

Posti Group Corporation

# Interim Report

## Q3 2017

October 26, 2017



posti







# Agenda



- July-September 2017
- January-September 2017
- Segments
  - Mail, Parcel and Logistics Services
  - Itella Russia
  - OpusCapita
- Strategy

# January-September 2017 in a nutshell

## Posti in figures

1,194.7	Net sales (EUR million)	
77.7	Adjusted EBITDA (EUR million)	
19.4	Adjusted operating result (EUR million)	
20,479	Personnel on average	
4.2%	Share of USO deliveries	
11	Countries of operation	

## Mergers and acquisitions

- The sell of OpusCapita's Finance and Accounting Outsourcing business.
- The acquisition of SOL personal assistance service business.
- The acquisition of Kaakon Viestintä's early morning delivery service.
- The sell of OpusCapita's digitization business in Sweden, Norway and Poland by the end of 2017.
- The acquisition of HR Hoiva.
- The foundation of Flexo, owned by Posti and SOL.

## Other key changes

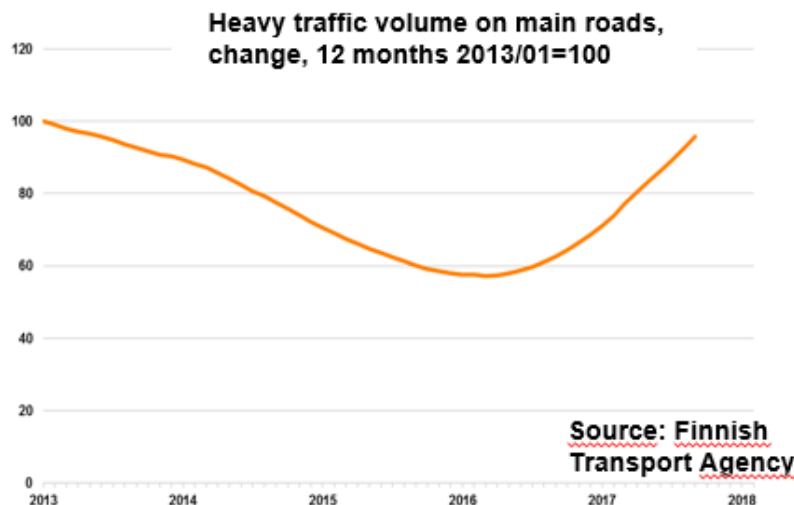
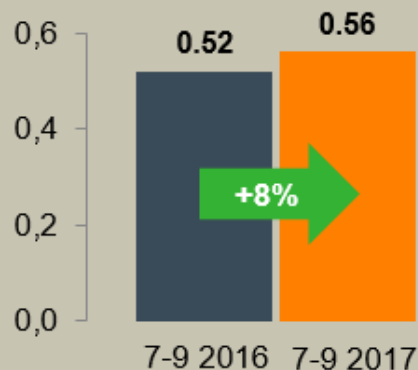
- During the third quarter, Parcel and Logistics Services grew to exceed Postal Services in net sales.
- On September 14, 2017, the Helsinki Court of Appeal issued a positive ruling for Posti in a case concerning the compensation of value added taxes.
- On September 28, 2017, Palta and PAU concluded negotiations on a new collective agreement for the mail communications and logistics industry that was approved by the Boards of Directors of both parties. The new collective agreement will enter into force on November 1, 2017, and remain valid until October 31, 2019.
- The renewed Postal Act was confirmed on September 8, 2017. The change took effect on September 15, 2017, and it applies to universal service products.

The Group's adjusted operating result is expected to remain on par with the previous year or decrease slightly.

