in the Netherlands, Parcels 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

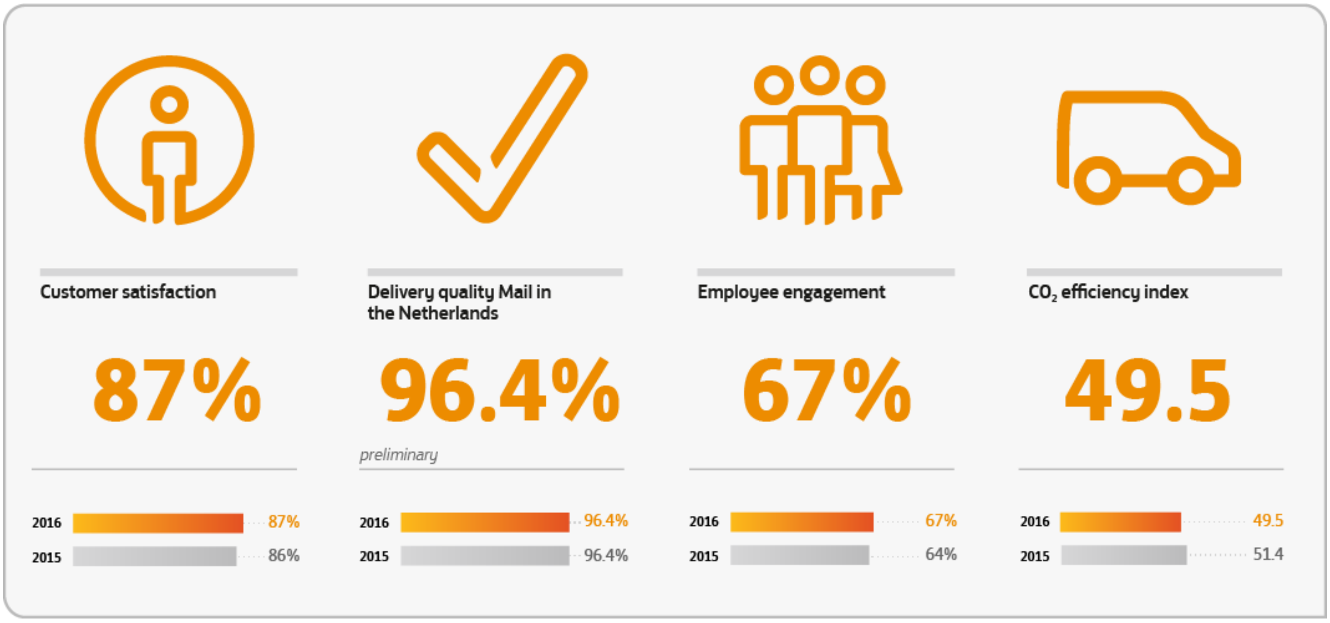
In 2016, underlying cash operating income decreased to €245 million (2015: 303). Underlying cash operating income margin was 7.2% in 2016 (2015: 8.8%).

The changes in provisions of -€48 million in 2016 (2015: -45) represent the difference between the underlying net addition for restructuring and other provisions of €1 million (2015: 3) and the underlying cash payments of €49 million (2015: 48).

The changes in pension liabilities of -€31 million in 2016 (2015: -10) represent the difference between the recorded underlying pension expenses of €101 million (2015: 137), which excludes the positive effect of past service pension costs of €11 million (2015: positive effect of 1), and the underlying cash payments of €132 million (2015: 147), which excludes the second instalment of the unconditional funding obligation of €32 million (2015: 32).

The decrease of €58 million in underlying cash operating income comprised lower results at Mail in the Netherlands (-€44 million), International (-€5 million) and PostNL Other (-€14 million), slightly offset by a higher result within Parcels (€5 million).

PostNL's corporate responsibility results



Management monitors the corporate responsibility performance of the Group via various measures related to our customers, our people and the environment. We aim for continuous improvements on quality, for example by improving our services, quickly and effectively solving complaints, and providing excellent customer contact. Our people are key to these improvements.

We are focusing on customers experiencing us as a fully integrated company. By continuing to implement one customer base, we are able to develop a 360-degree customer view. This enables us to offer our customers the right service at the right time. This experience is also supported by continually improving the integration of our online solutions, postnl.nl and the PostNL App. These and other initiatives has helped us improving our customer satisfaction result to 87% (2015: 86%).

Our customer satisfaction is measured through a bi-annual online survey performed by an independent external research company. One of the elements that our customer satisfaction survey focuses on is delivery quality of mail. With 96.4% our on-time delivery quality remained well above the required level of 95%.

Increased customer satisfaction and continuous high delivery quality also showed in a high reputation score of PostNL of 67.8% (2015: 67.7%). This score is based on a representative sample of respondents from Dutch society and calculated by an external party, the Reputation Institute.

Our employee engagement score increased to 67% (2015: 64%). In 2016, we continued our culture programme, to realise the desired leading behaviour principles. Working together for OnePostNL was an essential driver for the improved employee engagement.

Our CO_2 efficiency index improved to 49.5 (2015: 51.4, base year 2007: 100), mainly caused by the improved CO_2 efficiency of our buildings. At the end of 2016, we operated 295 greengas vehicles with minimal environmental emissions.

In 2016, we were again awarded the Transport and Transportation Infrastructure global industry leader in the Dow Jones Sustainability Index (DJSI). Each year the DJSI evaluates over 3,400 listed companies around the world. The evaluation is based on an assessment of information taken from 80 to 120 industry-specific questions that focus on economic, environmental and social factors. We were able to increase our DJSI score to 86 points out of 100 (2015: 82).

Additionally, we became the first Dutch logistics company to be awarded a Gold status by Fira for our corporate responsibility achievements. Fira evaluates the reliability of companies reporting on their impact on the environment, good employment, and contributions to society.

More in-depth information on theses topics can be found in the CR Performance Statements chapter.

Results Mail in the Netherlands

Revenue (in € millions)	Addressed mail volume	Underlying cash operating income (in € millions)
1,877	**-7.9%**	**160** (margin: 8.5%)
	(in million items)	
2016: 1,877	2016: 2,213	2016: 160
2015: 1,961	2015: 2,401	2015: 204

In 2016, the substitution of traditional mail by digital alternatives continued and was the main contributor for the loss of volumes. The adjusted market approach was succesfull with winback of volumes, lowering the volume decline to 7.9% in 2016 (2015: 11.2% decline). With 96.4% our on-time delivery quality remained well above the required level of 95%.

The following table shows the addressed postal items delivered.

Operating statistics Mail in the Netherlands

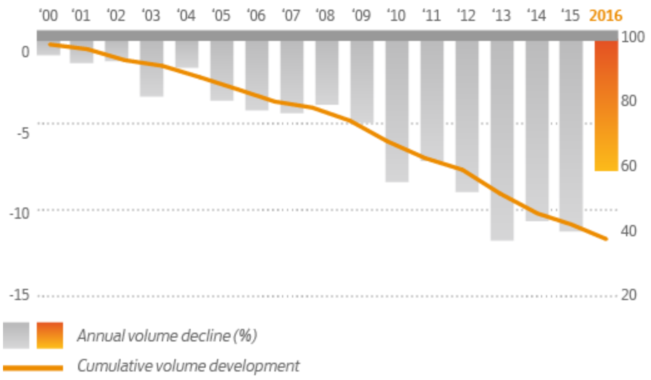
(in million items)

Year ended at 31 December	2016	2015
Single items	495	561
Bulk mail	1,718	1,840
Addressed postal items delivered	**2,213**	2,401

The following chart shows the volume development since 2000.

Volume development Mail in the Netherlands

(in %)



In 2016, revenue in Mail in the Netherlands was €1,877 million (2015: 1,961). The decrease by 4.3% was driven by the volume decline of 7.9% and a negative price/mix effect, but supported by higher internal revenue. The negative price/mix effect is mainly explained by stamp price increases and price increases on bulk mail, more than offset by the effect from targeted discounts within specific segments following the adjusted market approach, mix effects and the impact of regulation.

In 2016, total cost savings of €64 million were realised by the implementation of our restructuring plans within operations, marketing and sales and head office departments.

Operating expenses Mail in the Netherlands

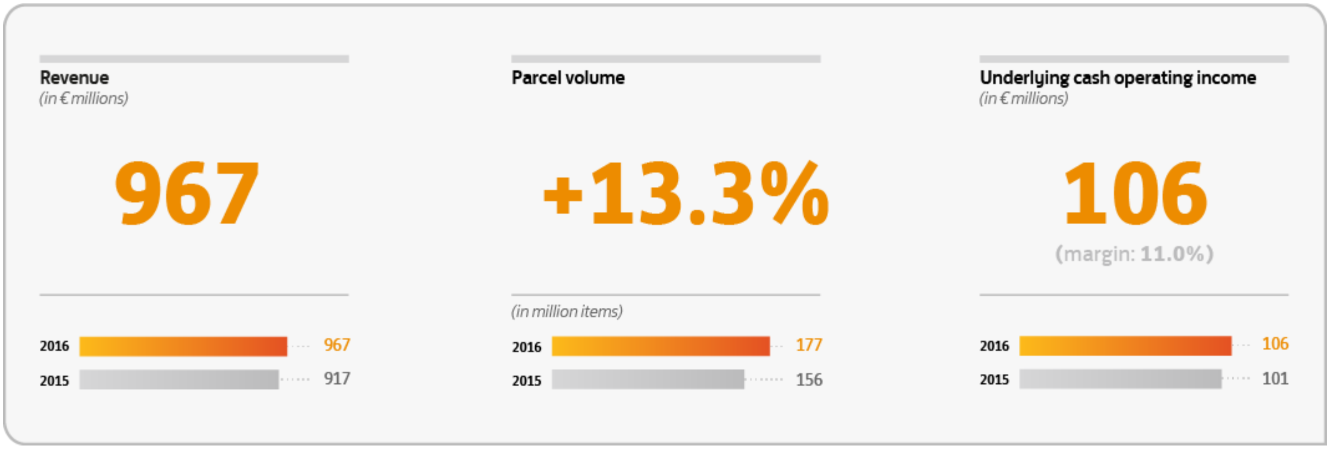
(in € millions)

Year ended at 31 December	2016	2015
Cost of materials	29	30
Work contracted out and other external expenses	778	734
Salaries, pensions and social security contributions	709	752
Depreciation, amortisation and impairments	42	41
Other operating expenses	151	171
Total operating expenses	**1,709**	1,728

In 2016, total operating expenses decreased by €19 million compared to 2016. Main contributor to this decline were lower salaries, pensions and social security contributions (€43 million), mainly due to cost savings as a result of a smaller employee base (€26 million), lower underlying pension expenses (€9 million) and a positive effect from higher past service pension costs (€8 million). Work contracted out increased by €44 million, mainly due to increased net export volumes (terminal dues) of €42 million. Other operating expenses were lower, following the decline in volumes and revenue within the segment.

Underlying cash operating income decreased by €44 million to €160 million in 2016 (2015: 204). The negative volume/price/mix effect including targeted discounts within specific segments following the adjusted market approach and the impact of regulation (-€84 million), autonomous cost increases (-€12 million) and other effects (-€9 million, amongst others lower results from unaddressed mail and cross-border, and a higher result on the sale of buildings), were only partly compensated by strong cost savings (€52 million) and lower pension and provision cash out (€9 million).

Results Parcels



In 2016, volumes in Parcels increased strongly by 13.3%. Strong growth in domestic parcels was the main driver for the volume growth. Lower milk powder volumes impacted the number of international parcels.

The following table shows the number of parcels handled, split between domestic and international, both for 2016 and 2015.

Operating statistics parcels

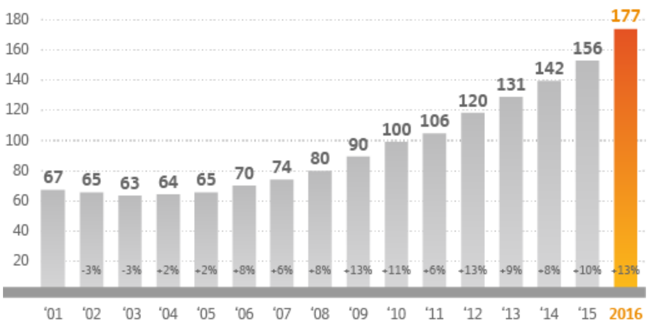
(in million items)

Year ended at 31 December	2016	2015
Domestic parcel volume	153	130
International parcel volume	24	26
Total	177	156

The following chart shows the development of parcel volumes since 2001.

Volume development parcels

(in millions of items)



In 2016, revenue of Parcels increased by 5.5% to €967 million (2015: 917), mainly due to strong volume growth of domestic parcels fuelled by continued growth in e-commerce, partly offset by lower milk powder volumes at a relatively higher price.

All 18 new sorting and delivery centres are fully completed and operational. The new sorting and delivery infrastructure requires an investment of around €240 million in total. In 2016, the total spent increased by €9 million to €230 million. The operational efficiency of our parcels network continued to increase due to volume growth.

Operating expenses Parcels

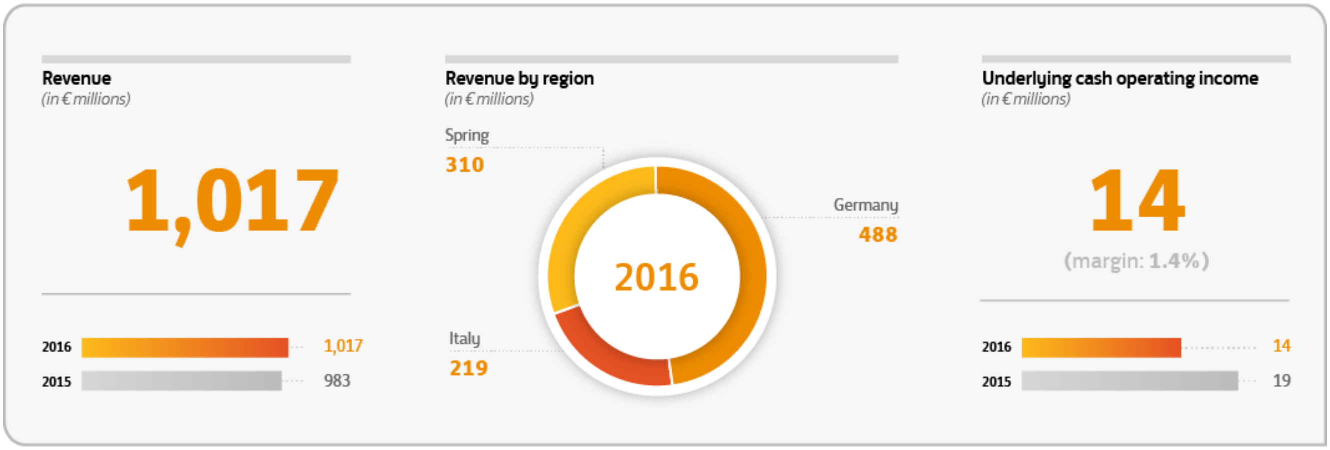
(in € millions)

Year ended at 31 December	2016	2015
Cost of materials	16	15
Work contracted out and other external expenses	593	586
Salaries, pensions and social security contributions	174	163
Depreciation, amortisation and impairments	23	23
Other operating expenses	51	29
Total operating expenses	857	816

In 2016, total operating expenses increased by €41 million compared to 2015. Salaries, pensions and social security contributions increased by €11 million. Work contracted out increased by €7 million and was largely related to increased volumes and service expansion. Other operating expenses were higher, following the growth in volumes and revenue within the segment.

Underlying cash operating income increased by €5 million to €106 million in 2016 (2015: 101). Despite higher costs resulting from the introduction and finalisation of an important part of the sustainable delivery model (-€6 million) and other effects (-€1 million), business performance improved due to volume growth and efficiency improvements within Parcels Benelux (€5 million) and better performance within Logistic Solutions (€7 million).

Results International



In 2016, volumes and revenue of International further increased. Total revenue in 2016 was €1,017 million (2015: 983), an increase of 3.5%. Adjusted for foreign exchange rate changes, revenue increased by €40 million or 4.1% to €1,023 million.

Operating revenue by country

(in € millions)

Year ended at 31 December	2016	2015
Germany	488	494
Italy	219	236
Spring and other (including eliminations)	316	253
Operating revenue	**1,023**	983
Foreign exchange rate changes	(6)	
Total operating revenue	**1,017**	

The increase of €40 million mainly resulted from revenue growth in Spring (€63 million) offset by decreased revenue in Italy (-€17 million) and Germany (-€6 million).

Germany

In Germany, revenue decreased by €6 million following volume loss due to competition. Continued positive impact from strategic initiatives to realise operational and overhead costs savings are the main drivers behind improved financial performance.

Italy

In Italy, revenue decreased by €17 million following volume loss and price pressure within our Formula Certa product due to competition from Poste Italiane. In 2016, profitability was negatively impacted by the lower revenue within Formula Certa and start-up losses related to the set-up of parcel services in Italy.

Spring

In 2016, revenue of Spring and other increased by €63 million (+24.9%). Main contributor was the strong growth in volumes from Asia. Profitability further improved in 2016.

Operating expenses International

(in € millions)

Year ended at 31 December	2016	2015
Cost of materials	11	12
Work contracted out and other external expenses	786	746
Salaries, pensions and social security contributions	165	174
Depreciation, amortisation and impairments	9	9
Other operating expenses	47	42
Operating expenses	**1,018**	983
Foreign exchange rate changes	(6)	
Total operating expenses	**1,012**	

Total operating expenses of International amounted to €1,012 million in 2016 (2015: 983). Adjusted for foreign exchange rate changes, total operating expenses increased by €35 million. The increase in operating expenses is mainly explained by €40 million higher work contracted out following volume growth. Furthermore, operating expenses were impacted by exceptional costs of €13 million (2015: 19) related to project costs, restructuring charges and a book loss from disposal.

International ended 2016 with an underlying cash operating income of €14 million (2015: 19). The decrease of €5 million is mainly explained by a lower contribution from Italy, partly offset by a higher contribution from Germany and Spring.

Results PostNL Other

PostNL Other included head office costs, such as costs of shared services, staff departments and the Board of Management. Except for shareholder costs, all costs are charged to the other segments.

Results PostNL Other

(in € millions)

Year ended at 31 December	2016	2015
Total operating revenue	178	188
Total operating expenses	(180)	(186)
Underlying cash operating income	**(35)**	(21)

Operating revenue of €178 million in 2016 (2015: 188) relates to shared service activities that were charged to the business segments. The decline in revenue of €10 million is explained by a decrease in shared service activities, accompanied by a lower cost level resulting from improved efficiency. In 2016, all staff departments and services continued the realisation of the overhead cost saving programme.

PostNL Other's underlying cash operating income of 2016 decreased to -€35 million (2015: -21), mainly due to higher shareholder costs following increased advisory costs related to regulation and strategy.

Other financial indicators

In 2016, profit for the year (excluding the profit of the sale of the stake in TNT Express) decreased to €135 million (2015: 147). The decrease of €12 million mainly resulted from lower operating income (-€49 million) and higher net financial expenses of €22 million (including the cost impact of the bond buy-back transaction of €38 million), almost fully offset by lower income taxes of €22 million and the non-recurring loss from discontinued operations of Whistl of €34 million in 2015. The related earnings per share amounted to 30.5 eurocents (2015: 33.3).

Net cash from operating and investing activities (excluding the proceeds of the sale of the stake in TNT Express) was €10 million (2015: 135). The decrease of €125 million is mainly explained by a lower profit before income tax adjusted for non-cash items of €56 million, a change in working capital of -€39 million, a higher cash outflow for acquisitions and disposals of €29 million and the cash impact from the bond buy-back transaction of €34 million, only partly offset by lower income taxes paid of €25 million.

At the end of 2016, net cash was €86 million, compared to net debt of €552 million at the end of 2015. The improvement of €638 million was mainly due to the proceeds of the sale of the stake in TNT Express of €643 million. The main part of the cash proceeds has been utilised for the bond buy-back transaction with a total cash outflow of €400 million.

Summary consolidated income statement

(in € millions)

Year ended at 31 December	2016	2015
Total operating revenue	3,413	3,461
Other income	10	4
Total operating expenses	(3,132)	(3,125)
Operating income	**291**	340
Net financial income/(expense)	45	(78)
Results from investments in jv's/associates	(1)	(2)
Income taxes	(55)	(77)
Profit/(loss) from continuing operations	**280**	183
Profit/(loss) from discontinued operations		(34)
Profit for the year	**280**	149
Profit for the year (excluding TNT Express)	135	147
Attributable to:		
Non-controlling interests	1	0
Equity holders of the parent	279	149
Earnings per ordinary share (in € cents) [1]	63.1	33.8
Earnings per ordinary share (excluding TNT Express; in € cents) [1]	30.5	33.3

1. Earnings per ordinary share are in 2016 based on an average of 442,366,626 outstanding ordinary shares (2015: 441,346,233).

PostNL's profit for the year increased from €149 million in 2015 to €280 million in 2016. The increase of €131 million was largely influenced by the sale of the 14.6% stake in TNT Express to FedEx at a price of €8.00 per share, which sale PostNL completed in May 2016, resulting in cash proceeds of €643 million and a profit of €145 million.

Net financial expense

(in € millions)

Year ended at 31 December	2016	2015
Interest and similar income	4	12
Income from sale of stake in TNT Express	145	
Interest and similar expenses	(66)	(90)
Expense from bond buy-back transaction	(38)	
Net financial expense	**45**	(78)

Regular interest and similar income of €4 million in 2016 (2015: 12) mainly related to interest on banks, loans and deposits and interest on taxes. In 2015 an amount of 2 million related to dividend received from TNT Express (2016: 0).

Regular interest and similar expenses of €66 million in 2016 (2015: 90) mainly related to interest on long-term borrowings of €48 million (2015: 69 million) and interest expenses on pensions of €11 million (2015: 13). The interest expense related to the bond buy-back transaction of €38 million comprises premium paid of €33 million, a hedge reserve recycle effect of €4 million and execution costs of €1 million.

Income taxes

(in € millions)

Year ended at 31 December	2016	2015
Current tax expense	54	79
Changes in deferred taxes	1	(2)
Income taxes	**55**	77

Income taxes amounted to €55 million in 2016 (2015: 77). The decrease of €22 million is predominantly explained by the lower profit before income taxes. The effective tax rate before the impact of the stake in TNT Express was 28.9% in 2016 (2015: 29.8%), which is higher than the statutory income tax rate of 25% in the Netherlands due to irrecoverable tax losses and updates to tax positions. For further details, see notes 2.2 and 3.7 to the consolidated financial statements.

Underlying net cash income

(in € millions)

Year ended at 31 December	2016	2015
Underlying cash operating income	**245**	303
Net financial expense (adjusted) [1]	(89)	(65)
Tax expenses	(55)	(77)
Underlying net cash income	**101**	161

1. Excluding the profit on the sale of the stake in TNT Express of €145 million and interest on pensions of €11 million (2015: 13).

PostNL's underlying net cash income amounted to €101 million in 2016 (2015: 161). The decrease of €60 million is mainly explained by the decrease in underlying cash operating income of €58 million. The cost impact of the bond buy-back transaction of €38 million was almost fully offset by lower regular financial expenses and lower tax expenses.

Pensions

In 2016 the second instalment of the unconditional funding obligation to the pension fund was paid (€32 million). At 31 December 2016, the outstanding funding obligation amounted to €97 million, which will be paid by three equal instalments during the years 2017 - 2019.

We continued to analyse our pension risk, as decreasing interest rates in the first half of 2016 impacted our pension fund's coverage ratio. Analysis shows that, with regard to the main pension plan, the pension liability is expected to be capped at the unconditional funding obligation plus estimated top-up payments.

Estimated top-up payments are triggered when the coverage ratio of the pension fund is below 104% and the pension fund is unable to recover to this level within five years, taking into account the development of the interest rate and the assumption of a reasonable excess return on assets of 1.5% (based upon estimates from various relevant external parties). Top-up payments are capped at 1.25% of the obligations of the pension fund (at year-end 2016 approx. €95 million, pre-tax) per annum, for at most five consecutive years.

Both during 2016 as at 31 December 2016, taking into account the fund's resilience, we concluded that there is comfortable headroom for further interest rate declines before substantial top-up payments have to be made.

For accounting purposes, we saw a decrease in the IAS 19 discount rate from 2.5% at 31 December 2015 to 1.8% at 31 December 2016. The resulting increase in pension obligations was largely offset by a higher than assumed return on plan assets. Together with the impact of the pension asset ceiling and minimum funding requirement the net impact on equity resulting from pensions was limited to -€18 million.

At the end of 2016, the main pension fund had a month-end coverage ratio of 108.3% (2015: 106.0%). The increased coverage ratio is mainly explained by higher pension plan assets due to the fund's investment return of 10.8%. The 12-months average coverage ratio amounted 103.6% per 31 December 2016 (2015: 106.8%).

For further details, see note 3.4 to the consolidated financial statements.

Financial position

Summary consolidated statement of financial position

(in € millions)

At 31 December	2016	2015 restated
Non-current assets	763	1,378
Current assets	1,169	860
Assets classified as held for sale	4	13
Total assets	**1,936**	2,251
Equity	(79)	(213)
Non-controlling interests	3	7
Non-current liabilities	711	1,481
Current liabilities	1,301	976
Total equity and liabilities	**1,936**	2,251

The non-current assets of €763 million at 31 December 2016 (2015: 1,378) consisted of property, plant and equipment of €505 million for land, depots and sorting machinery (2015: 508), goodwill of €134 million (2015: 90), other intangibles of €67 million mainly related to IT software (2015: 56) and financial fixed assets of €57 million (2015: 724). In 2016, the non-current assets mainly decreased as a result of the sale of the stake in TNT Express, only partly offset by increased goodwill and other intangibles following acquisitions within Mail in the Netherlands and International.

The current assets of €1,169 million at 31 December 2016 (2015: 860) mainly consisted of trade accounts receivable of €357 million (2015: 337), prepayments and accrued income of €134 million (2015: 126) and cash and cash equivalents of €640 million (2015: 355). The increase is mainly caused by the proceeds of the sale of the stake in TNT Express of €643 million, partly offset by the total cash outflow related to the bond buy-back transaction of €400 million.

The assets held for sale amounted to €4 million at 31 December 2016 (2015: 13). The assets held for sale fully relate to buildings and equipment in the Netherlands.

Non-current liabilities of €711 million (2015: 1,481) mainly consisted of provisions for pension liabilities of €410 million (2015: 449) and long-term debt of €227 million (2015: 934). Long-term debt mainly decreased due to the bond buy-back transaction (€357 million) and the transfer of the short-term part to current liabilities (€327 million).

Current liabilities of €1,301 million (2015: 976) mainly consisted of accrued liabilities of €592 million related to deposits and terminal dues (2015: 577) and other current liabilities of €709 million (2015: 399). The increase of €325 million compared to 2015 is mainly due to the transfer of the non-current part of long-term debt to current liabilities.

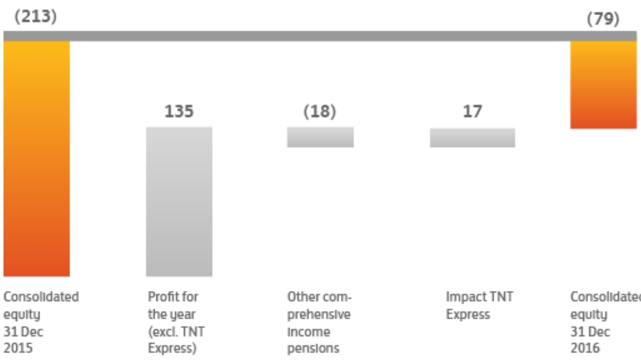
Equity position

Consolidated equity

Consolidated equity attributable to equity holders amounted to -€79 million at 31 December 2016 (2015: -213). The increase of €134 million during 2016 is mainly explained by the profit for the year (excluding TNT Express) of €135 million, other comprehensive income on pensions of -€18 million and the impact from the stake in TNT Express of €17 million (fair value adjustments in 2016).

Development of consolidated equity 2016

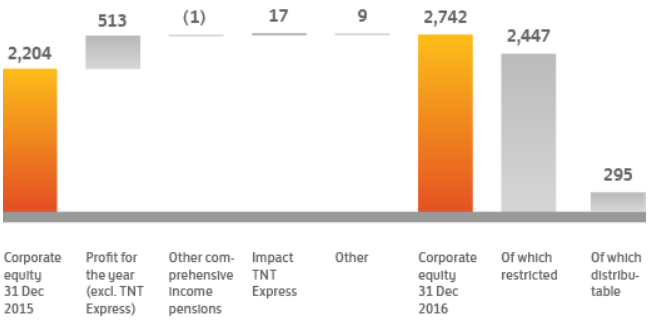
(in € millions)



Corporate equity

Corporate equity amounted to €2,742 million at 31 December 2016 (2015: 2,204). The increase of €538 million during 2016 is almost fully explained by the profit for the year (excluding TNT Express) of €513 million and the impact from the stake in TNT Express of €17 million (fair value adjustments in 2016). The profit for the year of €513 million mainly included dividend income of €195 million, a non-distributable impairment reversal of Mail investments of €369 million and net financial expenses of -€92 million. For further details, see section 6 of the financial statements.

Development of corporate equity 2016
(in € millions)



Funding position
At 31 December 2016, net cash amounted to €86 million (2015: net debt of 552). The improvement of €638 million was mainly due to the proceeds of the sale of the stake in TNT Express of €643 million. The main part of the cash proceeds has been utilised for the bond buy-back transaction with a total cash outflow of €400 million.

The carrying value of the short- and long-term debt (excluding interest) on 31 December 2016 amounted to €555 million (2015: 935). Including interest, the total debt cash outflow amount to €602 million. For further details, see note 4.1 and 4.3 to the consolidated financial statements.

Debt cash outflows (including interest)
(in € millions)

	< 1 yr	1 - 3 yr
Eurobonds	361	239
Financial leases	1	1
Total	362	240

PostNL has a €400 million committed revolving credit facility, which was fully undrawn at the end of 2016. PostNL has no material credit facilities or other debt refinancing in the short term. There are no financial covenants.

Our actions to strengthen our equity and funding position, like structural improvement of our performance, strict control on capital expenditures, limited acquisitions and tight working capital management, the impact of the revised financing agreement with the pension fund, and the sale of the TNT Express stake, contributed to an upgrade of our S&P credit rating to BBB+ with stable outlook, in line with our rating ambition. Moody's upgraded its outlook on our Baa2 rating from stable to positive.

Cash flow data
Summary consolidated statement of cash flows
(in € millions)

Year ended at 31 December	2016	2015
Cash generated from operations	282	392
Interest paid	(92)	(73)
Income taxes paid	(80)	(105)
Net cash (used in)/from operating activities	**110**	214
Net cash used for capital investments and disposals	(68)	(82)
Net cash used for acquisitions and disposals	(34)	(5)
Proceeds from sale of stake in TNT Express	643	
Net cash from other investing activities	2	8
Net cash (used in)/from investing activities	**543**	(79)
Net cash from debt financing activities	(358)	(365)
Net cash for dividend and other equity changes	(10)	0
Net cash used in financing activities	**(368)**	(365)
Changes in cash and cash equivalents	**285**	(230)

Net cash from operating activities
Net cash from operating activities decreased by €104 million to €110 million in 2016. The decrease was mainly due to lower cash generated from operations of €110 million.

The decrease in cash generated from operations of €110 million is mainly explained by the decrease in underlying cash operating income (-€58 million) and a lower contribution from working capital (-€39 million).

Interest paid was €92 million in 2016. The increase of €19 million compared to 2015 is influenced by the cash outflow of €34 million as part of the bond buy-back transaction.

In 2016, income taxes paid were €80 million compared to €105 million in 2015. The income taxes paid relate almost completely to income taxes paid in the Netherlands and include payments related to prior years.

Net cash used in investing activities
In 2016, net cash from investing activities amounted to €543 million (2015: -79). The increase of €622 million compared to 2015 mainly resulted from the proceeds of the sale of the stake in TNT Express of €643 million, partly offset by higher cash used for acquisitions and disposals (€29 million).

Capital expenditures /proceeds
(in € millions)

Year ended at 31 December	2016	2015
Expenditure on property, plant and equipment	(64)	(55)
Expenditure on other intangible assets	(31)	(36)
Proceeds from sale of property, plant and equipment	27	9
Net cash used for capital investments and disposals	**(68)**	(82)

The decrease of €14 million compared to 2015 was mainly due to €18 million higher proceeds from sale of property, plant and equipment. The expenditure on property, plant and equipment in 2016 included further investments in the new sorting and delivery centres within Parcels of €9 million.

Net cash used for acquisitions and disposals of €34 million mainly related to the acquisition of Yourzine and Searchresult (€21 million) and the remaining 50% of the shares of HIM Holtzbrinck 25 GmbH (€8 million). For further details on the acquisitions, see note 5.3 to the consolidated financial statements.

Net cash used in financing activities

In 2016, net cash from debt financing activities of -€368 million (2015: -365) mainly related to the bond buy-back transaction of €357 million (2015: repayment of a eurobond of €349 million).

Dividend

Dividend proposal 2016

At 31 December 2016, the consolidated equity position was -€79 million. However, following the sale of PostNL's stake in TNT Express, with the sensitivity of its pension obligation to interest rate fluctuations limited, and given the solid results in 2016, PostNL's consolidated equity has improved significantly, close to achieving a positive position. This, combined with PostNL's expectation that its consolidated equity position will become positive in the near future, the Board of Management, with the approval of the Supervisory Board, will recommend PostNL shareholders to approve the reinstatement of dividend at the 2017 Annual General Meeting of Shareholders, with a first payment based on the results of 2016 of €0.12 per share. This represents a pay out ratio of 2/3rd of 75% of the underlying net cash income, which amounted to €101 million in 2016. The dividend of €0.12 will be paid, at shareholder's election, either in ordinary PostNL shares or in cash.

We refer to the chapter PostNL on the capital markets for a description of our dividend policy.

Dividend paid in 2016

PostNL did not declare a final 2015 dividend nor an interim 2016 dividend, so no dividend was paid in 2016.

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 (articles 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 2016.

Appropriation of profit

The Board of Management, with the approval of the Supervisory Board, has appropriated an amount of €605 million out of corporate profit of €658 million to the reserves. For detailed information on PostNL's corporate performance, and the resulting profit, refer to section 6 of the financial statements.

Following this appropriation, there remains an amount of €53 million out of corporate profit at the disposal of the General Meeting of Shareholders. Subject to the adoption of PostNL's financial statements by the General Meeting of Shareholders, and given that no 2016 interim dividend has been paid, the proposed 2016 final dividend has been set at €0.12 per ordinary share of €0.08 nominal value, based on the outstanding number of 442,805,079 ordinary shares as per 31 December 2016. The dividend of €0.12 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 20 April 2017, the record date is 21 April 2017 and the election period will start on 24 April 2017 and will end on 9 May 2017 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 5 May 2017 up to and including 9 May 2017. 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 11 May 2017.

Upon approval of this proposal, corporate profit will be appropriated as follows, whereby the final dividend represents a cash dividend under the assumption of 100% cash election.

Appropriation of corporate profit

(in € millions)

	2016
Profit attributable to the shareholders	658
Appropriation in accordance with the articles of association:	
Reserves adopted by the Board of Management and approved by the Supervisory Board (article 31, paragraph 2)	(605)
Dividend on ordinary shares	**53**
(Interim) dividend paid in cash	0
Final dividend	**53**

Group companies of PostNL N.V.

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.

Subsequent events

There were no subsequent events to report.

