

Posti Group Corporation

Interim Report

January-September 2016

October 31, 2016

Agenda

- July-September 2016
- January-September 2016
- Business groups
 - Postal Services
 - Parcel and Logistics Services
 - Itella Russia
 - OpusCapita
- Current topics
- Appendices



Key events



Posti expanded its food logistics services by acquiring logistics company Veine



OpusCapita acquired German software company jCatalog, which supports OpusCapita's strategy to build a global buyer-supplier ecosystem offering

Parcel volumes up by 2% (Jan-Sep by 1%), freight volumes grew by 8% (Jan-Sep by 6%)



Addressed letter volumes decreased by 9% (Jan-Sep by 8%)



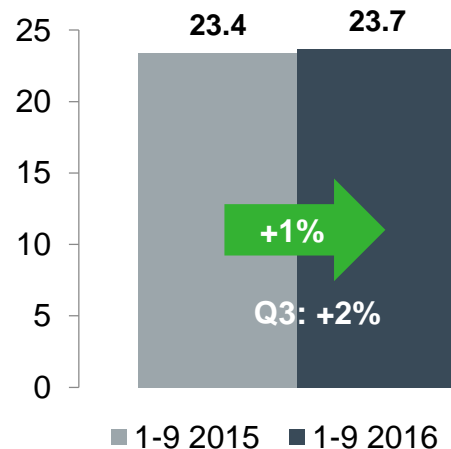
Itella Russia acquired courier company MaxiPost to enable growth in company's e-commerce services

By parliament's decision, 49.9% of the ownership of Posti Group Corporation will be transferred to a new state-owned development company, Vake Oy. The Finnish State's direct holding remains at 50.1%.

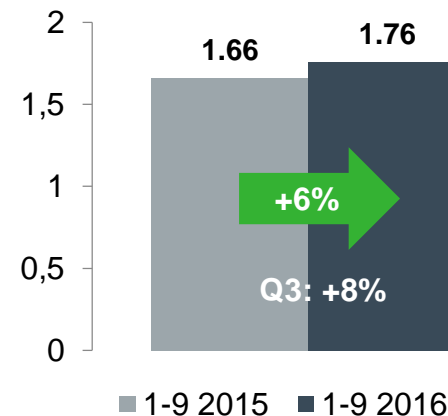
Volumes January-September 2016

million
units

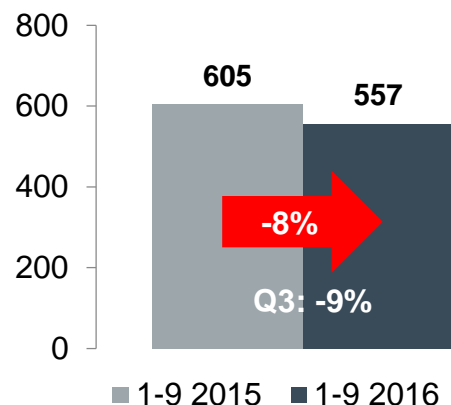
Parcels



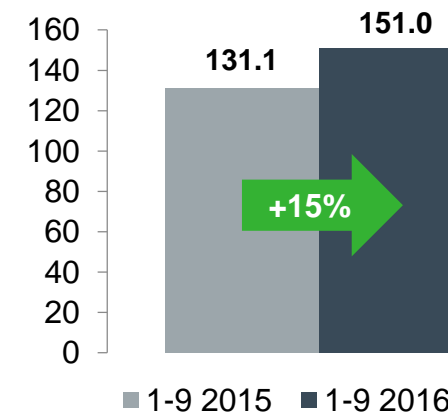
Domestic freight



Addressed letters



Electronic transactions (OpusCapita)



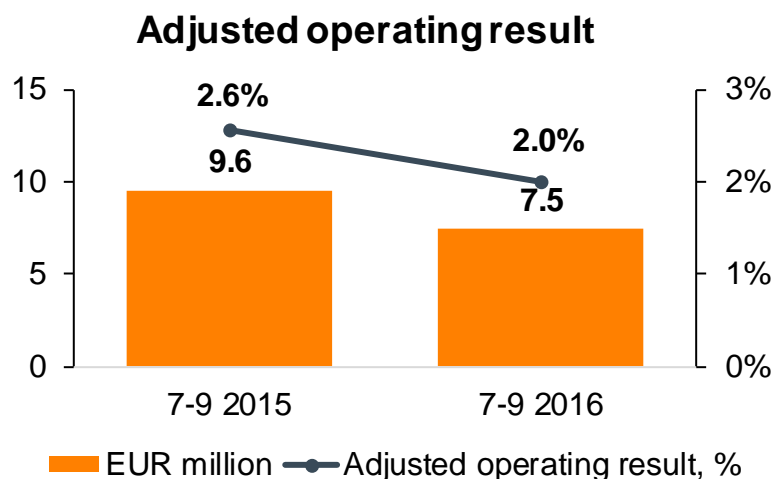
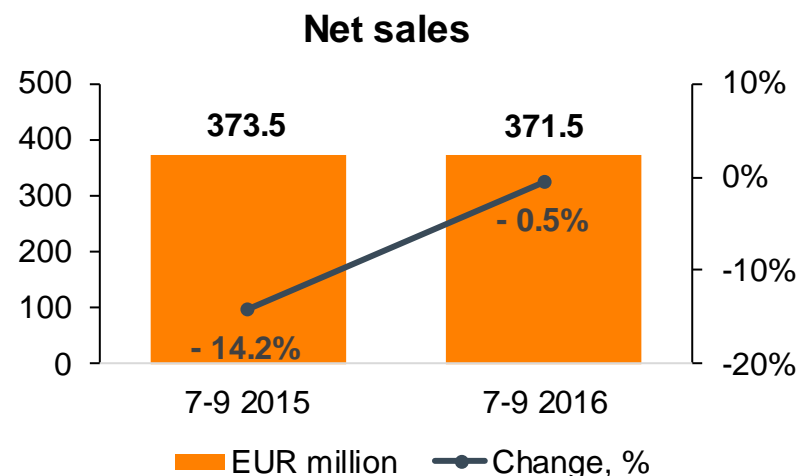
Heavy traffic volumes in positive trend after the first quarter of 2016