# Freight and parcel volumes grew, letter volumes declined

July-September

Freight volumes\*\*, million pcs

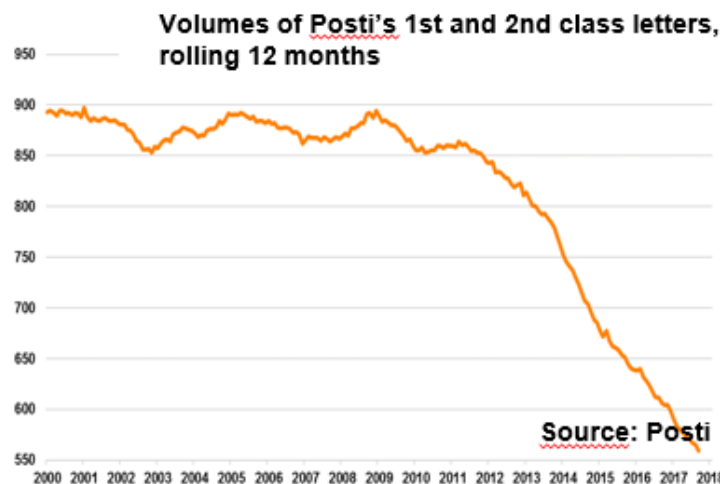


The growth of B2C parcel volumes in Finland and in the Baltics

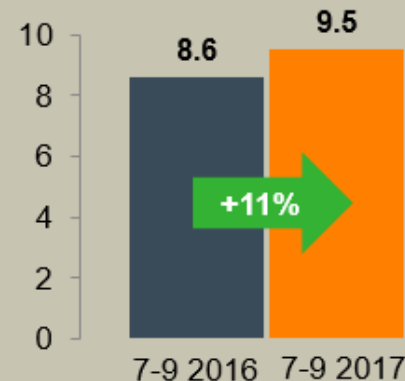
+14%

Number of parcels going through parcel points

+9%



Parcel volumes in Finland and in the Baltics, million pcs



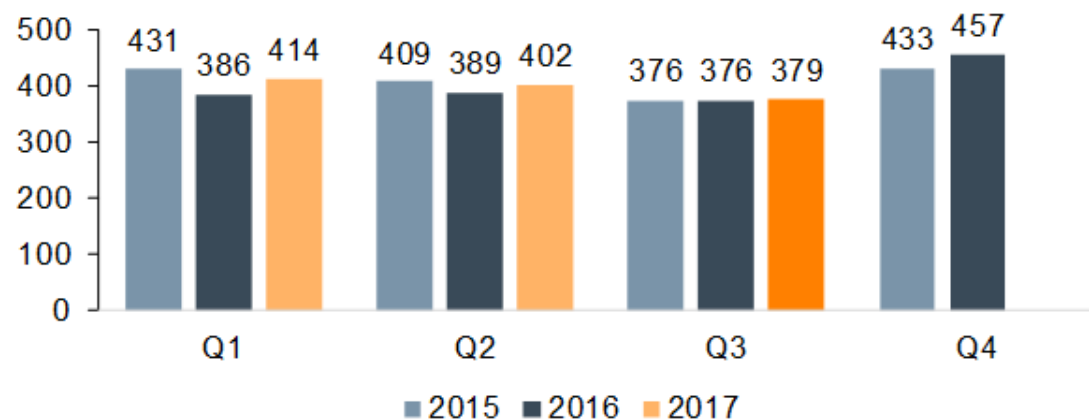
# July-September 2017



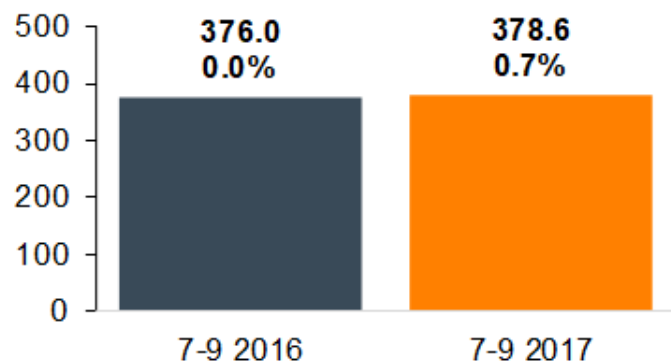
# Net sales and adjusted operating result

July-September

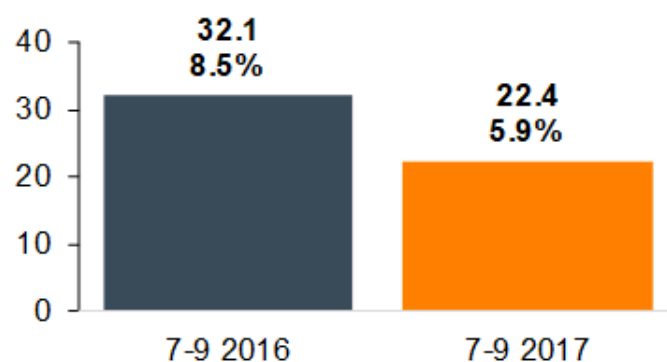
Net sales by quarters, EUR million



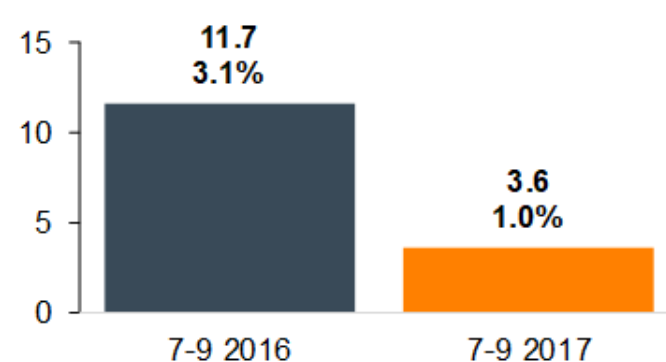
Net Sales  
EUR million and change, %



Adjusted EBITDA  
EUR million and %



Adjusted operating result  
EUR million and %



# Key figures

July-September

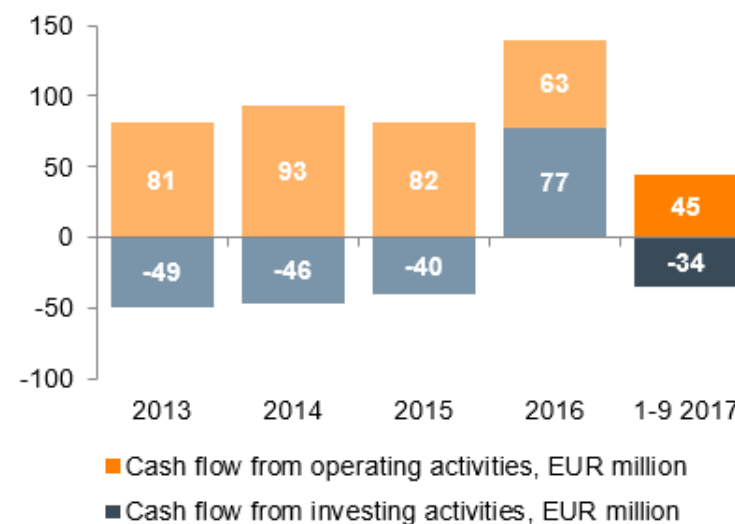
	7-9 2017	%	7-9 2016	%
<b>Net sales, EUR million</b>	<b>378.6</b>		<b>376.0</b>	
<b>Adjusted EBITDA, EUR million</b>	<b>22.4</b>	<b>5.9%</b>	<b>32.1</b>	<b>8.5%</b>
EBITDA, EUR million	17.9	4.7%	39.2	10.4%
<b>Adjusted operating result, EUR million</b>	<b>3.6</b>	<b>1.0%</b>	<b>11.7</b>	<b>3.1%</b>
Operating result, EUR million	-35.0	-9.2%	18.8	5.0%
Result before taxes, EUR million	-36.7	-9.7%	16.8	4.5%
<b>Result for the period, EUR million</b>	<b>-35.1</b>	<b>-9.3%</b>	<b>13.6</b>	<b>3.6%</b>
Gross capital expenditure, EUR million	16.6		17.3	

- Net sales grew by 1.0% in Finland and declined by 0.8% in other countries.
- International operations accounted for 15.2% of net sales.
- Special items affecting the result negatively amounted to EUR 38.6 million.
- In conjunction with the restructuring of OpusCapita and the refocusing of its operations, the future outlook and cash flow forecasts of the cash generating unit have been updated. Based on this assessment, the Group recognized impairment of goodwill in the amount of EUR 33.9 million.
- Mail items covered by the universal service obligation accounted for 4.3% of all of Posti's mail items.
- Operations under the universal service obligation was 7.0% of the Group's net sales.
- The number of working days in the third quarter was lower than in the previous year by one day. The number of working days affects the Group's net sales and result.