Outlook 2017

For 2017 we aim to deliver underlying cash operating income of between €220 million and €260 million. We are well-positioned to further benefit from the growing e-commerce market, given our focus on innovative and market-driven solutions. For Parcels this means that we expect that market developments will fuel strong volume growth at a higher speed than earlier expected, requiring us to further invest in our Parcels' infrastructure to further strengthen our position as a leading e-commerce logistics company in the Benelux. The same applies to our cross-border activities, where we expect to leverage on the growing international parcel volumes. In International we will focus on improving our cash profitability. Our main focus in Mail in the Netherlands will be on retaining volumes and the successful implementation of our restructuring plans. We expect the regulatory environment to remain challenging during the year, with decisions that will impact the regulatory framework on the agenda. On the basis of our outlook for 2017, we trust that we will realise a positive consolidated equity in the course of 2017. Combining this trust with our increased ambition for 2020, made us decide to adjust our dividend policy going forward aimed at paying progressive dividend, supporting our commitment to create long-term shareholder value.

The table below shows our outlook for 2017 on revenue and underlying cash operating income (margin).

(in € millions)	Underlying operating revenue		Underlying cash operating income (margin)		
	2016	outlook 2017	2016		outlook 2017
Mail in NL	1,877	- low single digit	160	*(8.5%)*	6.5% to 8.5%
Parcels	967	+ high single digit	106	*(11.0%)*	10% to 12%
International	1,017	+ mid teens	14	*(1.4%)*	1% to 3%
PostNL Other / eliminations	(448)		(35)		
Total	3,413	**+ mid single digit**	245		**220 to 260**

Note that on 30 December 2016, PostNL acquired the remaining 50% shares of HIM Holtzbrinck 25 GmbH resulting in 100% ownership of the shares in the company. For 2017, the acquisition will result in additional revenues (2016 comparative number for revenue: €80 million) and underlying cash operating income within International. The acquisition is included in our outlook 2017 numbers. The outlook excludes acquisition effects within Parcels.

Other financial indicators for 2017:

- Cost savings of between €55 million and €75 million (2016: 64)
- Implementation costs of between €25 million and €35 million (2016: 26)
- Regular employer pension expenses of around €120 million of which around €110 million in operating expenses and around €10 million in financial expenses (2016: underlying 112 of which 101 in operating expenses and 11 in financial expenses)
- Regular employer pension contributions of around €130 million (2016: 132)
- Net financial expenses of around €45 million (2016: 62, excluding the profit on the sale of the stake in TNT Express of 145 and excluding the impact of the bond buy-back transaction of 38)
- Cash outflow from provisions of between €35 million and €45 million (2016: 49)
- Cash capital expenditures of at most €125 million (2016: 95)

Other non-financial targets for 2017:

- Customer satisfaction above the level of 2016 (2016: 87%)
- Delivery quality above minimum required level of 95% (2016: preliminary 96.4%)
- Employee engagement above the level of 2016 (2016: 67%)
- CO_2 efficiency index below the level of 2016 (2016: 49.5)

Governance

8 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 that are not fully complied with. Below we explain why we do not comply with these best practice provisions. Material future corporate or other 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.

Provision II.2.8 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). In the event that one year's salary would be manifestly unreasonable, the severance pay may not exceed twice the annual salary.

Severance payments in case of a change of control of the current members of the Board of Management of PostNL equal 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.

Employment contracts entered into after 2004 must be brought into line with provision II.2.8 of the Code. Ms Verhagen and Mr Bos were employed by PostNL before 2004. PostNL is of the opinion that the agreed severance payment in case of a change of control is realistic, taking into account the special position of members of the Board of Management in a change of control situation. Also, the Supervisory Board may decide that the performance shares vest in whole or in part.

Provision II.2.13(f) of the Code states that the remuneration overview in the remuneration report of the Supervisory Board shall in any event contain a description of the performance criteria on which the performance-related component of the variable remuneration is dependent, insofar that disclosure would not be undesirable because the information is competition-sensitive.

PostNL discloses quantified financial and non-financial targets in general terms. The actual targets are specific and thus contain competition-sensitive information. They are therefore not disclosed in advance, but will be reported on afterwards. See the Remuneration report chapter for more information.

The full text of the Code is available via our website (www.postnl.nl). On 8 December 2016 a revised Code was published. It is expected that article 391, paragraph 5, book 2 of the DCC will be adjusted in 2017 to the effect that it will refer to the revised Code.

Board of Management responsibility statement under the Code

The Code requires the Board of Management to provide a description of the main strategic, operational, legal, regulatory, financial, and financial reporting risks.

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 2016. The outcome of this review and analysis has been shared with the Audit Committee and the Supervisory Board and has been discussed with PostNL's external auditor.

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 2016 and provides reasonable assurance that the financial reporting is free from material inaccuracies or misstatements. The above, however, does not imply that PostNL can provide certainty as to the realisation of strategic business and financial objectives. Nor can PostNL's approach to internal control over financial reporting be expected to prevent or detect all misstatements, errors, fraud or violation of laws or regulations.

In view of the above and based on the outline of the main risks and risk responses described in the Risk management chapter, the Board of Management believes it is in compliance with best practice provisions II.1.4 and II.1.5 of the Code.

Board of Management 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 2016 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 2016, 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, 27 February 2017

Herna Verhagen, CEO
Jan Bos, CFO

9 Report of the Supervisory Board

Interview with Michiel Boersma, chairman of the Supervisory Board of PostNL N.V.

Mr Boersma, how do you look back on 2016?

2016 was a very turbulent year. In addition to the various business challenges PostNL faced as it began implementing its strategy, PostNL 2020, we were confronted with two approaches by bpost. While much was said and written about our encounters with bpost, I would like to refer to the letter to our shareholders, published when we rejected bpost's final proposal, which can be found in appendix 4 of the Annual Report.

In this letter we explained that the Supervisory Board and Board of Management recognise that bpost's final proposal represents a considerable premium for our shareholders, provided that a transaction can be completed. However, we also explained that the two Boards are not convinced that combining bpost and PostNL would be successful, nor that a transaction could ultimately be realised.

While the discussions with bpost in 2016 and the developments following bpost's second approach in November 2016 required a great deal of attention from the Board of Management, a team of senior PostNL employees, and the Supervisory Board, we also focussed on the business of PostNL. This, ultimately, is what is the most important.

Throughout the year the company began successfully implementing its strategy, PostNL 2020, which we presented at our Strategy Update in November 2015, and realising our ambition to be *the* postal and logistic solutions provider in our chosen markets.

Our Mail in the Netherlands segment continued to focus on customer satisfaction and quality, creating innovative solutions to enhance its portfolio and meet customer demands. This part of the business is impacted by market developments, with continued mail volume decline, and the competitive and regulatory environment, which sets the framework within which we must operate.

Although this remains a challenging environment, as the results at Mail in the Netherlands show, we are successfully offsetting volume decline with balanced pricing and cost savings in a competitive and regulated environment.

And with volume decline, competition and regulation expected to remain important parameters for the Dutch mail market going forward, it is absolutely vital we remain focussed on customer satisfaction and quality, while continuing to look for opportunities to create innovative solutions to maintain and support a reliable and accessible postal network.

Our Parcels segment continued to strengthen its position as the leading e-commerce logistic solutions provider in the Benelux in 2016, which is reflected in the impressive volume growth, strong results and increasing trust our many customers place in PostNL and its people.

During the year Parcels further improved its operational efficiency by enhancing its best-in-class networks. This will continue going forward, enabling us to stay ahead of the competition, launch innovative and market driven solutions, and take advantage of the expected growth in e-commerce. This enables us to add value for our customers, helping them to grow and tap new markets and opportunities.

Our International segment was faced with similar challenges and opportunities. On the one hand, increasing competition and declining mail volumes remain a challenge. On the other, growing e-commerce creates growth opportunities.

In Italy, Nexive continued to transform its mail business and expand its parcel network, which now has nationwide coverage and doubled its volumes in 2016.

In Germany, Postcon strengthened its position by completing its restructuring programme, divesting its last-mile operations in the Frankfurt-Main area, and becoming sole owner of a publishing group joint venture.

Our cross-border business showed impressive growth as a strong player in the international e-commerce market and by launching many innovative services and solutions. We strive to continue this trend and to enhance the cash profitability of our International segment.

During 2016 we also finalised the sale of our remaining stake in TNT Express, reducing our debt further with the proceeds, further strengthening our financial position. This, in combination with the reduced sensitivity of our equity position if interest rates would further decline, supports our expectation and commitment to resume dividend payments in 2017.

Management and the labour unions agreed on new collective labour agreements for PostNL and mail deliverers that are good for both our employees and the company. These agreements support PostNL in successfully implementing its strategy, by allowing the company to respond to the continuing growth of parcels and the decreasing mail volumes.

Could you elaborate on some of the discussions the Supervisory Board had in 2016? In particular on a possible combination of PostNL and bpost, which came up twice in 2016?

During each meeting we schedule time to discuss the latest business developments and topics that require specific attention. We also invite people from the business to present pilots or projects they are working on, and have more in depth discussions on various topics during the informal dinners we hold at least twice a year. For example, we discussed our IT strategy, the role of the EU and European legislation for PostNL's operations, the impact of technology-based innovation, and our Return on Demand proposition. (More details on the exact topics discussed can be found later in this report under Topics discussed)

Other subjects discussed were PostNL's strategy and budget, the company's cash generation and equity position, dividend, risk management and internal control, culture, management development and succession planning.

And we discussed the possible combination of PostNL and bpost, of course. In view of the importance of these discussions for PostNL and its stakeholders, and the pace at which such projects develop, the Supervisory Board held quite a few extra meetings in 2016. The Supervisory Board also installed a temporary committee, the Transaction Committee, to support the Board of Management in day-to-day processes and assist it with preparing proposals for the full Supervisory Board.

The Transaction Committee consisted initially of Mr Klaver, Mr Wallage, Mr Rövekamp and me. After Mr Klaver stepped down as chairman of the Supervisory Board, Ms Menssen joined the Transaction Committee. The Committee met regularly and as often as the developments required, and the Supervisory Board received minutes and meeting materials within 24 hours of each meeting. The full Supervisory Board met depending on the progress, and around important milestones in the process.

This set up was repeated when bpost approached PostNL in November 2016, when the Transaction Committee consisted of Mr Wallage, Mr Rövekamp and me. However, given the speed and developments of that process, most meetings were with the full Supervisory Board and the Transaction Committee met only a few times.

Without breaching the confidentiality of what was said, I can say that in our discussions both with the Board of Management and the different advisors (those of PostNL and those of the Supervisory Board) and amongst Supervisory Board members, we focussed on considering and balancing the interests of all of PostNL's stakeholders and the continuity of the company. This was not just because our fiduciary duties require us to, but also because PostNL relies and depends on the daily support of all its stakeholders, not in the least those of our shareholders.

PostNL has consistently compared bpost's proposals to the standalone scenario within a framework that includes key factors such as price, resilience, governance (including the influence of the Belgian state), employees and pensions, implications for the USO, stakeholder support, deal certainty and our expectation as to whether the combination would, in the end, be successful. We have explained the considerations of the Supervisory Board and the Board of Management in the letter to our shareholders, as we recognise that bpost's final proposal represents a considerable shareholder premium, provided that a transaction could be completed, and I would like to refer to that letter for more details.

How open are you as a Supervisory Board for input from within the company?

Discussions among the members of the Supervisory Board and with the Board of Management are always good and fruitful. Attendees express their views and opinions, which shows the open atmosphere. We also encourage guests to share their views and regularly schedule meetings at a business location. Such visits always include a tour around the premises by the local employees. Additionally, individual Supervisory Board members make site visits or join our mail or parcel deliverers on their delivery rounds. This gives us the opportunity to speak with people at the workplace and contributes to a better understanding of the business.

Furthermore, individual Supervisory Board members set up meetings related to their membership of specific committees or specific mandates. For example, Ms Menssen, in her capacity as chairman of the Audit Committee, regularly meets with the director of Audit & Security and the external auditor. Ms Jongerius and Mr Wallage, who have been appointed through the enhanced recommendation right of the Central Works Council, and various other members of the Supervisory Board, attended meetings of the Central Works Council. As chairman, I met with the management teams of all business segments and of the support functions at the head office. Furthermore, I regularly meet the CEO on location.

There is continued attention for diversity in Boards. PostNL is regularly praised as a good example. However, when you had a vacancy in the Supervisory Board after Mr Klaver stepped down, you decided to recommend a Dutch male in his fifties, Mr Blok. Can you explain?

PostNL is proud and happy to be considered a good example when it comes to gender diversity in the Dutch corporate world. As you can read elsewhere in this Annual Report, PostNL strives for a diverse workforce as the company recognises the value of diverse personality types and personal backgrounds within teams.

Of course, this strive for diversity also applies to the Supervisory Board, as has also been laid down in the Supervisory Board profile, which is available on postnl.nl. On the basis of this Supervisory Board profile and the profile of the current members, the Supervisory Board defined a profile for the vacancy created by Mr Klaver stepping down. This profile included our focus on the need for a diverse Supervisory Board. We retained a head hunter to assist us in selecting suitable and available candidates on the basis of this profile. Ultimately, it was decided to recommend Mr Blok as a new Supervisory Board member as he qualified as the best candidate considering the desired profile. In such a selection process, it is very difficult to meet all the identified criteria, and in this specific case this will result in a Supervisory Board with a 28.6% representation of female members instead of the desired 30%. Having said that, I would like to emphasise the qualities of Mr Blok and the valuable experience and competencies we expect him to add to our Supervisory Board, assuming our shareholders approve our recommendation at the 2017 AGM.

What would you like PostNL to achieve in 2017?

Our stakeholders have contributed significantly to the success of PostNL over the last few years. Our employees, our works council and the labour unions cooperated with us in successfully implementing our restructuring plans. Our pension fund and employees agreed to substantially de-risk our pension liabilities. Political support, both from the Minister of Economic Affairs, and from the Dutch parliament, resulted in price increases that made the USO profitable and sustainable again. Our customers, who remained loyal or returned to PostNL, acknowledged the added value of our extensive and state-of-the-art infrastructure and innovative and market driven solutions. And last but not least, our long-term shareholders have had faith in our ability to deliver on our transformation process, and have proven to be patient when we were not in a position to pay dividends. We realise that we have asked a great deal of commitment, trust, and patience from our stakeholders over the years. At our end, PostNL has been able to deliver on its promises and we strive to continue doing so.

On the same day we publish our Annual Report and full-year results, we will hold a capital markets day. At that event, we will update the market on how we are executing our strategy, the accelerated execution we strive to realise, our outlook for 2017, and a view on our performance towards 2020. I am confident that PostNL will be able to deliver on its promises, as it has done in the past.

Is there anything you would like to discuss that we did not ask?

On behalf of the Supervisory Board and the Board of Management, I would like to express our gratitude and appreciation for everything Piet Klaver has done for our company as chairman and member of the Supervisory Board. Since he stepped down after the 2016 AGM, his knowledge, experience, competences, but above all his personality, are missed at our meetings.

Note: after holding this interview Mr Boersma became temporarily unable to perform his duties for PostNL. As the interview had already been checked and approved by him before that time, we have decided to publish it in this Annual Report.

Meetings of the Supervisory Board

Number of meetings and attendance rate

The Supervisory Board met eight times and had three meetings by conference call in 2016, excluding the multiple extra meetings related to the bpost developments. All meetings were also attended by the full Board of Management. Almost all meetings were attended by all Supervisory Board members. The attendance percentages can be found in the table below. Five meetings were held at PostNL's head office in The Hague; one meeting was held at B. Amsterdam (innovation studio of PostNL in Amsterdam); one at the offices of Stibbe in Amsterdam (PostNL's legal advisor); and one at the location of the 2016 AGM in The Hague. Additionally, the Supervisory Board and the Transaction Committee (as explained above in the Interview with Michiel Boersma, chairman of the Supervisory Board of PostNL N.V.) had multiple extra meetings in relation to the developments surrounding bpost, which were held at PostNL's head office in The Hague, at the offices of Stibbe in Amsterdam, or by telephone conference.

Attendance

	Attendance percentage
Supervisory Board (meetings only)	94%
Supervisory Board (incl. conference calls)	93%
Audit Committee	100%
Remuneration Committee	100%
Nomination Committee	100%

This table excludes the extra meetings held in relation to the approaches by bpost.

Topics discussed

At every meeting, the Supervisory Board discussed business, financial, market, and regulatory developments in PostNL's business segments. In 2016, mail volume decline, the execution of the restructuring plans, regulation, growing parcel volumes in the Benelux and internationally, the sustainable delivery model, the progress of the Logistic Solutions unit within Parcels, the reorganisation of our German operations and the roll-out of the parcel business in Italy were recurring topics, as were PostNL's financial position, IT developments, PostNL's IT strategy and related topics, such as cyber security, online strategy and business continuity, dividend and dividend policy, growth and our culture. Furthermore, the Supervisory Board discussed the finalisation of the strategic review of our German operations, the acquisitions of Yourzine and Searchresult and the buy-out by Postcon of its partner in a German publishing group joint venture, the buy-back of a part of our outstanding bonds with the proceeds of the sale of our remaining stake in TNT Express, the preparation of the AGM, the new Corporate Governance Code, the discussions with bpost in early 2016, and the developments following bpost's second approach in November 2016.

The adjustment of PostNL's organisation and networks to the declining mail volumes and increasing parcel volumes, both in the Benelux and in our International segment, was and remains an important topic in strategic discussions. The same goes for the impact of regulatory developments on our organisation and performance, as well as competition in each of our segments (Mail in the Netherlands, Parcels and International). The Supervisory Board also discussed new products and services, innovation and potential areas for growth in the Netherlands and in the countries where PostNL operates.

The Supervisory Board performs an oversight role with respect to corporate responsibility issues, supported by PostNL's internal audit department, which monitors the CR governance structure and reporting. Further to this responsibility, the Supervisory Board discussed various 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 motivation, PostNL's culture, diversity and inclusion, PostNL's CO_2 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 2015 annual results, the 2016 quarterly and half-yearly results and the 2017 budget. Also, the 2015 auditor's report by PostNL's external auditor PwC and the 2015 annual report (including Financial Statements and Corporate Responsibility Performance Statements) and the transition to our new external auditor EY were discussed. EY reported that PostNL took various measures in 2016 to mitigate control deficiencies identified. EY noted that PostNL has made progress with implementing these measures, but that there is still work to be done and continued focus remains important. Having said that, EY is comfortable that PostNL is sufficiently addressing the risks and has not faced issues in the execution and completion of the required audit procedures.

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 the Risk management chapter.

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.

Following its assessment (discussed below in Evaluation of the Supervisory Board), the Supervisory Board discussed its composition and that of its committees and the profile of the Supervisory Board. The Supervisory Board also discussed the selection of a new Supervisory Board member.

More details about the Supervisory Board can be found in the Corporate Governance chapter 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 2016. In general, all meetings are attended by the CFO, director audit & security, director accounting & reporting, and the external auditor, EY. PwC, PostNL's external auditor until 2016, attended the February meeting in view of the discussion of its auditor's report over 2015. The CEO attends the Audit Committee meetings when the half-year and full-year results are being discussed. The Audit Committee meets the external auditor without management at least once per year, the chairman of the Audit Committee more regularly.

At each meeting, the Audit Committee discusses the results of and developments in PostNL's business segments. In 2016, the Audit Committee discussed PostNL's full-year 2015 results, the outlook for 2016, the 2016 first quarter, half-year and third quarter results, the related press releases and the 2017 budget. Also, the Audit Committee discussed the Eumedion focus letter, VEB's recommendations in preparation and the AFM's report on the review of the 2015 Annual Reports of listed companies regarding integrated reporting, the risk paragraph and the quantity and quality of the explanatory notes in the financial reports of the 2016 Annual Report and the preparation of PostNL's 2016 Annual Report. Further to the steps taken in our 2015 annual report, it was decided to provide additional information on PostNL's tax policy in the 2016 Annual Report, underscoring its commitment to being more transparent.

The main financial factors influencing the strategic plan and PostNL's financial performance, including volume developments, pricing, cost savings, competition, the sustainable delivery model in Parcels, economic developments, pensions, employee conditions, and regulatory issues were discussed. The Audit Committee also discussed dividend and dividend policy, the development of the interest rates, PostNL's pension obligations, the use of the proceeds of the sale of the remaining stake in TNT Express (bond buy-back) and the development of the (accounting related) IT cloud projects within PostNL.

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, PwC's board report 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. Contemplated changes in the laws and regulations governing financial reporting, the transition process towards the new external auditor, pension accounting and the requirement for potential top-up payments, financing of PostNL, 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 2015 were discussed. Fortunately, no material fraud related incidents were reported in 2016.

Nomination Committee

The Nomination Committee met four times in 2016. Supervisory Board reappointments were discussed, as were the composition of the Supervisory Board and its committees. The Nomination Committee discussed the selection of the new chairperson and the candidate for the vacancy in the Supervisory Board. The Nomination Committee also discussed succession planning and talent management in respect of the Supervisory Board, the Board of Management and senior management, PostNL's organisational structure and diversity.

Remuneration Committee

In 2016, the Remuneration Committee held four meetings. It discussed the remuneration of the Board of Management and senior management, PostNL's remuneration policy and the preparation of the discussion of the remuneration policy at the 2016 AGM. Further details on remuneration for the Board of Management and the Supervisory Board can be found in the Remuneration report chapter, 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 2016.

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. The regular evaluation process consists of interviews by the chairman of all Supervisory Board members, the members of the Board of Management, and the Corporate Secretary on the basis of a questionnaire (profile, rotation plan, dynamics, accountability, effectiveness of the Supervisory Board as a whole and of its committees) combined with a plenary discussion in the December meeting of the Supervisory Board.

Overall, the Supervisory Board is satisfied with its functioning and that of its committees. 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. There is also room for improvement, for example to schedule more time for reflection on the contents of the meeting documents than the summary thereof. And to further increase the time spent on innovation and growth. The Supervisory Board strives to increase the number of informal dinners organised to have more blue-sky discussions, with a more open agenda in 2017. 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.

10 Corporate governance

PostNL N.V. is a limited liability company listed on Euronext Amsterdam and governed by Dutch corporate law. PostNL has two-tier governance 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 Board.

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 and strategy, for our objectives and strategy, the risk profile laid down in our strategy, the company's financing, the corporate responsibility policy, external communication and compliance with all relevant legislation. It is also responsible for the 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. 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 is required to inform the Supervisory Board of significant developments and discusses the internal risk management and control systems with the Supervisory Board and its Audit Committee.

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.

The Executive Committee advises and supports the Board of Management. The Executive Committee consists of the members of the Board of Management and the directors of the PostNL segments (Mail in the Netherlands, Parcels and International), HR and IT.

The responsibility for day-to-day management of the PostNL segments is decentralised within established standards, processes, requirements and guidelines. The directors of PostNL's segments are primarily responsible for developing and executing the business strategy and operational performance of each of their respective segments within the framework set by PostNL's corporate strategy.

Specific staff departments – including internal audit, legal, tax, procurement, real estate & facilities, human resources, investor relations & treasury, public affairs, communication, control and accounting & reporting – support the Board of Management and the segments in the performance of their duties and ensure compliance with applicable laws and regulations.

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

The Board of Management incorporated the following bodies to ensure compliance with applicable corporate governance requirements: a Disclosure Committee, an Integrity Committee and a Corporate Responsibility Council (CR Council). More information on CR can be found in the CR performance statements.

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 & treasury 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 fraud. The Integrity Committee oversees investigations based on reports of possible breaches under our Business Principles and related policies. More information on integrity and the Integrity Committee can be found in the Risk Management chapter.

The CR Council advises and assists the Board of Management in developing and deploying the CR strategy and integrating it into daily operations and it provides guidance on CR issues, risks and opportunities. Additionally, the CR Council advises the Board of Management on the company's CR targets and oversees the implementation and execution thereof in the daily operations. The CR Council meets regularly and reports directly to the Board of Management and the Executive Committee. Both business and staff are represented in the CR Council. The CR Council is chaired by Mr A.G. Rodenboog, member of the Executive Committee.

Composition Board of Management and Executive Committee

In 2016, the Board of Management consisted of two members: chairman and chief executive officer (CEO) Ms H.W.P.M.A. Verhagen and chief financial officer (CFO) Mr J.P.P. Bos.

In 2016, the Executive Committee consisted of eight members:

- Ms H.W.P.M.A. Verhagen (CEO and chairman)
- Mr J.P.P. Bos (CFO)
- Mr P. Berendsen, responsible for International and M&A
- Mr A.C. van Bijnen, responsible for Marketing & Sales Mail in the Netherlands
- Mr M.J.M. Krom, responsible for IT
- Mr G. Mastenbroek, responsible for Parcels
- Mr R.P.J.M. Muys, responsible for HR
- Mr A.G. Rodenboog, responsible for Operations Mail in the Netherlands.

Biographies Board of Management

H.W.P.M.A. (Herna) Verhagen (1966, Dutch) – 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. Following roles included marketing & sales director, coordinating managing director Mail NL in the Mail division and managing director Group HR of TNT.

Ms Verhagen's portfolio includes corporate strategy, public affairs, communication, corporate responsibility, human resources and internal audit. Furthermore, she is responsible for Mail in the Netherlands, Parcels, International and Group IT.

Ms Verhagen is a member of the Supervisory Boards of Rexel S.A. (France) and Actelion Ltd. (Switzerland). She is a member of the Executive Committee and General Board of the Confederation of Netherlands Industry and Employers (VNO-NCW).

Ms Verhagen holds no position as a member of a Supervisory Board of a legal entity 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.

J.P.P. (Jan) Bos (1965, Dutch) – Chief Financial Officer

Mr Bos was appointed chief financial officer and member of the Board of Management per 31 May 2011 and reappointed per 14 April 2015 for a period of four years. Mr Bos joined the Mail division of one of the legal predecessors of PostNL in 1993 as controller of its international segment. He became director finance & control of the Mail division in 2007. Mr Bos is responsible for legal, procurement, real estate & facilities, control, investor relations & treasury, tax and accounting & reporting.

Mr Bos is a member of the association for registered controllers of the VU University Amsterdam and of the supervisory authority of the University Medical Centre Groningen.

Mr Bos 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 control mechanisms established by the Board of Management, as well as the general and financial risks and the internal risk management and control systems.

In performing its duties, the Supervisory Board acts in accordance with the interests of PostNL and takes into account 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 CR governance structure and reporting.

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

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

Composition of the Supervisory Board

After our 2016 AGM, Mr Klaver stepped down as chairman and member of the Supervisory Board. Mr Boersma was appointed as the new chairman. At year end, the Supervisory Board consisted of six members: the chairman of the Supervisory Board Mr M.A.M. Boersma (also chairman of the Nomination Committee); Mr J. Wallage (vice-chairman of the Supervisory Board and chairman of the Remuneration Committee); Ms T. Menssen (chairman of the Audit Committee); Ms A.M. Jongerius; Mr J.W.M. Engel; and Mr F.H. Rövekamp.

On 4 July 2016, PostNL announced that the Supervisory Board intends nominating Mr Eelco Blok as member of the Supervisory Board for a period of four years. His nomination will be scheduled for approval by the shareholders of PostNL at the Annual General Meeting of Shareholders to be held in April 2017. Until that time, Mr Blok will attend the meetings of the Supervisory Board as an observer.

At the Annual General Meeting of Shareholders held on 19 April 2016, Mr Rövekamp was reappointed for a period of four years.

The following table provides an overview of the composition of the Supervisory Board committees per 27 February 2017.

Committee	Audit	Remuneration	Nomination
Chair	Thessa Menssen	Jacques Wallage	Michiel Boersma
Member	Marc Engel	Michiel Boersma	Agnes Jongerius
Member	Agnes Jongerius	Marc Engel	Thessa Menssen
Member	Frank Rövekamp		Frank Rövekamp

At the Annual General Meeting of Shareholders in April 2017, Ms Jongerius and Mr Engel will be available for reappointment as members of the Supervisory Board.

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 of three terms of four 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 six 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 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 induction 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, a Nomination Committee and a 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 findings and conclusions after each meeting to the full Supervisory Board. The committees operate pursuant to terms of reference set by the Supervisory Board according to the law and the Dutch Corporate Governance Code. The terms of reference of these committees are available on our website.

Audit Committee

The Audit Committee assists the Supervisory Board on matters relating to the integrity of PostNL's financial and corporate responsibility reporting and reporting process, financing and finance-related strategies, system of internal control and financial reporting, and system of risk management. The committee reviews the functioning of the external auditor and the internal audit department, PostNL's tax planning and 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 determined by the Supervisory Board to be independent within the meaning of its by-laws 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, of which all but one need to be independent within the meaning of its by-laws and the applicable corporate governance rules. All members of the Nomination Committee are members of the Supervisory Board.

Remuneration Committee

The Remuneration Committee proposes the remuneration of the individual members of the Board of Management for adoption by the Supervisory Board on the basis of scenario analyses and taking into account the compensation rate within the company. It also proposes a remuneration policy – including schemes under which rights to shares are granted to members of the Board of Management – which is submitted for adoption to the General Meeting of Shareholders. In addition, the Remuneration Committee prepares the allocation by the Board of Management (after approval by the Supervisory Board) of rights to PostNL shares to senior management (other than members of the Board of Management).

The Remuneration Committee consists of at least three members of which all but one need to be independent within the meaning of its by-laws and the applicable corporate governance rules. The chairman of the Remuneration Committee shall not simultaneously be the chairman of the Supervisory Board.

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 in the sense of best practice provision III.2.2 of the Code. Their ages range from 49 to 70. 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.

M.A.M. (Michiel) Boersma (1947, Dutch) – Chairman Supervisory Board

Mr Boersma was appointed member of the Supervisory Board on 25 May 2011. His current term expires in 2019. Externally, his other roles include non-executive member of the Board of Electricia S.A. (Romania) and Nynas A.B. (Sweden), chairman of the Supervisory Board of Telegraaf Media Groep and Avantium, and member of the Board of foundation Protection Fugro. Mr Boersma is also distinguished professor Corporate Governance for former utilities at TIAS, School for Business and Society.

Mr Boersma was CEO of Essent (a RWE company) and president of Shell Global Solutions International B.V.

Mr Boersma holds four 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) – Vice chairman Supervisory Board

Mr Wallage was appointed member of the Supervisory Board on 8 April 2010 and vice-chairman of the Supervisory Board in 2011. His current term expires in 2018. Mr Wallage is chairman of the Council for Public Administration and the Advisory Council of the Sociale Verzekeringsbank. 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 also mayor of the city of Groningen from 1998 until 2009.

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

J.W.M. (Marc) Engel (1966, Dutch)
Mr Engel was appointed member of the Supervisory Board on 16 April 2013. His current term expires in 2017. 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)
Ms Jongerius was appointed member of the Supervisory Board on 16 April 2013. Her current term expires in 2017. 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)
Ms Menssen was appointed member of the Supervisory Board on 25 May 2011. Her current term expires in 2019. She is chief financial officer and member of the Executive Board of Royal BAM Group. She is a member of the Supervisory Board of the Dutch Development Bank (FMO) and the Rotterdam Philharmonic Orchestra.

Ms Menssen was chief operating officer of the Port Authority of Rotterdam.

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)
Mr Rövekamp was appointed member of the Supervisory Board on 24 April 2012. His current term expires in 2016. He is chairman of the Supervisory Board of Vodafone Germany GmbH, non-executive member of the Board of UNIT4, and a member of the Boards of Royal Theatre Carré, Kasteel de Haar, Vereniging Vluchtelingenwerk Nederland and Refugees United.

He was a 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 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.

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, child/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 hand.

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 2016, so best practice provisions II.3.2 to II.3.4 and III.6.1 to III.6.4 inclusive 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 2016, 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.

PostNL's Supervisory Board has adopted a policy concerning ownership of and transactions in securities other than PostNL's financial instruments by members of the Board of Management and the Supervisory Board.

A member of the Board of Management or the Supervisory Board who invests exclusively in listed investment funds, or who has transferred the discretionary management of his or her securities portfolio to an independent third party by means of a written mandate, is exempt from compliance with these internal notification requirements.

Share ownership is not mandatory for members of the Board of Management and Supervisory Board.

The table below lists the total number of shares held by each member of the Board of Management and the Supervisory Board, 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.

PostNL shares held by Board of Management/Supervisory Board

	At 31 Dec 2016	At 31 Dec 2015
Board of Management		
Herna Verhagen	190,217	101,432
Jan Bos	151,085	83,608

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 2016. The information in this table is publicly available at www.afm.nl.

Diversity

Pursuant to the Dutch Civil Code, PostNL must have a balanced representation of men and women on its Board of Management and Supervisory Board. This is considered to be the case if at least 30% of the seats are filled by men and at least 30% are filled by women.

The Board of Management meets this requirement with one female and one male member, i.e. 50% of the seats filled by women.

PostNL's Supervisory Board currently has six members, of which two are women, i.e. 33%. Consequently, the Supervisory Board meets the required 30% female representation. As follows from the profile of the Supervisory Board, (gender) diversity is taken into account when selecting candidates in case of a vacancy in the 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 2016, Mr Boersma was up for reappointment as member of the Supervisory Board. PostNL benefitted from his expertise and the Supervisory Board decided to propose his reappointment in order to retain his knowledge, experience and expertise.

Corporate secretary

The Board of Management, the Supervisory Board and the Executive Committee are assisted by PostNL's corporate secretary. All members of the Board of Management, the Supervisory Board and the Executive Committee have access to the advice and services of the corporate secretary, who is responsible for ensuring that the Board of Management, the Supervisory Board and the Executive Committee 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 2016

On 19 April 2016, PostNL held its Annual General Meeting of Shareholders in The Hague, the Netherlands. The attendance rate was 54.66% of the total outstanding share capital.

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

- Adoption of the 2015 financial statements,
- The release of the Board of Management and Supervisory Board from liability for the performance of their respective duties during the financial year 2015,
- The reappointment of Mr Rövekamp as member of the Supervisory Board,
- Extension of the mandate granted to the Board of Management to issue ordinary shares until 19 October 2017 (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), and
- Extension of the mandate granted to the Board of Management to limit or exclude pre-emptive rights to issue ordinary shares until 19 October 2017 (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 only available in Dutch.

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 corporate 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; and
- 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. Registered holders of American Depositary Shares (ADS) and holders holding their ADS through a broker or a nominee evidenced by American Depositary Receipts do not qualify as holders of ordinary shares in this respect.

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 dividends.

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.

The PostNL Reserves and Dividend Guidelines are available 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 PostNL's interests and those of its Group companies and all interested parties. 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 amount 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 pay the exercise price.

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 2016, the members of the Board of Foundation Continuity PostNL were Mr J.H.M. Lindenbergh (chairman), Mr W. van Vonno, and Mr M.P. Nieuwe Weme. 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 investor relations 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.

Furthermore, PostNL organises an annual dialogue with its stakeholders, in addition to the daily, ongoing contacts with customers, regulators, interest groups, et cetera. The outcome of the stakeholder dialogue is used as input for PostNL's CR programmes and targets. More information about PostNL's stakeholder dialogue can be found in our CR Performance Statements chapter.

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.

External auditor

PostNL's external auditor, Ernst & Young Accountants LLP, is appointed by the General Meeting of Shareholders.

PostNL's Audit Committee is exclusively authorised, subject to confirmation by the Supervisory Board, to recommend to the General Meeting of Shareholders the appointment or replacement of the external auditor. The Audit Committee is directly responsible for overseeing the activities and performance of the external auditor on behalf of the Supervisory Board, including settling disagreements between management and the external auditor regarding financial reporting.

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.

Once every three years, the Audit Committee and the Board of Management are required to conduct a thorough assessment of the functioning of the external auditor within the various entities and in the different capacities in which the external auditor acts. As Ernst & Young Accountants LLP started its activities as PostNL's auditor in 2016, no assessment has been made yet. The lead partner rotates after a maximum period of five years and the key audit partners rotate after a maximum period of seven years. Mr R.J.W. Lelieveld has been the lead audit partner since 2016.

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 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, etc.) 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.

11 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 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.