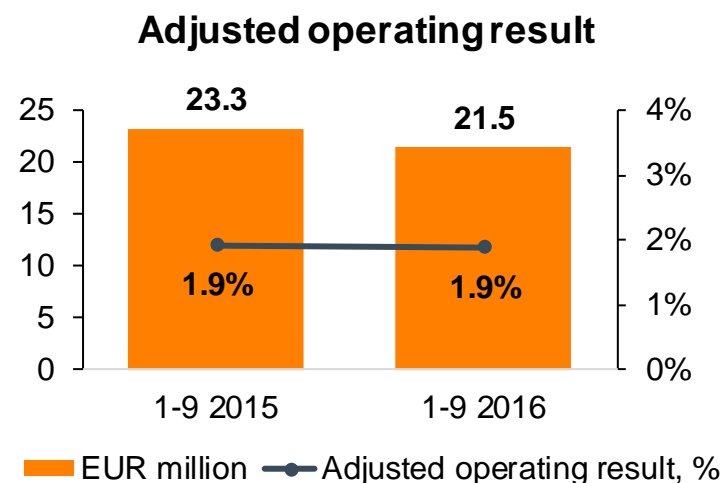
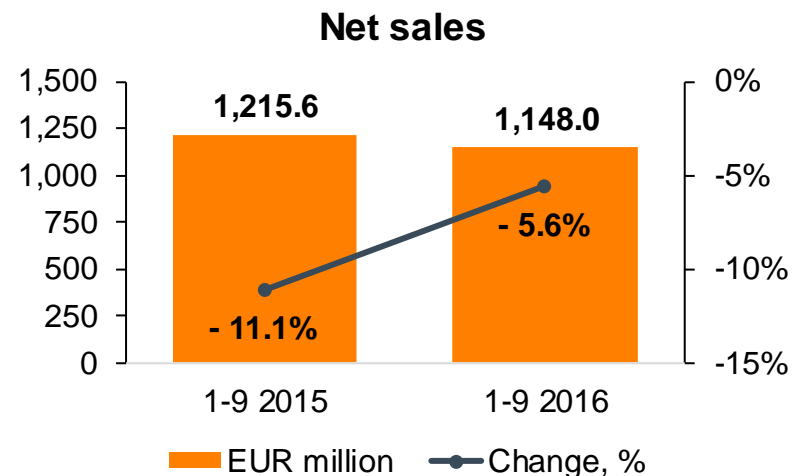
Source: Finnish Transport Agency

Net sales and adjusted operating result

7-9 2016



1-9 2016



July-September 2016



Key figures

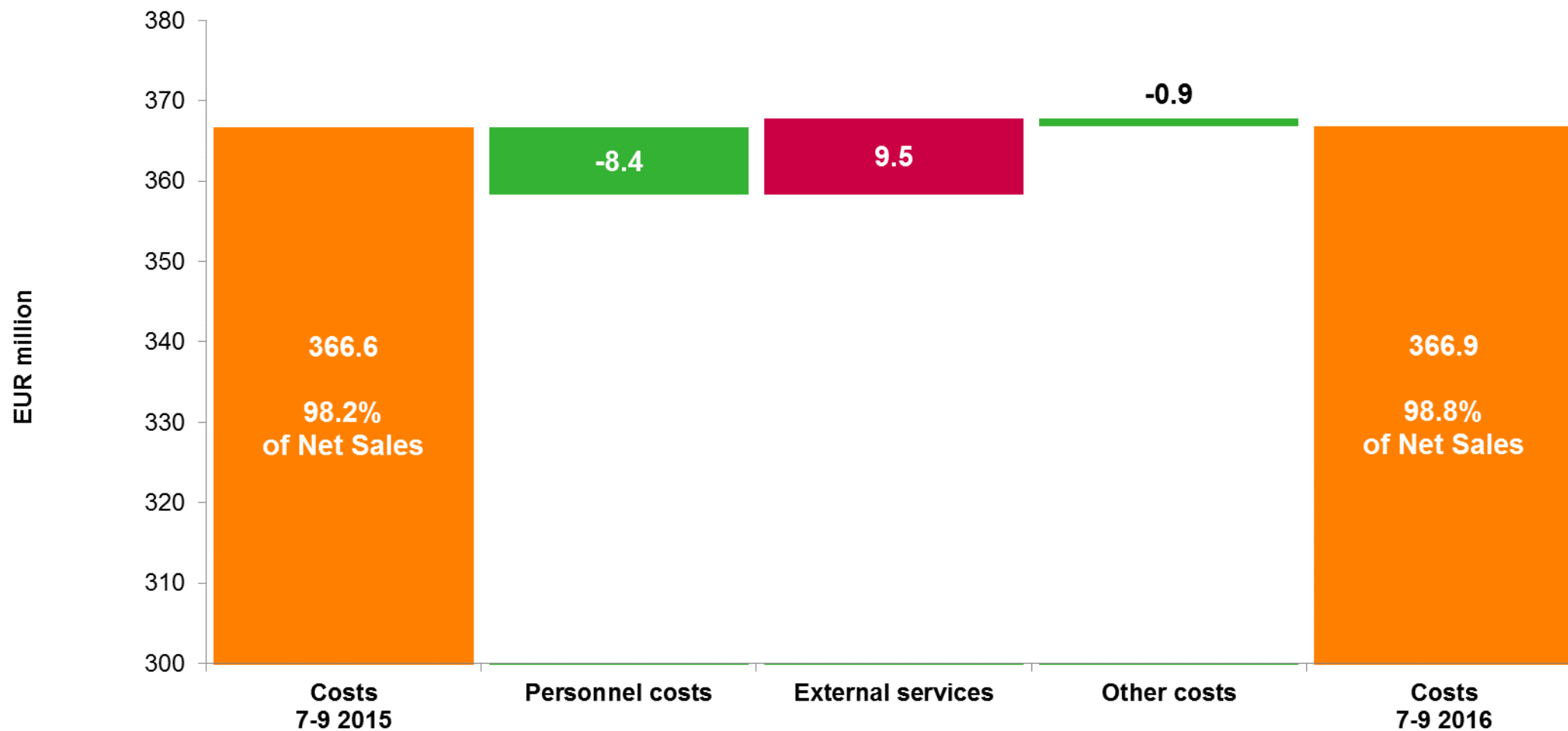
July-September

	7-9 2016	7-9 2015
Net sales, EUR million	371.5	373.5
Adjusted operating result, EUR million	7.5	9.6
Adjusted operating result, %	2.0	2.6
Operating result, EUR million	14.5	-2.2
Operating result, %	3.9	-0.6
Result before taxes, EUR million	12.6	-7.0
Result for the period, EUR million	10.2	-1.1
Gross capital expenditure, EUR million	17.3	11.8

- Comparable net sales decreased by 2.9% driven by postal volume decline.
- In local currencies, net sales increased by 0.1%. Net sales increased by 1.2% in Finland and decreased by 8.9% in other countries.
- International operations accounted for 15.6% of net sales.
- Adjusted operating result decreased in OpusCapita and Parcel and Logistics Services.
- Special items, EUR 7.1 (negative 11.8) million, were positive largely driven by real estate sales and leaseback.
- Operating result improved from previous year.
- The number of working days was the same as previous year.