# Cash flow

	1-9 2017	1-9 2016	2016
Result for the period	-42.2	12.8	23.2
Cash flow from operating activities before financial items and taxes	48.7	27.5	88.7
Cash flow from operating activities	44.8	9.0	63.1
Cash flow from investing activities	-34.2	32.5	76.7
Cash flow from financing activities	-7.8	-33.5	-188.6
Change in cash and cash equivalents	2.8	8.0	-48.9
Cash and cash equivalents at the end of the review period	84.4	138.4	82.0

- The consolidated cash flow from operating activities before capital expenditure grew and was EUR 44.8 million in January–September.
- Investments according to the statement of cash flow amounted to EUR 54.1 million. The Group invested in information systems, the transport fleet and production projects and acquisitions.
- At the end of September, liquid assets amounted to EUR 132.5 million, and undrawn committed credit facilities totaled EUR 210.0 million.



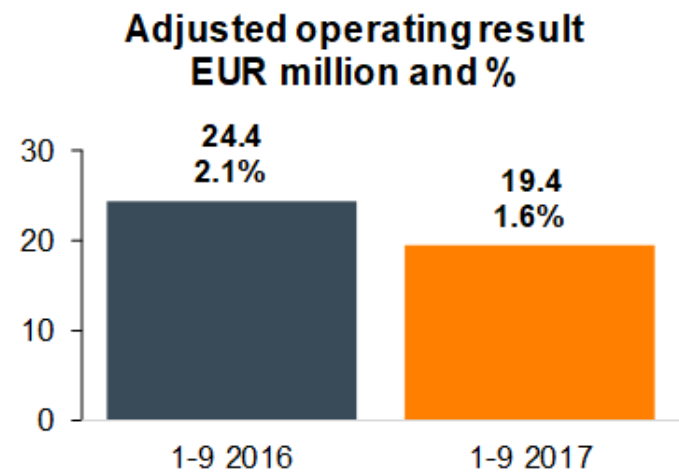
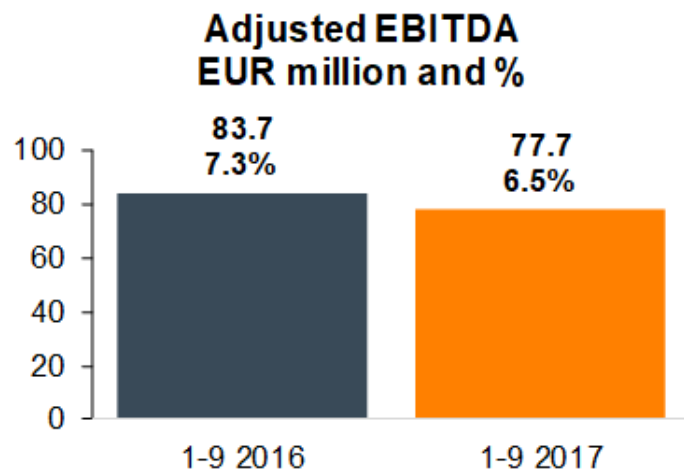
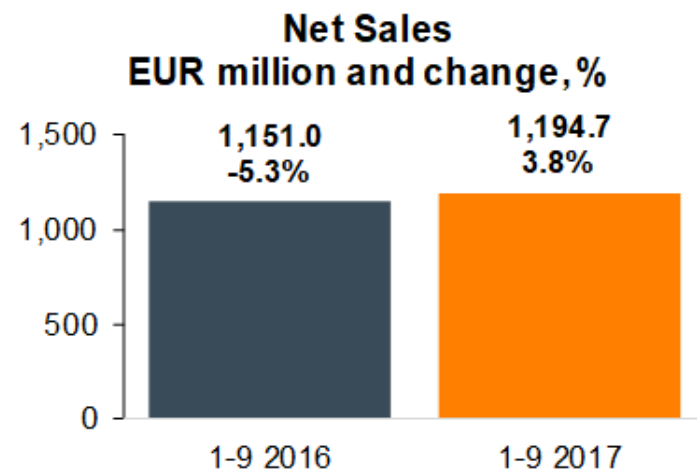
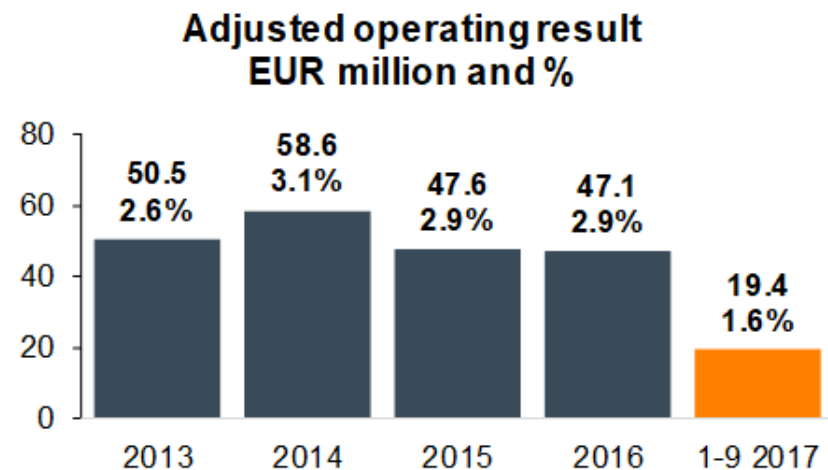
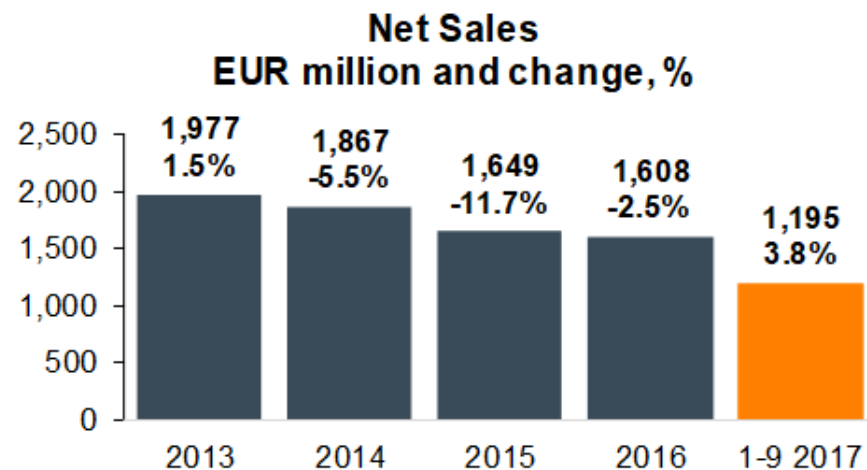