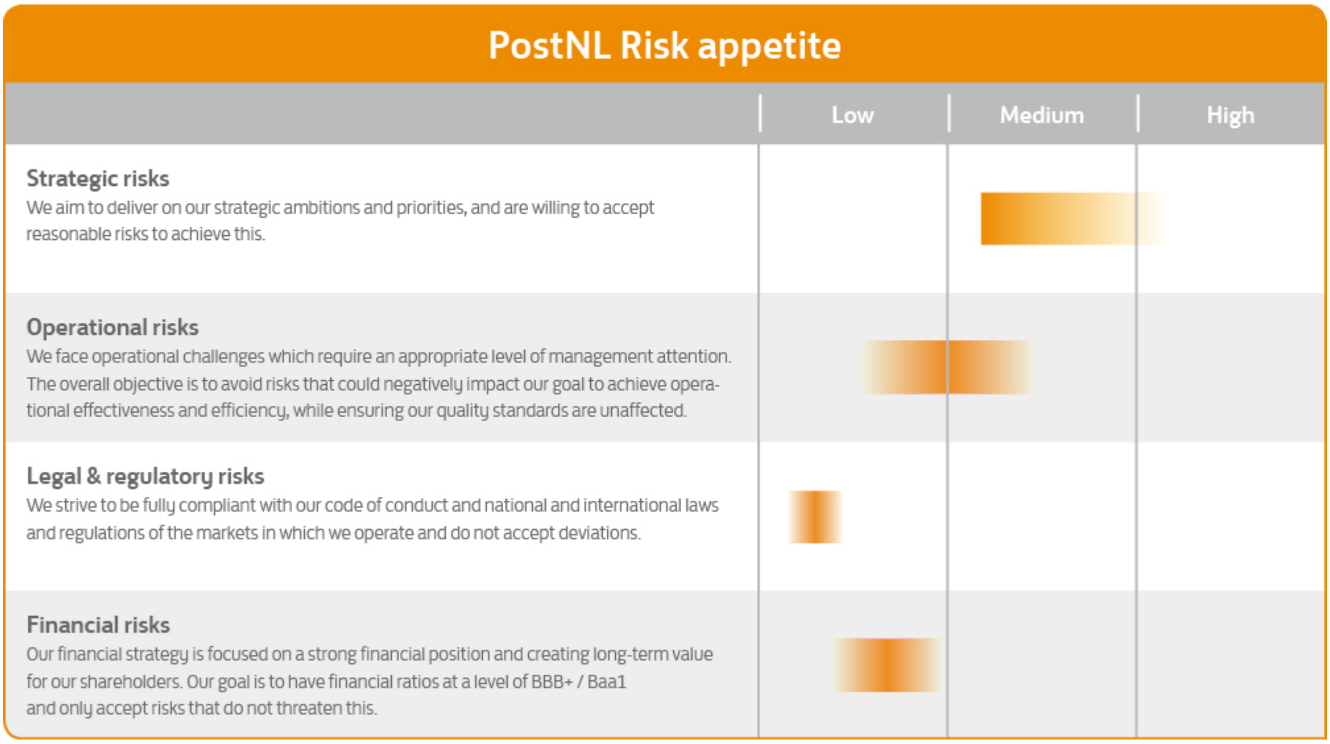
We have built a comprehensive portfolio of Group policies and controls, ensuring discipline in our business processes. These support the Board of Management in its statutory and fiduciary obligations to stakeholders in developing and achieving its strategic, operational and financial objectives. The head office functions are responsible for ensuring that the legal and 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 risk management, internal control, integrity and compliance framework. They are supported by the Internal Audit department.

Understanding strategic, operational, legal & 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 2016 and will continue to do so during 2017. 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.

The risks described in this chapter cover the main risks to our strategic objectives as described in the Our strategy chapter.

Risk appetite

Risk appetite is the level of 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. Our risk appetite differs per risk type:



Risk management and internal control is considered a line responsibility. All segments and head office departments are engaged in this comprehensive risk identification process, which includes:
- Mandatory participation in risk management workshops by relevant management team members
- Assessing risks on the criteria impact, and the likelihood of occurrence and the effectiveness of internal controls.

Our risk management and control systems are designed to reduce the likelihood of errors, wrong 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 points in response to the risks identified and are 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 CR reporting

In 2016, we continued to invest the resources required to document and evaluate the design of internal controls over financial and CR reporting, and 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 CR reporting. The Internal Audit department performed specific review procedures relating to internal control over financial and CR reporting.

Ways to further strengthen our control framework are discussed in the Internal Control Committee (ICC). The ICC is composed of the CFO, the director accounting & reporting, the director audit & security, the director control & strategy, and representatives of the risk management & internal control department. The external auditor also attends the ICC meetings. The ICC met five times in 2016.

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, which are published on our website, 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. The Integrity Committee is composed of the director audit & security, the integrity officer, the corporate security officer, the director legal, the people development manager, the director operations parcels and the director staff operations mail.

The Integrity Committee oversees and coordinates 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. The 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 and anti-corruption matters. The Integrity Committee reports regularly to the Board of Management and every six months to the Supervisory Board. More information can be found on our website.

On 1 July 2016, the House for Whistleblowers Act (*Wet Huis voor Klokkenluiders*) came into force in the Netherlands. This Act aims to ensure that people reporting misconduct within organisations are better served and protected. We updated our existing whistleblowing procedure to reflect the new Act.

Compliance

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

Performance and compliance are monitored regularly in discussions between the appropriate line management and the Board of Management via 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 CR 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 risks occurred in 2016

Some of the risks described in our 2015 Annual Report occurred in 2016. We were mainly impacted by ongoing and intensifying competition and by regulatory measures from the ACM. No unforeseen significant events, which were not included in our risk profile 2015, occurred in 2016.

We faced continued pressure on our results due to ongoing and intensifying competition and substitution. Within the addressed mail market competition is intensifying, driven by digitisation and the declining market. Within both addressed and unaddressed mail, there is a trend towards customers requesting a range of different services, in terms of price, quality, and added value. Within Parcels in the Benelux region, where competition is already strong, we see it intensifying from both established logistics players and new (last mile) entrants, attracted by growth in the e-commerce market.

An overview of the most important regulatory developments in 2016 can be found in the Our view on the markets chapter. Main risks in relation to regulatory developments in 2016 were:

- The ACM is developing the framework for Significant Market Power (SMP). This instrument imposes obligations on postal operators with significant market power and is based on the 2013 policy of the Minister of Economic Affairs to stimulate competition in the mail market.
- The Minister of Economic Affairs announced it will review its 2013 postal market policy in the first half of 2017 to address the effects of declining postal volumes and market developments.
- To ensure no adverse regulatory measures are implemented in the period before the publication of the postal market policy review, the Ministry implemented a policy guideline to provide additional guidance on the application of the SMP by ACM. In this policy guideline it is stated that this instrument is to be used cautiously and proportionally, and long-term quantitative and qualitative effects are to be addressed by the regulator.
- During 2016, ACM and PostNL had several legal disputes on tariffs and conditions for postal operators using the services of PostNL. An important ruling of ACM allowing arbitrage was revoked by the highest court.

As communicated in October 2015, we expect the financial impact of the ACM's measures to be between €30 million and €50 million annualised, with the full effect visible over a 3-4 year period (2016-2019).

The parcel market was frequently discussed by political and public stakeholders at both the national and European level. In the Netherlands in particular, contracting of parcel deliverers drew attention. We continued talks with our independent parcel deliverers in 2016.

In March we finalised an important part of the sustainable delivery model in the Netherlands, which offered our independent parcel deliverers the choice of becoming a PostNL employee or remaining independent with higher rates.

In 2016, financed by the sale of our stake in TNT Express, we bought back a part of our bonds reducing our long-term debt. This lowered our interest expenses and improved our ratios. Following its sale, the stake in TNT Express risk as mentioned in our 2015 report is no longer valid.

We have reduced the volatility risk of pensions in recent years by revising our finance agreement with the pension fund. Triggered by the further reduction in interest rates during 2016, 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 impact cash and equity.

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. Additionally, for each risk we indicated whether the risk trend is decreasing, increasing or remained stable compared to 2015.

Strategic risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
●●●	**Competition** Competition may put pressure on our market share, volumes and prices, which could have an adverse effect on revenues and profitability. We are faced with increased competition across both our mail and parcels businesses, as markets become more competitive (nationally and regionally) and globalised. 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, which could result in additional costs related to the discontinuation of operations.	↑	Commercial initiatives are in place, such as differentiating service levels, (new) products and adequate pricing, as well as improving our customer satisfaction and quality, based on our comprehensive network coverage, and operational excellence.	✉ 📦 🌐
●●●	**Substitution** The ongoing trend amongst consumers to move to digitisation is leading to a decline in physical mail. As a result, the volume of mail is decreasing. 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 €9 million in underlying cash operating income.	↑	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. Furthermore, we develop operational processes to adapt more flexible to future volume declines. More information can be found in the Implementing our Strategy in 2016 chapter.	✉ 🌐

Operational risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
●●○	**Information Technology** Information Technology (IT) is vitally important to our business, and we are increasingly dependent on it. Threats to the availability, confidentiality or integrity of our IT networks, systems or (customer) data caused by IT disturbances, cyberattacks or lack of appropriate security and infrastructure measures may damage our ability to provide timely delivery, or result in loss/theft of customer data, higher costs, penalties and damage to our reputation.	↑	We continuously enhance our technical capacity to keep pace with evolving threats to avoid process disturbances, financial damage, negative publicity, and loss of customers' trust. We have a 'cloud only' strategy and raise awareness among personnel about the importance of security and privacy on an ongoing basis.	✉ 📦 🌐
●●○	**Execution of cost saving initiatives** 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 Mail in the Netherlands. Other adverse results could be an impact on our reputation, financial performance and the risk that internal controls are ineffective for a short period.	=	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 enables smooth implementation on a larger scale. We mitigate the increased risk that internal controls are ineffective for a short period by performing compensating controls and activities.	✉ 📦 🌐
●●○	**Implementation of strategic change projects** 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 Implementing our Strategy in 2016 chapter.) Coherence between the broad range of projects and operational activities may cause delays in successfully implementing all projects in order 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	=	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. 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.	📦 🌐
●●○	**Business continuity** We could be materially affected if a significant accident or adverse event occurred within the company. For example, events such as fire or flooding at one of our major hubs, extreme weather, or industrial action that could affect critical IT systems, key accounts, or key staff. Severe disruption and reputational damage to the business may result in untimely delivery of services and could impact our financial performance.	↓	At a strategic and tactical level, we continually assess if we have enough operational capabilities and resources available, and constantly improve our logistical infrastructure. We also continuously update and test our business continuity management processes to ensure that we are well prepared for potential adverse risk events. We have comprehensive insurance coverage and continuously develop our relationships with external parties, such as business partners.	✉ 📦 🌐

Legal and regulatory risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
●●●	**Legal and regulatory requirements** 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 regulation (including developments with respect to significant market power, leading to measures by the ACM), regulation with respect to dangerous and prohibited goods, data protection 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.	↑	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 aim to have open and transparent discussions with authorities.	
●●●	**USO regulation** 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 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.	=	We have continual dialogue with governmental and non-governmental stakeholders about USO regulations at both EU and national levels.	
●●○	**Status of independent parcel deliverers** Dutch regulation governing self-employment covers the contractual relationship with independent parcel deliverers. Changes to the regulation could have a financial impact.	↓	We continually monitor external developments regarding the Dutch debate about tax- and labour regulations covering self-employment. We comply with all regulations and adapt our operations when necessary.	
●○○	**Misconduct** At PostNL we want to be known not just for the quality of our products and services, but also for the way we do business. That means doing business in a fair and transparent manner, and in accordance with relevant behavioural and ethical standards, respecting human rights. This applies to our workforce as well as to our suppliers. Employee, contractor and business partner, or supplier misconduct, including fraud, corruption and bribery, could negatively impact financial performance, leading to the loss of customers, the imposition of monetary penalties or other sanction imposed by national and local governments (and other regulators) of the countries in which we operate.	=	We have a robust internal control framework and operate an integrity programme that includes business principles, a whistleblowing procedure and a pre-employment screening policy, intended to ensure people act in accordance with the company's preferred way of operation. Additionally, we have an integrity committee. We promote integrity in a number of ways, including providing selected employees with additional mandatory training on specific relevant subjects and in the way of communicating (tone at the top).	

Financial risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
●●○	**Collective labour agreements** Being a good employer is vitally important to us. We focus on employee engagement, culture and diversity, and sustainable employment. In 2016, we further improved our employee engagement score, strengthened our culture, and increased the diversity of our workforce (more information can be found in the Implementing our strategy in 2016 chapter). 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 labour costs.	=	We maintain good relations with the trades unions and social partners based on mutual recognition of shared interests. We agreed to a new Social Plan in 2015, which took effect on 1 January 2016, and remains in place until 31 December 2020. In January 2016, we agreed on a new collective labour agreement (CLA) for mail deliverers. The CLA is valid for two years, and will remain effective until 30 September 2017. In June 2016 we reached final agreements regarding the PostNL CLA and the Saturday mail deliverer CLA. Both apply to the period from 1 January 2016 to 31 March 2017, and include agreements on salary increases.	
●●○	**Volatility of pension provision** 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.	↓	We hold open and regular discussions with the pension fund trustee board, which is independent of PostNL. We have reduced the volatility risk of pensions in recent years by revising our finance agreement with the pension fund. Triggered by the further reduction in interest rates during 2016, 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 impact cash and equity.	
●●○	**Financial risk management** 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.	↓	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. The market interest risk related to the pension liabilities is mitigated by the independent pension fund. In 2016, financed by the sale of our stake in TNT Express we bought back a part of our bonds reducing our long-term debt. This lowered our interest expenses and improved our ratios. For more information, see note 4.3 to the consolidated financial statements.	
●○○	**Liability of loss or damage** 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.	=	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.	

12 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 2016

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 calibre 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 pay-out in cash and in shares.

Review against peer group

To provide a consistent review of the level and structure of the total remuneration at median market level, 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 Dutch peer group. The Supervisory Board regularly reviews the peer group to ensure a balanced representation of the relevant labour market. In 2015, the Supervisory Board established a new peer group in consultation with and after discussion in the Remuneration Committee. The peer group consists of a mix of both AEX- and AMX-listed companies. The peer group has not been altered since 2015.

Dutch peer group

Aalberts Industries (AEX)	KPN (AEX)
Arcadis (AMX)	Randstad (AEX)
BAM Group (AMX)	Royal Boskalis Westminster (AEX)
DSM (AEX)	Sligro (AMX)
Fugro (AMX)	TKH Group (AMX)
Grandvision (AMX)	TNT Express [1]
IMCD (AMX)	USG Group [1]

1. TNT Express and USG Group were delisted

Following the 2015 remuneration benchmark, in 2016 the Remuneration Committee compared the Board of Management's total remuneration to the median remuneration of the peer group over the last three years. Total remuneration for both members of the Board of Management is positioned below the 25th percentile of the peer group. The current findings show that the remuneration gap is increasing compared to the market. As proposed by the Board of Management – considering wage moderation and ongoing cost savings – the Remuneration Committee and Supervisory Board agreed to leave the Board of Management’s remuneration as is. All comparisons are made on a euro basis. Scenario analyses and internal pay relations’ analyses have been performed in conformity with provision II.2.2 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 combined 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. Individual targets can only contribute to the STI payout if they are 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 below.

Short-term incentive targets

	2016
Underlying cash operating income	30%
Adjusted net cash flow from operating and investing activities	30%
Total financial targets	**60%**
Employees	
Employee engagement	10%
Customers	
Customer satisfaction	10%
Quality score	10%
Environment	
CO_2 reduction	10%
Total non-financial targets	**40%**

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
- 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.

Long-term incentive targets (2014, 2015, 2016)

Underlying net cash income	33.3%
Cost savings	33.3%
New growth initiatives	33.3%
Total long-term targets	**100.0%**

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 67 years
- pensionable income capped at statutory maximum salary of €101,519 (maximum 2016) offset for state pension
- annual accrual rate for the old age pension of 1.62%
- benefits conditionally indexed during accrual
- employee contribution of 6%
- structural annual allowance of 19% of the gross base salary above the statutory maximum and a temporary allowance of 4% 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 €101,519.

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 current members of the Board of Management are summarised as follows:

- as a policy, severance payments, other than those related to a change of control, are one-year of base salary (12 months of base salary)
- severance payments in the event of a change of control are 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.

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 in case of a change of control

The claw-back legislation imposes a duty upon PostNL to claw back in the event of a change of control if that causes an increase in the value of PostNL shares held by the Board of Management, which have previously been awarded to them as remuneration. In the event of a change of control, the proceeds of any share grant would be capped. This legislation lapses on 1 July 2017. Possible new legislation is awaited.

Discretionary authority

In general, the Supervisory Board has the authority to adjust the remuneration 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

Members of the Board of Management have entered into employment contracts for an indefinite period of time. The employment contract ends either on the date of retirement or by notice of either party. 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 employment 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.

Appointment details

	Employed since	Term of employment	Board member since	Year of (re)appointment	Term of appointment
Herna Verhagen	June 1991	Indefinite	2011	2015	Four years
Jan Bos	June 1993	Indefinite	2011	2015	Four years

Actual remuneration in 2016

The table below summarises the 2016 remuneration elements of the members of the Board of Management calculated in accordance with IFRS and the remuneration policy for 2016. 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 Financial Statements.

Remuneration Board of Management

		Fixed remuneration	Variable remuneration [1]					
		Base salary	Accrued for short-term incentive 2016	Accrued for long-term incentive 2016	Other periodic compensation [2]	Pension costs [3]	Total 2016	Total 2015
Herna Verhagen	Chief Executive Officer	625,000	234,375	219,137	310,458	17,678	1,406,648	1,514,384
Jan Bos	Chief Financial Officer	475,000	178,125	166,544	182,245	18,966	1,020,880	1,153,617
Total remuneration		1,100,000	412,500	385,681	492,703	36,644	**2,427,528**	2,668,001

1. The temporary share plan - to compensate the gap arising in the years 2013-2015 as a consequence of the 2013 revised remuneration policy - ended as from 2016.
2. Other periodic compensation include company costs related to tax and social security, pension allowances, company car and other compensation. Part of the performance shares 2013 have been sold to cover the wage tax liability (sell-to-cover transaction). As the proceeds of the relevant sell-to-cover transaction were insufficient to completely fulfil the tax liability, a compensation award was made to cover the remaining tax liability. Additionally, Herna Verhagen received a jubilee payment (25 years in service) of one month's gross salary.
3. Pension costs represent the service costs of the defined benefit scheme.

The scorecard contains a summary of achievements of the 2016 variable remuneration STI targets by the members of the Board of Management.

Scorecard against target

	2016
Financial targets	
Underlying cash operating income	√
Adjusted net cash flow from operating/investing activities	√
Non-financial targets	
Employees	
Employee engagement	√
Customers	
Customer satisfaction	√
Quality score	√
Environment	
CO_2 reduction	√

The Remuneration Committee has assessed the achievements of the members of the Board of Management over the three-year LTI period (2014-2016) on the basis of the following targets: Underlying net cash income, cost savings and new growth initiatives. Overall an average score of 85% was achieved. The applicable number of performance shares from 2014 will vest in 2017.

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.

Remuneration policy 2017

In 2017, the following adjustments will apply for the career average pension scheme:

- pensionable income capped at increased statutory maximum salary of €103,317
- annual accrual rate for old age pension decreased to 1.43%
- temporary allowance of the gross base salary exceeding the statutory maximum salary decreased to 3%.

No further changes in the remuneration policy are expected for 2017.

Remuneration of members of the Supervisory Board

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.

Remuneration of Supervisory Board

(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 Financial Statements.

13 Our tax policy and principles

In this chapter we provide an overview of our tax policy and its underlying principles.

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. The Group Tax department 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

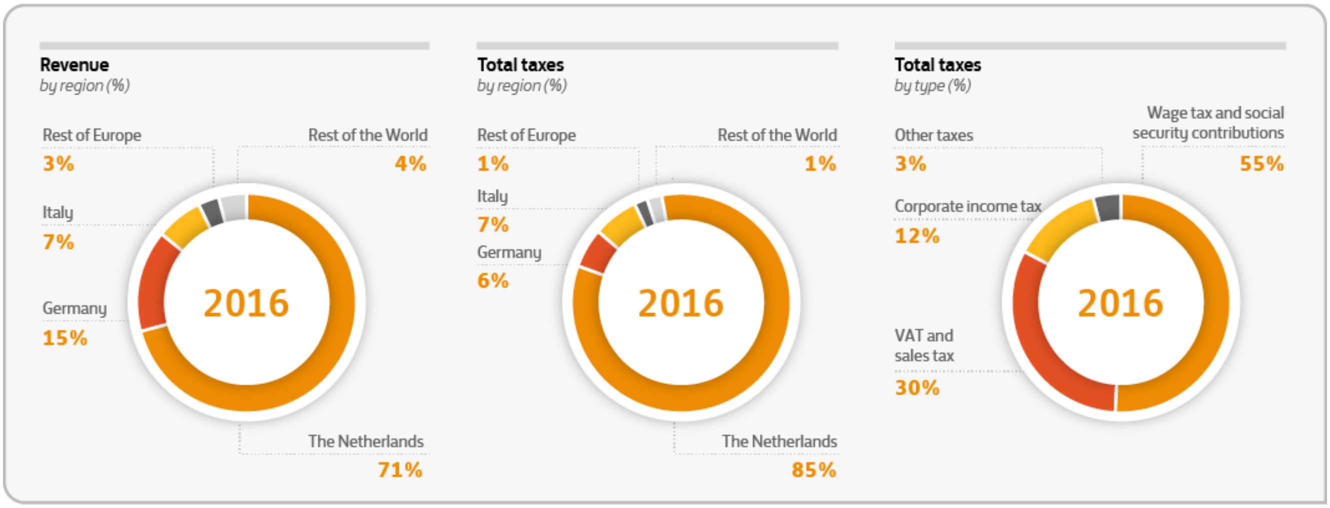
Our tax planning requires opportunities in this area to have a substantial level of robustness taking into account the principle of business rationale. This means that aside from factors such as financial impact, complexity and reputation, solid business and/or commercial reasons have to exist. In addition, 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. Our tax control framework has been built and developed accordingly. 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. 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 2016, we paid €686 million in tax. A breakdown of these by type and region is shown in the charts below. Our revenue breakdown is included for comparison.



We monitor (inter)national developments (including the OECD project on base erosion and profit shifting and country-by-country reporting) to improve tax transparency. We strive for optimal tax transparency, which includes taking the aforementioned (inter)national developments, as well as competition considerations, into account.

14 PostNL on the capital markets

In this chapter we provide information about our shares and bonds and share ownership, the role of investor relations and their link with the financial community, as well as contact details and our financial calendar for the year ahead.

Shares and share ownership

The shares of PostNL N.V. (ticker: PNL) are listed on Euronext Amsterdam and included in the AMX index. PostNL N.V. shares trade in the United States in the over-the-counter (OTC) market via ADRs. The OTC code is PNLYY. Options on PostNL shares are traded on Euronext Derivatives Amsterdam.

In 2016, 826 million PostNL shares were traded on Euronext Amsterdam (2015: 942 million shares). The average daily number of shares traded was 3.2 million (2015: 3.7 million). The market capitalisation of PostNL was €1,813 million at the end of 2016 (end of 2015: €1,545 million).

PostNL has two eurobonds that are listed on Euronext Amsterdam:

- PNL 5.375% 2017 (ISIN NL10006133175), nominal value outstanding €328 million
- PNL 7.5% 2018 (ISIN NL10006380537), nominal value outstanding £177 million.

2016 relative performance to the AMX index

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 442,805,079 on 31 December 2016 (2015: 441,570,664 shares). In 2016, 1,234,415 shares were issued for the share plan for employees (2015: 649,863). 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.

Since November 2012, investors also have to disclose short positions in the company that exceed 0.5% of outstanding shares. At the end of 2016, Marshall Wace LLP (1.9%) had filed a net short position in PostNL.

Shareholders by sector and by country

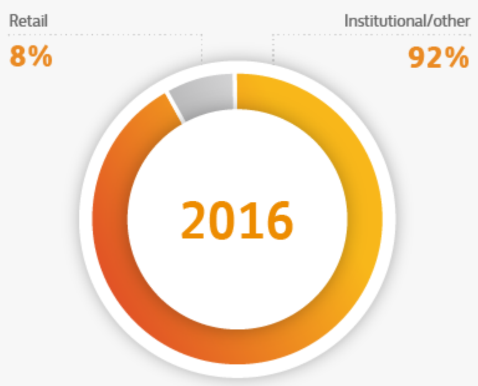
The distribution of our shares between retail and institutional shareholders did not materially change compared to 2015. In 2016, Dutch institutional shareholders held 14% of the outstanding shares of PostNL, from 18% in 2015, while North American shareholders held 41% of the shares (2015: 42%), and shareholders in the United Kingdom 15% (2015: 17%). This was balanced by shareholders from the rest of Europe holding more shares.

Overview of substantial shareholders (>3%)

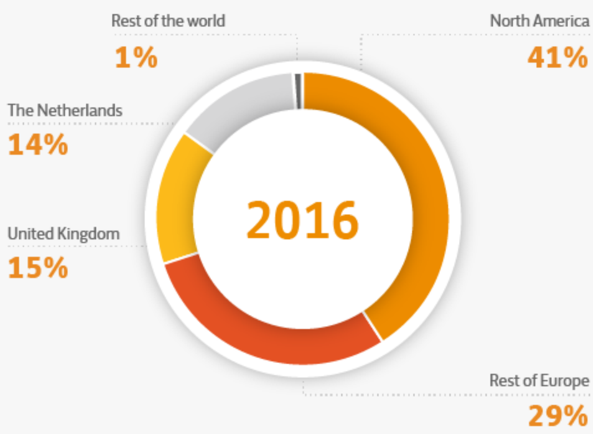
as per 24 February 2017

Date of notification	Company	(Indirect) Holding	Holding of (indirect) voting rights)
1 February 2017	Capfi Delen Asset Management	5.07%	5.07%
31 January 2017	Norges Bank	3.05%	3.05%
23 January 2017	HSBC Holdings PLC	3.04%	2.23%
19 January 2017	BlackRock, Inc.	2.80%	3.02%
13 September 2016	Fidelity Management & Research LLC	9.95%	9.95%
27 June 2016	Wellington Group LLP	3.03%	3.03%
12 November 2015	J.H.H. de Mol	5.04%	5.04%
20 July 2015	Edinburgh Partners	6.82%	5.00%

Shareholders by sector



Institutional shareholders by region



Investor relations

The main goal of our investor relations' activities is to build our financial brand. To achieve that, we inform the financial community about relevant developments in our company in a transparent and timely way. We 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 2016, PostNL visited investors in major financial cities in Europe and North America.

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. Meetings with investors are scheduled regularly to ensure the investment community receives a balanced view of the company's strategy, performance and the issues faced by the business.

Results presentations and General Meetings of Shareholders are broadcast via audiocast. The website provides all relevant information with regard to publication dates and procedures to attend or listen in to presentations. For further information, please visit PostNL's website.

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, PostNL's investor relations' professionals and, less frequently, by other PostNL employees specifically mandated by the Board of Management.

The Board of Management has adopted investor relations and media guidelines that PostNL employees abide by unless explicitly exempted by the CEO.

For the latest and archived press releases, presentations, share price information and other company information, such as our online Annual Review 2016 and interim reports, please visit PostNL's website.

Dividend

PostNL did not declare a final 2015 dividend nor an interim 2016 dividend, so no dividend was paid in 2016.

Pursuant to the dividend policy applicable to the profit realised in financial year 2016, it is PostNL's intention to pay out a dividend per share that develops substantially in line with the development of our operational performance. Additionally, PostNL targets a dividend payout of around 75% of underlying net cash income subject to achieving positive consolidated equity and certainty of a BBB+/Baa1 credit rating.

Underlying net cash income is defined as 'profit attributable to equity holders of the parent' adjusted for significant one-off and special items, cash out from provisions and additional cash pension contributions. This normalisation adjustment is based on the underlying cash operating income, separately reported as one of the key performance indicators of the company.

PostNL considered the ordinary shares it held in TNT Express as a purely financial stake. Until a dividend is restored, PostNL would not return any dividends nor net dividends received on its TNT Express shares to shareholders. On 25 May 2016, PostNL completed the sale of its remaining stake in TNT Express, making this part of our dividend policy no longer relevant.

At year-end 2016¸ the consolidated equity position was -€79 million. However, following the sale of PostNL's stake in TNT Express, with the sensitivity of its pension obligation to interest rate fluctuations limited, and given the solid results in 2016, PostNL's consolidated equity has improved significantly, close to achieving a positive position. This, combined with PostNL's expectation that its consolidated equity position will become positive in the near future, the Board of Management, with the approval of the Supervisory Board, will recommend PostNL shareholders to approve the reinstatement of dividend at the 2017 Annual General Meeting of Shareholders, with a first payment based on the results of 2016 of €0.12 per share. The dividend of €0.12 will be paid, at shareholder's election, either in ordinary PostNL shares or in cash.

At the end of February 2017, the Board of Management, with the approval of the Supervisory Board, adopted a new dividend policy that is to be applied on any profits over the financial year 2017 and subsequent years thereafter (until adjusted). This policy is available on PostNL's corporate website.

Financial calendar 2017

Financial calendar 2017

27 February	Results fourth quarter and full year 2016 and Capital Markets Day
18 April	Annual General Meeting of Shareholders
20 April	Ex-dividend date
21 April	Record date
24 April	Start election period
8 May	Results first quarter 2017
9 May	Election period ends
11 May	Payment of dividend
7 August	Results second quarter and half year 2017
6 November	Results third quarter 2017

Contact details

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Performance Statements

Financial Statements

15 Financial Statements

Consolidated primary statements

Consolidated income statement

(in € millions)

Year ended at 31 December	Notes	2016	2015
Net sales		3,403	3,449
Other operating revenue		10	12
Total operating revenue	2.1.1	**3,413**	3,461
Other income		10	4
Cost of materials		(67)	(66)
Work contracted out and other external expenses	2.1.2	(1,701)	(1,638)
Salaries, pensions and social security contributions	2.1.3	(1,110)	(1,171)
Depreciation, amortisation and impairments	2.1.4	(92)	(93)
Other operating expenses	2.1.5	(162)	(157)
Total operating expenses		**(3,132)**	(3,125)
Operating income		**291**	340
Interest and similar income		149	12
Interest and similar expenses		(104)	(90)
Net financial income/(expense)	2.2	**45**	(78)
Results from investments in jv's/associates	3.6	(1)	(2)
Profit/(loss) before income taxes		**335**	260
Income taxes	2.2	(55)	(77)
Profit/(loss) from continuing operations		**280**	183
Profit/(loss) from discontinued operations	3.8		(34)
Profit for the year		**280**	149
Attributable to:			
Non-controlling interests		1	0
Equity holders of the parent		279	149
Earnings per ordinary share (in € cents) [1]	2.2	63.1	33.8
Earnings per diluted ordinary share (in € cents) [2]	2.2	62.9	33.7
Earnings from continuing operations per ordinary share (in € cents)		63.1	41.5
Earnings from continuing operations per diluted ordinary share (in € cents)		62.9	41.4
Earnings from discontinued operations per ordinary share (in € cents)			(7.7)
Earnings from discontinued operations per diluted ordinary share (in € cents)			(7.7)

1. Earnings per ordinary share are in 2016 based on an average of 442,366,626 outstanding ordinary shares (2015: 441,346,233).
2. Earnings per diluted ordinary share are in 2016 based on an average of 443,301,377 ordinary shares on a fully diluted basis in the year (2015: 442,516,836).

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

Consolidated statement of comprehensive income

(in € millions)

Year ended at 31 December	Notes	2016	2015
Profit for the year		**280**	149
Actuarial gains/(losses) pensions, net of tax	3.4	(202)	248
Pension asset ceiling/minimum funding requirement, net of tax	3.4	184	(203)
Share other comprehensive income jv's/associates			1
Other comprehensive income that will not be reclassified to the income statement		**(18)**	46
Currency translation adjustment, net of tax from continuing operations		(1)	1
Currency translation adjustment, net of tax from discontinued operations			(9)
Gains/(losses) on cashflow hedges, net of tax		3	2
Change in value of available-for-sale financial assets	4.2	8	181
Recycling of change in value of available-for-sale financial assets	4.2	(136)	
Other comprehensive income that may be reclassified to the income statement		**(126)**	175
Total other comprehensive income for the year		**(144)**	221
Total comprehensive income for the year		**136**	370
Attributable to:			
Non-controlling interests		1	0
Equity holders of the parent		135	370
Total comprehensive income attributable to the equity holders of the parent arising from:			
Continuing operations		135	413
Discontinued operations			(43)

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

Consolidated statement of cash flows

(in € millions)

Year ended at 31 December	Notes	2016	2015
Profit/(loss) before income taxes		**335**	260
Adjustments for:			
Depreciation, amortisation and impairments		**92**	93
Share-based payments		**4**	4
(Profit)/loss on assets held for sale		(10)	(4)
Interest and similar income		(149)	(12)
Interest and similar expenses		104	90
Results from investments in jv's/associates		1	2
Investment income		**(54)**	76
Pension liabilities		(74)	(43)
Other provisions		(28)	(44)
Changes in provisions		**(102)**	(87)
Inventory		0	0
Trade accounts receivable		(4)	18
Other accounts receivable		3	0
Other current assets		(6)	(7)
Trade accounts payable		19	8
Other current liabilities excluding short-term financing and taxes		(5)	27
Changes in working capital		**7**	46
Cash generated from operations		**282**	392
Interest paid		(92)	(73)
Income taxes paid		(80)	(105)
Net cash (used in)/from operating activities	*2.4.1*	**110**	214
Interest received		5	4
Dividend received		1	3
Acquisition of subsidiaries (net of cash)		(30)	(5)
Disposal of subsidiaries		(4)	
Capital expenditure on intangible assets		(31)	(36)
Capital expenditure on property, plant and equipment		(64)	(55)
Proceeds from sale of property, plant and equipment		27	9
Proceeds from sale of available-for-sale financial assets		643	
Other changes in (financial) fixed assets		(4)	1
Net cash (used in)/from investing activities	*2.4.2*	**543**	(79)
Changes related to non-controlling interests		(10)	0
Repayments of long-term borrowings		(357)	(2)
Proceeds from short-term borrowings		0	1
Repayments of short-term borrowings		0	(363)
Repayments of finance leases		(1)	(1)
Net cash used in financing activities	*2.4.3*	**(368)**	(365)
Total change in cash and cash equivalents		**285**	(230)
Cash and cash equivalents at the beginning of the year		**355**	585
Total change in cash and cash equivalents		285	(230)
Cash and cash equivalents at the end of the year		**640**	355
Total change in cash from discontinued operations	*3.8*		(9)

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

Consolidated statement of financial position

(in € millions)

	Notes	At 31 December 2016	At 31 December 2015 restated
Assets			
Goodwill		134	90
Other intangibles		67	56
Intangible fixed assets	3.3	**201**	**146**
Land and buildings		321	343
Plant and equipment		142	134
Other		19	23
Construction in progress		23	8
Property, plant and equipment	3.2	**505**	**508**
Investments in joint ventures/associates	3.6	17	33
Other loans receivable	4.1	1	7
Deferred tax assets	3.7	38	37
Other financial fixed assets	4.1		21
Available-for-sale financial assets	4.2	1	626
Financial fixed assets		**57**	**724**
Total non-current assets		**763**	1,378
Inventory		5	5
Trade accounts receivable	3.1.1	357	337
Accounts receivable	3.1.1	31	34
Income tax receivable		2	3
Prepayments and accrued income		134	126
Cash and cash equivalents	4.1	640	355
Total current assets		**1,169**	860
Assets classified as held for sale	3.8	4	13
Total assets		**1,936**	2,251
Equity and liabilities			
Equity attributable to the equity holders of the parent		(79)	(213)
Non-controlling interests		3	7
Total equity	2.3	**(76)**	(206)
Deferred tax liabilities	3.7	35	35
Provisions for pension liabilities	3.4	410	449
Other provisions	3.5	39	61
Long-term debt	4.1	227	934
Accrued liabilities			2
Total non-current liabilities		**711**	1,481
Trade accounts payable		188	159
Other provisions	3.5	44	50
Short-term debt	4.1	328	1
Other current liabilities	3.1.2	141	155
Income tax payable		8	34
Accrued current liabilities	3.1.3	592	577
Total current liabilities		**1,301**	976
Total equity and liabilities		**1,936**	2,251

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

Consolidated statement of changes in equity

(in € millions)

	Issued share capital	Additional paid-in capital	Currency translation reserve	Hedge reserve	Available-for-sale financial assets	Other reserves	Retained earnings	Attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at 31 Dec 2014	35	150	12	(9)	(53)	(779)	47	**(597)**	7	**(590)**
Total comprehensive income			(8)	2	181	46	149	370	0	370
Appropriation of net income						178	(178)	0		0
Share-based compensation		3				1		4		4
Balance at 31 Dec 2015	35	153	4	(7)	128	(554)	18	**(223)**	7	**(216)**
Effect of restatement						10		10		10
Balance at 31 Dec 2015 after restatement	35	153	4	(7)	128	(544)	18	**(213)**	7	**(206)**
Total comprehensive income			(1)	3	(128)	(18)	279	135	1	136
Appropriation of net income						7	(7)	0		0
Share-based compensation	1	4				(1)		4		4
Minority buy-out and other						(5)		(5)	(5)	(10)
Balance at 31 Dec 2016	36	157	3	(4)	0	(561)	290	**(79)**	3	**(76)**

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 2016 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 needs. 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 27 February 2017 and are subject to adoption at the Annual General Meeting of Shareholders on 18 April 2017.