Change in costs*

July-September 2015 => July-September 2016



January-September 2016



Key figures

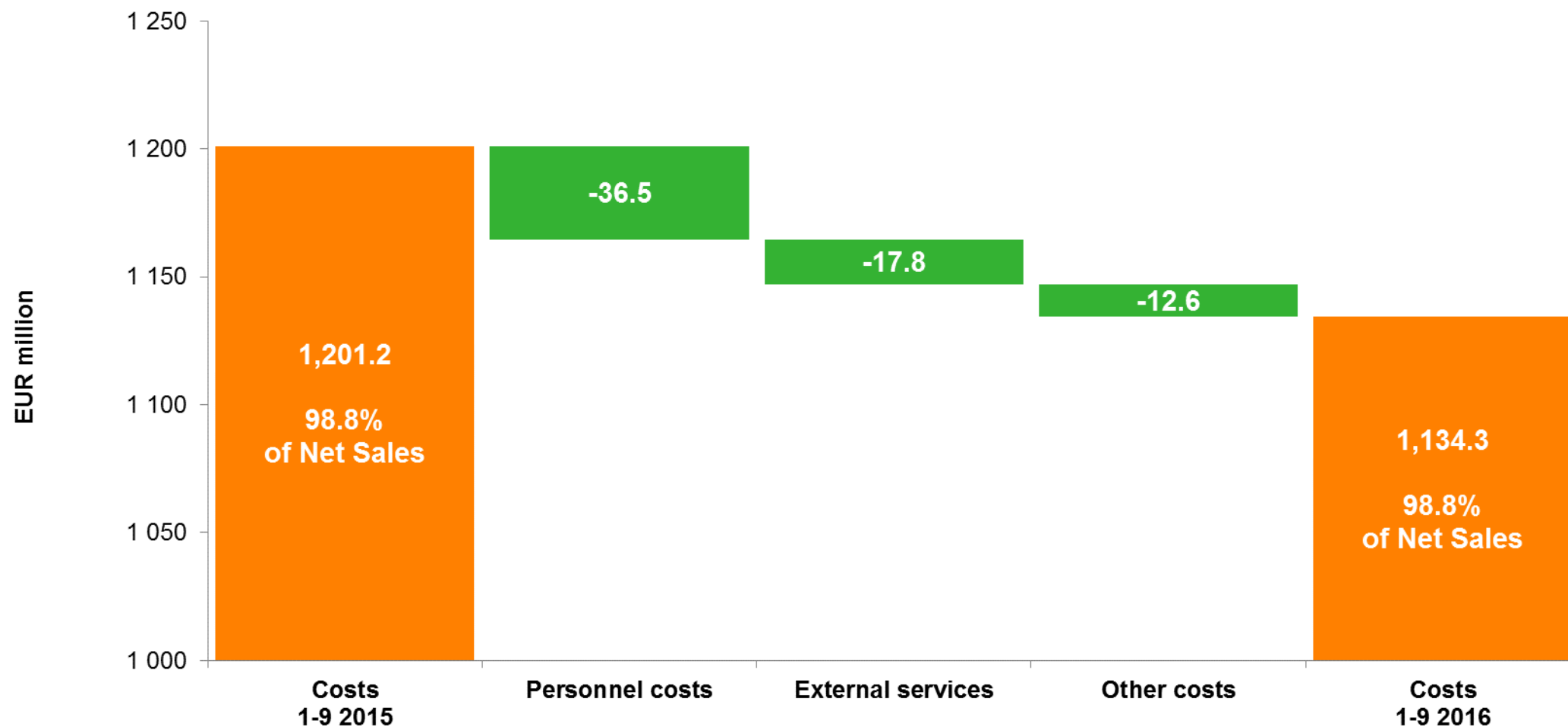
January-September

	1-9 2016	1-9 2015
Net sales, EUR million	1,148.0	1,215.6
Adjusted operating result, EUR million	21.5	23.3
Adjusted operating result, %	1.9	1.9
Operating result, EUR million	13.6	46.2
Operating result, %	1.2	3.8
Result before taxes, EUR million	11.9	37.2
Result for the period, EUR million	10.5	31.7
Cash flow from operating activities, EUR million	9.0	29.2
Return on equity (12 months), %	2.4	5.9
Return on invested capital (12 months), %	3.4	6.3
Equity ratio, %	49.2	48.8
Gearing, %	-7.7	8.1
Gross capital expenditure, EUR million	77.2	43.7

- The decrease in Group's net sales was impacted by the divestments of Scandinavian operations and OpusCapita's businesses serving the local markets in the Baltic countries.
- Comparable net sales decreased by 3.9% due to postal and iPost volume decline and weak sales in Russia.
- Net sales decreased by 2.3% in Finland and by 21.0% in other countries.
- Adjusted operating result was 1.9% of net sales, which was in line with previous year.
- Special items were negative compared to the previous year, EUR 7.9 (positive 22.9) million, driven by restructuring. Special items include a gain from sale of a real estate both in 2015 and 2016.
- As a result, operating result decreased from previous year to EUR 13.6 million.
- The number of working days was the same as previous year.
- Capital expenditure, EUR 77.2 million, increased significantly driven by acquisitions.
- Gearing improved and equity ratio strengthened to 49.2%.

Change in costs*

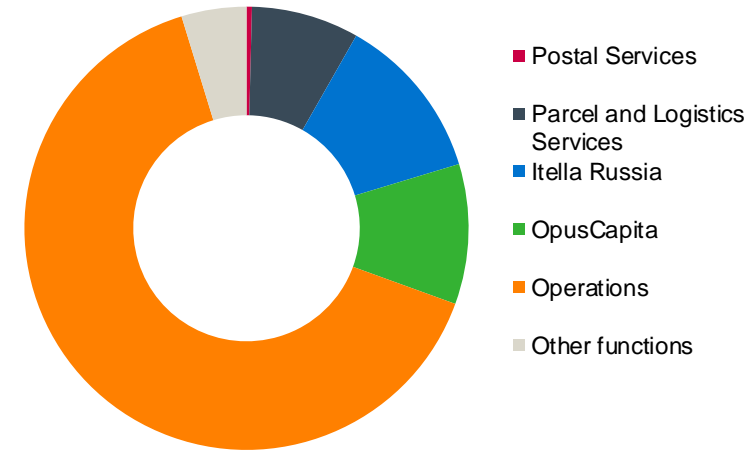
January-September 2015 => January-September 2016



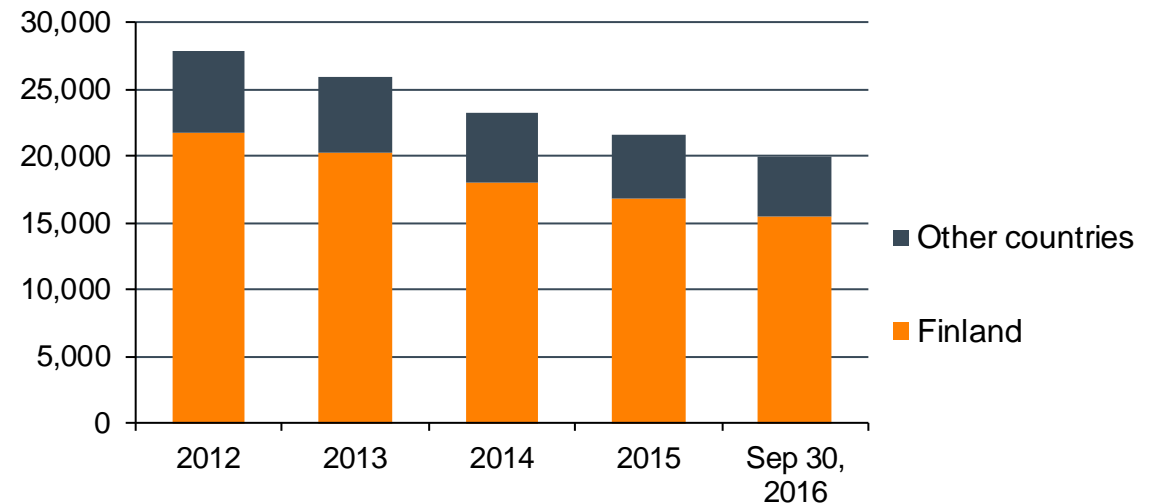
Employees

- At the end of September, the Group employed 19,913 (21,187) people.
- The Group's average number of personnel was 20,759 (22,482).
- At the end of September, the number of employees working in Finland was 15,492 (16,406).
- The Group's personnel expenses decreased by EUR 25.4 million, or by 4.5% year-on-year.
- By the end of September, 2,397 employees had applied for the Uusi polku (New Path) program and 1,742 had been approved.