# January-September 2017



# Net sales and adjusted operating result

January-September



# Key figures

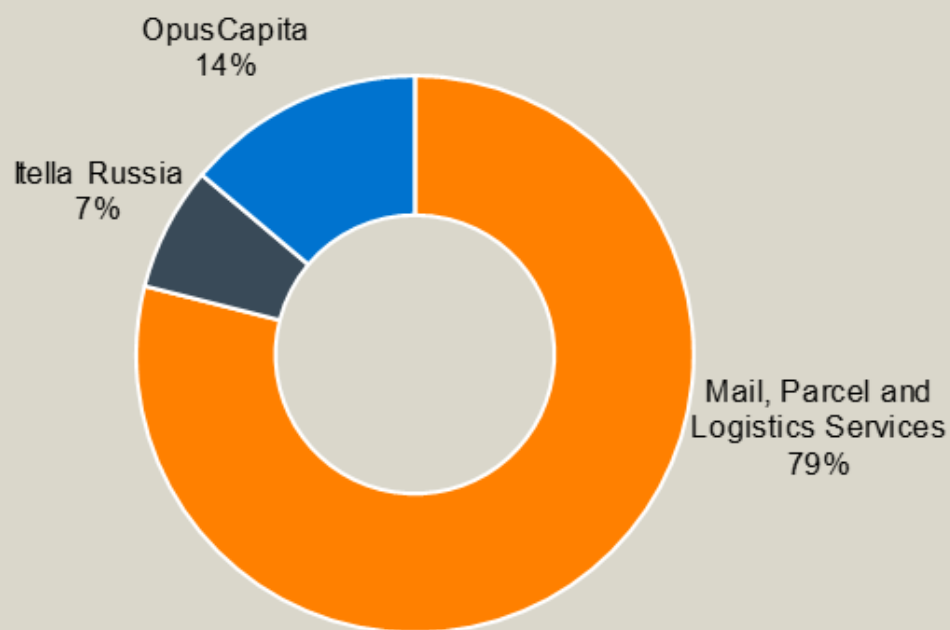
January-September

	1-9 2017	%	1-9 2016	%
<b>Net sales, EUR million</b>	<b>1,194.7</b>		<b>1,151.0</b>	
<b>Adjusted EBITDA, EUR million</b>	<b>77.7</b>	<b>6.5%</b>	<b>83.7</b>	<b>7.3%</b>
EBITDA, EUR million	60.8	5.1%	77.5	6.7%
<b>Adjusted operating result, EUR million</b>	<b>19.4</b>	<b>1.6%</b>	<b>24.4</b>	<b>2.1%</b>
Operating result, EUR million	-32.5	-2.7%	16.5	1.4%
Result before taxes, EUR million	-39.3	-3.3%	14.8	1.3%
<b>Result for the period, EUR million</b>	<b>-42.2</b>	<b>-3.5%</b>	<b>12.8</b>	<b>1.1%</b>
Cash flow from operating activities, EUR million	44.8		9.0	
Return on equity (12 months), %	-5.8		2.7	
Return on invested capital (12 months), %	-2.2		3.7	
Equity ratio, %	48.0		48.4	
Gearing, %	-2.9		-7.9	
Gross capital expenditure, EUR million	52.9		77.0	