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.

Going concern

Despite negative consolidated equity, 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.

In 2016, the company continued its steps towards recovery via a solid financial performance driven by further cost savings and price increases, helped by the sale of the stake in TNT Express and despite the decrease in pension interest rates. Consolidated equity attributable to the equityholders of the parent improved by €134 million to -€79 million. Corporate equity increased by €538 million to €2,742 million. Also, net cash from operating activities positively contributed €110 million to our cash flow balance.

The negative consolidated equity does not impact the company's operations, the timing of debt reductions, access to the available credit facility or the stock exchange listing. As at 31 December 2016, the balance of cash and cash equivalents amounted to €640 million and the company has an undrawn multi-currency revolving credit facility of €400 million. Its financing arrangements do not include financial covenants. A bond repayment of €328 million is due in 2017. Further bond repayments are not due until 2018. 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.

The company aims to continue to improve its liquidity and solvency. In the light of measures already taken or planned, management is confident it will be able to recover towards a positive consolidated equity balance.

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 cost 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.

Impairment of receivables

The risk of uncollectability of accounts receivable is primarily estimated based on prior experience with, and the past due status of, doubtful debtors. 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.

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.

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.

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.

1.4 Restatement

In Q4 2016 we identified an error resulting in a VAT overstatement for the years 2011-2015 in the amount of €14 million within the Netherlands. As management concluded the year-by-year overstatements not material for the years up to 2015, but material for 2016, the cumulative overstatement has been adjusted by a positive restatement of 2015's closing equity by €10 million (net of income tax) instead of 2015's opening equity (impact €8 million) and net income (impact €2 million).

1.5 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
Standards that are adopted			
None, not applicable			
Standards that are not yet adopted			
IFRS 9 'Financial instruments'	IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities.	No later than 1 January 2018	The Group has assessed there will not be a material impact from the adoption of this standard.
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.	No later than 1 January 2018	The Group has assessed the impact of this standard and expects no material impact on total revenue and on equity of its adoption.
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.	No later than 1 January 2019	The Group has yet to assess the full impact of this standard.

Section 2: Result for the year

This section sets out the Group's results and performance over 2016, 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 the sale of the stake in TNT Express.

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: 3,413 million (2015: 3,461)

Accounting policies

Revenue recognition
PostNL's normal business operations consist of the provision of postal and logistics services. Revenue is recognised when services are rendered, goods are delivered or work is completed. 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. Revenue is measured at the fair value of the consideration of received amounts or receivable amounts.

Contracted services that have not yet been rendered by PostNL on the balance sheet date, as well as outstanding customer repayments for stamps and frankings, are designated as deferred income. Amounts received in advance are recorded as accrued liabilities until services are rendered to customers or goods are delivered.

Net sales
Net sales 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 and return shipments.

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 following table presents PostNL's total operating revenue, being the sum of the revenue of the reported operating segments adjusted for intercompany transactions.

Operating revenue

(in € millions)

Year ended at 31 December	2016	2015
Mail in the Netherlands	1,877	1,961
Parcels	967	917
International	1,017	983
PostNL Other	178	188
Eliminations	(626)	(588)
Total	**3,413**	3,461

Volume and revenue growth within Parcels and International was 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 total operating revenue. The basis of allocation of operating revenue by geographical area is the country or region in which the entity recording the sales is located.

Geographical segmentation

(in € millions)

Year ended at 31 December	2016	2015
The Netherlands	2,436	2,516
Germany	504	507
Italy	225	242
Rest of Europe	102	116
Europe	**3,267**	3,381
Rest of the World	146	80
Total	**3,413**	3,461

Revenue growth in 'Rest of the World' mainly related to increased volumes of Spring Global Delivery Solutions in Asia.

2.1.2 Work contracted out and other external expenses: 1,701 million (2015: 1,638)

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.

Work contracted out and other external expenses

(in € millions)

Year ended at 31 December	2016	2015
Mail in the Netherlands	351	305
Parcels	408	406
International	600	610
PostNL Other	92	99
Work contracted out	**1,451**	1,420
Rent & lease expenses	84	87
External temporary staff	166	131
Total	**1,701**	1,638

Costs of work contracted out and other external expenses increased by €63 million in 2016. Within Mail in the Netherlands, the increase resulted from higher terminal dues payable to foreign postal operators.

2.1.3 Salaries, pensions and social security contributions: 1,110 million (2015: 1,171)

Salaries, pensions and social security contributions

(in € millions)

Year ended at 31 December	2016	2015
Salaries	852	885
Social security charges	136	143
Salaries and social security charges	**988**	1,028
Defined benefit plans	90	125
Past service costs/settlements	(11)	(1)
Defined contribution plans	11	12
Pension charges	**90**	136
Net addition to restructuring provisions	28	3
Share-based payments	4	4
Total	**1,110**	1,171

In 2016, costs of salaries and social security charges decreased by €40 million to €988 million, mainly due to a reduction of the workforce following the restructuring programmes in the Netherlands. Pension charges decreased by €46 million in 2016, mainly resulting from €35 million lower regular defined benefit charges and a €10 million higher 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.

Labour force

	2016	2015
Headcount		
Mail in the Netherlands	36,411	40,185
Parcels	3,588	3,291
International	5,467	4,666
PostNL Other	990	1,032
Total at year end	**46,456**	49,174
External agency staff at year end	6,289	6,036
Full-time equivalents (FTEs)		
Mail in the Netherlands	16,218	17,378
Parcels	3,038	2,810
International	3,734	3,856
PostNL Other	943	1,030
Total year average	**23,933**	25,074

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

The total headcount of PostNL decreased by 2,718 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 International mainly due to employees from PIN Mail Berlin related to the acquisition of HIM Holtzbrinck 25 GmbH. The labour force is also measured in FTEs based on the hours worked divided by the local standard. In 2016, the average number of FTEs decreased by 1,141 FTEs compared to 2015. The average number of employees working in the Netherlands was 20,197 FTEs (2015: 21,118) and outside the Netherlands was 3,736 FTEs (2015: 3,956).

The reported employees match the number of personnel paid through payroll. For work contracted out see above.

2.1.4 Depreciation, amortisation and impairments: 92 million (2015: 93)

Depreciation, amortisation and impairments

(in € millions)

Year ended at 31 December	2016	2015
Amortisation of intangible assets	27	26
Depreciation property, plant and equipment	62	65
Impairment of property, plant and equipment	3	1
Impairment of assets held for sale		1
Total	**92**	93

In 2016, amortisation of intangible assets related to software for €25 million (2015: 24) and other intangibles for €2 million (2015: 2).

2.1.5 Other operating expenses: 162 million (2015: 157)

The other operating expenses consist of IT, communication, office, travel, consulting and training expenses and other shared services costs. In 2016, total incurred audit fees amounted to €2.0 million (2015: 2.4), of which €1.7 million from EY and €0.3 million from our predecessor auditor PwC.

Audit fees

(in € millions)

Year ended at 31 December	2016	2015
Audit fees	1.9	2.3
Audit related fees	0.1	0.1
Tax advisory fees	0.0	0.0
Other fees	0.0	0.0
Total	**2.0**	2.4

Audit fees include fees from the audit of the financial statements, the corporate responsibility information and the regulatory audit. Audit-related services include specific audit procedures for employee benefit plan audits and other assurance engagements for the benefit of third parties.

In accordance with Dutch legislation, article 2:382a of the Dutch Civil Code, the total audit and audit-related fees charged by the auditor based in the Netherlands amounted to €1.8 million (2015: 2.0), of which €1.5 million from EY and €0.3 million from our predecessor auditor PwC.

2.2 Net profit and earnings per share

Net financial income/(expense): 45 million (2015: 78 expense)

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.

Net financial income/(expense)

(in € millions)

Year ended at 31 December	2016	2015
Interest expenses on long-term borrowings	(48)	(69)
Premium paid on bond buy-back	(33)	
Interest on net defined benefit pension liabilities	(11)	(13)
Interest on taxes	(1)	(2)
Hedge reserve recycled to profit and loss	(4)	(1)
Net foreign exchange gains/(losses) and other	(7)	(5)
Interest and similar expense	**(104)**	(90)
Interest income	4	10
Profit on sale of stake TNT Express	145	
Dividend stake TNT Express		2
Interest and similar income	**149**	12
Net financial income/(expense)	**45**	(78)

In 2016, interest expenses on long-term borrowings decreased as a result of the bond buy-back transaction and the repayment of a bond in June 2015. Reference is made to note 4.1.

The profit on the sale of TNT Express shares of €145 million includes the positive effect of €136 million from the recycling through the income statement of the fair value adjustments previously recognised in other comprehensive income.

Income taxes: 55 million (2015: 77)

> **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 taxation authorities, based on which income taxes are payable or recoverable.

Income taxes

(in € millions)

Year ended at 31 December	2016	2015
Current tax expense	54	79
Changes in deferred taxes	1	(2)
Total income taxes	**55**	77
Income taxes paid	**80**	105

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 2016, the income taxes paid relate almost completely to income taxes paid in the Netherlands and include payments related to prior years.

Effective income tax rate

(in percentages)

Year ended at 31 December	2016	2015
Dutch statutory income tax rate	25.0	25.0
Adjustment regarding statutory income tax rates other countries	(0.7)	(0.1)
Weighted average statutory tax rate	**24.3**	24.9
Tax effects of:		
Non and partly deductible costs	1.3	0.8
Exempt income	0.1	0.2
Other	3.2	3.9
Effective income tax rate - before impact of stake TNT Express	**28.9**	29.8
Impact of stake TNT Express	(12.5)	(0.2)
Effective income tax rate	**16.4**	29.6

The line 'Non and partly deductible costs' mainly relates to the non deductible treatment of our share-based payments, non deductible costs relating to subsidiaries 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 joint ventures and associates (mainly Postkantoren/Bruna, associate Whistl in the UK and our German joint ventures). The line 'Other' consists mainly of the combined impact of irrecoverable tax losses for which no deferred tax assets could be recognised (2.3%) and updates to tax positions (0.8%).

The impact of the stake in TNT Express relates to the gain from the sale of the stake in TNT Express of €145 million (2015: tax-exempt dividend income 2).

Earnings per ordinary share: 63.1 eurocents (2015: 41.5)

> **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.

(Average) number of outstanding ordinary shares

(in shares)

Year averages and numbers at 31 December	2016	2015
Number of issued and outstanding ordinary shares	442,805,079	441,570,664
Shares held by the company to cover share plans	0	0
Average number of ordinary shares per year	442,366,626	441,346,233
Diluted number of ordinary shares per year	934,751	1,170,603
Average number of ordinary shares per year on a fully diluted basis	**443,301,377**	442,516,836

At 31 December 2016, PostNL had potential obligations under share plans to deliver 934,751 shares (2015: 1,170,603), calculated based on the share price of €4.092 as at 31 December 2016 (31 December 2015: €3.50).

2.3 Other comprehensive income and equity development

Total equity: -76 million (2015: -206) and Other comprehensive income: -144 million (2015: 221)

The increase of total equity by €130 million is mainly explained by net profit for the year of €279 million and other comprehensive income of -€144 million. Other comprehensive income mainly consisted of a negative effect of the recycling of the fair value changes of the stake in TNT Express of €136 million and a negative impact from pensions of €18 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 2016, issued share capital amounted to €36 million (2015: 35) and additional paid-in-capital amounted to €157 million (2015: 153). For details on Issued share capital and Additional paid-in capital, reference is made to note 4.5.

Currency translation reserve

As at 31 December 2016, the translation reserve amounted to €3 million (2015: 4), mainly reflecting the movement in exchange rate differences on converting subsidiaries within the International segment into euros.

Hedge reserve

As at 31 December 2016, the hedge reserve amounted to -€4 million (2015: -7) and mainly related to the fair value timing difference on the £177/€223 million cross-currency swap. The £177/€223 million cross-currency swap has been entered into to hedge foreign currency exposure on the £177 million eurobonds. The net movements in the hedge reserve during 2016 included €3 million that was recycled from the hedge reserve to the income statement (net of taxes) as a result of the bond buy-back transaction. The tax impact on the cash flow hedges included in the hedge reserve as at 31 December 2016 is €1 million (2015: 3). For more information on the cross-currency swaps, see note 4.4 to the consolidated financial statements.

Available-for-sale financial assets

As at 31 December 2016, the reserve relating to the available-for-sale financial assets amounted to €0 million (2015: 128). The reserve related to the 14.6% stake in TNT Express, increased by €8 million as a result of the increase of the share price from TNT Express from €7.79 per 31 December 2015 to €7.89 per 2 April 2016 and decreased to nil in May 2016 when PostNL completed the sale of the stake in TNT Express and the reserve was recycled through the income statement. Reference is made to note 4.2.

Other reserves

As at 31 December 2016, the other reserves amounted to -€561 million (2015: -544). In 2016, the other reserves decreased by €17 million mainly resulting from the appropriation of net income from 2015 of €7 million, a negative pension effect within other comprehensive income (net of tax) of €18 million and -€6 million related to the buy-out of the minority shareholder of Postcon National. For details on pensions, reference is made to note 3.4.

Retained earnings

As at 31 December 2016, retained earnings amounted to €290 million (2015: 18). In 2016, retained earnings improved by €272 million due to the appropriation of net income from 2015 of €7 million and total profit for the year of €279 million in 2016.

The Board of Management has proposed to add €605 million out of corporate profit for the year 2016 of €658 million to the other reserves (2015: 7) and to allocate €53 million as dividend. Refer to note 6.5 for more details of this proposal.

2.4 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.

2.4.1 Net cash (used in)/from operating activities: 110 million (2015: 214)

In 2016, net cash from operating activities of €110 million (2015: 214) resulted from €282 million of cash generated from operations (2015: 392) reduced by €92 million interest paid (2015: 73) and €80 million income tax paid (2015: 105).

Cash generated from operations

The decrease in cash generated from operations of -€110 million is mainly explained by €56 million lower profit before income tax adjusted for non-cash items, a higher change in pension liabilities of -€31 million and a change in working capital of -€39 million partly offset by a lower change in other provisions of €16 million.

Cash generated from operations

(in € millions)

Year ended at 31 December	2016	2015
Total profit before tax adjusted for non cash items	**377**	433
Pension expense defined benefit plans	90	125
Past service pension cost/settlements	(11)	(1)
Cash contributions defined benefit plans	(121)	(135)
Payment unconditional funding obligation	(32)	(32)
Change in pension liabilities	**(74)**	**(43)**
Additions to/releases from provisions	28	6
Withdrawals	(56)	(50)
Change in other provisions	**(28)**	**(44)**
Changes in working capital	7	46
Total cash generated from operations	**282**	392

For the changes in provisions, reference is made to note 3.4 Provisions for pension liabilities and to note 3.5 Other provisions. The change in working capital decreased due to a lower increase in the accrual for terminal dues and higher trade accounts receivable within Mail in the Netherlands.

Interest paid

The interest paid is explained as follows:

Interest paid

(in € millions)

Year ended at 31 December	2016	2015
Interest on long-term borrowings	54	69
Premium paid on bond buy-back	33	
Interest on taxes		1
Bank charges and other	5	3
Total	**92**	73

The interest paid on long-term borrowings decreased mainly as a result of the repayment of a eurobond in 2015.

Income taxes received/(paid)

The income taxes paid of €80 million (2015: 105) mainly related to income taxes paid in the Netherlands and include payments related to prior years.

2.4.2 Net cash (used in)/from investing activities: 543 million (2015: -79)

Net cash investing activities

(in € millions)

Year ended at 31 December	2016	2015
Acquisition of subsidiaries (net of cash)	(30)	(5)
Capital expenditure on intangible assets and property, plant and equipment	(95)	(91)
Proceeds from sale of property, plant and equipment	27	9
Proceeds from sale of available-for-sale financial assets	643	
Other	(2)	8
Net cash (used in)/from investing activities	**543**	(79)

Acquisitions

In 2016, cash outflow net of cash of €21 million related to the acquisition of Yourzine and Searchresult and €8 million related to the acquisition of 50% of the shares of HIM Holtzbrinck 25 GmbH. In 2015, cash outflow of €5 million related to the acquisition of DM Production B.V. Reference is made to note 5.3 Business combinations.

Capital expenditure on intangible assets and property, plant and equipment

In 2016, capital expenditures on intangible assets of €31 million (2015: 36) mostly related to software including prepayments for software. The capital expenditures on property, plant and equipment amounting to €64 million (2015: 55) mainly related to the new sorting and delivery centres and vehicles within Parcels and equipment in Mail in the Netherlands (mainly related to new sorting machines). 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 2016, proceeds from the sale of property, plant and equipment amounted to €27 million (2015: 9) and mainly related to the sale of several buildings.

Proceeds from sale of available-for-sale financial assets

The proceeds from sale of available-for-sale financial assets related to the sale of the 14.6% stake in TNT Express.

Other

In 2016, the other effects of -€2 million included a cash outflow of €4 million related to the sale of the last mile operations in Frankfurt. The loss on the sale of €4 million is included in other income in the consolidated income statement. Further, an amount of €5 million related to the amount paid for a shareholders' loan acquired with the acquisition of 50% of the shares of HIM Holtzbrinck 25 GmbH.

2.4.3 Net cash (used in)/from financing activities: -368 million (2015: -365)

In 2016, the net cash used in financing activities mainly related to the bond buy-back transaction with a nominal value of €341 million and the partial settlement of the related cross-currency swap of €16 million. In 2015, the net cash used in financing activities mainly related to the repayment of a eurobond of €349 million. Reference is made to note 4.1 Net debt and note 4.4 Financial instruments. Changes related to non-controlling interests included the buy-out of the minority shareholder of Postcon National of -€11 million.

2.5 Segment information

Accounting policies

PostNL reports three operating segments: Mail in the Netherlands, Parcels and International 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.

The following table presents the reconciliation of the 2016 segment information relating to the income statement of the reportable segments. Segment information relating to the balance sheet is reported in note 3.10.

Segmentation 2016

(in € millions)

Year ended at 31 December 2016	Mail in NL	Parcels	International	PostNL Other	Eliminations	Total
Net sales	1,616	803	984	0		3,403
Intercompany sales	258	158	33	177	(626)	
Other operating revenue	3	6	0	1		10
Total operating revenue	1,877	967	1,017	178	(626)	3,413
Other income	13	0	(3)	0		10
Depreciation/impairment property, plant and equipment	(30)	(15)	(6)	(14)		(65)
Amortisation/impairment intangibles	(12)	(8)	(3)	(4)		(27)
Impairment assets held for sale						0
Total operating income	181	110	2	(2)		291
Net financial income/(expense)						45
Results from investments in jv's/associates						(1)
Income taxes						(55)
Profit for the year						280

The key financial performance indicator for management of the reportable segments 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 of the 2015 segment information relating to the income statement of the reportable segments. Segment information relating to the balance sheet is reported in note 3.10.

Segmentation 2015

(in € millions)

Year ended at 31 December 2015	Mail in NL	Parcels	International	PostNL Other	Eliminations	Total
Net sales	1,742	757	949	1		3,449
Intercompany sales	213	155	34	186	(588)	
Other operating revenue	6	5	0	1		12
Total operating revenue	1,961	917	983	188	(588)	3,461
Other income	4	0	0	0		4
Depreciation/impairment property, plant and equipment	(29)	(14)	(6)	(17)		(66)
Amortisation/impairment intangibles	(11)	(9)	(3)	(3)		(26)
Impairment assets held for sale	(1)					(1)
Total operating income	237	101	0	2		340
Net financial income/(expense)						(78)
Results from investments in jv's/associates						(2)
Income taxes						(77)
Profit/(loss) from discontinued operations						(34)
Profit for the year						149

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, intangible assets and assets classified as held for sale. 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: 388 million (2015: 371)

Accounting policies

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of accounts receivable is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the loss is recognised in the income statement. Any reversal of the loss is included in the income statement on the same line as where the original expense was recorded.

Accounts receivable

(in € millions)

At 31 December	2016	2015
Trade accounts receivable - total	372	356
Allowance for doubtful debt	(15)	(19)
Trade accounts receivable	**357**	337
VAT receivable	22	21
Accounts receivable from associates and joint ventures	1	2
Other accounts receivable	8	11
Accounts receivable	**31**	34
Total accounts receivable	**388**	371

The main part of the allowance for doubtful debt 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. For the non-trade accounts receivable, no allowance for doubtful debt was required. 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 12% of the outstanding balance as at 31 December 2016 (2015: 15%). The concentration of the trade accounts receivable portfolio over the different regions can be summarised as follows:

- Netherlands €212 million (2015: 204),
- Germany and Italy €111 million (2015: 105), and
- the rest of the world €34 million (2015: 28).

The ageing analysis of the trade accounts receivable past due but not individually impaired is presented below. The decline in the category 'Over 12 months' is due to the full collection of the trade accounts receivable related to Riscossione Sicilia.

Ageing trade accounts receivable past due, not impaired

(in € millions)

At 31 December	2016	2015
Up to 1 month	60	74
2-3 months	29	32
3-6 months	13	11
6-12 months	10	12
Over 12 months	18	36
Total	**130**	165

The movements in the allowance for doubtful debt of trade accounts receivable were as follows:

Statement of changes in the allowance for doubtful debt of trade accounts receivable

(in € millions)

	2016	2015
Balance at 1 January	**19**	17
Provided for during financial year	2	8
Receivables written off during year as uncollectable	(6)	(6)
Balance at 31 December	**15**	19

3.1.2 Other current liabilities: 141 million (2015: 155)

Other current liabilities

(in € millions)

At 31 December	2016	2015
VAT payable	45	53
Social security contributions payable	28	30
Payments from customers received in advance	42	44
Other	26	28
Total	**141**	155

3.1.3 Accrued current liabilities: 592 million (2015: 577)

Accrued current liabilities

(in € millions)

At 31 December	2016	2015
Amounts received in advance	105	115
To be paid to third parties	163	146
To be paid to personnel	47	48
Vacation days/vacation payments	80	86
Terminal dues	184	163
Interest payable	10	16
Other accrued current liabilities	3	3
Total	**592**	577

As at 31 December 2016, amounts received in advance mainly included €63 million (2015: 70) for deferred revenue for stamps that were sold but not yet used, deferred revenues from franking machines of €12 million (2015: 14) and rental of mailboxes of €12 million (2015: 13).

Main items within the expenses to be paid to third parties included payables to business partners of €33 million (2015: 33), claims of €5 million (2015: 7), discounts to be paid of €3 million (2015: 5) and various other expenses to be paid.

Expenses to be paid to personnel included accrued wages and salaries of €18 million (2015: 20), the accrual for voluntary termination agreements of €10 million (2015: 5) and accruals for employee profit-sharing over 2016.

The increase of the accrual for terminal dues related to foreign postal operators mainly resulted from higher net export volumes.

3.2 Property, plant and equipment

Property, plant and equipment: 505 million (2015: 508)

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.

Property, plant and equipment

(in € millions)

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Depreciation percentage	0%-10%	10%-33%	10%-33%	0%	
Historical cost	829	444	102	25	1,400
Accumulated depreciation and impairments	(480)	(325)	(76)		(881)
Balance at 31 Dec 2014	349	119	26	25	**519**
Capital expenditure in cash	15	19	3	18	55
Capital expenditure in financial leases			1		1
Disposals	(2)				(2)
Internal transfers and reclassifications	7	25	3	(35)	
Depreciation	(27)	(28)	(10)		(65)
Impairments		(1)			(1)
Transfers to assets held for sale	1				1
Total changes	(6)	15	(3)	(17)	**(11)**
Historical cost	817	479	95	8	1,399
Accumulated depreciation and impairments	(474)	(345)	(72)		(891)
Balance at 31 Dec 2015	343	134	23	8	**508**
Capital expenditure in cash	7	32	5	20	64
(De)consolidation		1	1		2
Disposals	(7)				(7)
Internal transfers and reclassifications	2	3		(5)	
Depreciation	(26)	(27)	(9)		(62)
Impairments	(1)	(1)	(1)		(3)
Transfers to and from assets held for sale	3				3
Total changes	(22)	8	(4)	15	**(3)**
Historical cost	838	477	82	23	1,420
Accumulated depreciation and impairments	(517)	(335)	(63)		(915)
Balance at 31 Dec 2016	321	142	19	23	**505**

Capital expenditures in 2016 are above the level of 2015. Investments were made in the new sorting and delivery centres and vehicles within Parcels and in equipment in Mail in the Netherlands (mainly related to new sorting machines). 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.

Finance leases

(in € millions)

Year ended at 31 December	2016	2015
Land and buildings - leasehold rights and ground rents		
Historical cost	22	20
Accumulated depreciation	(9)	(7)
Bookvalue	**13**	13
Other equipment	1	1
Total bookvalue finance leases	**14**	14

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 (2015: 0),
- between 5 and 20 years amount to €0 million (2015: 0),
- between 20 and 40 years amount to €7 million (2015: 7),
- thereafter amount to €6 million (2015: 6), and
- with indefinite terms amount to €0 million (2015: 0).

3.3 Intangible fixed assets

Intangible fixed assets: 201 million (2015: 146)

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.

Intangible fixed assets

(in € millions)

	Goodwill	Software	Other	Total
Amortisation percentage		10%- 35%	0%- 35%	
Historical cost	261	203	40	504
Accumulated amortisation and impairments	(177)	(170)	(27)	(374)
Balance at 31 Dec 2014	84	33	13	130
Additions	6	12	24	42
Internal transfers/reclassifications		15	(15)	
Amortisation		(24)	(2)	(26)
Total changes	6	3	7	16
Historical cost	267	211	49	527
Accumulated amortisation and impairments	(177)	(175)	(29)	(381)
Balance at 31 Dec 2015	90	36	20	146
Additions	36	16	15	67
Acquisition of subsidiaries	8		7	15
Internal transfers/reclassifications		16	(16)	
Amortisation		(25)	(2)	(27)
Total changes	44	7	4	55
Historical cost	311	238	45	594
Accumulated amortisation and impairments	(177)	(195)	(21)	(393)
Balance at 31 Dec 2016	134	43	24	201

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 2015, the CGU structure has not changed.

In 2016, the additions to goodwill related to the acquisition of Yourzine and Searchresult (€14 million, CGU Mail in the Netherlands), Witgoed Services (€1 million, CGU Parcels) and 50% of the shares of HIM Holtzbrinck 25 GmbH (€21 million, CGU Germany). As the acquisition of HIM Holtzbrinck 25 GmbH was done close to year-end, only a provisional purchase price allocation was performed which resulted in intangible assets of nil and goodwill of €21 million. The €8 million goodwill resulting from the acquisition of subsidiaries resulted from the HIM Holtzbrinck 25 GmbH acquisition. In 2015, the additions to goodwill related to the acquisition of DM Productions B.V. Reference is made to note 5.3 for more detailed information.

Goodwill per CGU

(in € millions)

Year ended at 31 December	2016	2015
Mail in the Netherlands	67	54
Parcels	12	11
Germany	53	23
Italy	2	2
Total	134	90

Based on the 2016 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. For markets considered non-mature, no steady state has been achieved to date. 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 discount rate used in the CGU valuations varies from 9% to 13% (pre-tax).

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:

Software and other intangibles

(in € millions)

Year ended at 31 December	2016	2015
Internally-generated software	39	33
Purchased software	4	3
Software under construction	17	18
Customer lists	7	2
Total	**67**	56

The additions to software mainly concerned IT investments in the new sorting and delivery centres within Parcels and software licenses and costs of internally-generated software for various IT projects. The reclassification from other intangibles was due to finalised IT projects. The increase in customer lists relate to the acquisition of Yourzine and Searchresult.

The estimated amortisation expenses for software and other intangible assets are:
- 2017: €30 million,
- 2018: €19 million,
- 2019: €12 million, and
- thereafter: €6 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

Provisions for pension liabilities: 410 million (2015: 449)

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 2016

On 31 July 2016, the main pension fund's 12 months average coverage ratio was 103.8%, below the minimum required funding level of 104.0%. This triggered the start of a 5-year recovery period, in which top-up payments might apply. Projections show no expected top-up payment obligation per 31 December 2016, resulting in a pension liability for the main pension plan equal to the unconditional funding obligation of €97 million. When at three subsequent quarter ends the 12 months average coverage ratio exceeds 104.0% the recovery period will end.

In 2015, PostNL started the payment of the unconditional funding obligation to the main fund by a first instalment of €32 million. In 2016, the second instalment of €32 million was paid. At 31 December 2016, the outstanding funding obligation amounted to €97 million, which will be paid by 3 equal instalments during the years 2017 - 2019.

Within the other plans, we have ended the funded defined benefit pension plans of our unaddressed business line within Mail in the Netherlands as per 31 December 2016. As of 1 January 2017 all active participants moved into a new defined contribution pension plan. We have assessed the remaining employer risks of the ended plans as negligible. On the basis hereof, we have concluded that the closed plans can be treated as defined contribution plans. Consequently, the impact of the plan change has been recorded as a settlement of both the benefit obligations (€34 million) and the plan assets (€30 million). The resulting settlement gain amounted to €4 million.

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 67 years. The pensionable base is derived as the pensionable salary, with a statutory maximum of €101,519 (level 2016), 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 actuarial contributions are calculated by applying a 60-month moving average pension fund discount rate. 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 2016 and 2017 has been set at 1.62% and 1.43% of the pensionable base respectively.

In the event of a coverage deficit PostNL has an obligation for top-up payments of at most 1.25% of the fund's plan obligations per year, for at most five consecutive years. 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). On 31 July 2016, the main pension fund had a coverage deficit which triggered the 5-year recovery period as mentioned in the main developments during 2016.

By the end of 2016, the month-end coverage ratio of the main fund amounted 108.3% (2015: 106.0%), including the outstanding payment of the unconditional funding obligation of €97 million by PostNL. The increased coverage ratio is mainly explained by the return on plan assets of 10.8% which more than compensated for the increased obligation due to the decrease in interest rates and the effect of the latest longevity outlook. The 12-months average coverage ratio amounted 103.6% per 31 December 2016 (2015: 106.8%).

The returns on plan assets are linked to the strategic investment policy of the main fund. The fund uses interest rate derivates to reduce the net interest exposure on its assets and liabilities. During 2016 the pension fund changed its investment strategy and exposure by ending the equity derivates. The plan assets may from time to time include investments in PostNL's own financial instruments through indirect holdings by mutual funds. Around 75% 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.

Asset mix/return of main pension plan

At 31 December	Actual mix 2016	Actual mix 2015
Equities and equity derivatives	22%	18%
Fixed interest and inflation linked bonds	62%	68%
Real estate and alternative investment	16%	9%
Swaps and swaptions	0%	5%
Total	**100%**	100%
Return	**10.8%**	1.4%

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 2016.

Statement of changes in provision for defined benefit plans

(in € millions)

	Balance at 31 December 2015	Post-employment benefit income/ (expenses)	Employer contributions	Actuarial gains/(losses)	Pension asset ceiling/minimum funding requirement	Balance at 31 December 2016
Dutch main pension plan	(129)	(77)	110	(246)	245	(97)
Dutch transitional plans	(305)	(15)	41	(23)		(302)
Other plans	(15)	2	2	0		(11)
Provision for post-employment benefit plans	(449)	(90)	153	(269)	245	**(410)**

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.

Details on cost, cash, gains and losses, and adjustments

(in € millions)

		2016	2015
Regular defined benefit costs		(101)	(138)
Past service costs/settlements		11	1
Defined contribution costs		(11)	(12)
Total employer pension costs		**(101)**	(149)
Of which included within salaries, pensions and social security contributions	refer to note 2.1.3	(90)	(136)
Of which included within interest and similar expenses	refer to note 2.2	(11)	(13)
Defined benefit cash contributions		121	135
Defined benefit payment unconditional funding obligation		32	32
Defined contribution cash contributions		11	12
Total employer pension cash contributions		**164**	179
Actuarial gain/(loss) due to:			
Change in discount rate	from 2.5% to 1.8% (2015: from 2.3% to 2.5%)	(974)	254
Change in rate of benefit accrual		25	121
Changes in demographic assumptions		(66)	13
Experience adjustments		134	12
Actuarial loss on benefit obligations		**(881)**	400
Actuarial gain/(loss) on plan assets		612	(70)
Total actuarial gain/(loss)		**(269)**	330
Net charge within Other Comprehensive Income		**(202)**	248
Adjustment for pension asset ceiling		146	(142)
Adjustment for minimum funding requirement		99	(129)
Total gross adjustment		**245**	(271)
Net charge within Other Comprehensive Income		**184**	(203)

The actuarial gain of €25 million (2015: 121) 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 positive adjustments of €146 million and €99 million were the consequence of the main fund's change from a funded status in 2015 to an unfunded status in 2016 (on the basis of IAS 19 accounting), triggering the release of the 2015 limitation of the main fund's funded status and adjustment of the recorded minimum funding requirement.

For 2017, we expect total cash contributions of around €160 million (2016: 164), including the third instalment of the unconditional funding obligation of €33 million (2016: 32).

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.

Detailed overview of changes in consolidated defined benefit plans

(in € millions)

	2016	2015
Change in benefit obligation		
Benefit obligation at beginning of year	(7,636)	(7,932)
Inclusion of other post-employment benefit plans		(9)
Service costs	(100)	(134)
Interest costs	(190)	(183)
Past service costs	7	1
Settlements	34	
Actuarial (losses)/gains	(881)	400
Benefits paid	224	221
Benefit obligation at end of year	**(8,542)**	**(7,636)**
Of which funded benefit obligations	(8,232)	(7,322)
Of which unfunded benefit obligations	(310)	(314)
Change in plan assets		
Fair value of plan assets at beginning of year	7,458	7,403
Assumed return on plan assets	186	170
Employee contributions	19	16
Employer contributions	153	167
Other costs	(9)	(7)
Settlements	(30)	
Actuarial (losses)/gains	612	(70)
Benefits paid	(224)	(221)
Fair value of plan assets at end of year	**8,165**	**7,458**
Change in funded status		
Funded status at the beginning of year	(178)	(538)
Operating expenses	(79)	(124)
Interest (expenses)/income	(4)	(13)
Employer contributions	153	167
Actuarial (losses)/gains	(269)	330
Funded status at end of year	**(377)**	**(178)**
Impact of pension asset ceiling		(142)
Impact of minimum funding requirement	(33)	(129)
Netted pension liabilities	**(410)**	**(449)**
Components of employer pension expenses		
Service costs (net of employee contributions)	(81)	(118)
Interest (expenses)/income	(11)	(13)
Past service costs/settlements	11	1
Other costs	(9)	(7)
Total post-employment benefit income/(expenses)	**(90)**	**(137)**
Weighted average assumptions as at 31 December		
Discount rate	1.8%	2.5%
Rate of benefit increases	1.1%	1.1%
Life expectancy 65 year old men/women (in years)	21.1/23.4	20.8/23.0

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 and the pension plan's ambition level.