Employees by business group



Number of employees in Finland and other countries



Business Groups



Postal Services

July-September

- Net sales decreased by 5.1% due to the accelerating decline in the domestic delivery product volume.
- Adjusted operating result improved.
- Operating result includes a positive impact from the international postal payment (terminal dues) returns.
- Operating result improved.

January-September

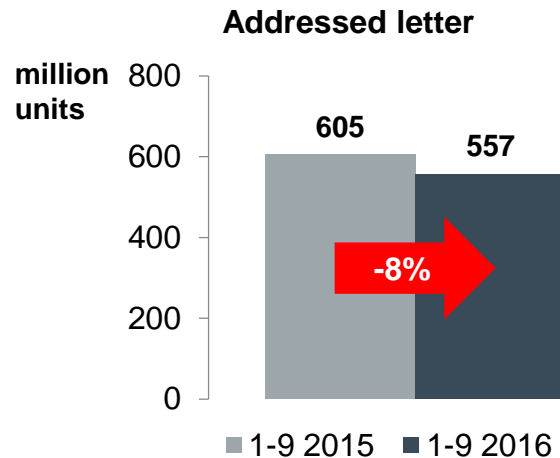
- Net sales decreased by 4.7% due to a decline in the domestic delivery product volume. The decline in volume was partly compensated by the price increases that entered into force earlier in the year.
- Adjusted operating result improved, driven by the improvements in operational efficiency, the increases in postage fees that took effect at the beginning of 2016, as well as higher delivery volumes related to Easter and Valentine's Day and a positive impact from the international postal payment (terminal dues) returns.
- Operating result improved.

EUR million	7-9 2016	7-9 2015	Change, %	1-9 2016	1-9 2015	Change, %
Net sales	153.3	161.6	-5.1%	510.0	535.0	-4.7%
Adjusted operating result	7.5	5.7	32.6%	35.9	31.6	13.7%
Operating result	7.5	6.4	17.8%	35.9	32.5	10.6%
Adjusted operating result, %	4.9%	3.5%		7.0%	5.9%	
Operating result, %	4.9%	4.0%		7.0%	6.1%	

Postal Services

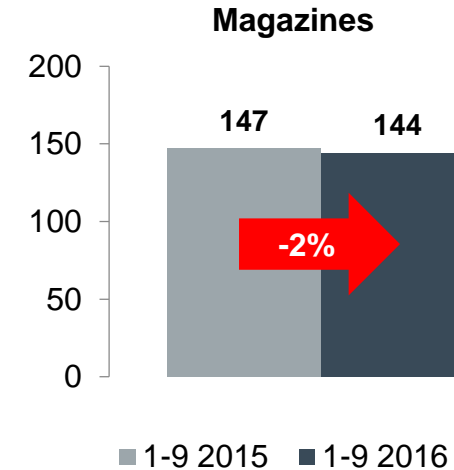
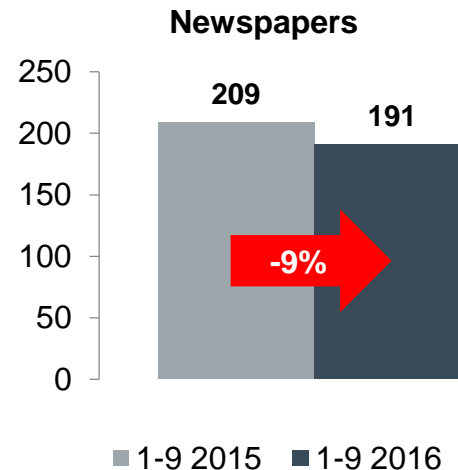
July-September

- The decline in the domestic delivery product volume accelerated.
- The addressed letter volumes declined by 9%.



January-September

- Competitors have expanded their deliveries in mail delivery driven by the Postal Act effective in June. The implications for Posti's volumes was not yet material in January–September.
- The number of digital mailbox Netposti users increased by 8% and stood at 674,000 at the end of September.
- Tuesday mail delivery will be renewed during the beginning of 2017 in order to control the rise of delivery costs. Tuesday deliveries will no longer cover magazines, advertisements, letters and free publications, provided that all early-week items have been delivered on Monday.
- Posti will combine the letter payment classes, i.e. the current 1st and 2nd class on January 1, 2017.



Parcel and Logistics Services

July-September

- Net sales increased by 7.8% and was boosted by the increase in freight volumes, new customers in Supply Chain Solutions and the acquisition of Veine.
- Adjusted operating result and operating result declined.
- The special items in the comparison period had a positive impact on the operating result and they were mainly related to the divestment of Scandinavian operations.

January-September

- Net sales decreased by 4.1%. The decline was due to the divestment of Scandinavian operations in 2015. Comparable net sales was at the previous year's level.
- Adjusted operating result declined due to low warehouse fill rate early in the year, investments in information systems in production operations, and start-up costs arising from new customer relationships. Further factors that had a negative effect on the result included tighter competition in the parcel business and the decline in the fuel price.
- Operating result improved.

EUR million	7-9 2016	7-9 2015	Change, %	1-9 2016	1-9 2015	Change, %
Net sales	148.2	137.5	7.8%	429.6	448.1	-4.1%
Adjusted operating result	0.3	2.1	-84.1%	-5.5	1.0	-
Operating result	-0.8	4.3	-	-6.5	-10.4	-
Adjusted operating result, %	0.2%	1.5%		-1.3%	0.2%	
Operating result, %	-0.5%	3.1%		-1.5%	-2.3%	

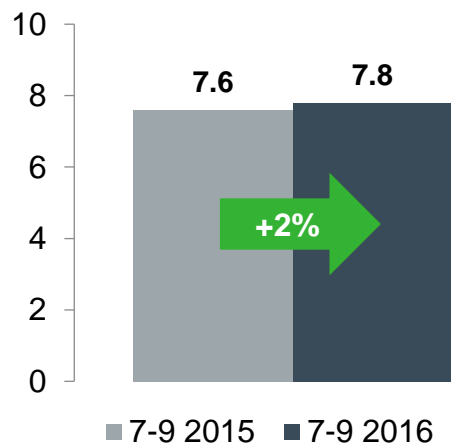
Parcel and Logistics Services

July-September

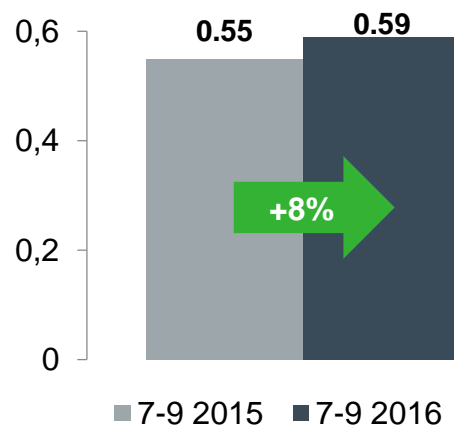
- The amount of parcels delivered by Posti increased by 2% in Finland and by 27% in the Baltic countries. The number of parcels going through Posti's parcel points grew by 26%.
- Domestic freight volumes grew by 8%.
- Posti lost one of its biggest customers in July, when the department store chain Anttila went bankrupt.