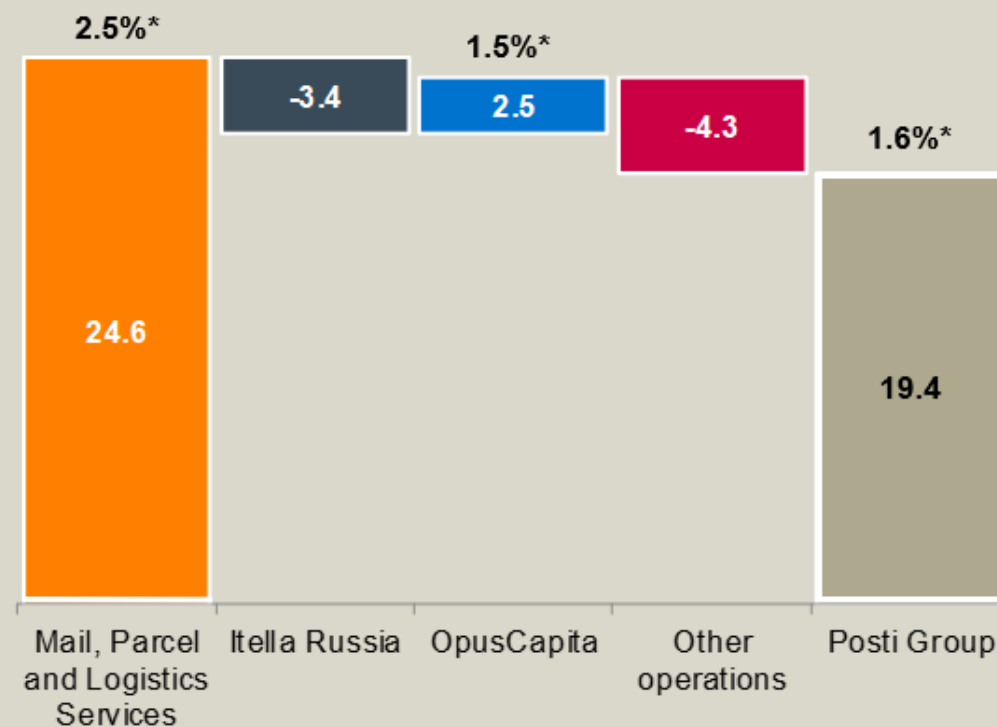
- Net sales increased by 3.4% in Finland and by 6.2% in other countries.
- International operations accounted for 14.9% of net sales.
- Special items affecting the result negatively amounted to EUR 51.9 million. The special items include gains from the sale of real estate after Posti sold the main post office building in Seinäjoki in May. In conjunction with the restructuring of OpusCapita and the refocusing of its operations, the future outlook and cash flow forecasts of the cash generating unit have been updated. Based on this assessment, the Group recognized impairment of goodwill in the amount of EUR 33.9 million.
- Mail items covered by the universal service obligation accounted for 4.2% of all of Posti's mail items. Operations under the universal service obligation was 6.9% of the Group's net sales.
- The number of working days in January–September was lower than in the previous year by one day. The number of working days affects the Group's net sales and result.

# Segments

External net sales by segment



Adjusted operating result by segment  
1-9 2017, EUR million



\* percent of net sales

# Mail, Parcel and Logistics Services

## July-September

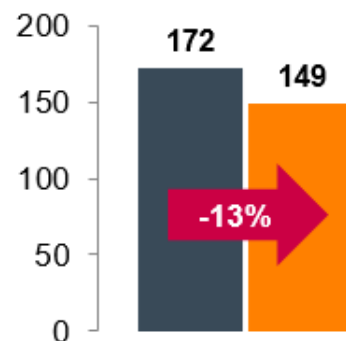
- The result was weighed down by investments in new businesses, such as home services and digital services.
- The net sales of Mail and Marketing Services were affected by the decline in domestic delivery product volumes, which was partly compensated for by changes in pricing.
- Parcel Services saw positive development, particularly in the volumes of domestic B2C parcels and international B2C parcels addressed to Finland. The number of parcels going through parcel points grew by 8.6%.
- In Logistics Services, the net sales of domestic freight increased, with acquisitions also playing a part in the growth. In the warehouse business, warehouse fill rates improved.
- At the end of September, Posti had a total of 1,429 service points in Finland, of which 501 were parcel points.

EUR million	7-9 2017	% of Net sales	7-9 2016	% of Net sales
Net sales	311.4		306.0	
Net sales change, %	1.8%		1.5%	
<b>Adjusted EBITDA</b>	<b>13.7</b>	<b>4.4%</b>	<b>21.7</b>	<b>7.1%</b>
EBITDA	12.7	4.1%	20.3	6.6%
<b>Adjusted operating result</b>	<b>3.4</b>	<b>1.1%</b>	<b>11.0</b>	<b>3.6%</b>
Operating result	2.4	0.8%	9.6	3.2%