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 2016' 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 2016 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.

	%-change in assumptions	impact on defined benefit obligation
Benefit obligation at end of year (in € millions)		**8,542**
Discount rate	+ 0.5%	-8.4%
Rate of benefit increases	+ 0.5%	9.8%
Life expectancy men/women	+ 1 yr	3.7%
Benefit obligation at end of year (in € millions)		**8,542**
Discount rate	- 0.5%	9.6%
Rate of benefit increases	- 0.5%	-7.6%
Life expectancy men/women	- 1 yr	-3.7%

3.5 Other provisions

Other provisions: 83 million (2015: 111)

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.

Other long-term and short-term provisions

(in € millions)

	Other employee benefit obligations	Restructuring	Claims and indemnities	Other	Total
Non-current other provisions	19	23	12	7	61
Current other provisions	6	41	1	2	50
Balance at 31 Dec 2015	25	64	13	9	111
Additions		34	3	3	40
Withdrawals	(3)	(50)	(1)	(2)	(56)
Releases	(3)	(6)	(3)		(12)
Reclassification					
Total changes	(6)	(22)	(1)	1	(28)
Non-current other provisions	15	7	11	6	39
Current other provisions	4	35	1	4	44
Balance at 31 Dec 2016	19	42	12	10	83

The estimated utilisation of the other provisions in 2017 is €44 million, in 2018 €16 million, in 2019 €10 million and in 2020 and thereafter €13 million.

Other employee benefit obligations

As at 31 December 2016, the other employee benefit obligations related to jubilee payments of €16 million and other employee benefits of €3 million.

Restructuring

The restructuring provision and changes thereof related mainly to the cost saving programmes, where €29 million of the total additions of €34 million in 2016 consisted of restructurings within operations (€20 million), marketing & sales (€1 million) and head office departments (€8 million), relating to around 430 FTE in total.

The restructuring within operations related to the implementation of the new organisational structure for management and staff of production and the restructuring of the administrative staff of the service centers due to volume decline and increased automation. The restructuring within head office departments results from adjusting the employee base to the volume decline within Mail in the Netherlands.

The withdrawals of €50 million concerned severance payments under the cost saving programmes totaling €43 million related to around 600 FTEs and payments for other initiatives totaling €7 million related to around 110 FTEs.

The release of €6 million mainly related to the cost saving programmes within operations and head office departments, resulting from increased voluntary resignations and periodical reassessments of the expected cash costs.

The restructuring provisions are discounted against an average discount rate of 0.1% as they are expected to be utilised mainly during the period 2017-2018.

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 the sale of PostNL's discontinued operations. 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 anticipated contributions to the postal fund for unemployment, onerous contracts, dilapidation costs in relation to restructurings and guarantees provided to third parties.

3.6 Investments in joint ventures and associates

Investments in joint ventures and associates: 17 million (2015: 33)

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.

Investments in joint ventures and associates

(in € millions)

	2016	2015
Balance at 1 January	**33**	34
Share in net result	2	(2)
Impairment Postkantoren/Bruna	(10)	
Fair value adjustment HIM Holtzbrinck 25 GmbH	7	
Disposal	(14)	
Share in other comprehensive income/direct equity movements		1
Dividend received	(1)	
Balance at 31 December	**17**	33

As at 31 December 2016, the investments in joint ventures mainly related to the 50% interest in Postkantoren B.V./Bruna B.V., a joint venture with ING Bank N.V, within Mail in the Netherlands. The investments in associates mainly related to a 17.5% share in Whistl, retained from the management buy-out of Whistl in the UK at 23 October 2015, and minority shareholdings in Germany, both within International. All joint ventures are private companies and there is no quoted market price available for their shares.

The impairment of Postkantoren/Bruna was triggered by the deteriorated financial situation following the reduced performance of Bruna. It adjusts the carrying value of the joint venture to management's best estimate of the recoverable value at 31 December 2016.

The fair value adjustment and disposal relate to the acquisition of the remaining 50% of the shares of HIM Holtzbrinck 25 GmbH. With the acquisition of the remaining shares, PostNL obtained control of HIM Holtzbrinck 25 GmbH. The previously held equity interest of 50% was remeasured at fair value at acquisition date which resulted in a gain of €7 million reported as results from investments in joint ventures.

Management has assessed none of the investments in joint ventures and associates to be material to the company. The profit/(loss) of all immaterial investments in joint ventures amounted to -€2 million (2015: -5). The profit/(loss) of all immaterial investments in associates amounted to €16 million (2015: 3).

As at 31 December 2016, PostNL had a £32 million guarantee outstanding for its investment in associate Whistl. The guarantee was already in place before the management buy-out.

3.7 Deferred income tax assets and liabilities

Deferred tax assets: 38 million (2015: 37) and deferred tax liabilities: 35 million (2015: 35)

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 2016:

Statement of changes deferred taxes 2016

(in € millions)

	Net balance 31 December 2015	Changes via income statement	Changes via other comprehensive income	Acquisition of subsidiaries	Net balance 31 December 2016	Assets	Liabilities
Provisions	31	(4)	6		33	33	
Property, plant and equipment	(39)	3			(36)	12	48
Losses carried forward	6	3			9	9	
Other	4	(3)	(2)	(2)	(3)	8	11
Deferred tax assets/liabilties	2	(1)	4	(2)	3	**62**	**59**
Offsetting						(24)	(24)
Net deferred taxes	2	(1)	4	(2)	3	**38**	**35**

Of the deferred tax assets at 31 December 2016, €5 million (2015: 3) is to be recovered within 12 months and €33 million (2015: 34) after 12 months. Of the deferred tax liabilities at 31 December 2016, an amount of €17 million (2015: 5) is to be settled within 12 months and an amount of €18 million (2015: 30) after 12 months.

The total accumulated losses available for carry forward at 31 December 2016 amounted to €228 million (2015: 191). With these losses carried forward, future tax benefits of €66 million could be recognised (2015: 57). Tax deductible losses give rise to deferred tax assets at the statutory tax rate in the relevant country. Deferred tax assets are recognised if it is probable that they will be realised. The probability of the realisation is impacted by uncertainties regarding the realisation of such benefits, for example as a result of the expiration of tax losses carried forward and projected future taxable income. As a result PostNL has not recognised €57 million (2015: 51) of the potential future tax benefits and has recorded deferred tax assets of €9 million at 31 December 2016 (2015: 6).

The expiration of total accumulated losses is as follows:
- 2017: €2 million,
- 2018: €3 million,
- 2019: €5 million,
- 2020: €4 million,
- 2021 and thereafter: €30 million, and
- Indefinite: €184 million.

The following table shows the movements in deferred taxes in 2015:

Statement of changes deferred taxes 2015

(in € millions)

	Net balance 31 December 2014	Changes via income statement	Changes via other comprehensive income	Net balance 31 December 2015	Assets	Liabilities
Provisions	45	1	(15)	31	31	
Property, plant and equipment	(44)	5		(39)	11	50
Losses carried forward	9	(3)		6	6	
Other	5	(1)		4	11	7
Deferred tax assets/liabilties	15	2	(15)	2	59	57
Offsetting					(22)	(22)
Net deferred taxes	15	2	(15)	2	37	35

3.8 Assets classified as held for sale

Assets classified as held for sale: 4 million (2015: 13) and loss from discontinued operations: 0 million (2015: 34)

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 of disposal. 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 of disposal.

For the accounting policy concerning impairments, reference is made to note 5.4.

As at 31 December 2016, assets classified as held for sale amounted to €4 million (2015: 13) and related to buildings held for sale in the Netherlands. In 2015, the loss from discontinued operations of €34 million related to Whistl in the UK, which former business line within International PostNL sold via a management buy-out.

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 2016 and 2015.

Property, plant and equipment

(in € millions)

	2016	2015
Balance at 1 January	13	19
Disposals	(6)	(4)
Impairments	0	(1)
Transfers to/from property, plant and equipment	(3)	(1)
Balance at 31 December	4	13

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.

Off balance sheet commitments

(in € millions)

At 31 December	2016	2015
Rent and operating lease	146	159
Capital expenditure	42	27
Purchase commitments	55	52

As at 31 December 2016, €157 million of the commitments indicated above are of a short-term nature (2015: 137).

Rent and operational lease contracts

In 2016, operational lease expenses (including rental) in the consolidated income statement amounted to €84 million (2015: 87). There were no significant individual lease contracts as at 31 December 2016. Future payments on non-cancellable existing lease contracts mainly relating to real estate, computer equipment and other equipment are as follows:

Repayment schedule rent/operational leases

(in € millions)

At 31 December	2016	2015
Less than 1 year	59	62
Between 1 and 2 years	40	40
Between 2 and 3 years	23	27
Between 3 and 4 years	15	15
Between 4 and 5 years	7	10
Thereafter	2	5
Total	**146**	159

Capital expenditure

As at 31 December 2016, commitments in connection with capital expenditure amounted to €42 million (2015: 27) and are related to property, plant and equipment. These commitments primarily relate to the new sorting and delivery centres of Parcels and projects within operations of Mail in the Netherlands (sorting machines).

Purchase commitments

As at 31 December 2016, PostNL had unconditional purchase commitments of €55 million (2015: 52), primarily related to various service and maintenance contracts for information technology, security, salary registration and cleaning. The increase is mainly caused by commitments related to the migration from IT-systems into the cloud.

Contingent tax liabilities

Multinational groups of the size of PostNL are exposed to varying degrees of uncertainty related to tax planning and regulatory reviews and audits. PostNL accounts for its income taxes on the basis of its own internal analyses, supported by external advice. PostNL continually monitors its global tax position, and whenever uncertainties arise, assesses the potential consequences and either accrues the liability or discloses a contingent liability in its financial statements, depending on the strength of the company's position and the resulting risk of loss.

Guarantees

As at 31 December 2016, 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. As at 31 December 2016, PostNL had a £32 million (2015: £36 million) guarantee outstanding for its investment in associate Whistl.

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 effect on its operational results, liquidity, capital resources or financial position. The company believes it has provided for all probable liabilities deriving from the normal course of business.

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 2016, 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 three operating segments: Mail in the Netherlands, Parcels and International 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.

Segmentation - balance sheet and capital expenditures 2016

(in € millions)

At 31 December 2016	Mail in NL	Parcels	International	PostNL Other	Total
Intangible assets	99	23	62	17	201
Property, plant and equipment	237	223	18	27	505
Trade accounts receivable	166	48	143	0	357
Other current assets	78	35	133	566	812
Total assets	**602**	**331**	**378**	**625**	**1,936**
Trade accounts payable	81	34	50	23	188
Other current liabilities	517	102	111	383	1,113
Total liabilities	**860**	**203**	**178**	**771**	**2,012**
Cash out for capital expenditures	41	34	12	8	95

The segmented balance sheet information as at 31 December 2015 was as follows:

Segmentation - balance sheet and capital expenditures 2015

(in € millions)

At 31 December 2015	Mail in NL	Parcels	International	PostNL Other	Total
Intangible assets	76	25	31	14	146
Property, plant and equipment	246	209	15	38	508
Trade accounts receivable	149	54	134	0	337
Other current assets	57	23	157	286	523
Total assets	571	311	366	1,003	2,251
Trade accounts payable	61	30	43	25	159
Other current liabilities	550	95	112	60	817
Total liabilities	918	193	170	1,176	2,457
Cash out for capital expenditures	49	26	7	9	91

As at 31 December 2015, the total assets of PostNL Other included assets related to the TNT Express stake amounting to €626 million.

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.

Geographical segmentation - assets

(in € millions)

At 31 December		2016			2015	
	Intangible assets	Property, plant and equipment	Financial fixed assets	Intangible assets	Property, plant and equipment	Financial fixed assets
The Netherlands	143	487	37	117	493	694
Germany	54	10	10	24	9	22
Italy	4	7	9	5	5	7
Rest of Europe		1	1		1	1
Europe	**201**	**505**	**57**	146	508	724
Rest of the World						
Total	201	505	57	146	508	724

The decrease in financial fixed assets relates to the sale of the stake in TNT Express in 2016.

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,
- loans and receivables,
- held-to-maturity investments,
- available-for-sale financial assets,
- financial liabilities measured at amortised cost.

Management determines the classification of PostNL's financial assets and liabilities at initial recognition.

Financial assets and financial liabilities at fair value through profit or loss
Financial assets and financial liabilities at fair value through profit or loss are derivatives and include the following instruments:
- 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); or
- net investment hedges (hedges of a net investment in a foreign operation).

These instruments are carried at fair value. Unrealised gains and losses are recognised in profit or loss. If a derivative is designated as a cash flow hedge or net investment hedge, changes in its fair value are considered to be effective and recorded in a separate component in equity until the hedged item is recorded in income. Any portion of a change in the fair value of a derivative that is considered to be ineffective, or is excluded from the measurement of effectiveness, is immediately recorded in the income statement.

Amounts accumulated in equity 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 and discounted cash flow analysis.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which PostNL has no intention of trading. Loans and receivables are carried at amortised cost using the effective interest method.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities which PostNL has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories above. Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as a gain or a loss.

Financial liabilities measured at amortised cost
Financial liabilities measured at amortised cost 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.

4.1 Net cash

As at 31 December 2016 net cash amounted to €86 million (2015: 552 net debt) and included the items disclosed hereafter.

Cash and cash equivalents: 640 million (2015: 355)

Cash and cash equivalents

(in € millions)

At 31 December	Nominal amount	Average amount	Effective interest rate
Cash at bank and in hand	237		
Bank deposits	175	247	(0.19%)
Money Market Funds	228	198	(0.21%)
Total cash and cash equivalents 2016	**640**		
Cash at bank and in hand	140		
Bank deposits	75	114	0.00%
Money Market Funds	140	140	(0.05%)
On-call deposit account		21	0.00%
Total cash and cash equivalents 2015	**355**		

As at 31 December 2016, included in cash and cash equivalents was €0 million (2015: 0) of restricted cash. The fair value of cash and cash equivalents approximated the carrying value.

Debt: long-term debt: 227 million (2015: 934) and short-term debt: 328 million (2015: 1)

Total borrowings - maturity schedule

(in € millions)

	Eurobonds	Derivatives	Financial leases	Total
2017	327		1	328
2018	206	20	1	227
Total borrowings	533	20	2	**555**
Of which included in long-term debt	206	20	1	227
Of which included in short-term debt	327		1	328

The derivatives of €20 million (2015: asset 21) represents the £177/€223 million cross-currency swap outstanding to hedge the foreign exchange exposure on the £177 million eurobond.

The decrease in debt in 2016 is due to the bond buy-back transaction completed in September 2016. The table below gives details of the repurchased nominal value of the individual bonds and the premiums paid, which are reported as interest expenses in the income statement.

Bond buy-back

(in € millions)

At 31 December	Nominal value	Derivatives	Premium	Accrued interest	Total paid
5.375% eurobond 2017	180		12	8	200
7.500% eurobond 2018 (£ denominated)	161	16	21	1	199
Total	341	16	33	9	**399**
Execution costs					1
Total cash outflow					**400**

4.2 Available-for-sale financial assets

Available-for-sale financial assets: 1 million (2015: 626)

On 25 May 2016, PostNL completed the sale of its 14.6% stake in TNT Express to FedEx at a price of €8.00 per share, resulting in gross cash proceeds of €643 million and a profit of €145 million. The profit includes the positive effect of €136 million from the recycling through the income statement of the fair value adjustments previously recognised in other comprehensive income. In accordance with IAS 39, the 14.6% stake in TNT Express was considered an available-for-sale financial asset measured at fair value with gains and losses arising from changes in the fair value recognised in other comprehensive income. In the income statement, the profit of €145 million has been included in the interest and similar income.

Following the demerger of Express, PostNL and TNT Express entered into a relationship agreement and a separation agreement. The relationship agreement provided for the terms and conditions on lock-up and orderly market arrangements, subject to which PostNL could reduce its shareholding in TNT Express over time, and included certain arrangements with respect to corporate governance of TNT Express. The relationship agreement was automatically terminated in May 2016 following the sale of the shares in TNT Express under the public offer by FedEx. The separation agreement remained valid. For additional disclosure, see note 3.9 to the consolidated financial statements.

4.3 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 2016, PostNL's gross interest-bearing borrowings, including finance lease obligations, totalled €555 million (2015: 935), all at fixed interest rates. Financial assets are on average of a short-term nature.

At 31 December 2016, 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 €6 million higher (2015: 4). The potential profit increase is entirely attributable to interest income on the cash and cash equivalents. Equity would be positively affected by €1 million (2015: 2), due to the change in the interest curve projection applied for the calculation of the fair value of the £177/€223 million cross currency swap, as well as the €6 million (2015: 4) positive impact on profit before income taxes (see also note 4.4 to the consolidated financial statements).

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 2016, 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 2016, 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 (2015: 0). In 2016, the net income sensitivity to movements in euro/pound sterling, euro/HK dollar and euro/US dollar exchange rates compared to 2015 did not change. Equity would have been negatively impacted by €3 million (2015: 7 positive), 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 12% of outstanding trade receivables as at 31 December 2016. The outstanding receivable of €22 million at 31 December 2015 related to Riscossione Sicilia has been fully paid in 2016.

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 2016, the €400 million committed credit facility (maturity date: 10 April 2021) was undrawn (2015 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.

Maturity liquidity risks

(in € millions)

At 31 December	Less than 1 year	Between 1 and 3 years	Thereafter	Book value
Eurobonds	361	239		533
Financial leases	1	1		2
Interest rate and cross-currency swaps - outgoing	16	239		20
Foreign exchange contracts - outgoing	236			
Trade accounts payable	188			188
Other current liabilities	68			68
Total outgoing flows	870	479		811
Interest rate and cross-currency swaps - incoming	16	239		
Foreign exchange contracts - incoming	236			
Total mitigation via incoming flows	252	239		
Total liquidity risk 2016	618	240	0	811
Eurobonds	56	988		933
Financial leases	1	1		2
Interest rate and cross-currency swaps - outgoing	28	453		
Foreign exchange contracts - outgoing	266			
Trade accounts payable	159			159
Other current liabilities	72			72
Total outgoing flows	582	1,442		1,166
Interest rate and cross-currency swaps - incoming	28	453		
Foreign exchange contracts - incoming	266			
Total mitigation via incoming flows	294	453		
Total liquidity risk 2015	288	989	0	1,166

4.4 Financial instruments

In line with IAS 39 and IFRS 13, the following categories of financial assets and financial liabilities can be distinguished.

Financial instruments - assets

(in € millions)

At 31 December	*Notes*	Input information level (IFRS13)	Loans and receivables	Derivatives used for hedging	Available for sale	Total
Other loans receivable		level 2 [1]	1			1
Other financial fixed assets	*4.2*	level 3			1	1
Accounts receivable	*3.1.1*	level 2 [1]	388			388
Foreign exchange contracts [3]		level 2	2			2
Cash and cash equivalents	*4.1*		640			640
Total assets as per balance sheet 2016			1,031	0	1	1,032
Other loans receivable		level 2 [1]	7			7
Other financial fixed assets	*4.1/4.2*	level 1&2 [2]		21	626	647
Accounts receivable	*3.1.1*	level 2 [1]	371			371
Foreign exchange contracts [3]		level 2	4			4
Cash and cash equivalents	*4.1*		355			355
Total assets as per balance sheet 2015			737	21	626	1,384

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. Derivatives level 2 and available-for-sale financial assets level 1.
3. Foreign exchange contracts are included in prepayments and accrued income in the statement of financial position.

Financial instruments - liabilities

(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 [2]	207	20	227
Trade accounts payable		level 2 [1]	188		188
Short-term debt	4.1	level 1&2 [2]	328		328
Other current liabilities	3.1.2	level 2 [1]	65	3	68
Total liabilities as per balance sheet 2016			788	23	811
Long-term debt	4.1	level 1&2 [2]	934		934
Trade accounts payable		level 2 [1]	159		159
Short-term debt	4.1	level 2 [2]	1		1
Other current liabilities	3.1.2	level 2 [1]	70	2	72
Total liabilities as per balance sheet 2015			1,164	2	1,166

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.

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

In September 2016, PostNL completed the partial repurchase of the oustanding eurobonds. For the details on the outstanding eurobonds, see the table below.

Outstanding eurobonds

(in € millions)

At 31 December	Nominal value	Costs/discount to be amortised	Hedge accounting	Carrying value	Fair value
5.375% eurobond 2017	328	1	No	327	343
7.500% eurobond 2018 (£177 million)	223	1	Yes	206	228
Total outstanding eurobonds 2016	551	2		533	571
5.375% eurobond 2017	508	1	No	507	554
7.500% eurobond 2018 (£314 million)	396	1	Yes	426	484
Total outstanding eurobonds 2015	904	2		933	1,038

Financial leases

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

Outstanding financial leases

(in € millions)

At 31 December	Nominal value	Fixed/floating interest	Hedge accounting	Carrying value	Fair value
Total outstanding financial leases 2016	2	fixed	No	2	2
Total outstanding financial leases 2015	2	fixed	No	2	2

Derivatives - Cross-currency swaps

As at 31 December 2016, PostNL had £177/€223 million cross-currency swap outstanding to hedge the foreign exchange exposure on the £177 million eurobond. These swaps act as to hedge the future cash flow risk and mature in 2018.

For the details on the outstanding cross-currency swaps, see the table below.

Outstanding swaps

(in € millions)

At 31 December	Nominal value	Forward Starting	Currency	Outstanding	Pay	Receive	Hedge	Fair value
Total cross-currency swaps 2016	223	No	GBP/EUR	Yes	fixed	fixed	cash flow	(20)
Total cross-currency swaps 2015	396	No	GBP/EUR	Yes	fixed	fixed	cash flow	21

The fair value of the outstanding long-term cross-currency swaps is recorded as a long-term asset in 'other financial fixed assets' or as a liability in 'long-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.

Outstanding foreign exchange contracts

(in € millions)

At 31 December	Carrying value	Fair value	Nominal value	Hedge	Amount in equity
Asset	2	2	68	fair value/ cashflow	1
Liability	3	3	168	fair value/ cashflow	2
Foreign exchange contracts 2016					
Asset	4	4	172	fair value/ cashflow	2
Liability	2	2	94	fair value/ cashflow	1
Foreign exchange contracts 2015					

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 2016, the total ineffective portion on all derivatives recognised in the income statement that arises from the use of fair value and cashflow hedges amounted to €0 million (2015: 0).

4.5 Equity

Issued share capital €36 million (2015: 35) and Additional paid-in capital €157 million (2015: 153)

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 has amounted 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. ADRs represent ordinary shares in bearer form represented by the note held by Euroclear Netherlands. 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 2016, the company's issued share capital amounted to €36 million (2015: 35). The number of authorised, issued and outstanding shares by class of share is as follows:

Shares

Before proposed appropriation of profit	2016	2015
Authorised by class		
Ordinary shares	750,000,000	750,000,000
Preference shares B	750,000,000	750,000,000
Total authorised	**1,500,000,000**	1,500,000,000
Issued and outstanding		
Per 1 January of the reported year	441,570,664	440,920,801
Issued under its incentive schemes	1,234,415	649,863
Per 31 December of the reported year	**442,805,079**	441,570,664
Issued and outstanding per 31 December by class		
Ordinary shares	442,805,079	441,570,664
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	1,620,231	1,343,048
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 1,234,415 ordinary shares in 2016 (2015: 649,863) under its incentive schemes to 'Stichting Managementparticipatie PostNL' (Foundation Management Participation PostNL). The company did not purchase any ordinary shares in 2016 (2015: 0) to cover its obligations under the existing share plans. At 31 December 2016, the total number of shares held for this purpose was nil (2015: 0). The company also held no ordinary shares for cancellation at 31 December 2016 (2015: 0).

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 2016, the number of PostNL shares involved amounted to 1,620,231 shares with a nominal value of €0.08 per share.

Foundation Continuity PostNL and preference shares B

Stichting Continuiteit PostNL (Foundation Continuity PostNL) was formed to safeguard PostNL’s interests and the enterprises connected with PostNL and all interested parties, by, among other things, preventing as far as possible any influences that would threaten PostNL’s continuity, independence and identity. Foundation Continuity PostNL is an independent legal entity and is not owned or controlled by 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 2016 no preference shares B were issued.

Additional paid-in capital

At 31 December 2016, additional paid-in capital of €157 million (2015: 153) 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 polices.

We conclude this section with a description of subsequent events, where we provide information received between 31 December 2016 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.

Cash-settled share-based compensation plans
Until mid 2016, PostNL operated one cash-settled share-based compensation plan, involving a cash payment to employees for amounts that are based on the price of PostNL's shares equal to the gain that would have been made by exercising the notional options and immediately selling the shares in the market. The corresponding liability for the cash-settled plans was measured, initially and at each reporting date until settled, at the fair value of the rights, taking into account the terms and conditions upon which the rights were granted and the extent to which the employees have rendered service to date. Any changes in fair value are recognised in the income statement. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At 31 December 2016, no cash-settled share-based compensation plans were in force.

Remuneration of members of the Supervisory Board

Remuneration Supervisory Board

(in €)

	Base compensation	Meeting fees [1]	Total remuneration
Mr M.A.M. Boersma	50,625	10,000	60,625
Mr J. Wallage	40,000	7,500	47,500
Mr J.W.M. Engel	40,000	12,000	52,000
Ms A.M. Jongerius	40,000	11,500	51,500
Ms T. Menssen	40,000	16,500	56,500
Mr F.H. Rövekamp	40,000	11,500	51,500
Total current members	**250,625**	**69,000**	**319,625**
Mr E. Blok [2]	20,000	3,000	23,000
Mr P.C. Klaver [3]	16,042	3,000	19,042
Total 2016	286,667	75,000	**361,667**
Total 2015	295,000	87,000	382,000

1. Payments of meeting fees relating to number of Supervisory Board committee meetings attended and number of meetings held.
2. Up for appointment at the Annual General Meeting of Shareholders on 18 April 2017.
3. Former member, retired as of 19 April 2016.

No loans, advance payments, guarantees, options or shares were granted to members of the Supervisory Board in 2016 (2015: nil). None of the members of the Supervisory Board accrued any pension rights with the company.

Remuneration of members of the Board of Management

In 2016, the total remuneration of the Board of Management consisted of:

- base salary,
- variable remuneration,
- other periodic compensation, and
- pension costs.

Remuneration Board of Management 2016

	Fixed remuneration	**Variable remuneration** [1]				
	Base salary	Accrued for short-term incentive 2016	Accrued for long-term incentive 2016	Other periodic compensation [2]	Pension costs [3]	Total 2016
Herna Verhagen	625,000	234,375	219,137	310,458	17,678	1,406,648
Jan Bos	475,000	178,125	166,544	182,245	18,966	1,020,880
Total remuneration	1,100,000	412,500	385,681	492,703	36,644	**2,427,528**

1. The temporary share plan - to compensate the gap arising in the years 2013-2015 as a consequence of the 2013 revised remuneration policy - ended as from 2016.
2. Other periodic compensation include company costs related to tax and social security, pension allowances, company car and other compensation. Part of the performance shares 2013 have been sold to cover the wage tax liability (sell-to-cover transaction). As the proceeds of the relevant sell-to-cover transaction were insufficient to completely fulfil the tax liability, a compensation award was made to cover the remaining tax liability. Additionally, Herna Verhagen received a jubilee payment (25 years in service) of one month's gross salary.
3. Pension costs represent the service costs of the defined benefit scheme.

Remuneration Board of Management 2015

	Fixed remuneration	**Variable remuneration**					
	Base salary	Accrued for short-term incentive 2015	Accrued for long-term incentive 2015	Accrued for temporary transition plan	Other periodic compensation [1]	Pension costs [2]	Total 2015
Herna Verhagen	625,000	234,375	181,536	234,375	216,233	22,865	1,514,384
Jan Bos	475,000	178,125	137,967	178,125	159,586	24,814	1,153,617
Total remuneration	1,100,000	412,500	319,503	412,500	375,819	47,679	2,668,001

1. Other periodic compensation include company costs related to tax and social security, pension allowances, company car and other compensation.
2. Pension costs represent the service costs of the defined benefit scheme.

Note that the temporary transition plan and associated costs are no longer applicable as from 2016.

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 Ms Verhagen, CEO, and €475,000 for Mr Bos, 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. Individual targets can only contribute to the short-term incentive payout if they are 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 2016, an amount of €412,500 was accrued for. In accordance with the remuneration policy, this amount will be paid in cash in 2017. In 2016, an amount of €412,500 was paid to the members of the Board of Management in relation to the short-term incentive of 2015.

Accrued for long-term incentive

In 2016, the total share-based payment costs relating to the long-term incentive for the members of the Board of Management amounted to €385,681 (2015: 319,503), 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 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.

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 if this occurs earlier. For compliance reasons, a sale of shares may not occur earlier than six months after termination of the employment. Any sale of shares for the purpose of using the proceeds to pay for the tax due at vesting of these shares is exempted.

Performance share plan Board of Management

	Year	Vesting period	Number outstanding 1 Jan 2016	Granted during 2016 [1]	Settled during 2016	Forfeited during 2016	Number outstanding 31 Dec 2016
Herna Verhagen	2013	8 May 2013 to 8 May 2016	134,405		(123,653)	(10,752)	0
	2014	7 May 2014 to 7 May 2017 [2]	75,168				75,169
	2015	7 May 2015 to 7 May 2018	52,823				52,823
	2016	10 May 2016 to 10 May 2019		61,497			61,497
Jan Bos	2013	8 May 2013 to 8 May 2016	102,148		(93,977)	(8,171)	0
	2014	7 May 2014 to 7 May 2017	57,128				57,128
	2015	7 May 2015 to 7 May 2018	40,146				40,146
	2016	10 May 2016 to 10 May 2019		46,738			46,738
Total			461,818	108,235	(217,630)	(18,923)	333,501

1. The number of conditional shares is based on 37.5% of the annual base salary divided by the five-day average Euronext Amsterdam share price of PostNL prior to the grant date (€3.8112).
2. Due to change of equity administrator, fraction shares are round up to a whole number.

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 2016, an amount of €385,681 (2015: 319,503) 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) 2016-2019: €3.619 per share; PSP 2015-2018: €4.387 per share; PSP 2014-2017: €3.334 per share; PSP 2013-2016: €1.753 per share) and by taking into account expected vesting percentages.

Other periodic compensation

Other periodic compensation included company costs related to tax and social security, pension allowances, company car and other compensation. Compared to 2015, other periodic compensation of 2016 mainly increased due to the jubilee payment for Herna Verhagen and the compensation for the sell-to-cover transaction related to the performance shares 2013 for both Herna Verhagen and Jan Bos.

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. Compared to 2015, pension costs of 2016 decreased mainly due to the lower annual accrual rate for old age pension.

Loans, advance payments or guarantees

No loans, advance payments or guarantees were granted to members of the Board of Management in 2016 (2015: 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 total share-based payment costs relating to this short-term incentive amounted to €2.7 million in 2016 (2015: €2.0 million). This amount will be granted and paid in PostNL shares in 2017.

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.

Performance share plan Senior Management

	Year	Vesting period	Number outstanding 1 Jan 2016	Granted during 2016[1]	Settled during 2016	Forfeited during 2016	Number outstanding 31 Dec 2016
Performance share plan	2013	8 May 2013 to 8 May 2016	320,865		(295,197)	(25,668)	0
	2014	7 May 2014 to 7 May 2017[2]	193,661				193,663
	2015	7 May 2015 to 7 May 2018	162,978				162,978
	2016	10 May 2016 to 10 May 2019		213,761			213,761
Total			677,504	213,761	(295,197)	(25,668)	**570,402**

1. The number of conditional shares is based on 37.5% of the annual base salary divided by the five-day average Euronext Amsterdam share price of PostNL prior to the grant date (€3.8112).
2. Due to change of equity administrator, fraction shares are round up to a whole number.

In 2016, an amount of €630,859 (2015: 477,359) 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) 2016-2019: €3.619 per share; PSP 2015-2018: €4.387 per share; PSP 2014-2017: €3.334 per share; PSP 2013-2016: €1.753 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 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. On the 2013 grants, the number of matching shares is equal to the number of bonus shares (job level A) or twice the number of bonus shares (job level B and above),
- the matching rights vest three years after the delivery of the bonus shares,
- as of 2014, the number of matching shares are granted in shares of PostNL (equity-settled scheme). On the 2013 grants, the cash value of the matching shares was paid out for each bonus share that had been retained for three years (cash-settled scheme),
- 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 rules concerning the prevention of use of inside information.

Bonus/matching plan Senior Management

	Year	Vesting period	Number outstanding 1 Jan 2016	Granted during 2016	Settled during 2016	Forfeited during 2016	Number outstanding 31 Dec 2016
Matching rights	2013	8 May 2013 to 8 May 2016	234,576		(234,576)		0
	2014	7 May 2014 to 7 May 2017	45,308		(1,771)	(4,805)	38,732
	2015	7 May 2015 to 7 May 2018	34,707		(131)	(804)	33,772
	2016	10 May 2016 to 10 May 2019		31,315			31,315
Total			314,591	31,315	(236,478)	(5,609)	**103,819**

In 2016, an amount of €199,979 was expensed for the cost of the cash-settled bonus/matching shares granted prior to 2014. In May 2016, at the end of the plan, the bonus/matching share plan 2013 was settled in cash against a share price of €3.910 per matching right.

In 2016, an amount of €116,435 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 (2016: €3.619 per share; 2015: €4.387 per share; 2014: €3.334 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 2016 (2015: 0) to cover its obligations under the existing share plans. As at 31 December 2016, the total number of shares held for this purpose was nil (2015: 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 2016, sales of PostNL to joint ventures and associates amounted to €5 million (2015: 6). Purchases of PostNL from joint ventures and associates amounted to €0 million (2015: 0). The net amounts due from the joint ventures and associates amounted to €1 million (2015: 8).

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

The following table presents the entities acquired by PostNL during 2016.

Specification business combinations

(in € millions)

Company name	Segment	Month acquired	% owner	Purchase price	Goodwill on acquisition
Witgoed Services B.V.	Parcels	August	100.00%	1	1
Yourzine B.V./Searchresult B.V.	Mail in NL	September	95.08%	22	14
HIM Holtzbrinck 25 GmbH	International	December	100.00%	14	21
Total				37	36

The cash balances in the acquired companies amounted to €7 million resulting in a cash outflow from acquisition of subsidiaries net of cash of €30 million.

On 30 September 2016, PostNL acquired online marketing agencies Yourzine and Searchresult at a purchase price of €22 million. The acquisition fits within the PostNL strategy to offer customers added value regarding data-driven marketing. The purchase price allocation resulted in intangible assets of €7 million, a relating deferred tax liability of €2 million and goodwill of €14 million.

On 30 December 2016, PostNL acquired the remaining 50% of the shares of HIM Holtzbrinck 25 GmbH resulting in 100% ownership of the shares of the company. The acquisition fits within the PostNL strategy to continue to invest in our German activities. Via the acquisition of HIM Holtzbrinck 25 GmbH we acquired 2 operating companies: 100% of PIN Mail Berlin being a postal company operating in Berlin and 87% of Mail Alliance being the largest alternative network of private postal services in Germany, with 120 affiliated postal service providers. The previously held equity interest of 50% was accounted for as an investment in a joint venture. At acquisition date it was remeasured at fair value which resulted in a gain of €7 million reported as results from investments in joint ventures. As the acquisition was done close to year-end, only a provisional purchase price allocation was performed which resulted in intangible assets of nil and goodwill of €21 million.

The pre-acquisition balance sheets and the opening balance sheets of the acquired business is summarised in the table below.