million
units

Parcels



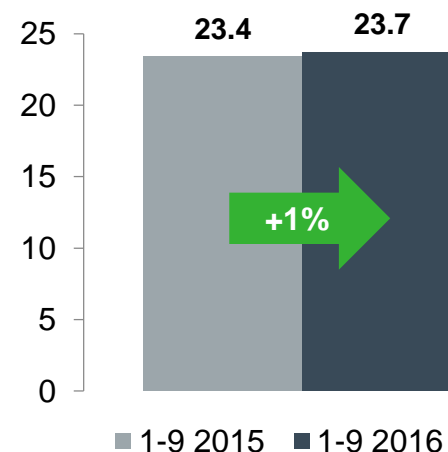
Domestic freight



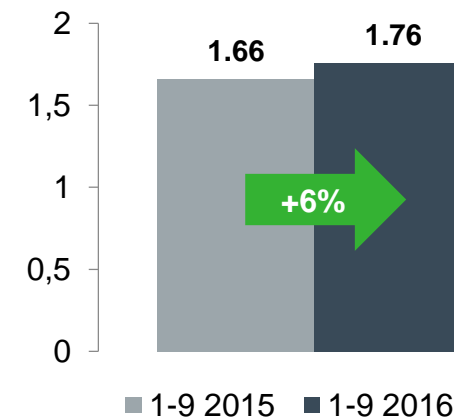
January-September

- The amount of parcels delivered by Posti grew by 1%.
- The number of parcels going through Posti's parcel points grew by 27% year-on-year.
- Domestic freight volumes grew by 6%.
- Posti had 1,415 service points in Finland, of which 479 were parcel points at the end of September.

Parcels



Domestic freight



Itella Russia

July-September

- In local currency, net sales decreased by 5.4%.
- Net sales was negatively affected by the decline in contract logistics, mainly in storage but also in handling. Net sales were boosted by the higher demand for transport business and by the MaxiPost last mile operations.
- Euro-denominated net sales decreased by 8.3%.
- Adjusted operating result and operating result improved.

January-September

- In local currency, net sales decreased by 4.9% due to the weak economic climate, GDP decline and the weak demand for logistics services.
- The steepest decline was seen in the demand for contract logistics and the strongest demand in transport services.
- Euro-denominated net sales decreased by 17.1%.
- Adjusted operating result remained close to the previous year's level. Operating result improved.
- The closing exchange rate of the Russian ruble was +3.7% compared to the previous year.

EUR million	7-9 2016	7-9 2015	Change, %	1-9 2016	1-9 2015	Change, %
Net sales	26.9	29.3	-8.3%	73.1	88.1	-17.1%
Adjusted operating result	-0.6	-1.4	-	-4.5	-4.3	-
Operating result	-0.7	-9.0	-	-2.5	-12.2	-
Adjusted operating result, %	-2.3%	-4.6%		-6.2%	-4.8%	
Operating result, %	-2.4%	-30.7%		-3.4%	-13.8%	

Itella Russia

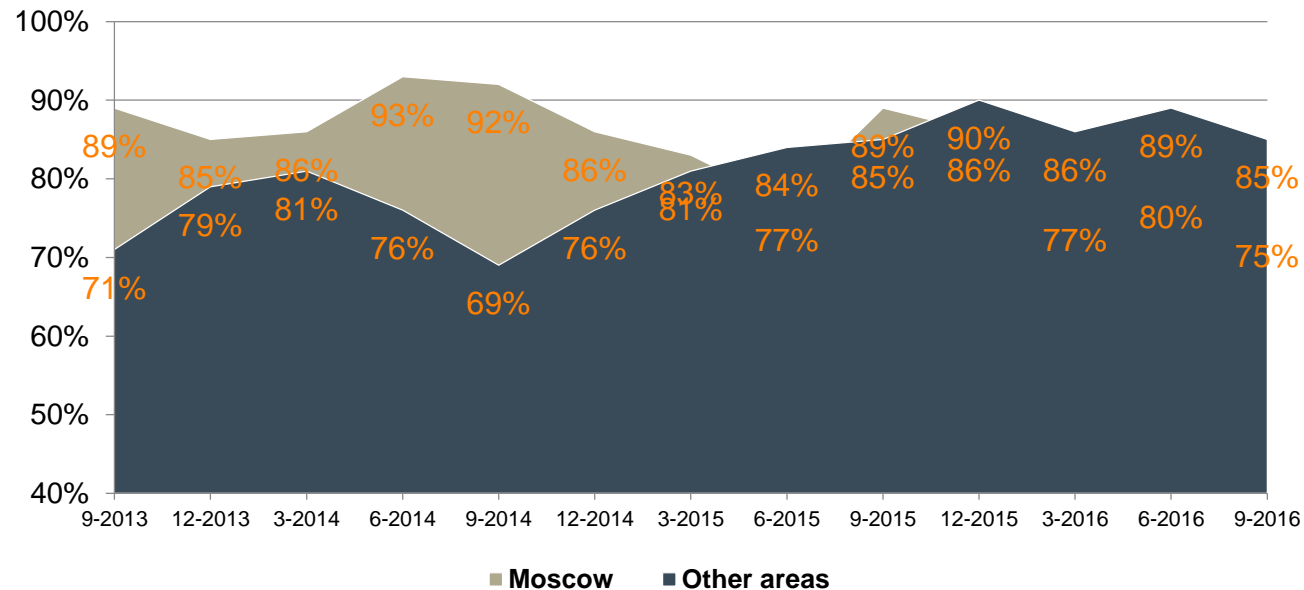
July-September

- Continuous decline in contract logistics, mainly in storage but also in handling.
- Maxipost attracted new key accounts and strengthened its position in the market.
- The warehouse fill rate declined in Moscow (in anticipation of optimization) and remained stable in other areas.

January-September

- The steepest decline was seen in the demand for contract logistics, both in storage and in handling.
- The strongest demand was seen in transport services, especially in air and sea and cross-dock services.
- Itella Russia acquired the Russian courier company MaxiPost.

**Warehouse
fill rates
September 30, 2016**



OpusCapita

July-September

- Net sales decreased by 6.5%, comparable net sales by 5.5% due to the accelerating shift from paper to online communications, which was reflected particularly in the iPost volumes.
- Adjusted operating result declined due to the decrease in traditional print volume, the divestment of the businesses serving the local markets in the Baltic countries and investments in OpusCapita's new strategy.
- Operating result declined.

January-September

- Net sales decreased by 7.5%, comparable net sales by 5.2%.
- Adjusted operating result declined due to the decrease in traditional print volumes, the divestment of the businesses serving the local markets in the Baltic countries and investments in OpusCapita's new strategy.
- Operating result declined.