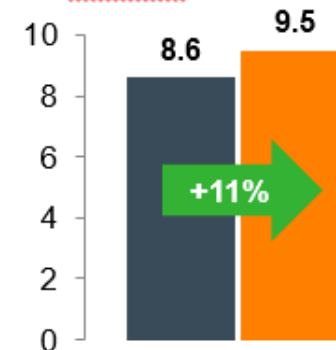
## Volumes, million pcs

■ 7-9 2016 ■ 7-9 2017

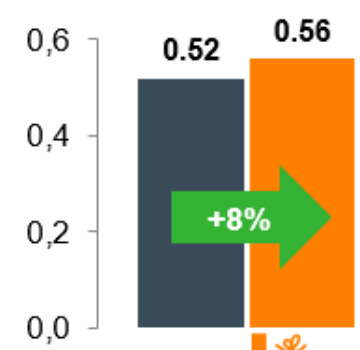
### Addressed letters



### Parcels



### Domestic freight

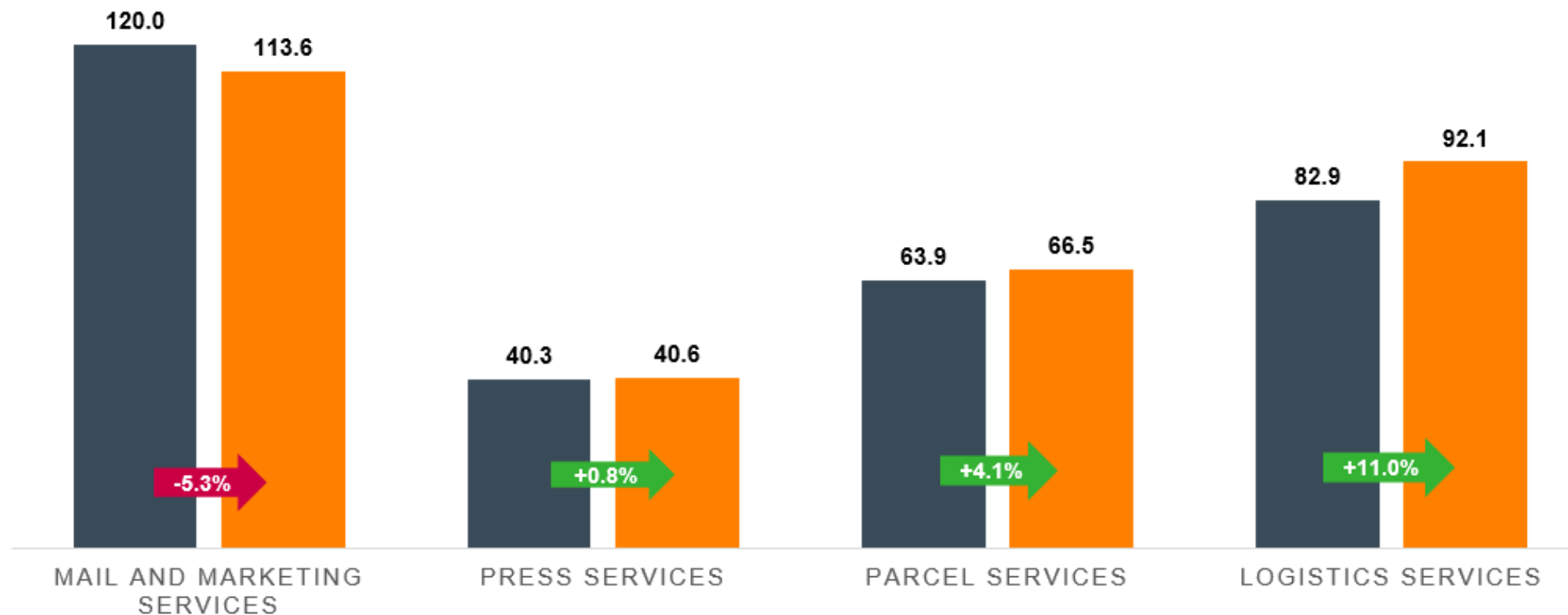


# Net sales of Mail and Marketing Services, Press Services, Parcel Services and Logistics Services

July-September

EUR million

■ 7-9 2016 ■ 7-9 2017



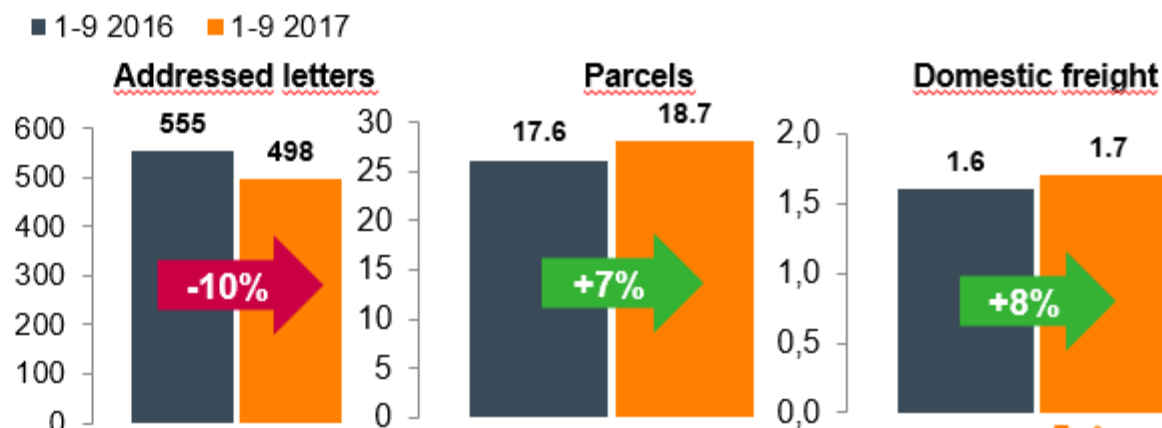
# Mail, Parcel and Logistics Services

## January-September

- The weaker result of traditional postal operations was compensated for by the improved net sales and profitability of freight and parcel services.
- The number of parcels going through parcel points grew by 16.0%.
- The adjusted EBITDA was weighed down by a decline in the net sales of Mail and Marketing Services, which was not fully compensated for by cost savings in production.
- The result in the previous year was improved by refunds of international terminal dues.
- The volume of electronic Netposti letters fell by 2%. The number of digital mailbox Netposti users increased by 15% and stood at 774,000 at the end of September.

EUR million	1-9 2017	% of Net sales	1-9 2016	% of Net sales
Net sales	981.2		942.8	
Net sales change, %	4.1%		-4.1%	
<b>Adjusted EBITDA</b>	<b>56.1</b>	<b>5.7%</b>	<b>60.6</b>	<b>6.4%</b>
EBITDA	52.1	5.3%	46.7	5.0%
<b>Adjusted operating result</b>	<b>24.6</b>	<b>2.5%</b>	<b>29.5</b>	<b>3.1%</b>
Operating result	20.6	2.1%	15.6	1.6%