Balance sheets

(in € millions)

	Pre-acquisition	Post-acquisition
Goodwill	8	44
Other non-current assets	8	15
Total non-current assets	**16**	**59**
Total current assets	28	28
Total assets	44	87
Equity	10	51
Non-current liabilities	15	17
Current liabilities	19	19
Total equity and liabilities	44	87

Acquiree's results

In 2016, the acquiree's total revenue and net income attributable to shareholders accounted for within PostNL, since acquisition date, amounted to €6 million and €0.3 million respectively and mainly related to Yourzine and Searchresult.

Pro forma results

The following table presents the pro forma results of PostNL for 2016 as if the acquisitions had taken place on 1 January 2016. Pro forma results are not necessarily indicative of the future performance of PostNL.

Pro forma results business combinations

(in € millions)

Year ended at 31 December	Pro forma results 2016	As reported 2016
Total operating revenue	3,504	3,413
Profit for the year	282	280
Profit attributable to the equity holders of the parent	281	279
Earnings per ordinary share (in € cents) [1]	63.5	63.1

1. Earnings per ordinary share are in 2016 based on an average of 442,366,626 outstanding ordinary shares.

In 2015, PostNL acquired 100% of the shares of DM Productions B.V., providing distribution and return solutions for web shops, targeting small and medium sized companies. The goodwill arising from the acquisition amounted to €6 million.

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 minority 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
There were no subsequent events to report.

Corporate Financial Statements

Corporate primary statements

Corporate income statement

(in € millions)

Year ended at 31 December	Notes	2016	2015
Dividend income	6.2.1	**195**	202
Reversal impairment/(impairment) Mail investments	6.2.2	369	(145)
Salaries, pensions and social security contributions	6.2.3	31	5
Other operating expenses		(6)	2
Total operating expenses		**394**	(138)
Operating income		**589**	64
Interest and similar income		145	8
Interest and similar expenses		(92)	(78)
Net financial expense	6.2.4	**53**	(70)
Profit/(loss) before income taxes		**642**	(6)
Income taxes	6.2.5	16	13
Profit/(loss) for the year attributable to shareholders		**658**	7

Corporate statement of comprehensive income

(in € millions)

Year ended at 31 December	Notes	2016	2015
Profit for the year attributable to shareholders		**658**	7
Actuarial gains/(losses) pensions, net of tax	6.4.2	(185)	231
Pension asset ceiling/minimum funding requirement, net of tax	6.4.2	184	(203)
Other comprehensive income that will not be reclassified to the income statement		**(1)**	28
Gains/(losses) on cashflow hedges, net of tax		5	1
Change in value of available-for-sale financial assets		8	181
Recycling of change in value of available-for-sale financial assets		(136)	
Other comprehensive income that may be reclassified to the income statement		**(123)**	182
Total other comprehensive income for the year		**(124)**	210
Total comprehensive income for the year		**534**	217

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

Corporate statement of cash flows

(in € millions)

Year ended at 31 December	Notes	2016	2015
Profit/(loss) before income taxes		**642**	(6)
Adjustments for:			
Reversal impairment/(impairment) Mail investments		**(369)**	145
Share-based payments		**1**	1
Dividend income		(195)	(202)
Interest and similar income		(145)	(8)
Interest and similar expenses		92	78
Investment income		**(248)**	(132)
Pension liabilities		(37)	(12)
Other provisions		1	(1)
Changes in provisions		**(36)**	(13)
Changes in working capital		**4**	(1)
Cash used in operations		**(6)**	(6)
Interest paid		(88)	(71)
Income taxes received/(paid)		12	(13)
Net cash used in operating activities	*6.3.1*	**(82)**	(90)
Dividend received		195	202
Interest received		0	3
Proceeds from sale of available-for-sale financial assets		643	
Net cash from investing activities	*6.3.2*	**838**	205
Financing related to Group companies		(414)	233
Repayments of long-term borrowings		(341)	
Repayments of short-term borrowings			(349)
Net cash used in financing activities	*6.3.3*	**(755)**	(116)
Total change in cash and cash equivalents		**1**	(1)
Cash and cash equivalents at the beginning of the year		**0**	1
Total change in cash and cash equivalents		1	(1)
Cash and cash equivalents at the end of the year		**1**	0

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

Corporate statement of financial position

(in € millions)

At 31 December	Notes	2016	2015
Before proposed appropriation of profit			
Assets			
Investments in Mail		3,316	2,944
Available-for-sale financial assets			626
Financial fixed assets	*6.4.1*	**3,316**	3,570
Deferred tax assets	*6.2.5*	1	3
Total non-current assets		**3,317**	3,573
Accounts receivable from Group companies	*6.4.3*	92	27
Income tax receivable		4	
Cash and cash equivalents		1	0
Total current assets		**97**	27
Total assets		**3,414**	3,600
Equity and liabilities			
Issued share capital		36	35
Additional paid-in capital		157	153
Hedge reserves		(3)	(8)
Revaluation reserve investments in Mail		2,411	2,042
Available-for-sale financial assets			128
Other reserves		(517)	(153)
Unappropriated profit		658	7
Total shareholders' equity	*6.3.4*	**2,742**	2,204
Provision for pension liabilities	*6.4.2*	98	129
Eurobonds	*6.4.4*	206	933
Other provisions		7	8
Total non-current liabilities		**311**	1,070
Accounts payable to Group companies	*6.4.3*	20	309
Eurobonds	*6.4.4*	327	
Other current liabilities		14	17
Total current liabilities		**361**	326
Total equity and liabilities		**3,414**	3,600

Corporate statement of changes in equity

(in € millions)

	Issued share capital	Additional paid-in capital	Hedge reserves	Available-for-sale financial assets	Revaluation reserve investments in Mail	Other reserves	Unappropriated profit	Total shareholders' equity
Balance at 31 Dec 2014	35	150	(9)	(53)	2,187	(505)	178	**1,983**
Total comprehensive income			1	181		28	7	**217**
Appropriation of net income						178	(178)	0
Share based payments		3				1		4
Reduction revaluation reserve					(145)	145		0
Balance at 31 Dec 2015	35	153	(8)	128	2,042	(153)	7	**2,204**
Total comprehensive income			5	(128)		(1)	658	**534**
Appropriation of net income						7	(7)	0
Share based payments	1	4				(1)		4
Addition revaluation reserve					369	(369)		0
Balance at 31 Dec 2016	36	157	(3)	0	2,411	(517)	658	**2,742**

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 2016 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 2016 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. 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 27 February 2017 and are subject to adoption at the Annual General Meeting of Shareholders on 18 April 2017.

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 2016.

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: 195 million (2015: 202)

Dividend income is recognised when the right to receive payment is established. The dividend income from the company's subsidiaries for 2016 was €195 million (2015: 200) and the dividend income from the stake in TNT Express for 2016 was €0 million (2015: 2).

6.2.2 Reversal impairment/(impairment) Mail investments: 369 million (2015: 145 impairment)

In 2016, an amount of €369 million of previous impairments on the company's investments in Mail was reversed (2015: 145 impairment). Reference is made to note 6.4.1 to the corporate financial statements.

6.2.3 Salaries, pensions and social security contributions: 31 million income (2015: 5 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 more than offset the pension expense incurred, resulting in a positive amount of salaries, pensions and social security contributions over the year. For further information on defined benefit pension costs, see note 6.4.2 to the corporate financial statements. PostNL N.V. does not have any employees other than the Board of Management.

6.2.4 Net financial income/(expense): 53 million (2015: 70 expense)

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.

Net financial income/(expense)

(in € millions)

Year ended at 31 December	2016	2015
Interest expenses on long-term borrowings	(48)	(69)
Premium paid on bond buy-back	(33)	
Interest on net defined benefit pension liabilities	(4)	(5)
Interest on taxes		(2)
Hedge reserve recycled to profit and loss	(4)	(1)
Other interest and similar expense	(3)	(1)
Interest and similar expense	**(92)**	(78)
Profit on the sale of the stake in TNT Express	145	
Other interest and similar income	0	8
Net financial income/(expense)	**53**	(70)

In 2016, interest expenses on long-term borrowings decreased as a result of the bond buy-back transaction and the repayment of a bond in June 2015. Reference is made to note 4.1.

The profit on the sale of the stake in TNT Express of €145 million includes the positive effect of €136 million from the recycling through the income statement of the fair value adjustments previously recognised in other comprehensive income.

6.2.5 Income taxes: 16 million income (2015: 13 income)

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.

Corporate income taxes

(in € millions)

Year ended at 31 December	2016	2015
Current tax expense	(17)	(9)
Changes in deferred taxes	1	(4)
Total income taxes	**(16)**	(13)
Income taxes paid/(received)	**(12)**	13

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.

Corporate effective income tax rate

(in percentages)

Year ended at 31 December	2016	2015
Dutch statutory income tax rate	25.0	25.0
Tax effects of:		
Non and partly deductible costs	0.0	(3.5)
Non taxable impairment reversal/non deductible impairments	(14.4)	(604.2)
Exempt income	(13.2)	841.7
Other	0.1	(42.3)
Effective income tax rate	**(2.5)**	216.7

In 2016, the income taxes of -€16 million (2015: -13) on the result before income taxes of €642 million (2015: -6), resulted in an effective income tax rate of -2.5% (2015: 216.7%). Adjusted for the non taxable impairment reversal of €369 million (2015: non deductible impairment of 145), the non taxable gain from the sale of the stake in TNT Express of €145 million (2015: 0) and tax-exempt dividend income of €195 million (2015: 202), the result before income taxes would have been -€67 million (2015: -63), which with income taxes unchanged at -€16 million (2015: -13) would have resulted in an effective income tax rate of 23.9% (20.6%).

The following table shows the movements in deferred tax assets and liabilities.

Statement of changes corporate deferred tax assets

(in € millions)

	Provisions	Other	Total
Deferred tax assets at 31 December 2014	6	2	**8**
Changes via other comprehensive income	(9)		(9)
Changes via income statement	3	1	4
Deferred tax assets at 31 December 2015	0	3	**3**
Changes via other comprehensive income	1	(2)	(1)
Changes via income statement	(1)		(1)
Deferred tax assets at 31 December 2016	0	1	**1**

Of the deferred tax assets as at 31 December 2016, €0 million (2015: 0) is to be settled within 12 months and €1 million (2015: 3) 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: -82 million (2015: -90)

The decrease in net cash used in operating activities of €8 million fully related to the change in interest paid and income taxes received/paid. In 2016, the total cash outflow for interest paid of €88 million (2015: 71) mainly included interest on PostNL's long-term borrowings of €54 million (2015: 69) and the premium paid on the bond buy-back transaction of €33 million. In 2016, the company received income taxes totalling €12 million (2015: 13 paid) which include payments relating to prior years and internal settlements with Group companies within the PostNL fiscal unity.

6.3.2 Net cash from investing activities: 838 million (2015: 205)

In 2016, the total cash inflow from dividend received was €195 million (2015: 202). Dividend of €195 million was received from the company's subsidiaries (2015: 200) and dividend of €0 million was received from the TNT Express stake (2015: 2). The proceeds from sale of available-for-sale financial assets related to the sale of the 14.6% stake in TNT Express.

6.3.3 Net cash used in financing activities: -755 million (2015: -116)

In 2016, financing related to Group companies amounted to -€414 million (2015: 233) mainly relating to intercompany financing of PostNL by PostNL Finance B.V. In 2016, repayments on long-term borrowings of €341 million related to the bond buy-back transaction of the eurobonds. In 2015, repayments on short-term borrowings of €349 million related to the repayment of a Eurobond. In 2016, no cash dividend was paid (2015: 0).

6.3.4 Equity: 2,742 million (2015: 2,204)

For the disclosure on issued share capital, additional paid-in capital, the hedge reserve and the reserve relating to available-for-sale financial assets, see notes 2.3 and 4.5 to the consolidated financial statements. The tax impact on the cash flow hedges included in the hedge reserve at 31 December 2016 is €1 million (2015: 3).

The revaluation reserve investments in Mail, the reserve relating to available-for-sale financial assets and the hedge reserve are legal reserves and are restricted for distribution.

As at 31 December 2016, the revaluation reserve of €2,411 million (2015: 2,042) 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 €171 million.

During 2016, the other reserves decreased to -€517 million from -€153 million, mainly due to a reclassification to the revaluation reserve of €369 million.

6.4 Corporate statement of financial position

6.4.1 Total financial fixed assets: 3,316 million (2015: 3,570)

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.

Available-for-sale financial assets
The available-for-sale financial assets of the company reflects the stake in TNT Express carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as a gain or a loss.

The movement in total financial fixed assets is as follows:

Total financial fixed assets

(in € millions)

	Investments in Mail	Available-for-sale financial assets	Total
Balance at 31 Dec 2014	3,086	445	**3,531**
Additions to capital	3		3
Impairment Mail investments	(145)		(145)
Change in value available-for-sale financial assets		181	181
Balance at 31 Dec 2015	2,944	626	**3,570**
Additions to capital	3		3
Reversal impairment Mail investments	369		369
Change in value available-for-sale financial assets		8	8
Disposal of available-for-sale financial assets		(634)	(634)
Balance at 31 Dec 2016	3,316	0	**3,316**

Investments in Mail

The subsidiary undertakings of the company as at 31 December 2016, and the company's percentage interest, are set out below.

Breakdown corporate investments

Name of direct subsidiairy	Country of incorporation	Ownership %
PostNL Holdco B.V.	Netherlands	100%
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 2016. 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 and efficiency measures. Operating income, being one of the most critical assumptions, for 2017 is estimated to be in line with 2016. 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 discount rates in the investments' valuations vary from 9% to 13% (pre-tax).

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 €220 million. A change in operating income of 5% would impact the Mail investments by around €150 million.

The detailed review of the value of the Mail investments resulted in the recoverable value of the Mail investments exceeding their carrying value by €369 million. The recoverable value was derived from the 2016 strategic planning, taking into account uncertainties relating to volume decline within Mail in the Netherlands. The value increase mainly followed from improved business plans within Parcels and Spring. Based on the detailed review, management concluded that an impairment reversal of €369 million was present for the Mail investments. Consequently, management recorded an impairment reversal of €369 million in 2016 (2015: impairment charge of 145). Within equity, the revaluation reserve associated with the initial revaluation of the Mail investments has been increased by the impairment reversal amount.

In 2016, the additions to capital of €3 million (2015: 3) represented the company's compensation for equity-settled share-based payments to the investments' employees. As the company grants 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.

Available-for-sale financial assets
On 25 May 2016, PostNL completed the sale of its 14.6% stake in TNT Express to FedEx at a price of €8.00 per share, resulting in gross cash proceeds of €643 million and a profit of €145 million. The profit includes the positive effect of €136 million from the recycling through the income statement of the fair value adjustments previously recognised in other comprehensive income. In accordance with IAS 39, the 14.6% stake in TNT Express was considered an available-for-sale financial asset measured at fair value with gains and losses arising from changes in the fair value recognised in other comprehensive income. In the income statement, the profit of €145 million has been included in the interest and similar income.

6.4.2 Provisions for pension liabilities: 98 million (2015: 129)

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 more than offset the pension expense. As a result, the corporate financial statements record a defined benefit pension income of €30 million (2015: income of 3), whereas the consolidated financial statements record defined benefit pension expenses of €90 million (2015: 137).

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.

Detailed overview of changes in corporate defined benefit plans

(in € millions)

	2016	2015
Change in benefit obligation		
Benefit obligation at beginning of year	(7,289)	(7,550)
Service costs	(90)	(123)
Interest costs	(182)	(174)
Other movements	(32)	(34)
Actuarial (losses)/gains	(851)	377
Benefits paid	220	215
Benefit obligation at end of year	**(8,224)**	(7,289)
Change in plan assets		
Fair value of plan assets at beginning of year	7,431	7,377
Assumed return on plan assets	185	169
Other movements	39	39
Participants contributions	126	133
Employer contributions	3	3
Other costs	(9)	(7)
Actuarial (losses)/gains	604	(68)
Benefits paid	(220)	(215)
Fair value of plan assets at end of year	**8,159**	7,431
Change in funded status		
Funded status at the beginning of year	142	(173)
Operating expenses (incl. participants contributions)	34	8
Interest (expenses)/income	3	(5)
Employer contributions	3	3
Actuarial (losses)/gains	(247)	309
Funded status at end of year	**(65)**	142
Impact of pension asset ceiling		(142)
Impact of minimum funding requirement	(33)	(129)
Netted pension liabilities	**(98)**	(129)
Components of employer pension expenses		
Service costs	(90)	(123)
Interest (expenses)/income	(4)	(5)
Other costs	(2)	(2)
Participants contributions	126	133
Post-employment benefit income/(expenses)	**30**	3
Weighted average assumptions as at 31 December		
Discount rate	1.8%	2.5%
Rate of benefit increases	1.1%	1.1%
Life expectancy 65 year old men/women (in years)	21.1/23.4	20.8/23.0

6.4.3 Accounts receivable from Group companies: 92 million (2015: 27) / Accounts payable to Group companies: 20 million (2015: 309)

As at 31 December 2016, accounts receivable from Group companies mainly relates to €91 million receivable from PostNL Finance B.V. (2015: 286 payable). Accounts payable to Group companies relates to €20 million outstanding intercompany cross-currency swaps from PostNL Finance B.V. (2015: 22 receivable). 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: non-current 206 million (2015: 933) and current 327 million (2015: 0)

For the disclosure on the eurobonds, reference is made to notes 4.1 and 4.4 to the consolidated financial statements.

6.5 Other notes

Reconciliation corporate and consolidated equity and comprehensive income

Consolidated to corporate equity and total comprehensive income

(in € millions)

Year ended at 31 December	2016		2015	
	Equity	Income	Equity	Income
Consolidated: Equity and total comprehensive income	**(79)**	**135**	(213)	370
Reconciliation items previous years	2,417		2,580	
Reversal impairment/(impairment) Mail investments	369	369	(145)	(145)
Results from investments	10	10	3	3
Other comprehensive income (CTA/hedges/associates/pensions)	20	20	(11)	(11)
Other direct equity movements	5		(10)	
Total reconciliation items	**2,821**	**399**	2,417	(153)
Corporate: Shareholders' equity and total comprehensive income	**2,742**	**534**	2,204	217

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 €2,417 million in 2016 relate to the difference between the consolidated equity as at 31 December 2015 of -€213 million and the corporate equity of €2,204 million at that date.

For details of the reversal of the impairment of the Mail investments recognised in the corporate financial statements in 2016, see note 6.4.1 to the corporate financial statements.

The 2016 results from investments were €10 million higher in the corporate financial statements and can be calculated from the result from the corporate income statement of €658 million, minus the reversal of the impairment of the Mail investments of €369 million, minus the result from the consolidated income statement of €279 million. The difference relates to the difference between the dividend income and the result from the Mail investments. The 2015 results from investments were €3 million higher in the corporate financial statements and can be calculated from the result from the corporate income statement of €7 million, plus the impairment of the Mail investments of €145 million, minus the result from the consolidated income statement of €149 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 investments in joint ventures and associates that was recognised in the consolidated financial statements but not in the corporate financial statements.

The 2016 difference in other comprehensive income of €20 million included -€17 million of actuarial gains on pensions, -€1 million of currency translation adjustments related to movements in exchange rate differences on converting foreign subsidiaries and -€2 million other items. The 2015 difference in other comprehensive income of -€11 million included €17 million of actuarial gains on pensions, -€8 million of currency translation adjustments related to movements in exchange rate differences on converting foreign subsidiaries and €2 million other items.

In 2016, the difference in other direct equity movements of €5 million mainly related to the buy-out of the minority shareholder of Postcon National of -€6 million. In 2015, the difference in other direct equity movements of -€10 million related to the prior year VAT adjustment.

Commitments and contingencies

Declaration of joint and several liability

At 31 December 2016, 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:

Declaration of joint and several liability

Cendris Customer Contact B.V.	PostNL Finance B.V.
Cendris Dataconsulting B.V.	PostNL Holdco B.V.
Euro Mail B.V.	PostNL Holding B.V.
Koninklijke PostNL B.V.	PostNL Pakketten Benelux B.V.
G3 Worldwide Europe B.V.	PostNL Pakketten Holding B.V.
G3 Worldwide Mail N.V.	PostNL Print Management B.V.
Netwerk VSP B.V.	PostNL Real Estate B.V.
PostNL Billing & Document Solutions B.V.	PostNL Real Estate Development B.V.
PostNL Cargo Service B.V.	PostNL Real Estate Holding B.V.
PostNL Data & Document Management B.V.	PostNL Transport B.V.
PostNL E-commerce Services 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 €105 million;
- ordinary business activities of the Group of €13 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 4.3 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 4.4 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.

Related party transactions

(in € millions)

Year ended at 31 December	2016		2015	
	Transactions	Balances	Transactions	Balances
Dividend income PostNL Group companies	195		200	
Dividend income TNT Express stake			2	
Accounts receivable from PostNL Group companies/interest income		92		5
Accounts payable to PostNL Group companies/interest expense				309
Hedge accounts receivable/(payable) to PostNL Group companies/hedge income/(costs)	(7)	(20)	5	22
Net financing activities from Group companies	(414)		233	
Income tax received from/(paid to) PostNL Group companies	72		65	
Income tax received from/(paid to) TNT Express			6	

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

There were no subsequent events to report.

Subsidiaries and associated companies at 31 December 2016

The full 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

Extract from the articles of associaton 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 2016.

Dividend proposal 2016

The Board of Management has decided, with the approval of the Supervisory Board, subject to shareholders approval at the 2017 Annual General Meeting of Shareholders, to declare a final dividend of €0.12 per share over 2016. The dividend of €0.12 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, has appropriated an amount of €605 million out of corporate profit of €658 million to the reserves.

Following this appropriation, there remains an amount of €53 million out of corporate profit at the disposal of the General Meeting of Shareholders. Subject to the adoption of PostNL's financial statements by the General Meeting of Shareholders, and given that no 2016 interim dividend has been paid, the proposed 2016 final dividend has been set at €0.12 per ordinary share of €0.08 nominal value, based on the outstanding number of 442,805,079 ordinary shares as per 31 December 2016. The dividend of €0.12 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 20 April 2017, the record date is 21 April 2017 and the election period will start on 24 April 2017 and will end on 9 May 2017 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 5 May 2017 up to and including 9 May 2017. 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 11 May 2017.

Upon approval of this proposal, corporate profit will be appropriated as follows, whereby the final dividend represents a cash dividend under the assumption of 100% cash election.

Appropriation of corporate profit

(in € millions)

	2016
Profit attributable to the shareholders	658
Appropriation in accordance with the articles of association:	
Reserves adopted by the Board of Management and approved by the Supervisory Board (article 31, paragraph 2)	(605)
Dividend on ordinary shares	**53**
(Interim) dividend paid in cash	0
Final dividend	**53**

The Hague, 27 February 2017

Board of Management
H.W.P.M.A. Verhagen (CEO)
J.P.P. Bos (CFO)

Supervisory Board
M.A.M. Boersma (Chairman)
J. Wallage
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

Independent auditor's report

To: the Shareholders and members of the Supervisory Board of PostNL N.V.

Report on the audit of the financial statements 2016 included in the Annual Report

Our opinion

We have audited the financial statements 2016 of PostNL N.V. (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 2016 and of its result and its cash flows for 2016 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 2016
- The following statements for 2016: the consolidated and corporate income statement, the consolidated and corporate statements of comprehensive income, cash flows and 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 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	€14 million
Benchmark applied	5% of operating income
Explanation	Based on our professional judgement we consider earnings-based measures 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.

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 €700,000, 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 primary statements of PostNL N.V.

Our group audit mainly focused on significant group entities of PostNL N.V. within the segments Mail in the Netherlands, Parcels and International (Postcon, Nexive and Spring Hong Kong).

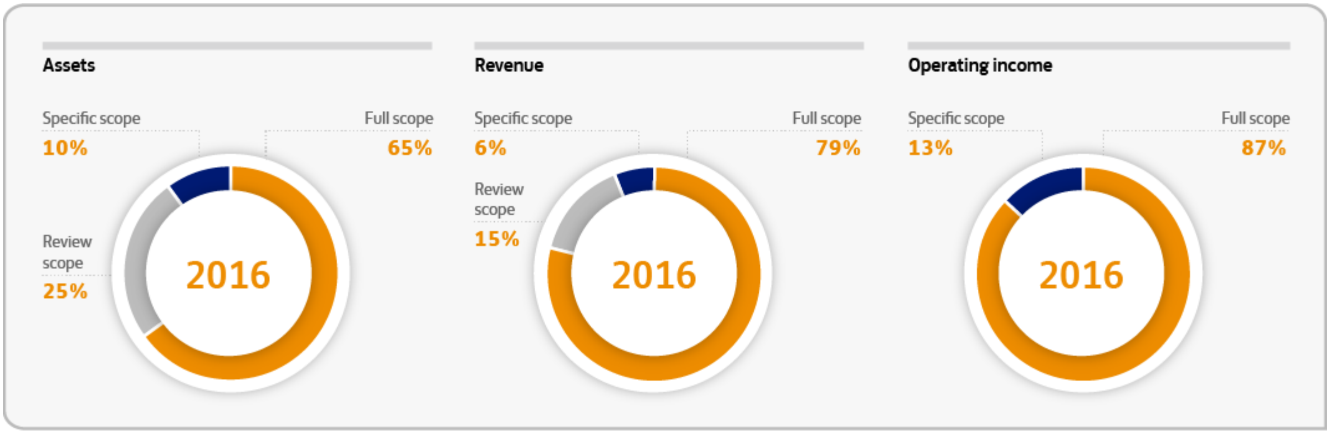
Due to their significance and/or risk characteristics, we performed full scope audit procedures on the significant group entities within Mail in the Netherlands and Parcels, and for Postcon and Nexive (Nexive S.p.A.) within International. Specific procedures were performed at one entity within Mail in the Netherlands (Spotta), and two entities within International, being Nexive Notifiche S.r.l. and Spring Hong Kong.

For the entities in scope within Mail in the Netherlands, Parcels and Postcon (International), the group engagement team performed the work. For Nexive and Spring Hong Kong we used EY component auditors, who are familiar with local laws and regulations, to perform detailed audit procedures to obtain sufficient coverage for financial statement line items from a consolidated financial statements perspective.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those locations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. The group engagement team has visited all component teams.

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 taxation, fixed assets, goodwill and Mail investments impairment testing and pensions. We involved several EY specialists to assist the audit team, including specialists from our tax, valuations, actuarial and treasury department.

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 remaining components represented more than 2% 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, segment and at group 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

After being appointed as the company's auditor effective for the year 2016, we developed a comprehensive transition plan in December 2015, which included specific planning activities to ensure an effective transition from the predecessor auditor. The specific planning activities included, but were not limited to, obtaining an initial understanding of the company and its business, including background information, strategy, business risks, IT landscape and its financial reporting and internal controls framework, to assist us in performing our risk assessment procedures. We have assessed the opening balances and the selection and consistent application of accounting policies by discussing the audit with the predecessor auditor and reviewing the predecessor auditor's file. Furthermore, in December 2015 and January and February 2016, we attended closing meetings and Audit Committee meetings related to the 2015 audit. The foregoing has been used as a basis for our 2016 audit plan. We discussed and agreed our 2016 audit plan with the Audit Committee and Board of Management of PostNL N.V. in April and May 2016 and have provided status updates, progress reports and key findings from our audit process on a regular basis, including the key audit matters.

Key audit matters are those matters that, in our professional judgement, 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.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our audit approach
Pension accounting PostNL has a defined benefit plan with a significant impact on the overall balance sheet, equity and the results. Actuarial calculations are used to measure the obligation and costs. These actuarial calculations include several assumptions such as discount rate, benefit accrual rate, inflation percentage, longevity rates and indexation percentage. In addition, the company has a minimum funding requirement and additional funding requirements depending on the development of the coverage ratio of the pension fund. Further reference is made to note 1.3, 2.1.3 and 3.4 to the consolidated primary statements.	We have performed a walkthrough to confirm our understanding of, and tested the design of the company's internal controls around, management's process and assumptions setting process. Our audit procedures included, amongst others, verification of the consistent application of the methodology, identification of the significant estimates used by management in the calculation of the pension provisions and comparing the discount rate and inflation percentage with external market data, longevity rates with available mortality tables in the market, benefit accrual rate and indexation based on the analysis of PostNL and with information from the pension fund. We furthermore took notice of the pension agreements and assessed the impact of the decline in the coverage ratio on the additional funding requirements. We were assisted by our EY actuarial specialists in the testing of assumptions, performing procedures to understand movements in the balance sheet position and pension expenses and testing the calculation and consolidation of the pension provisions as performed by PostNL. Additionally, we compared the basic data used for the calculation of the pension provision to internal HR data and tested plan assets by performing detailed testing on existence and on valuation based on external pricing data. We also assessed the adequacy of the company's related disclosures, including sensitivity analysis, as included in notes 1.3, 2.1.3 and 3.4 of the consolidated primary statements.
Valuation of goodwill (consolidated primary statements) and Mail investments (corporate primary statements) At 31 December 2016, the total carrying value of goodwill as included in the consolidated primary statements amounted to €134 million. Under EU-IFRS the company is required to annually test the goodwill balance for impairment or more frequently if there is a triggering event. In addition, in the corporate primary statements the value of Mail investments amounted up to €3,316 million. At each balance sheet date the company reviews whether there is an indication that its Mail investments are impaired. We focused on these areas given the significant judgement and complexity of valuation methodologies used to determine whether the carrying value of goodwill and Mail investments is appropriate, which includes assessing the assumptions used within the models to support the recoverable amounts of goodwill and Mail investments. For Mail investments the company reversed in 2016 €369 million out of the €540 million impairment charge accounted for in prior years. The assumptions, sensitivities and results of the tests performed are disclosed in note 3.3 to the consolidated primary statements for goodwill and note 6.4.1 of the corporate primary statements for the value of Mail investments. In addition, the general accounting policy around impairment is disclosed in note 1.3 and 5.4 of the consolidated primary statements.	We have gained our understanding of the goodwill and Mail investments impairment processes, 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. Our EY valuation specialists assisted us with our audit of PostNL's (annual) impairment analysis. We reviewed key assumptions included in the valuation such as the discount rate and the estimated growth rates by comparing them to external data. We validated that the projected financial information (cash flows, internal forecasts) used in the analysis was derived from PostNL's strategic plan and long-term forecast as approved by the Board of Management and have evaluated the historical accuracy of management's assessment by comparing the historical actual results to the forecasts used. On top of the procedures mentioned before, we have assessed and challenged the sensitivity analysis as performed by the company specifically for Mail investments in which they stress tested the key assumptions discount rate and operating income in the model to consider the impact of these changes on the recoverable value. We also assessed the adequacy of the company's disclosures around goodwill and Mail investments as included in note 1.3, 3.3 and 5.4 of the consolidated primary statements and note 6.4.1 of the corporate primary statements respectively.
Deferred revenue and revenue related accruals Various assumptions are being made in the measurement (model inputs) of revenue and deferred revenue. The main subjective areas relate to the deferral of revenues for unused stamps and unbilled expenses by and unbilled revenue to other postal service companies (terminal dues) but also to the subjective areas related to revenues accruals like volume discounts and rebates related to volumes handling. The estimates used in the calculation of the revenues and deferred revenues can have an impact on the operating revenues and accrued liabilities. Further reference is made to note 3.1.3 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.	We have gained an understanding of the deferred revenue and revenue related accruals process, performed walkthroughs of the revenue classes of transactions and evaluated the design and effectiveness of controls in this area. Based on this evaluation we designed our substantive audit procedures, which included amongst others detailed analytical procedures at different levels in the company, a review of the contractual agreements on volume and price developments in relation to the assumptions used that could affect current year revenue. Furthermore we have performed audit procedures on the significant estimates used by management in the deferred revenues for unused stamps and terminal dues. We also assessed the adequacy of the company's disclosures regarding the revenue related accruals as contained in note 1.3 and 3.1.3 of the consolidated primary statements.

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:

- We are PostNL, Message from Herna Verhagen, Business Report and Governance together the management board's report
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code
- CR 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 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 management board's report 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.

Description of responsibilities for the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

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, management is responsible for such internal control as 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, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. 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 assignment 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.

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 judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- 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.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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.

The Hague, 27 February 2017

Ernst & Young Accountants LLP

Signed by

R.J.W. Lelieveld

CR Performance Statements

16 CR Performance Statements

Customer indicators

	Notes	2016	2015	2014	2013	2012
Customer satisfaction (% of satisfied customers)	2.1	87%	86%	85%	83%	79%
Reputation score	2.1	67.8	67.7	64.5	62.3	60.6
Delivery quality of Mail in the Netherlands (2016 preliminary)	2.1	96.4%	96.4%	96.7%	95.8%	93.9%
ISO 9001 certification (% of FTE working in certified sites)	2.1	98%	96%	91%	91%	91%

People indicators

	Notes	2016	2015	2014	2013	2012
Workforce	3.1					
Headcount		46,456	49,174	52,364	56,475	64,721
Headcount out of CR reporting scope		2,901	1,897	1,842	1,983	2,444
Headcount in CR reporting scope		**43,555**	**47,277**	**50,522**	**54,492**	**62,277**
Full time equivalents (FTE)		23,933	25,074	26,361	28,844	31,842
FTE out of CR reporting scope		1,425	1,426	1,409	1,365	1,834
FTE in CR reporting scope		**22,508**	**23,648**	**24,952**	**27,479**	**30,008**
Employee engagement	3.2					
Employee engagement (% of engaged employees)		67%	64%	59%	57%	56%
Culture index		58	55	Not reported	Not reported	Not reported
Recruitment and career development	3.3					
Training hours per FTE		18	21	18	17	23
Investors in People certification (% of headcount working in certified sites)		93%	93%	94%	94%	95%
Diversity and inclusion	3.4					
Percentage of females in management		26%	25%	23%	24%	21%
Health and safety	3.5					
Fatal accidents		1	3	2	0	3
Serious accidents		21	25	16	24	24
Lost time accidents		606	688	538	615	631
As frequency rate per 100 FTEs		2.7	2.9	2.2	2.2	2.1
OHSAS 18001 certification (% of FTE working in certified sites)		96%	95%	89%	89%	91%
Absenteeism (% of total working hours)		5.1%	5.0%	5.2%	5.5%	5.8%

Environmental indicators

	Notes	2016	2015	2014	2013	2012
CO_2 efficiency index (2007 = 100)	4.1	**49.5**	51.4	56.1	57.3	60.8
Buildings	4.2					
Efficiency (kg CO_2 per m^2)		5.1	8.5	13.1	14.7	20.0
Electricity usage in KwH/m^2 building		104	103	105	107	118
Sustainable electricity usage (as % of total electricity usage)		83%	89%	82%	79%	82%
Gas usage in m^3/m^2 building		7.5	7.0	7.0	10.2	10.2
Small trucks and vans	4.3					
Efficiency (gr CO_2 per km)		237	231	239	243	238
Fuel usage liters diesel/100 km		9.6	9.2	8.8	9.1	8.9
Vehicles complying with Euro 6		14%	2%	0%	0%	0%
Vehicles complying with Euro 5		85%	97%	95%	77%	55%
Vehicles not complying with Euro 6 or Euro 5		1%	1%	5%	23%	45%
NO_x emissions in kg		15,242	15,032	16,669	18,907	22,629
NO_x emissions (gr/km)		0.27	0.28	0.30	0.32	0.35
PM_{10} emissions in kg		306	303	732	1,421	2,331
PM_{10} emissions (gr/km)		0.01	0.01	0.01	0.02	0.04
Large trucks	4.4					
Efficiency (gr CO_2 per km)		728	714	711	696	676
Fuel usage liters diesel/100 km		27.2	26.7	26.7	26.1	25.4
Vehicles complying with Euro 6		69%	57%	53%	29%	0%
Vehicles complying with Euro 5		31%	43%	47%	71%	87%
NO_x emissions in kg		25,128	28,317	35,783	48,236	54,428
NO_x emissions (gr/km)		0.93	1.07	1.28	1.84	2.30
PM_{10} emissions in kg		345	362	418	574	693
PM_{10} emissions (gr/km)		0.01	0.01	0.01	0.02	0.03
Absolute carbon footprint (in ktonnes)	4.5					
Heating (gas, heating fuel)		9	9	10	16	16
Small trucks and vans		14	14	14	14	16
Large trucks		20	19	20	20	18
Scope 1 gross		**43**	**42**	**44**	**50**	**50**
Avoided carbon emissions heating (biogas)		(2)	(2)	(2)	(2)	(2)
Compensated carbon emissions buildings (credits)		(4)				
Compensated carbon emissions green gas trucks (credits)		(0)	(1)	(0)		
Scope 1 net		**37**	**39**	**42**	**48**	**48**
District heating		1	1	1	1	1
Electricity (including electric vehicles)		43	39	42	47	48
Scope 2 gross		**44**	**40**	**43**	**48**	**49**
Sustainably sourced carbon emissions (sustainable electricity)		(37)	(34)	(36)	(40)	(39)
Compensated carbon emissions buildings (credits)		(6)	(6)	(6)	(6)	(4)
Scope 2 net		**1**	**0**	**1**	**2**	**6**
Company cars		8	8	8	8	7
Business travel by air		1	1	1	1	1
Independent parcel deliverers and other subcontractors		222	239	147	107	102
Scope 3 gross		**231**	**248**	**156**	**116**	**110**
Compensated carbon emissions company cars (credits)		(8)	(8)	(8)	(8)	(7)
Compensated carbon emissions business travel by air (credits)		(1)	(1)	(1)	(1)	(1)
Scope 3 net		**222**	**239**	**147**	**107**	**102**
PostNL's own gross carbon footprint (total scope 1 and 2)		87	82	87	98	99
PostNL's own net carbon footprint (total scope 1 and 2)		38	39	43	50	54
PostNL's total gross carbon footprint (total scope 1, 2 and 3)		318	330	243	214	209
PostNL's total net carbon footprint (total scope 1, 2 and 3)		260	278	190	157	156
Other environmental indicators						
ISO 14001 certification (% of FTE working in certified sites)	4.6	97%	96%	90%	90%	91%

Section 1: Basis of preparation

This section sets out PostNL's Corporate Responsibility (CR) reporting policies and guidelines applied in the CR Performance Statements. We give an overview of the reporting process and critical estimates and judgements. At the end of the section, we provide an overview of the scope of the CR Performance Statements.