EUR million	7-9 2016	7-9 2015	Change, %	1-9 2016	1-9 2015	Change, %
Net sales	56.8	60.8	-6.5%	179.0	193.5	-7.5%
Adjusted operating result	2.8	4.2	-33.0%	6.2	11.1	-43.7%
Operating result	2.1	3.8	-43.2%	1.5	9.7	-84.4%
Adjusted operating result, %	5.0%	7.0%		3.5%	5.7%	
Operating result, %	3.8%	6.2%		0.8%	5.0%	

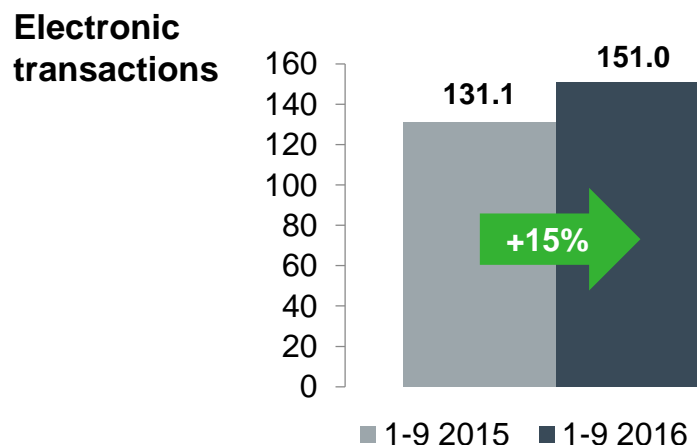
OpusCapita

July-September

- Electronic transaction volumes saw strong growth, with a comparable increase of 15%.
- iPost volumes fell by 10%.
- Buyer-Supplier Ecosystem business area grew by 19%, as a result of the investments made in this business.

January-September

- OpusCapita transmitted a total of 364 million transactions.
- The electronic transaction volume grew to 151 million transactions, which represents 41% of the total transaction volume. The comparable growth in the electronic transaction volume was 15%.
- iPost volumes decreased by 10%.
- OpusCapita sold its business operations in Estonia, Latvia, and Lithuania, which served the local markets in the Baltic countries.
- OpusCapita acquired the Germany-based software company jCatalog.



Outlook for 2016

Net sales

- Comparable net sales in euros for 2016 are expected to decrease compared to 2015.
- 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.
- There is continued uncertainty related to the development prospects of the result achieved in Russia.
- The operating result for 2016 will continue to include significant special items.

Capital expenditure

- Capital expenditure is expected to increase significantly from 2015.

The Group's business is characterized by seasonality. Net sales and operating profit in the business groups are not accrued evenly over the year. In postal services and consumer parcels, the first and fourth quarters are typically strong, while the second and third quarters are weaker.

Current topics

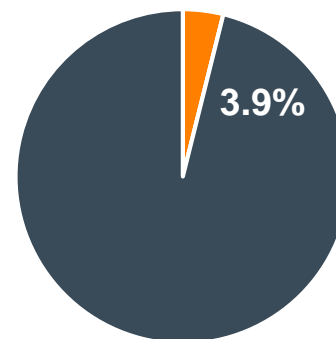


Posti's Universal Service Obligation

Service	Universal Service	No regulation
Letters paid in cash	✓	
Business letters (for example invoices)		✓
Newspapers		✓
Magazines		✓
Free papers		✓
Advertisements		✓
Parcels (for example e-commerce parcels)		✓
Domestic parcels and international parcels arriving from other countries to Finland and paid in cash (as of November 1, 2016)		✓
Parcels sent from Finland to other countries weighing max 10kg	✓	

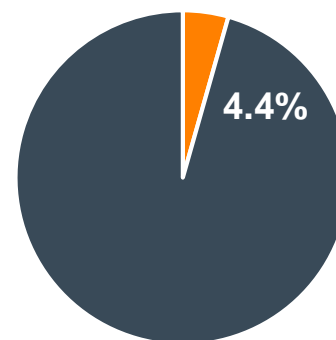
- FICORA has designated Posti Ltd. as a universal service provider in the market for items of correspondence in Finland excluding Åland.
- The percentage of letters sent in Finland that fall within the scope of a universal service referred to in the Postal Act was:

in July-September



- Universal service obligation revenue amounted to EUR 26.8 (28.8) million in July–September, which was 7.2% of the Group's net sales.

in January-September



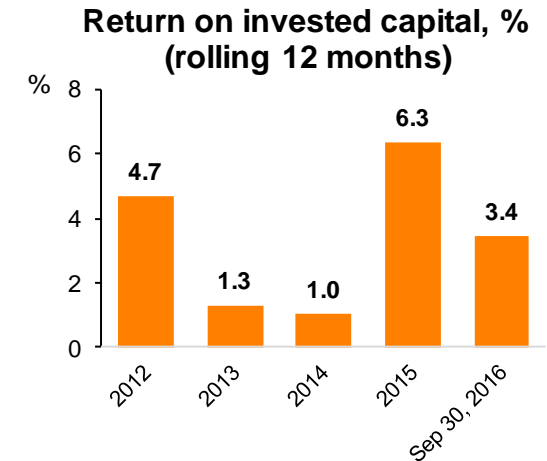
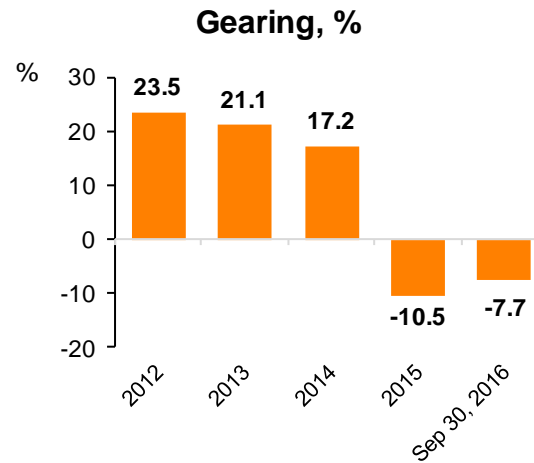
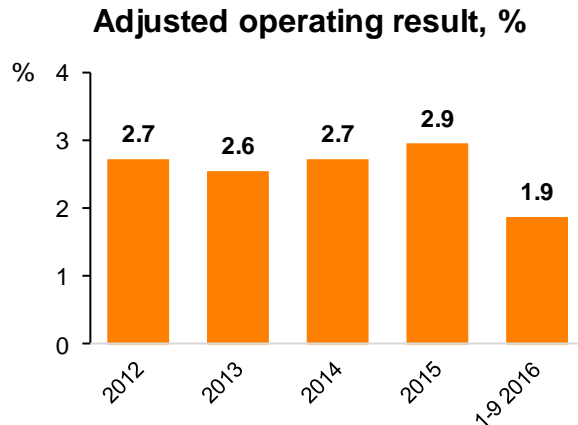
- Universal service obligation revenue amounted to EUR 93.0 (96.7) million in January–September, which was 8.1% of the Group's net sales.