## Volumes, million pcs

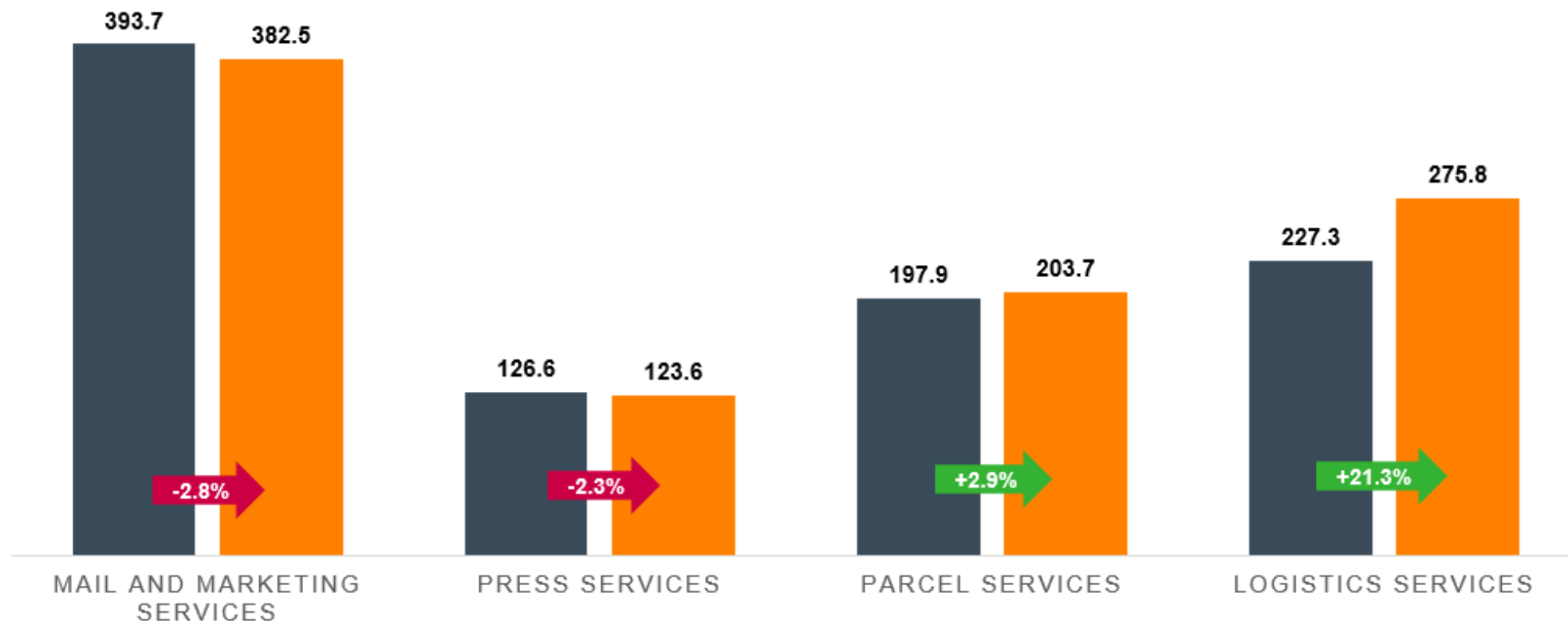


# Net sales of Mail and Marketing Services, Press Services, Parcel Services and Logistics Services

January-September

EUR million

■ 1-9 2016 ■ 1-9 2017





# Itella Russia

## July-September

- Itella Russia's net sales turned to growth in the third quarter. Measured in local currency, the rate of growth was 3.8%.
- The growth in net sales was attributable to the improved economic climate as well as higher volumes among the existing customers in the warehousing business and in air and sea freight.
- Profitability continued to be weighed down by currency-denominated leases. Itella Russia is continuing to implement measures to improve its EBITDA.
- The average fill rate for warehouses in Moscow was 87% (76%), while that of other regions was 72% (86%). The higher fill rate for warehouses in Moscow was mainly due to the closure of warehouses.

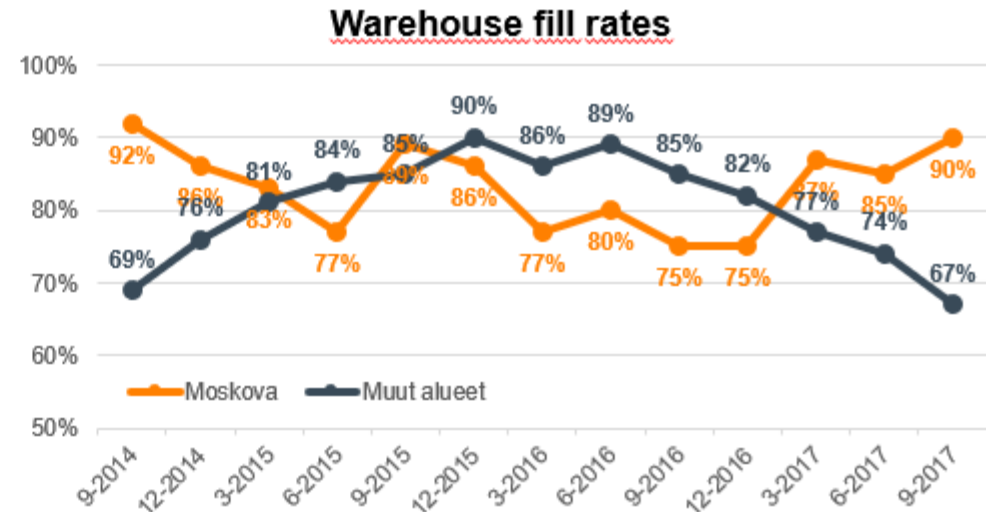
EUR million	7-9 2017	% of Net sales	7-9 2016	% of Net sales
Net sales	29.4		26.9	
Net sales change, %	9.2%		-8.3%	
<b>Adjusted EBITDA</b>	<b>1.0</b>	<b>3.4%</b>	<b>1.1</b>	<b>4.0%</b>
EBITDA	0.9	3.0%	1.0	3.8%
<b>Adjusted operating result</b>	<b>-0.7</b>	<b>-2.3%</b>	<b>-0.6</b>	<b>-2.3%</b>
Operating result	-0.8	-2.7%	-0.7	-2.4%

# Itella Russia

## January-September

- Measured in local currency, Itella Russia's increased slightly, by 0.2%. Net sales were favorably affected by the appreciation of the ruble as well as the growth of the transport business, which was compensated for by the decline in the capacity of the warehousing business.
- The adjusted operating result improved due to the optimization of warehouse space in the Moscow region and the appreciation of the ruble.
- The average fill rate for warehouses showed a year-on-year increase in Moscow and a decrease in other regions. The average fill rate for warehouses in Moscow was 82% (78%), while that of other regions was 74% (87%).
- The Russian ruble appreciated by 3.2% compared to the previous year.