1.1 General

We report on our CR policy and Performance Statements, which are in accordance with the comprehensive option of the latest Global Reporting Initiative (GRI) G4 guidelines. Under these guidelines there is a strong focus on materiality. We consider topics to be material when they have a direct or indirect impact on our ability to create, preserve or weaken long-term value for us and our stakeholders.

Our CR strategy remained unchanged in 2016. We still strive to provide our customers with the most sustainable mail and parcels solutions. Long-term value creation is an integral part of our PostNL 2020 strategy. This is why it is important to have reliable and assured information on our CR performance, both internally and externally, so that all our stakeholders can make informed decisions to engage with our company. Consequently, we have integrated the monitoring and managing of financial and CR performance into our daily data processes and engaged our external auditor EY to provide reasonable assurance on the CR Information. EY's assurance covers the Corporate Responsibility Information in the Annual Report 2016, excluding the financial performance in the Performance 2016 and outlook 2017 chapter, the Governance section (chapters 8-14), the Financial Statements (chapter 15) and the Appendices.

1.2 Materiality analysis

As part of our materiality process, we looked at a combination of internal and external factors, including market trends, the competition and regulatory environment, our core competences, our stragegy PostNL 2020, concerns expressed directly by stakeholders, and broader expectations of society. As part of this process, we created a five-step approach to determine material topics: identifying stakeholders; stakeholder dialogue; guidelines and benchmarks, selection of material topics and Sustainable Development Goals.

Identifying stakeholders

From the analysis of our value creation process, we determined our main stakeholder groups. The table below outlines our main stakeholder groups and their interests.

Stakeholders	Value for our stakeholders	Stakeholder relevancy for us	Our relevancy for our stakeholders
Customers	We continue to broaden the services that we offer our customers, locally and internationally, to surpass their expectations. We deliver value by anticipating our customers' needs, thereby making their lives easier.	• Customers are important for business continuity	• We provide sustainable mail and parcel services and ensure seamless connections • We add value to our customers' business
People	We provide a safe working environment, where people are respected and valued, and feel confident to be themselves. This environment enables our people to develop their skills and talents, creating sustainable employability.	• Employees are the core of our organisation • Business partners are an important part of our networks • Employees and business partners influence customer satisfaction	• Sustainable employment and long-term partnership are key drivers for our people
Investors	We create long-term value for our investors through our financial strategy, which is targeted at a strong financial position, strengthening our cash position, sustainable dividend and investing in growth.	• Capital sourcing • Credit rating influences our cost of capital	• We offer a sustainable investment
Environment	We deliver value by improving, wherever possible, the environmental efficiency of our delivery networks, thereby minimising our impact on the environment.	• Environmental efficiency is an important aspect in realising our business ambitions • Climate change may impact our core business in various ways, in the short, medium and long-term	• As a postal and logistic solutions provider, we have a significant environmental footprint. We strive to minimise this, while maintaining high-quality delivery standards
Society	We create value for society by ensuring our services remain accessible and reliable, while maintaining healthy relationships with regulators and government bodies. At the same time, we adapt to society's changing demands by developing innovative solutions.	• Regulatory landscapes impacting our businesses • Reputation	• We provide accessible and reliable mail and parcel services • We ensure transparant tariffs • We safeguard the privacy of customers

Stakeholder dialogue

We focus on the interests of all of our stakeholders in different ways, enabling us to balance their needs. To help us better understand these needs, we organise stakeholder dialogues. Our latest dialogue was held in October 2015. Hosted by our CEO, it was attended by customers, investors, employees, independent parcel deliverers, local government representatives and social organisations.

The dialogue focused on the question 'What will ordering and delivery look like in 2020, and what are the requirements for PostNL to be successful?' Additionally, a range of other topics were discussed during the session, including:

- Focusing on raising awareness on sustainable cooperation among companies that we work with, as well as among customers who are ordering and receiving mail and parcels.
- How to transition to fossil fuel-free logistics, which our stakeholders see as key to becoming the deliverer of the future.

We chose not to organise a specific multi-stakeholder event in 2016, mainly because our first priority was to implement the results of the stakeholder dialogue held in 2015.

However, as described in the chapter "Implementing our strategy in 2016" we did have great many stakeholder contacts during 2016, including regular interaction with customers, employees, investors, suppliers, government bodies and other stakeholders, which frequently involved discussing our sustainability ambitions, plans and results.

Young people are our future stakeholders, with their own expectations and ideas about our future business. To learn more about these ideas, in 2016 we continued to have contact with the Kids Council. The Kids Council is an initiative of the Missing Chapter Foundation and Unicef Nederland. During the year children aged between 10 and 12 visited PostNL and we asked them: 'How can we make sure that all employees are acting sustainably?' Their advice was to increase our internal and external communications on sustainability issues. Based on their feedback, we launched an internal campaign to stimulate sustainable behaviour amongst our people.

We also have regular contact with our suppliers. We maintain a sustainable purchase policy, urging our suppliers to conduct operations in a socially and environmentally sound manner, and constantly discuss the possibility of improvements with them. We will continue to advocate this policy by setting an example through our own sustainability approach. While we use a wide range of suppliers across the company, our independent parcel deliverers and other subcontractors are the suppliers with the most material impact on our CR performance. Consequently, we have chosen to include the impact of these subcontractors have on our scope 3 emissions and fatal accidents.

We select suppliers that are proactive and innovative in delivering socially responsible products and services, helping us reduce the impact our purchasing has on the climate and society as much as possible. Additionally, we always conduct business on the basis of general purchasing terms and conditions, our business principles and our Sustainable Supply Chain policy. This contains policies based on the latest OECD guidelines. We establish measurable objectives and targets to maintain and continually improve our supplier performance. When a supplier cannot meet our standards we will stimulate to develop improvement plans on the relevant themes. We will use the results of our stakeholder dialogue to further refine our sustainable procurement plans.

Guidelines and benchmarks

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 benchmarks are particularly important for us:

- **Dow Jones Sustainability Index (DJSI):** In 2016, PostNL became industry leader in the Transportation and Transportation Infrastructure industry. For the third year in a row, we were ranked as Gold Class within the DJSI. In 2016, our score was 86 out of 100 (2015: 82). The DJSI is a worldwide benchmark in which organisations are judged on a broad range of themes. The DJSI is important to us as we can compare our results over time, and benchmark our progress against our peers. More information is available at: www.sustainability-indices.com.

- **Transparantie Benchmark (TB):** In 2016, our score was 176 out of 200 (2015: 177), placing us in fortieth position (out of 483). The TB is a benchmark organised by the Dutch ministry of Economic Affairs which compares Annual Reports of Dutch institutes on several transparency criteria. Participation provides us with feedback and ideas about our Annual Report. More information is available at: www.transparantiebenchmark.nl.

- **International Postal Corporation (IPC):** With a score of 93% (2015: 93%), we were ranked fourth (out of eighteen) within the IPC benchmark. The IPC is a worldwide corporation of national providers of postal services. It has defined sector goals on reduction of carbon emissions. An annual questionnaire provides information about the sector's improvements. This information is also used to benchmark the different postal service providers. More information is available at: www.ipc.be.

- **Carbon Disclosure Project (CDP):** CDP has changed its scoring method from 2016 on, which made it impossible to compare our 2016 score with that of previous year. In 2016 we achieved an A rating. The CDP is an international not-for-profit organisation providing a global system for companies and cities to measure, disclose, manage and share vital environmental information. More information is available at: www.cdp.net.

Selection of material topics

From the list of material topics that we identified based on the first three steps, we made a selection of topics which are most relevant to our stakeholders and our business. In the figure below, those topics in the upper right-hand corner of the matrix are the most material, and are reported on quantitatively in this Annual Report. The middle section contains topics that are qualitatively disclosed in the report. A number of topics discussed with our stakeholders, or identified from benchmarks, are defined as non-material to our business and are therefore not reported on.

Quantitatively reported in the Annual Report 2016

- Accessible and reliable
- Culture index
- Customer satisfaction
- Diversity and inclusion
- Dividend
- Economic performance
- Employee engagement
- Environmental impacts
- Fair taxation
- Health and safety
- Managing large workforce
- Recruitment and career development
- Reputation score

Qualitative disclosure in the Annual Report 2016

- Flexible and sustainable partnerships
- Responsible redesign
- Sustainable innovation
- Transparent media relations

Not reported

- Biodiversity
- Grievance mechanisms
- Recycling
- Waste
- Water

In the following table we give a short definition for each of the quantitative and qualitative disclosures, describing the importance of each topic for our business. We also refer to the pages on which more information about these topics can be found.

Quantitatively reported in the Annual Report 2016	
Accessible and reliable (p36-49) We continually improve the efficiency and quality of our mail sorting and distribution by introducing innovative sorting machines, helping to keep mail accessible and reliable. For Parcels, we introduce innovative delivery options, giving customers greater control over where and when their goods are delivered. Internationally, Spring Global Delivery Solutions provides convenient, optimised, and customised international mail and package solutions.	**Environmental impacts** (p189-193) We strive to improve our environmental impact by lowering our energy consumption and using bio-based energy as much as possible.
Culture index (p187) The OnePostNL culture, in which we focus on working together for one PostNL, enables us to increase knowledge sharing across the business segments, which helps us outperform customer expectations.	**Fair taxation** (p92-93) A coherent, responsible and compliant approach towards tax is considered an integral part of our doing business. We have created and we maintain a tax control environment to ensure such approach. Important principles underpinning this approach are that our tax planning is guided by good business sense and that we believe in building relationships with tax authorities based on trust, understanding and transparency.
Customer satisfaction (p36-37, 185) We continuously focus on improving customer satisfaction and the quality of our services. From our customer satisfaction surveys, we know that customers view high quality services, ease of use, fast and efficient resolution of problems, and good customer contact as the most important aspects of doing business with us.	**Health and safety** (p188) We focus on accident prevention and employee safety. To achieve this, we invest in safe working conditions and driver training to minimise the number of accidents.
Diversity and inclusion (p30, 188) We are convinced that diversity amongst our workforce and management, which reflects the diversity within society, is crucial. It creates a healthier, more sustainable working environment, and is vital in realising our ambitions. This is why we hire qualified people who fit within our culture, irrespective of their ethnicity, gender, age or sexual orientation.	**Managing large workforce** (p30-31, 186-188) We are a people company and as such managing our workforce successfully is vital for our business success. Our people keep the company running, from the truck drivers in the early morning to the mail sorters late at night; from innovative thinkers to the support staff; and of course our mail and parcel deliverers.
Dividend (p33, 96) We aim to provide a sustainable dividend, creating long-term value for our investors.	**Recruitment and career development** (p30-31, 187) We recognise that having the right talent is vital for the future of the company, from the operators of our next-generation sorting machines to senior managers. Personal development is an important driver for most of our employees. It stimulates engagement and is key for the future success of PostNL.
Economic performance (p50-63) We focus on a strong financial position, which involves ongoing business improvement and solid cash management. This will enable a sustainable dividend and create long-term value for our shareholders. Capital allocation will be directed at sustainable dividend and investing in growth.	**Reputation score** (p54, 185) Our reputation is vital to our business, our customers and society at large expect us to deliver on our promises, which is why we continually focus on improving our reputation score. In the Netherlands, our reputation is independently measured by the Reputation Institute.
Employee engagement (p30-31, 187) Engaged and motivated employees are essential for PostNL. Our employees provide the high-quality services and products that determine customer satisfaction and loyalty. Our aim is to continuously improve the engagement of our employees.	
Qualitative disclosure in the Annual Report 2016	
Flexible and sustainable partnerships (p31, 44, 179) An integral part of our business involves working closely with external business partners, including our independent parcel deliverers. We focus on developing long-term partnerships, and strive to better understand our business partners' needs and wishes.	**Sustainable innovation** (p14-15, 30-49) Sustainable innovation is about developing a business that can grow sustainably over the long term. Through sustainable innovation we also focus on contributing to a more sustainable society, by improving the efficiency and effectiveness of our delivery solutions.
Responsible redesign (p39, 186) Our focus is on helping those employees affected by job cuts to find work elsewhere, either within the company or externally. The mobility programme offers a complete work-to-work solution, including workshops, training sessions, and job consultations.	**Transparent media relations** (p32, 95) We maintain contact with the media and the financial community, ensuring that they are informed about relevant developments in our company in a transparent and timely way.

Sustainable Development Goals

In 2015, the UN General Assembly formally accepted a new set of 17 measurable Sustainable Development Goals (SDGs) which form the 2030 sustainable development agenda.

In 2016, we started identifying which of the 17 SDGs are most relevant to us. The SDGs were established by the United Nations with the aim of ending poverty, protecting the planet, and ensuring prosperity for all. After an initial assessment of the SDGs in 2016, we identified five goals that are most relevant to us. In assessing the relevancy we looked at who we are: a postal and logistic solution provider employing around 46,000 people that believes that innovation plays a vital role in the development of our company. In the table below, we have outlined how we started contributing to each of these goals in 2016. We will continue to report on our progress in the years to come, and add additional goals as and when we believe they become strategically relevant for our company.

Sustainable Development Goals

The goals	Short description of goals	How we have started contributing to these goals
3 GOOD HEALTH AND WELL-BEING	Promote health and well-being for everyone, irrespective of age.	We provide an environment where we care for people's physical and mental well-being, and offer a range of training and education initiatives. For example, we work to reduce absenteeism and accident prevention by running preventative programmes, making employees aware of their health.
5 GENDER EQUALITY	To achieve gender equality and empower females everywhere.	Our ambition is to operate a workforce that reflects the diversity within society. This is why we hire qualified people who fit within our culture, irrespective of their ethnicity, gender, age or sexual orientation. We strive for a diverse workforce. At PostNL, diversity is not about getting the numbers right, it is about creating a workforce that represents society and feels safe and secure. Diversity makes us stronger.
8 DECENT WORK AND ECONOMIC GROWTH	To promote sustainable and inclusive economic growth, as well as full and productive employment for all.	At PostNL, sustainable employability is about helping employees at all phases of their career be productive, skilled and well trained, highly motivated, and healthy enough to work inside or outside the company, today and in the future. To help achieve this, we are focusing on ensuring our employees remain employable, while staying fit and healthy. Recognising our social responsibility as market leader, our sustainable delivery model aims to develop a sustainable parcels market that provides fair and competitive working conditions, and increases the commitment of our people by stimulating cultural diversity, innovation and entrepreneurship.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	To build a resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation.	We operate the largest and most modern letter and parcel network in the Benelux. As the USO service provider in the Netherlands, we focus on ensuring mail remains accessible and reliable going forward. We have taken a number of measures to achieve this, including reducing post boxes and post offices in the Netherlands, as well as investing in next-generation sorting and coding machines that make our mail processes more effective and efficient. Through our parcel sorting and delivery infrastructure, as well as our innovative services and solutions, we provide e-tailers, from market-leaders to one-man businesses, with greater choice for the end consumer. This focus on innovation is a key factor in helping the company and its customers grow.
13 CLIMATE ACTION	To take urgent action to combat climate change and its impact.	In Mail in the Netherlands, each year we evaluate the best way to deliver, whether it is on foot, by bike, by scooter or by car. This helps ensure that we continually work towards delivering in the most efficient and sustainable way. In 2016, for example, we began experimenting with e-cargo bikes. In 2016 at our Parcels segment, we began installing approximately 22,000 solar panels on the roofs of our sorting and delivery centres, and expect to complete this by 2018. This enables us to contribute up to 40 percent of each center's annual electricity requirements. During the year we also began rolling out additional biogas vehicles across both our Parcels and Mail in the Netherlands segments. By the end of 2017 we will operate 550 biogas vans, approximately 20 percent of all biogas vans in operation in the Netherlands. We are also looking for ways to minimise our environmental impact across our international operations. For example, in Italy we now source all of our electricity from 100 percent certified renewable sources, enabling Nexive to cut their CO_2 emissions by between 40 and 60 percent.

SUSTAINABLE DEVELOPMENT GOALS

1.3 CR reporting process

We established a dedicated CR reporting process that enables us to report on our performance and progress. CR data is collected on a monthly basis using a dedicated IT system, and is then consolidated and analysed centrally. We use company-wide definitions when reporting on the data, which are in line with the GRI G4 guidelines. These definitions, which do not differ from the 2015 definitions, can be found in Appendix 3: Glossary and definitions. For the overview of all GRI indicators, as well as where they can be found in this report, we refer to the GRI content index on postnl.nl/annualreview2016.

Internal control over CR reporting

All reported data are subject to internal validation procedures on the basis of the data owner (first line of defense) as well as at the data validator level (second line of defense). We have an integrated internal control framework in place which specifies all financial and CR control procedures and its timing and reporting formats. Our internal audit department also periodically performs audits on the quality of data.

Scope of the report

The report includes CR data from all entities that are either fully or majority owned by PostNL. In accordance with our policy on CR reporting, all companies acquired in any given year must report CR data from the following year onwards. PostNL companies that are divested – a full or partial sale, whereby we no longer retain a direct or indirect controlling interest – are excluded from the CR reporting scope for the entire year in which the divestment took place.

In previous years we excluded Regioservice and Turbopost, both of which are part of our German business Postcon, from our CR reporting data. This was because they are transitioning towards a model in which local entrepreneurs are made responsible for the businesses in the region. During 2016, as part of the finalisation of the strategic review of our German business, we made the decision to continue to invest in our German activities. Since this decision was made during 2016, we have not yet been able to include Regioservice and Turbopost in our CR reporting data for that period. We will include Regioservice and Turbopost in our CR reporting scope from 2017 onwards.

We also did not include employees of joint ventures, associates, and commission-contracted workers in our CR reporting scope. Commission-contracted workers are paid by output and do not have a labour contract. As subcontractors play an important role in our business, we include the impact they have in terms of absolute carbon emissions and fatal accidents. These subcontractors include independent parcel deliverers, and other external parties that transport mail or parcels for us, such as air freight carriers.

Use of estimates and judgements

In determining our carbon emissions, we use carbon conversion factors taken from the 2016 UK DEFRA tables. Specifically for electricity, we use the DEFRA tables for the period 2012 till 2015 and the OECD table for 2016, as electricity is no longer part of the DEFRA table. These conversion factors relate to internationally acknowledged organisations, such as the Intergovernmental Panel on Climate Change, the International Energy Agency and the Greenhouse Gas Protocol.

Figures related to our own carbon emissions, where no full data coverage is available, are extrapolated to reflect the entire PostNL organisation, unless stated otherwise. Extrapolation is done on the basis of full-time equivalent (FTE) coverage or square metres. The FTE and headcount data in the table for New Hires and Turnover is based on the number of employees in the Netherlands, and the data was then extrapolated to cover the entire company.

The accuracy and completeness of CR data depends on the method of measurement, the calculation procedure and whether estimates have been used. Methods and measurements are in line with those used in former years. Estimates are based on historical experience and other factors, including expectations that we believe are reasonable under the circumstances.

We define coverage as the number of FTEs working in entities that report data, divided by the total number of FTEs in the CR reporting scope. We aim to annually increase our FTE coverage. The data clarification table in Appendix 2 shows the coverage per indicator. We have taken all reasonable steps to ensure that the CR information in this Annual Report is accurate.

The carbon emissions impact for subcontractors is determined based on secondary indicators, such as kilometres driven. This is because primary data, such as fuel consumption, are not available. One significant estimation made is carbon emissions as a percentage of total costs for delivery by subcontractors. The estimations made are, amongst others, derived from tonnes of carbon emissions per million of euro turnover as reported in the externally published Annual Reports of Royal Mail and Deutsche Post DHL Group. This means that there are inherent limitations to the accuracy of the reported subcontractor carbon emissions figures. The most important ones:

- The subcontractor model is based on operational systems within PostNL, but for some subcontractor activities planned figures are used instead of actual figures.
- For commercial airline haul, the subcontractor model uses volumes and kilogrammes of mail, which are based on actual 2016 data. We use the distance from the Netherlands to the hub in the country of destination.
- To estimate the subcontractor emissions for our international operations we use the latest Royal Mail figures, as per 18 May 2016 reported in their Annual Report 2015/16, in combination with the most recent public figures of Deutsche Post DHL Group as reported in their Annual Report 2015 as published on 1 March 2016.

Data revision

In 2016 we adjusted our reporting policy for the environmental indicator 'gas usage in m^3/m^2 building'. The new policy provides an improved insight into (the development of) our gas usage across our buildings, as the indicator now excludes buildings that do not use gas at all (like our new sorting and delivery centres within our Parcels segment). We have adjusted the comparative figures of 2012 to 2015 accordingly. The revision had no material impact on the reported CO_2 efficiency index results of these previous years.

Section 2: Customer indicators

This section sets out how we measure the way our customers view us. We create value by focusing on the interests of our customers, which ranges from introducing innovative services and solutions to constantly striving to better our customer contact. The results of these efforts are indicated in the following customer indicators.

2.1 Customer indicators

	2016	2015	2014	2013	2012
Customer satisfaction (% of satisfied customers)	87%	86%	85%	83%	79%
Reputation score	67.8	67.7	64.5	62.3	60.6
Delivery quality of Mail in the Netherlands (2016 preliminary)	96.4%	96.4%	96.7%	95.8%	93.9%
ISO 9001 certification (% of FTE working in certified sites)	98%	96%	91%	91%	91%

Customer satisfaction

We measure customer satisfaction through a bi-annual online survey performed by an independent external research company. Over 30,000 customers, both consumers and business customers, of our mail and parcels operations, were invited to participate. International customers are not included. The survey looks at how we resolve complaints, the delivery time of letters and parcels, and the quality of our delivery.

As part of our PostNL 2020 strategy, we are focusing on customers experiencing us as a fully integrated company. By continuing to implement one customer base, we are able to develop a 360-degree customer view. This enables us to offer our customers the right service at the right time. This total customer experience is also supported by continually improving the integration of our online solutions, postnl.nl and the PostNL App. The fact our customer satisfaction rate has improved solidly over the past few years strengthens our belief that our customer focus pays off as we implement our strategy.

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. Over the last few years our reputation score has improved by more than 10%.

Delivery quality Mail in the Netherlands

One of the elements that our customer satisfaction survey focuses on is delivery quality of mail. As a result, we focus on making ongoing improvements to our service level. Additionally, as the universal service provider we have number of metrics that we measure which determine whether we are achieving the minimum legal requirements. One of these is the quality of our mail delivery. Each year we hire an independent research firm to test 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. In 2016, the delivery quality for standard mail was 96.4%, well above the minimum required level of 95%.

ISO 9001 certification

We also use our ISO 9001 certification to manage overall quality. ISO 9001 sets requirements for continuous quality improvements across the company, with a focus on providing better service and quality. We encourage all PostNL companies to acquire ISO 9001 certification. In 2016, the percentage of FTEs working at ISO 9001 certified sites was 98% (2015: 96%).

Section 3: People indicators

This section sets out the results related to our people indicators. We have created a working environment in which our employees feel valued and at home and are given the opportunity to grow and develop. We provide employees with training and, when necessary, new career opportunities. We invest in a sustainable future, both for our company and for the people who work for and with us. The outcome of these efforts are monitored and measured through employee engagement, recruitment and career development, employee turnover, diversity and inclusion, and health and safety indicators.

3.1 Workforce

	2016	2015	2014	2013	2012
Headcount	46,456	49,174	52,364	56,475	64,721
Headcount out of CR reporting scope	2,901	1,897	1,842	1,983	2,444
Headcount in CR reporting scope	**43,555**	47,277	50,522	54,492	62,277
Full time equivalents (FTE)	23,933	25,074	26,361	28,844	31,842
FTE out of CR reporting scope	1,425	1,426	1,409	1,365	1,834
FTE in CR reporting scope	**22,508**	23,648	24,952	27,479	30,008

Our workforce in general declines in line with the ongoing decline in mail volumes in the Netherlands. However, this is partially offset by the growth in our Parcels and International businesses. We expect the number of headcounts and FTEs to further decline in the coming years, as a result of our cost savings programmes.

New hires and turnover

		2016		2015		2014		2013		2012
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Workforce at Jan 1	47,277		50,522		54,492		62,277		62,053	
Workforce by gender	25,694	21,583	28,160	22,362	30,878	23,614	35,924	26,353	36,276	25,777
New hires										
< 30	2,543	2,207	3,332	3,136	3,830	3,126	4,289	3,070	6,549	4,245
30-50	1,410	2,613	1,782	3,139	1,556	2,588	1,458	2,246	2,662	3,300
>50	2,014	1,401	2,251	1,354	1,667	920	1,383	742	2,016	1,020
Total new hires	5,967	6,221	7,365	7,629	7,053	6,634	7,130	6,058	11,227	8,566
% of total headcount	23%	29%	26%	34%	23%	28%	20%	23%	31%	33%
Total turnover										
< 30	3,426	2,789	4,527	3,495	4,886	3,536	6,452	3,982	6,646	3,787
30-50	1,807	2,940	2,071	3,117	2,103	2,877	2,568	3,191	2,502	2,928
>50	2,943	2,006	3,233	1,795	2,782	1,473	3,156	1,624	2,431	1,275
Total turnover	8,176	7,734	9,831	8,408	9,771	7,886	12,176	8,797	11,579	7,990
% of total headcount	32%	36%	35%	38%	32%	33%	34%	33%	32%	31%
Workforce by gender	23,485	20,070	25,694	21,583	28,160	22,362	30,878	23,614	35,924	26,353
Workforce at Dec 31	43,555		47,277		50,522		54,492		62,277	

As a postal company, we hire a relatively high number of part-time employees who work with us for less than a year. This is reflected in our new hire and turnover figures. There is a particularly high turnover rate among the under 30s, because many students take part-time jobs as deliverers. For those employees affected by job cuts, we offer a comprehensive mobility programme to help them from work-to-work.

3.2 Employee engagement

	2016	2015	2014	2013	2012
Employee engagement (% of engaged employees)	67%	64%	59%	57%	56%
Culture index	58	55	Not reported	Not reported	Not reported

We want to be an attractive employer for everyone who works for and with us. For us, employee engagement is about creating a OnePostNL culture - an environment that promotes customer focus, closer collaboration internally, and sustainable employability. Our culture index, which is based on four themes, increased in 2016.

To monitor our employee engagement, each year we carry out a company-wide online engagement survey. This survey is conducted by an independent external party. Employees from across the entire company, including our international operations, are invited to participate. In 2016, 25,000 employees participated in the survey.

In 2016, our employee engagement improved, driven by a sense of responsibility, increased company pride, and greater internal collaboration. Our aim is to continuously improve the engagement of our employees.

3.3. Recruitment and career development

	2016	2015	2014	2013	2012
Training hours per FTE	18	21	18	17	23
Investors in People certification (% of headcount working in certified sites)	93%	93%	94%	94%	95%

We recognise that having the right talent is vital for the future of the company, from the operators of our next-generation sorting machines to senior managers. Personal development is an important driver for most of our employees. It stimulates engagement and is key for the successful implementation of our PostNL 2020 strategy.

In 2016, we continued to develop learning based on the 70/20/10 framework. This framework is based on the insight that 70 percent of learning takes place through day-to-day practice, while only around 10 percent comes from formal training. The other 20 percent is composed of informal coaching and supervision. We offer training programmes through our PostNL Academy, which is available to all PostNL employees. This digital learning portal enables employees to further expand their personal and professional development in a variety of ways, improving their skills and, ultimately, their employability. The PostNL Academy is available 24/7, and employees can select which learning modules to follow themselves. For new employees specific training programmes are in place.

We facilitated the career development of high potentials through three career development programmes. The programmes aim to develop high potential employees on the company's leadership competences, while taking them to the next level of (personal) leadership. We frame our development programmes in three (career) phases:

- **The Young Executive Programme** teaches graduates how to learn effectively, using their own knowledge and expertise, studying the organisation and their local environment, and the company's strategy. The focus is on improving their performance and personal development, while developing a personal network within the company.
- **The Young Managers in Action Programme and the Innovation Challenge** focus on professionals with four to ten years experience. The aim is to create personal leadership, develop strategic, innovative and entrepreneurial competences and help participants discover their creative mind.
- **The Mastering Your Leadership Programme** is targeted at professionals with more than ten years experience. The aim is to increase their ability in interpreting the company's strategy directly into their own business environment, while developing and stimulating entrepreneurship to generate future business opportunities.

In 2016, the number of training hours per FTE decreased. Additionally, we retained Investors in People (IiP) certification coverage of well above 90% of our headcount. This certification covers a number of areas, including HR policies, and educational and development opportunities.

3.4 Diversity and inclusion

	2016	2015	2014	2013	2012
Percentage of females in management	26%	25%	23%	24%	21%

We strive for a diverse workforce. At PostNL, diversity is not about getting the numbers right, it is about creating a workforce that represents society and feels safe and secure. Diversity makes us stronger. In 2016 we continued to focus on hiring and promoting female and cultural talent, helping people with a distance from the labour market rejoin the workforce, and the creation of a safe and inclusive work environment. We support diversity and inclusion, and support networks that foster this. In 2016, for example, we signed the Diversity Charter, which operates across 14 European countries and has been signed by more than 7,000 companies and organisations.

As an inclusive company, we support Pride, the gay, lesbian, bi- and transsexual network. In 2016, our Pride network was recognised as the most Engaged Network by Workplace Pride, an organisation that defends the rights of LGBTs in the workplace. We also participate in events and initiatives to promote and stimulate diversity, such as the Gay Pride Canal Parade.

To help foster a diverse workplace, we are concentrating on increasing the number of women in senior positions. One way of achieving this is by continuing with our successful Women Inclusion Network (WIN) initiative and mentoring programmes. In addition, we paid special attention to female talent in our succession and talent management approach. We are also a member of the 'Talent to the Top' charter, a countrywide platform to facilitate and stimulate recruitment and the development of women to senior positions in private and public companies. Based on these and other initiatives, we have been able to increase the number of women in management positions over the last few years.

3.5 Health and safety

	2016	2015	2014	2013	2012
Fatal accidents	1	3	2	0	3
Serious accidents	21	25	16	24	24
Lost time accidents	606	688	538	615	631
As frequency rate per 100 FTEs	2.7	2.9	2.2	2.2	2.1
OHSAS 18001 certification (% of FTE working in certified sites)	96%	95%	89%	89%	91%
Absenteeism (% of total working hours)	5.1%	5.0%	5.2%	5.5%	5.8%

Accidents

We work hard to improve the safety of our employees. As part of their work, our employees drive and walk millions of kilometres each year, which means they regularly face traffic risks. By training our employees to drive and work more safely, we strive to further reduce the number of accidents. Despite all our efforts and initiatives we deeply regret having to report one fatal accident across our operations in 2016 (2015: 3). A subcontractor was hit by a car while crossing the road by foot. This remains a tragic event and we remain determined to prevent fatalities. The number of serious accidents and lost time accidents decreased. In 2016, we implemented plans to reduce serious and lost time accidents. We encourage all of our business units to obtain the OHSAS 18001 certification, which is a standard for occupational health and safety management systems and is intended to help control risks. The percentage of FTEs working in certified sites increased to 96% in 2016 (2015: 95%).

Absenteeism

We focus on reducing absenteeism, as this is an indicator of the overall health of our employees. For example, by running preventative programmes making employees more aware of their health. These programmes include enlightenment, health tests and a range of sporting associations available across the company. Despite our active approach and preventative programmes we saw a slight increase in absenteeism numbers in 2016.

Section 4: Environmental indicators

We report on our environmental performance. We strive to continually reduce our environmental impact by lowering our energy consumption. Our buildings, small trucks and vans, large trucks and independent parcel deliverers and other subcontractors impact our environmental footprint, as do our business travel and company cars.

Based on our materiality analysis, we selected the most material environmental topics: CO_2, NO_x and PM_{10} emissions. CO_2 has a long-term impact on the climate, while NO_x and PM_{10} emissions reduce air quality, impacting people's health.

The CO_2 efficiency index reflects our efforts to reduce our own carbon footprint. We describe which actions were taken to improve our CO_2 efficiency in 2016. At the end of the section we report on our absolute CO_2 footprint, divided into scope 1, scope 2 and scope 3 emissions, in line with the Greenhouse Gas Protocol.

4.1 CO_2 efficiency index

	2016	2015	2014	2013	2012
CO_2 efficiency index (2007 = 100)	49.5	51.4	56.1	57.3	60.8

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. We focus on reducing our environmental impact, among others by offering our stakeholders environmentally friendly logistics operations.

In 2008 we introduced the CO_2 efficiency index. Our ambition is to reduce the CO_2 efficiency index to 45 by 2020 (base year 2007 = 100). The index consists of three components: buildings, small trucks and vans, and large trucks. The CO_2 efficiency of buildings is measured as the amount of CO_2 in kilograms per square meter. The CO_2 efficiency of trucks and vans is measured in grams CO_2 per kilometer. The impact of each is weighted according to their absolute carbon emissions in the base year. To achieve our ambition, we take into account energy efficiency when introducing new technologies. For example, our next-generation sorting machines within our Mail in the Netherlands segment, and the sorting and delivery centres in our Parcels segment. Additionally, we replace fossil-based energy with bio-based energy whenever possible.

The improvement in our CO_2 efficiency index in 2016 was helped by our decision to use 100% green gas for the heating of our buildings in the Netherlands from 2017 on. The new energy contracts were signed mid 2016. In line with this decision we decided to already compensate the carbon emissions of our gas usage as from the second half of 2016.

To realise our long-term CO_2 efficiency index goal, we will continue to optimise our logistics processes and move to bio-based energy when possible.