Appendices



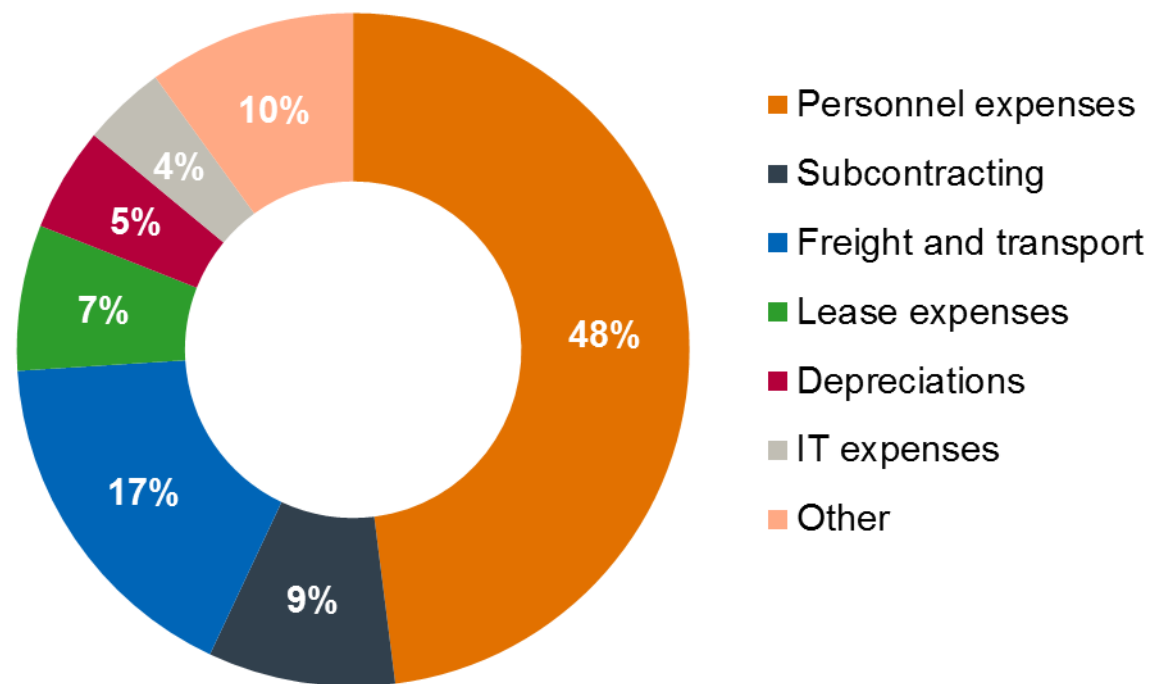
Financial Targets

- Adjusted operating result percentage exceeds 5%
- Gearing does not exceed 35%
- Return on invested capital is at least 10%
- More than 10% of the Group's net sales will come from new business areas in 2018