EUR million	1-9 2017	% of Net sales	1-9 2016	% of Net sales
Net sales	86.1		73.1	
Net sales change, %	17.8%		-17.1%	
<b>Adjusted EBITDA</b>	<b>2.0</b>	<b>2.4%</b>	<b>0.2</b>	<b>0.3%</b>
EBITDA	1.8	2.1%	2.3	3.2%
<b>Adjusted operating result</b>	<b>-3.4</b>	<b>-4.0%</b>	<b>-4.5</b>	<b>-6.2%</b>
Operating result	-3.6	-4.2%	-2.5	-3.4%



# OpusCapita

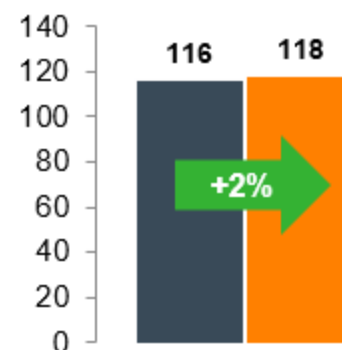
## July-September

- In conjunction with the restructuring of OpusCapita and the refocusing of its operations, the future outlook and cash flow forecasts of the cash-generating unit have been updated. Based on this assessment, the Group recognized impairment of goodwill in the amount of EUR 33.9 million.
- OpusCapita sold its Finance and Accounting Outsourcing business in September. In addition, the digitizing production in Sweden, Norway and Poland was outsourced to the US-based BancTec on October 2, 2017.
- OpusCapita's sending of documents and invoices as well as the digitizing operations in Finland were transferred to Posti's Postal Services business group effective from October 1, 2017. The Buyer-Supplier Ecosystem business will be separated into a unit of its own.
- On July 13, 2017, OpusCapita acquired Billexco AG, a Switzerland-based e-invoicing operator.

EUR million	7-9 2017	% of Net sales	7-9 2016	% of Net sales
Net sales	52.5		56.8	
Net sales change, %	-7.7%		-6.5%	
<b>Adjusted EBITDA</b>	<b>3.9</b>	<b>7.4%</b>	<b>5.4</b>	<b>9.6%</b>
EBITDA	1.2	2.2%	4.7	8.4%
<b>Adjusted operating result</b>	<b>1.4</b>	<b>2.6%</b>	<b>2.8</b>	<b>5.0%</b>
Operating result	-35.4	-67.5%	2.1	3.8%

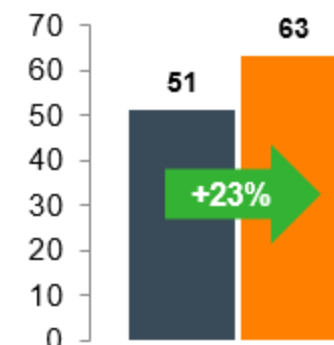
### Transactions in total, million pcs

■ 7-9 2016 ■ 7-9 2017



### Electronic transactions, million pcs

■ 7-9 2016 ■ 7-9 2017



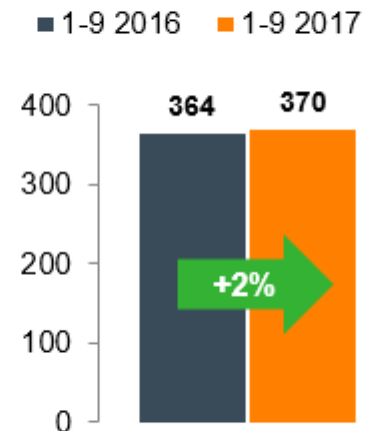
# OpusCapita

## January-September

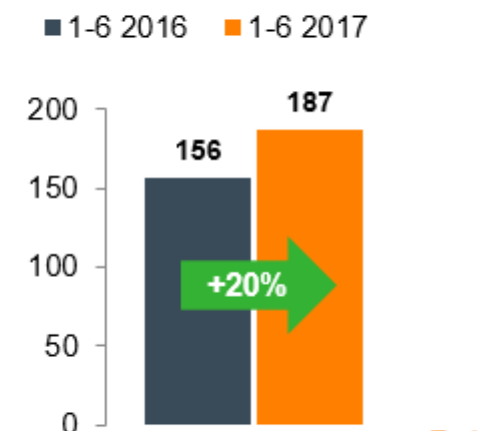
- The electronic transaction volume was 187 million transactions, which represents 50% of the total transaction volume.
- Some 59% of the net sales came from Finland, while the remaining 41% was from other countries.
- The Buyer-Supplier Ecosystem business grew by 7.9%, mainly due to an acquisition.
- The decline in the adjusted operating result was attributable to the lower volumes of iPost products as well as investments in growth.

EUR million	1-9 2017	% of Net sales	1-9 2016	% of Net sales
Net sales	171.5		179.0	
Net sales change, %	-4.2%		-7.5%	
<b>Adjusted EBITDA</b>	<b>10.2</b>	<b>5.9%</b>	<b>13.0</b>	<b>7.2%</b>
EBITDA	-2.1	-1.2%	9.9	5.5%
<b>Adjusted operating result</b>	<b>2.5</b>	<b>1.5%</b>	<b>6.2</b>	<b>3.5%</b>
Operating result	-44.7	-26.1%	1.5	0.8%

Transactions in total, million pcs



Electronic transactions, million pcs



# Outlook



# Outlook



## Net sales

- Net sales in euros for the year are expected to increase compared to the previous year.
- The development of exchange rates, especially the ruble exchange rate, may affect the Group's net sales, result and balance sheet.

## Operating result

- The Group's adjusted operating result is expected to remain on par with the previous year or decrease slightly.
- The operating result for 2017 will continue to include significant special items.

## Capital expenditure

- Capital expenditure excluding possible acquisitions is expected to increase from the previous year.

The Group's business is characterized by seasonality. Net sales and operating profit in the segments are not accrued evenly over the year.

In postal services, the first and fourth quarters are typically strong, while the second and third quarters are weaker.

Thank you!