4.2 Buildings

	2016	2015	2014	2013	2012
Efficiency (kg CO_2 per m^2)	5.1	8.5	13.1	14.7	20.0
Electricity usage in KwH/m^2 building	104	103	105	107	118
Sustainable electricity usage (as % of total electricity usage)	83%	89%	82%	79%	82%
Gas usage in m^3/m^2 building	7.5	7.0	7.0	10.2	10.2

Our parcels sorting and delivery centres have an A+ energy label based on state-of-the-art building techniques, including optimal use of day light and energy-efficient sorting machines. In total, we operate 920,000 square metres of buildings. In 2016 we used 95 million KwH of electricity (2015: 98). Our total gas consumption was 5.1 million cubic metres (2015: 5.0).

In addition to our energy reduction initiatives, we also use sustainable carbon-neutral electricity in all buildings in the Netherlands and in Italy where we manage our own energy contracts. In 2016, 83% of the total amount of electricity we used was sustainably sourced (2015: 89%). For those buildings where no sustainable electricity is used, carbon emissions are compensated by gold standard credits. In 2016, 1.3 million cubic metres of our total gas consumption came from renewable biogas (2015: 1.3).

Mid 2016 we signed new sustainable energy contracts for the period 2017-2020. Our complete gas and electricity consumption in the Netherlands will be carbon neutral from 2017 on. We decided to compensate the carbon emissions of our gas consumption already for the second half of 2016, in line with the goal of the signed new energy contracts.

To aid long-term comparability of emissions, we use a correction factor called 'degree days' to compensate for relatively mild or severe winter conditions. This correction factor was used in the CO_2 efficiency numbers presented above (kg CO_2/m^2).

Going forward, we expect our next-generation sorting machines and the further implementation of LED lighting to have a positive impact on our electricity usage. In 2016, we installed solar panels on six of our Parcels' sorting and delivery centres. In 2017, we will extend the installation of solar panels to another thirteen sorting and delivery centres. The estimated energy production of these panels is 4.8 million KwH in total, which is the equivalent of the electricity usage of around 1,500 households. We expect these panels to generate over 40% of the centres' total electricity needs.

4.3 Small trucks and vans

	2016	2015	2014	2013	2012
Efficiency (gr CO_2 per km)	237	231	239	243	238
Fuel usage liters diesel/100 km	9.6	9.2	8.8	9.1	8.9
Vehicles complying with Euro 6	14%	2%	0%	0%	0%
Vehicles complying with Euro 5	85%	97%	95%	77%	55%
Vehicles not complying with Euro 6 or Euro 5	1%	1%	5%	23%	45%
NO_x emissions in kg	15,242	15,032	16,669	18,907	22,629
NO_x emissions (gr/km)	0.27	0.28	0.30	0.32	0.35
PM_{10} emissions in kg	306	303	732	1,421	2,331
PM_{10} emissions (gr/km)	0.01	0.01	0.01	0.02	0.04

As sustainable delivery is one of our material topics, we concentrate on reducing the environmental footprint of our logistic activities. Our customers and the society in which we operate increasingly ask for sustainable delivery alternatives. For our fleet of vehicles, the focus is on optimising our network. In 2016 the number of kilometers of our small trucks and vans increased with 5% due to the growth of our parcel business.

Over the course of the year the number of small trucks and vans in use decreased to 1,584 (2015: 1,760). The CO_2 efficiency in grams per kilometer decreased to 237 (2015: 231). In the last quarter of 2016 we increased the number of green gas trucks up to 295 (2015: 142). Green gas is bio-based gas made suitable for fuel usage. It has virtually no carbon emissions compared to fossil-based fuels, and has significantly lower levels of nitrogen oxides (NO_x) and particulate matters (PM_{10}) emissions, which helps improve air quality and health. As green gas is not yet available at all fuel stations, we use compressed natural gas (CNG) when necessary and offset the carbon emissions of the consumed CNG with gold standard credits.

We plan to increase the number of green gas vehicles we operate in the coming years. This decision is based on financial, environmental and practical (availability of green gas at the given location) considerations. When vehicles are due for replacement, we investigate if green gas vehicles are suitable. If it is not feasible, we then introduce Euro 6 vehicles, also resulting in lower NO_x and PM_{10} emissions.

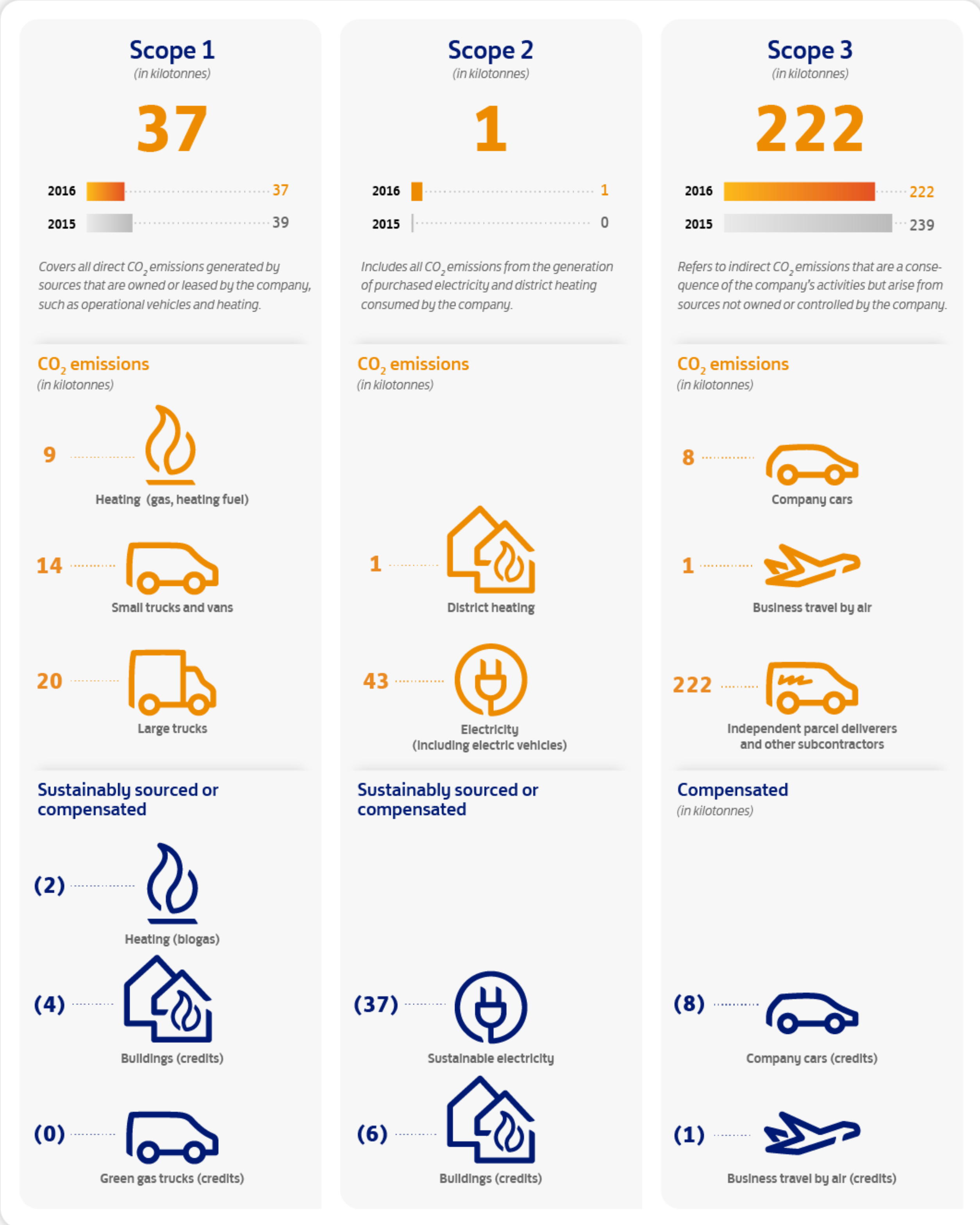
We are looking into the feasibility of replacing some of our small trucks with e-scooters, e-cargo bikes and e-bikes to further improve our carbon footprint.

4.4 Large trucks

	2016	2015	2014	2013	2012
Efficiency (gr CO_2 per km)	728	714	711	696	676
Fuel usage liters diesel/100 km	27.2	26.7	26.7	26.1	25.4
Vehicles complying with Euro 6	69%	57%	53%	29%	0%
Vehicles complying with Euro 5	31%	43%	47%	71%	87%
NO_x emissions in kg	25,128	28,317	35,783	48,236	54,428
NO_x emissions (gr/km)	0.93	1.07	1.28	1.84	2.30
PM_{10} emissions in kg	345	362	418	574	693
PM_{10} emissions (gr/km)	0.01	0.01	0.01	0.02	0.03

Large trucks are a crucial part of our logistics network, forming the link between our collecting, sorting and preparation locations. Optimisation of our logistic networks in combination with volume growth in our parcels business led to increased loading factors for our large trucks, resulting in 728 gram carbon emission per kilometer in 2016 (2015: 714). Especially the growth of our Belgium activities with its climate controlled transport and relatively high carbon emissions per kilometer impacted the carbon efficiency of our large trucks.

As part of the progress made in our Parcel segment, we invested in 52 additional large trucks. The number of large trucks we operated in 2016 increased to 243 (2015: 191). We will continue to investigate the possibilities of alternative fuels and keep replacing vehicles that comply to the highest Euro norm to further improve the environmental footprint of our large trucks. As we have yet to find a suitable biobased fuel alternative, all our current large trucks run on fossil fuels. When vehicles are due for replacement, we introduce vehicles complying to the highest Euro norm available. This improves our NO_x and PM_{10} emission numbers, as Euro 6 trucks have lower emission levels than Euro 5 trucks.



4.5 Absolute carbon emission footprint

In addition to reporting on our carbon efficiency, which is described in the previous sections, we also report our absolute carbon emissions. In accordance with the Greenhouse Gas Protocol, the absolute carbon footprint in kilotonnes is divided over three scopes. Scope 1 includes all direct carbon emissions generated by sources owned or leased by PostNL. Scope 2 includes all carbon emissions from purchased electricity and district heating. And scope 3 relates to indirect carbon emissions that arise from sources not owned or controlled by PostNL.

Scope 1

Our gross scope 1 emissions stabilised in 2016. The carbon emissions of our gas usage stabilised. Carbon emissions from our small trucks and vans remained stable, while the emissions of our large trucks increased slightly, due primarily to the insourcing of transport activities.

Our net scope 1 emissions improved slightly, after we compensated the carbon emissions of our gas usage from the second half of the year, in line with the new sustainable energy contracts we signed in mid-2016. This resulted in a positive effect of 4 kilotonnes. Additionally, we purchased 1.3 million cubic metres of biogas from renewable sources to heat our buildings, resulting in a 2.3 kilotonne reduction in carbon emissions. We also used green gas for part of our small trucks fleet. When green gas is not available at the fuel station, we use compressed natural gas (CNG). The carbon emissions of this CNG were compensated using Gold Standard credits. This amounted to 0.2 kilotonnes of offset carbon emissions. In total, this resulted in a decrease of our net scope 1 emissions. Over the past five years our absolute net scope 1 emissions have decreased by 23%.

Scope 2

Our gross scope 2 emissions increased slightly from 40 kilotonnes in 2015 to 44 kilotonnes in 2016, although our nominal electricity usage decreased from approximately 98 million KwH in 2015 to 95 million KwH in 2016. This increase in emissions results from a change in the conversion factor used. Since 2016, DEFRA no longer publishes a conversion factor for electricity. As such, we used the OECD conversion factor in 2016, resulting in an 18% increase in carbon emissions. At a limited number of locations, we use district heating. The carbon emissions of district heating remained stable at 1 kilotonne.

We purchased Gold Standard credits to compensate the carbon emissions of buildings which we rent with an all-inclusive square metre tariff. This amounted to six kilotonnes. The majority of the electricity we use comes from sustainable sources and is considered carbon neutral. In 2016, the use of sustainable electricity reduced our carbon emissions by 37 kilotonnes. In total, our net scope 2 emissions increased in 2016. Over the last five years, our absolute net scope 2 emissions have decreased by 80%.

Scope 3

Our gross scope 3 emissions decreased in 2016. The emissions of our company cars and business travel stabilised, while the carbon emissions of the independent parcel deliverers and other subcontractors declined.

In 2016, we operated 1,580 company cars (2015: 1,584). The majority were used by team leaders who visit delivery depots each day. Our car lease policy stimulates the use of more fuel-efficient cars. Since the majority of our activities takes place in the Netherlands, air emissions by business travel are not deemed material. The decrease of emissions from subcontractors mainly relates to the decline in export of milk powder to China. At the same time, the growth in intercontinental air freight resulted in carbon emissions higher than those from our domestic and European markets, where goods are mainly transported by truck.

Our net scope 3 carbon emissions declined due to the drop in emissions from independent parcel deliverers and other subcontractors. We purchased Gold Standard credits to offset 9 kilotonnes of carbon emissions from company cars and business travel.

4.6 Other environmental indicators

	2016	2015	2014	2013	2012
ISO 14001 certification (% of FTE working in certified sites)	97%	96%	90%	90%	91%

We have adopted the international standard ISO 14001, which helps us control environmental issues, minimise harmful effects on the environment and helps improve our ongoing environmental performance. We encourage all business units to acquire the ISO 14001 certification. In 2016, the percentage of FTEs working at ISO 14001 certified sites was 97% (2015: 96%).

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 Corporate Responsibility Information in the Annual Report 2016 of PostNL N.V. (further referred: PostNL), based in The Hague, the Netherlands. The scope of our audit engagement is described in the section "Our scope". Our audit engagement is aimed at obtaining reasonable assurance.

In our opinion, the Corporate Responsibility Information in the Annual Report 2016 presents, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to sustainability; and
- the thereto related events and achievements for the year ended 31 December 2016 in accordance with the GRI G4 guidelines of the Global Reporting Initiative (GRI) (option Comprehensive) and the supplemental internally applied reporting criteria as disclosed in "Section 1: Basis of preparation" in chapter 16 "CR Performance Statements" of the Annual Report 2016.

Basis for our opinion

We have performed our audit on the Corporate Responsibility Information in accordance with Dutch law, including Dutch Standard 3810N "Assurance engagements relating to sustainability reports". Dutch Standard 3810N is a subject specific standard under 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 Corporate Responsibility Information".

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our independence

We are independent of PostNL in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) (Code of Ethics for Professional Accountants, a Dutch regulation with respect to independence) and other relevant independence regulations 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).

Our scope

The Corporate Responsibility Information comprises the Annual Report 2016, excluding the financial performance in the Performance 2016 and outlook 2017 chapter, the Governance section (chapters 8-14), the Financial Statements (chapter 15) and the Appendices. Our scope provides a representation of PostNL's policy, the related business operations, events and achievements relating to Corporate Responsibility during 2016.

The Corporate Responsibility Information includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherent to this information is that the actual results may differ in the future and are therefore uncertain. We do not provide any assurance on the achievability and feasibility of this prospective information.

The references, excluding the "GRI content index", in the Corporate Responsibility Information (www.postnl.nl, external websites, interviews and other documents) are outside the scope of our assurance engagement.

We have read the information on Corporate Responsibility in the rest of the Annual Report 2016 and to the extent we can identify this information is consistent with the Corporate Responsibility Information in scope of our audit.

Materiality

Based on our professional judgement we determined specific materiality levels for each part of the sustainability information. When evaluating our materiality levels, we have taken into account the materiality analysis performed by PostNL. For the significant disclosures (Lost time accidents, Serious accidents, Fatalities, Employee engagement, CO_2 efficiency index, CO_2 emissions, Delivery quality Mail in the Netherlands, Customer satisfaction, Reputation score and the Volumes of mail and parcels), we determined materiality of 5% per indicator.

Our key audit matters

Risk	Our approach
CO_2 emissions scope 3 Independent parcel deliverers and other subcontractors are a material part of PostNL's CO_2 emissions. The methodology for calculating the CO_2 emissions of these subcontractors 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 subcontractors, estimates and underlying assumptions to report Scope 3 - CO_2 emissions.	Our assurance procedures focused on understanding the model used, evaluating the reasonableness of the assumptions and estimations made and assessing the mathematical accuracy of the calculations applied. In addition, we validated the data used in the model with underlying source documentation and external sources. We also assessed the sufficiency of disclosures, including information on inherent limitations as presented in section 1 of the CR Performance Statements.
Data obtained from third parties PostNL presents data that is measured by third parties at the request of PostNL, such as the Reputation score or Customer satisfaction.	Our procedures focused on reviewing whether the methodology used by the third party is suitable and assessing whether the transparency on the methodology in PostNL's Annual Report is sufficient for a proper understanding by the reader.
Reporting boundaries of key themes PostNL has selected key themes based on its stakeholder dialogue and its materiality assessment. PostNL's performance with respect to these key themes is presented through various KPIs. Some themes and related KPIs are presented with a different reporting boundary.	As PostNL applies different reporting boundaries for different KPIs, we have ensured the reporting boundaries per KPI are sufficiently disclosed by PostNL in section 1 of the CR Performance Statements in the Annual Report.

Responsibilities of management for the Corporate Responsibility Information

The Board of Management of PostNL is responsible for the preparation of the Corporate Responsibility Information in accordance with the GRI G4 guidelines (option Comprehensive) and the supplemental internally applied reporting criteria as disclosed in "Section 1: Basis of preparation" in the chapter "CR Performance Statements" of the Annual Report 2016. This responsibility includes the identification of stakeholders and the determination of material aspects. The choices made by management regarding the scope of the Corporate Responsibility Information and the reporting policy of PostNL are summarised in "Section 1: Basis of preparation".

Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the Corporate Responsibility Information that is free from material misstatement, whether due to fraud or errors.

Our responsibilities for the audit of the Sustainability Information

Our responsibility is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Reasonable assurance is a high, but not absolute level of assurance, which means we may not have detected all material errors and fraud. Misstatements can arise from fraud or errors 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 the Corporate Responsibility Information. 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 apply the "Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA)" and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our audit included amongst others:

- Evaluating the appropriateness of the reporting policy, its consistent application, including the evaluation of the results of the stakeholders' dialogue, the reasonableness of management's estimates and the related disclosures made by management
- Performing an external environment analysis and obtaining insight into relevant social themes and issues and the characteristics of the organisation
- Identifying and assessing the risks of material misstatement of the Corporate Responsibility Information, whether due to errors or fraud, 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 errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Interviewing management and relevant staff responsible for the Corporate Responsibility strategy, policy and achievements
- Interviewing relevant staff at corporate level responsible for providing the information in the Corporate Responsibility Information, carrying out internal control procedures on the data and consolidating the data in the Corporate Responsibility Information
- Evaluating the design and implementation and testing the operating effectiveness of the reporting systems and processes related to the information in the Corporate Responsibility Information
- Evaluating the underlying transactions and events
- Performing site visits to evaluate the source data and to evaluate the design and implementation of control, including validation procedures, at local level
- Testing relevant data and internal and external documentation, on a sample basis, to determine the reliability of the Corporate Responsibility Information
- An analytical review of the data and trends submitted for consolidation at corporate level
- Evaluating the overall presentation, structure and content of the Corporate Responsibility Information.

The Hague, 27 February 2017

Ernst & Young Accountants LLP

Signed by

Subject matter expert Corporate Responsibility	Independent auditor
R.T.H. Wortelboer	R.J.W. Lelieveld

Appendices

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Appendix 1: Other CR Performance Statements

	2016	2015	2014	2013	2012
People indicators					
Percentage of females in total headcount	49%	48%	44%	44%	44%
Employees with a disability	1,522	1,525	1,339	1,440	1,604
Disabled employees as % of total headcount	3.5%	3.2%	2.5%	2.5%	2.5%
Internal promotion (% of total management vacancies)	61%	70%	79%	94%	67%
Environmental indicators					
Waste (tonnes per FTE)	0.3	0.3	0.4	0.4	0.4
Recycling of waste as % of total waste	75%	72%	67%	60%	56%
Environmental incidents on site	8	3	8	10	5
Environmental incidents off site	2	1	3	0	4

Appendix 2: Data clarification table

The data clarification table clarifies the coverage of each indicator as presented in the chapter CR Performance Statements of this Annual Report. For each indicator, the coverage is expressed as a percentage of FTEs of the total number of FTEs. The total number of FTEs is presented at the top of the table.

FTEs reporting on:	2016	2015	2014	2013	2012
PEOPLE INDICATORS					
Workforce					
Full time equivalent	22,508	23,648	24,952	27,479	30,008
Employee engagement (coverage expressed in headcount)	100%	100%	100%	95%	97%
Training hours	100%	100%	96%	92%	98%
Employees with a disability	100%	100%	100%	100%	100%
Internal promotion	100%	100%	100%	100%	100%
Health and safety					
Fatal accidents	100%	100%	100%	100%	100%
Subcontractor road traffic fatal accidents	100%	100%	100%	100%	100%
Serious accidents	100%	100%	100%	100%	100%
Number of lost time accidents	100%	100%	100%	100%	100%
Lost time accident frequency rate	100%	100%	100%	100%	100%
Absenteeism	100%	100%	100%	98%	100%
ENVIRONMENTAL INDICATORS					
Operational vehicles					
Number of small trucks and vans (< 7.5 tonnes)	100%	100%	100%	99%	100%
Number of large trucks (> 7.5 tonnes)	100%	100%	100%	99%	100%
CO_2 efficiency small trucks and vans (< 7.5 tonnes)	100%	100%	100%	99%	100%
CO_2 efficiency large trucks (> 7.5 tonnes)	100%	100%	100%	99%	100%
Buildings					
CO_2 efficiency buildings	86%	88%	89%	86%	91%
Sustainable electricity usage	100%	100%	100%	100%	100%
Company cars					
CO_2 footprint of company cars	100%	100%	100%	100%	100%
EU standard for trucks (only EU countries)					
Small trucks	100%	100%	100%	100%	100%
Large trucks	100%	100%	100%	100%	100%
Coverage PostNL subcontractor model	100%	100%	100%	98%	98%
CO_2 footprint of business travel by air	100%	100%	100%	100%	100%
Waste					
Total waste per FTE	97%	96%	94%	96%	96%
% of waste seperated for recycling	97%	96%	94%	96%	96%

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_2 that has recently been extracted from the atmosphere as a result of growing plants and trees, and therefore does not influence the CO_2 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_2 levels in the atmosphere.

Business travel
Business travel refers to all business-related air travel.

Carbon neutral
Carbon neutral means that the net CO_2 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_2 efficiency
CO_2 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.

CR Council
This is a sounding board for the Board of Management for corporate responsibility-related subjects.

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 that shows the opinion of customers regarding the services provided in the reporting period. It is measured through a bi-annual online survey performed by an independent external research company.

Delivery quality
Delivery of a consignment within the timeframe 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.

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.

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.

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 depots, hubs, offices and other locations owned, leased, rented or operated directly by PostNL. Offsite incidents occur away from depots, hubs, offices and other locations owned, leased, rented or operated directly by PostNL.

European emission standards
Euro 4, Euro 5 and Euro 6 are mandatory European emission standards (EU directives) applicable to new road vehicles sold in the European Union. They define levels of vehicular emissions such as nitrogen oxides (NO_x) and particulate matter (PM).

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 Meeting of Shareholders
The meeting of shareholders and other persons entitled to attend meetings.

Global Reporting Initiative (GRI)
The GRI is a multi-stakeholder process and an independent institution whose mission is to develop and disseminate globally-applicable sustainability reporting guidelines for voluntary use by organisations that report on the economic, environmental and social dimensions of their business. The GRI incorporates participation of business, accountancy, investment, environmental, human rights and research and labour organisations from around the world. The GRI began in 1997 in partnership with the United Nations and became an independent body in 2002. It continues to collaborate with the United Nations Environment Programme and works with the United Nations Global Compact. For more information, see www.globalreporting.org.

Green gas
Green gas is a sustainable variant of natural gas and is produced by upgrading biogas to the same quality as natural gas. Green gas is a renewable fuel, which is produced cleanly.

Greenhouse Gas Protocol
The Greenhouse Gas Protocol (GHG Protocol) was established in 1998 to develop internationally-accepted accounting and reporting standards for greenhouse gas emissions of companies.

Group company
A group company as defined in article 2:24b of the Dutch Civil Code.

Headcount
Headcount is the number of employees on the payroll in active duty working for fully consolidated companies.

IFRS
International Financial Reporting Standards.

IFRS-EU
IFRS, as adopted by the European Union.

Internal promotion
The number of PostNL employees appointed to vacancies in management positions at the end of a reporting period. This refers to the number of actual appointments, not the number of FTE positions.

Internet of Things (IoT)
The Internet of Things (IoT) is the network of devices that connects online and shares data. This includes vehicles, buildings, white goods (such as fridges), and even clothes, which contain electronics, software, sensors, and network connectivity. The IoT allows objects to be sensed and controlled remotely across existing network infrastructure, creating opportunities for more direct integration of the physical world into computer-based systems, resulting in improved efficiency, economic growth, and innovations. Estimates are that the IoT will consist of almost 50 billion objects by 2020.

Investors in People (IiP)
Developed in 1990 by a partnership of leading businesses and national organisations, IiP helps organisations to improve performance and realise objectives through the management and development of their staff. For further information, see www.investorsinpeople.co.uk.

ISO (International Organization for Standardization)
The ISO is a network of national standards institutes from 146 countries working in partnership with international organisations, governments, industry, business and consumer representatives. The ISO is the source of ISO 9000 standards for quality management, ISO 14000 standards for environmental management and other international standards for business, government and society. For further information, see www.iso.org.

ISO 9001 (quality management)

The ISO 9000 standards cover an organisation's practices in fulfiling 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.

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.

NO_x

NO_x (NO and NO_2) refers to nitrogen oxides. Nitrogen oxides are produced during combustion, especially at high temperatures.

OECD

Organisation for Economic Co-operation and Development.

OHSAS 18001 (occupational health and safety management)

OHSAS 18001 is a standard for occupational health and safety management systems. It is intended to help organisations control occupational health and safety risks and was developed in response to widespread demand for a recognised standard for certification and assessment. OHSAS 18001 was created through the collaboration of several of the world's leading national standards bodies, certification organisations and consultancies. For further information, see www.ohsas-18001-occupationalhealth-and-safety.com.

Omnichannel

An omnichannel organisation is one that focuses on the customer, without being dependent on time, place and channel. Customers experience a consistent experience across all channels because the organisation provides relevant and immediately available information and content.

Parcel

Goods to be transported by a distribution company, weighing up to approximately 30 kg.

PM_{10}

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_{10} 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.

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.

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.

Sorting and delivery 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: Letter to shareholders

The Hague, 7 December 2016

Dear shareholder,

You may have seen today's announcement by the Board of Management and the Supervisory Board of PostNL (the **Boards**) that they unanimously reject bpost's final proposal. We felt it important to write to you directly to clarify the reasons for our decision, which has been taken after careful consideration.

Background

As a listed company with a diverse shareholder base, providing the Dutch USO in a liberalised and densely regulated environment, we are one of the largest private employers in the Netherlands, with over 49,000 employees, contributing to a large non-governmental Dutch pension fund. Our employees are present every day in every street in the Netherlands, serving over 7.5 million households. We consequently have many stakeholders to consider in connection with bpost's proposal. Not just because our fiduciary duties require us to, but also because we rely and depend on the daily support of all our stakeholders.

Our stakeholders have contributed significantly to the success of PostNL over the last years. Our employees, our works council and the labour unions cooperated with us in successfully implementing our restructuring plans. Our pension fund and employees agreed to substantially de-risk our pension liabilities. Political support, both from the Minister of Economic Affairs, and from Dutch parliament, resulted in price increases that made the USO profitable and sustainable again. And last but not least, our long term shareholders have trusted on our ability to deliver on our transformation process and have proven to be patient over the last few years as we were not in a position to pay dividends.

In the coming period, there are several important government decisions due in relation to the Dutch postal market which are crucial to our profitability going forward. This makes the general political stance towards PostNL a critical factor for the Boards to consider.

We have repeatedly discussed the importance of strong stakeholder support with bpost during the unsuccessful exploration of a possible combination earlier this year. Again, in response to bpost's recent approach, we have reiterated these concerns directly to bpost in our recent letters and also addressed this in our press releases of 11 and 18 November 2016.

In response to bpost's approach, several of our stakeholders have been explicit in their concerns, including in relation to the public statements of representatives of bpost and the Belgian state. These stakeholders include members of Dutch parliament, as well as members of the Dutch government - including the Prime Minister and the Minister of Economic Affairs -, as well as our large postal customers and employee representatives. One of the principal concerns expressed by political constituents is about the 40% shareholding and the related influence that the Belgian state would retain in a combination, essentially bringing the Dutch postal market back to the times prior to its liberalisation.

Considerations

PostNL has consistently compared bpost's proposals to the standalone scenario within a framework that includes key factors such as price, resilience, governance (including the influence of the Belgian state), employees and pensions, implications for the USO, stakeholder support, deal certainty and our expectation whether the combination will in the end be successful.

The Boards recognise that bpost's final proposal represents a considerable premium for our shareholders, provided that a transaction can be completed. The Boards, however, are not convinced that a combination of the businesses of bpost and PostNL will be successful, nor are they convinced a transaction with bpost can ultimately be realised.

The Boards are of the opinion that Belgian state influence in conjunction with a complicated governance structure at various corporate levels will make the combination inefficient and not agile to respond to its challenges. The Boards further lack conviction that the necessary transformation, including the necessary innovation, can be achieved at the required pace. Lastly, a transaction with bpost lacks broader stakeholder and notably political support, which support is crucial to the success of the combination.

As to the lack of political support, the Boards have carefully considered the outcome of the parliamentary debates held on 15 and 17 November and 5 December 2016. In response to questions raised and motions adopted by Dutch parliament, the Minister of Economic Affairs has made it clear that the Dutch government has serious concerns about the liberalised Dutch postal market, if a company that is subject to the significant shareholding and direct influence of a foreign state would acquire PostNL. These concerns received support from a large majority of Dutch parliament. Further to these debates, the Boards consider it likely that the Minister of Economic Affairs will seek to implement changes in the Dutch regulatory framework to safeguard the liberalised postal market, upon an acquisition by bpost. The Boards consider it likely that in that case, the Minister will tender the USO (revenue of €876m in 2015) or will adjust the maximum return on the USO. These measures are within the Minister's regulatory power to decide.

If these regulatory changes would be implemented, this would result in a significant deterioration of PostNL's profitability, would jeopardise its status as USO provider, would result in the loss of a large number of jobs, would weaken PostNL's competitive position, would result in the loss of important customers, would jeopardise PostNL's current transition and growth in e-commerce and parcels and would leave PostNL with very little to no room to invest in growth.

bpost expressed - both during our discussions earlier this year, and in its final offer letter - that it is not willing to accept the risk of regulatory changes if these would severely negatively affect our business. Even if bpost were to accept this risk, the Boards cannot accept the detrimental consequences of such regulatory changes on our business and our stakeholders.

Boards' position in relation to bpost's final proposal

We would like to reiterate that the Boards are not principally against a takeover of the company. The Boards are fully aware of their fiduciary duties in this respect and the importance of its stakeholders. This is evidenced by our willingness earlier this year to enter into discussions with bpost.

However, for reasons set out above, the Boards believe that a combination will not be successful. In addition, an acquisition by bpost could trigger the above mentioned regulatory changes and consequently could have a significant negative impact on PostNL's resilience, its employees, its position as USO provider, its stakeholder support and its continuity. Initiating discussions with bpost will in itself lead to substantial negative consequences for PostNL and its stakeholders, including its shareholders, which cannot be mitigated and are irreversible in nature. This would bring PostNL and all its stakeholders in a position that the Boards cannot accept. The Boards have therefore unanimously rejected bpost's final proposal.

Standalone strategy

We are confident about our standalone strategy which the company is implementing and executing successfully. Based on his statements in Dutch parliament, the Boards conclude that the Minister of Economic Affairs will take a substantial different view on the above mentioned regulatory changes if PostNL will not pursue a transaction with bpost. As we expressed at our capital markets day on 3 November 2015, and as is underpinned by the Q3 results, we made significant progress in transforming PostNL into an efficient, flexible, customer oriented and financially healthy company over the past few years, creating sustainable shareholder value. This transformation process evidences that PostNL is effectively managing the effects of the declining mail volumes. PostNL continues to transform and innovate its business to benefit from the strong growth in ecommerce.

We appreciate that in this transformation process we asked our stakeholders, and notably our long term shareholders, for trust in our ability to deliver on our promises and for patience to benefit from this transformation process, particularly because PostNL did not pay dividends over the last years.

We would like to emphasise that we consider shareholder remuneration our top priority and reiterate our expectation and commitment to resume dividend payments in 2017. In addition, we intend announcing measures to improve the value proposition for our shareholders at a capital markets day to be scheduled around the presentation of our Q4 '16 results. In preparation thereof, we will contact you as we would like to engage in a dialogue with our long term shareholders allowing you to share your views.

Yours sincerely,
on behalf of the Board of Management and Supervisory Board of PostNL

H.W.P.M.A. Verhagen CEO	J.P.P. Bos CFO
M.A.M. Boersma Chairman of the Supervisory Board	J. Wallage Vice Chairman of the Supervisory Board

Appendix 5: Summary of key figures

All numbers presented in this appendix are the reported numbers in the respective Annual Reports of 2012 till 2016, unless restated in a later year. Following the management buy-out of Whistl in 2015, revenues and underlying cash operating income of Whistl within segment International have been excluded for all years presented.

(in € millions, unless indicated otherwise)

	2016	2015	2014	2013	2012
Financial performance					
Revenue					
Mail in the Netherlands	1,877	1,961	2,044	2,060	2,270
Parcels	967	917	854	803	730
International	1,017	983	921	885	874
PostNL	3,413	3,461	3,465	3,435	3,580
Underlying cash operating income					
Mail in the Netherlands	160	204	230	78	20
Parcels	106	101	98	89	100
International	14	19	2	14	15
PostNL Other	(35)	(21)	(43)	(44)	(17)
PostNL	245	303	287	137	118
Underlying cash operating income margin					
Mail in the Netherlands	8.5%	10.4%	11.3%	3.8%	0.8%
Parcels	11.0%	11.0%	11.5%	11.1%	13.7%
International	1.4%	1.9%	0.2%	1.6%	1.7%
PostNL	7.2%	8.8%	8.3%	4.0%	3.3%
Net cash from operating & investing activities	653	135	141	492	(212)
Cash and cash equivalents	640	355	585	451	391
Net cash / (net debt)	86	(552)	(683)	(823)	(1,224)
Consolidated equity attributable to the equity holders of the parent	(79)	(223)	(597)	(692)	(314)
Corporate equity	2,742	2,204	1,983	1,925	1,138
Month-end coverage ratio main pension fund	108.3%	106.0%	108.9%	111.9%	102.5%
12-months average coverage ratio main pension fund	103.6%	106.8%	111.8%	not reported	not reported
IAS 19 discount rate	1.8%	2.5%	2.3%	3.5%	3.7%
Cash out from pensions	164	179	168	309	348
Profit for the year (excluding TNT Express)	135	147	220	164	222
Earnings per share (excluding TNT Express in € cents)	30.5	33.3	49.9	37.3	50.5
Operational performance					
Volumes (in millions of items)					
Addressed mail volume (Mail in the Netherlands)	2,213	2,401	2,705	3,029	3,437
Parcel volume (Parcels)	177	156	142	131	120
Volumes growth/(decline) percentage					
Mail in the Netherlands	(7.9%)	(11.2%)	(10.7%)	(11.6%)	(9.0%)
Parcels	13.3%	9.6%	8.8%	9.2%	13.2%
Delivery quality Mail in the Netherlands (2016 preliminary)	96.4%	96.4%	96.7%	95.8%	93.9%
Cost savings	64	85	127	95	39
Corporate responsibility performance					
Customer satisfaction (% of satisfied customers)	87%	86%	85%	83%	79%
Employee engagement (% of engaged employees)	67%	64%	59%	57%	56%
Absenteeism (% of total working hours)	5.1%	5.0%	5.2%	5.5%	5.8%
CO_2 efficiency index (2007 = 100)	49.5	51.4	56.1	57.3	60.8