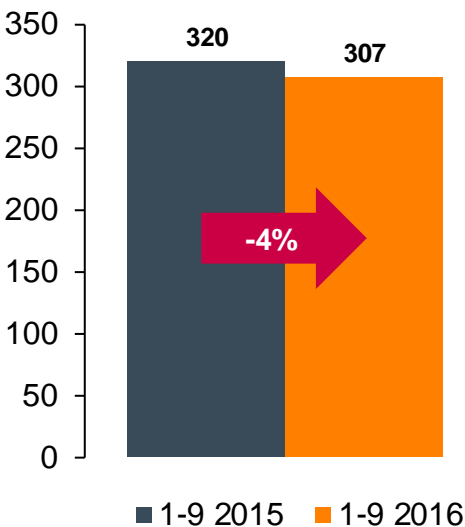
Group cost structure

July-September 2016



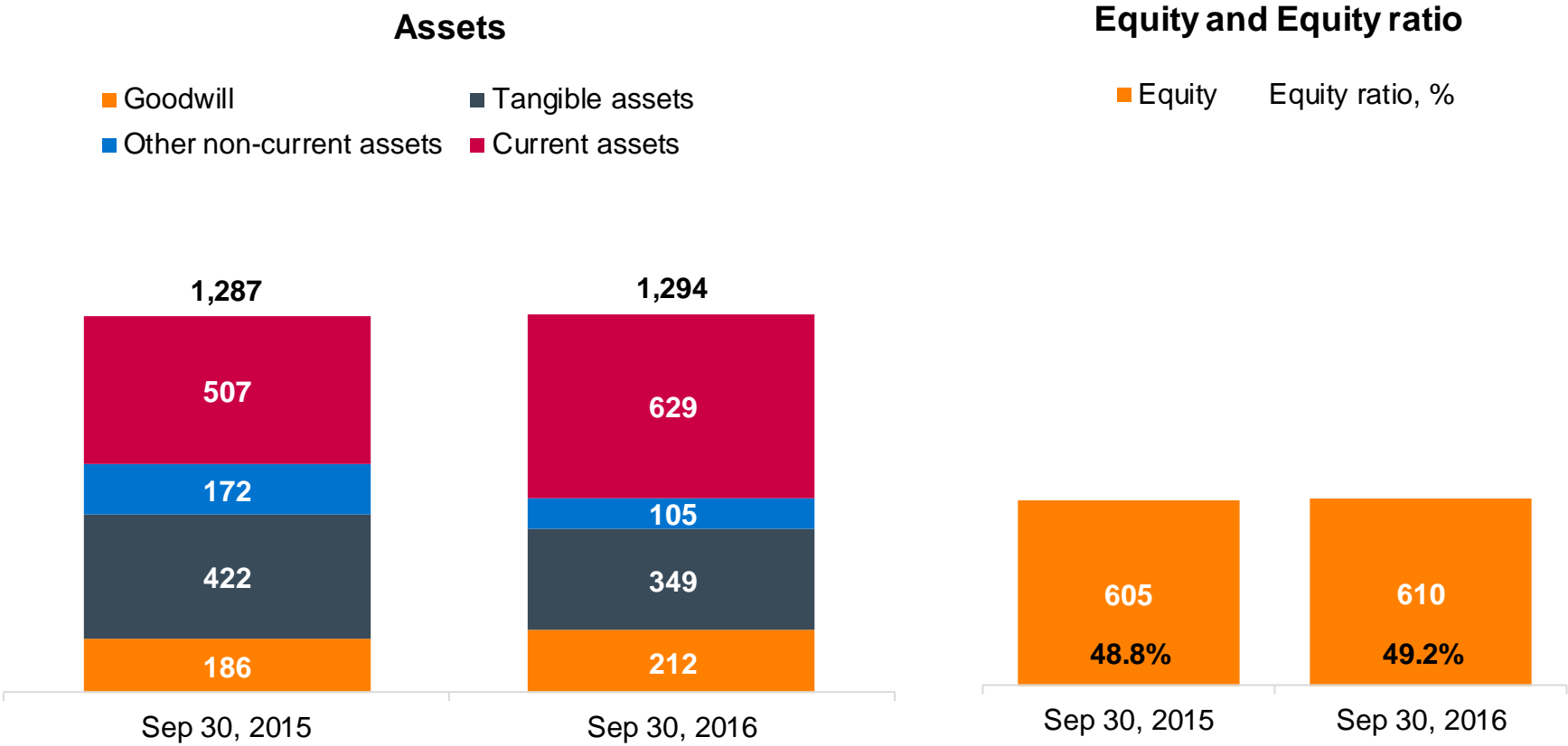
January-September 2016

Indirect costs, EUR million



Balance sheet

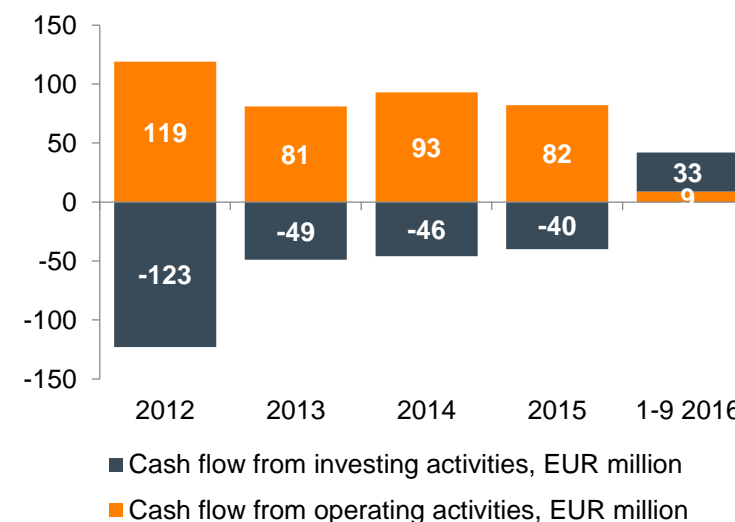
EUR million



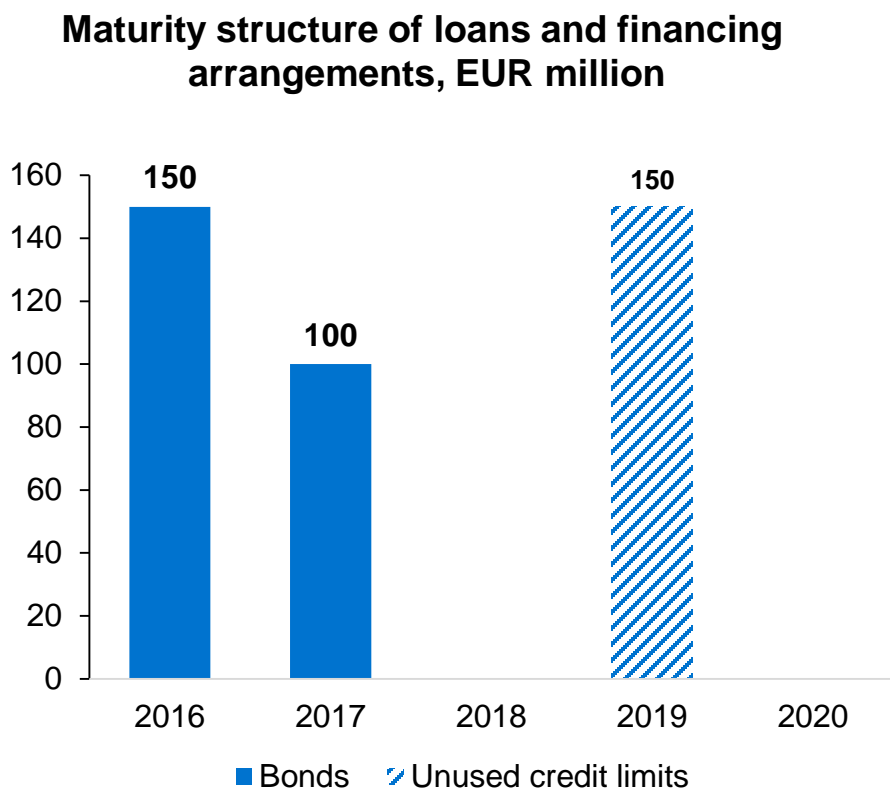
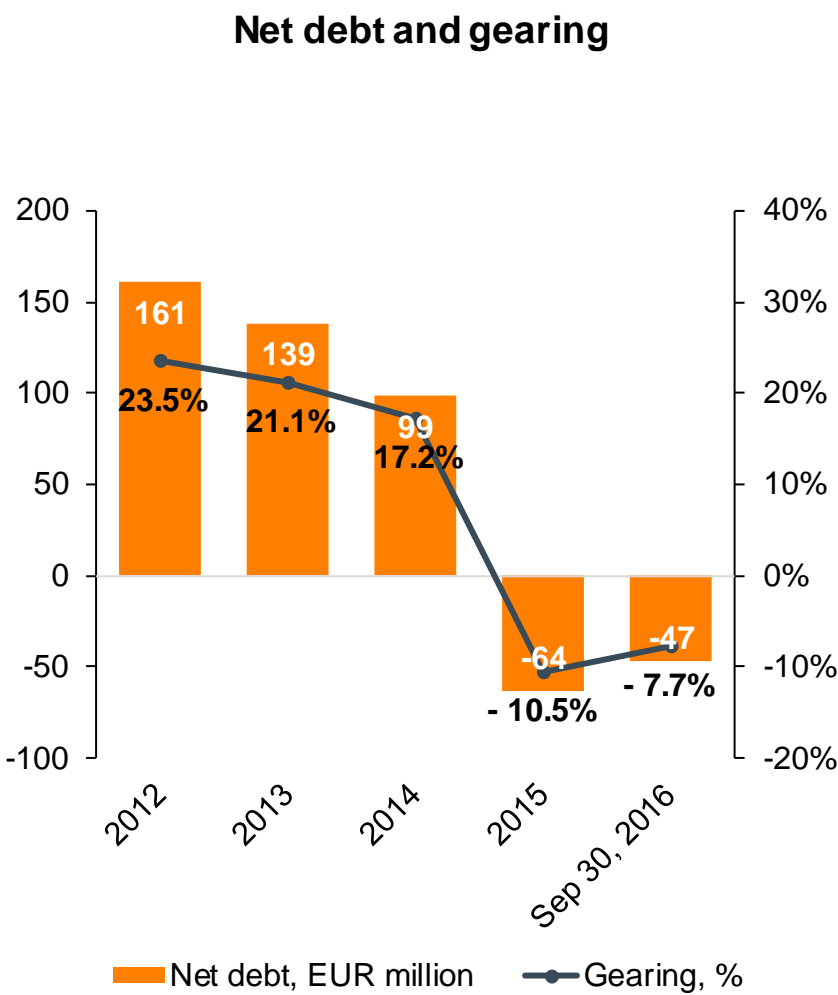
Cash flow

	1-9 2016	1-9 2015	2015
Result for the period	10.5	31.7	36.0
Cash flow from operating activities before financial items and taxes	27.5	30.9	92.4
Cash flow from operating activities	9.0	29.2	81.9
Cash flow from investing activities	32.5	-42.9	-40.4
Cash flow from financing activities	-33.5	-4.8	-8.0
Change in cash and cash equivalents	8.0	-18.5	33.4
Cash and cash equivalents at the end of the review period	138.4	79.6	130.1

- The consolidated cash flow from operating activities was EUR 9.0 million.
- Investments amounted to EUR 70.0 million. The Group invested in acquisitions, information systems, transport fleet and production projects in January–September.
- Proceeds from divestments totaled EUR 72.1 million. The most significant divestments were the selling of real estates in Orimattila in September and in Pirkkala in August and OpusCapita's sale of its businesses serving the local markets in the Baltic countries to BaltCap in January.
- At the end of the reporting period, liquid assets totaled EUR 236.0 million, and undrawn committed credit facilities amounted to EUR 150.0 million.



Net debt and the maturity structure of loans



Thank you!