Q3 2017 Analyst Meeting

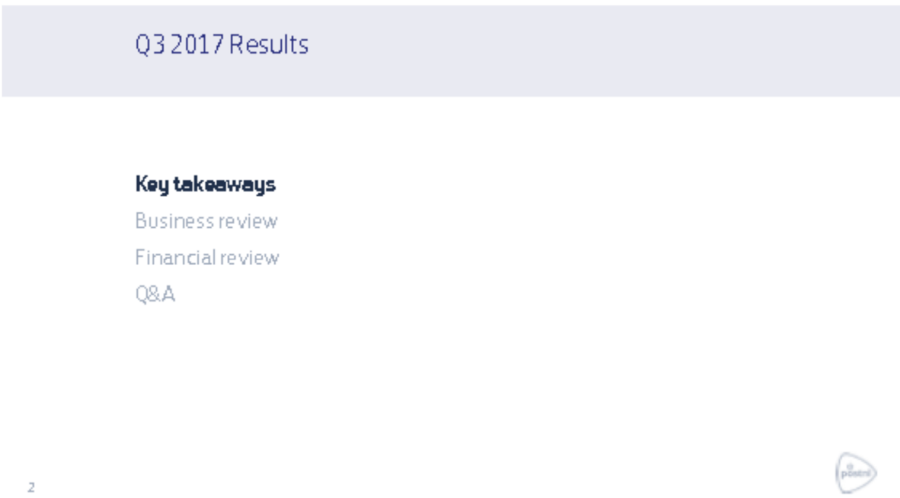
6 November 2017

Karen Berg: Welcome to the presentation of our Q3 results. My name is Karen Berg and I am here together with our CEO Herna Verhagen and our CFO Jan Bos. Jan Bos will kick off with the presentation of our results and afterwards we will take your questions.

As usual, this call is being webcast on our website where you can follow the slide deck. The recording of this call will be made available afterwards.

I would like to hand over to Jan.

Jan Bos: Thank you, Karen. I will start with an operational overview of the quarter and then elaborate a bit more on the financials.



Our performance in the third quarter was ahead of last year, supported by positive incidentals.

Not unexpectedly, the strong growth in e-commerce continued. Revenue increased to EUR 809 million and 37% of revenues comes from e-commerce activities, compared to 33% in the first nine months of 2016.

The underlying cash operating income was EUR 31 million. On this slide you see the highlights of this quarter.

In Parcels, we have continued our strong growth with volumes increasing 23% on the back of e-commerce growth.

In Mail in the Netherlands, volume decline was strong, but results were helped by positive incidentals.

The anticipated improvement in International was not yet visible.

Based on the year-to-date performance, we reconfirm our outlook for 2017 on an underlying cash operating income at between EUR 220 million and EUR 260 million, towards the lower end of the range, as was indicated before.

Mail in the Netherlands delivered results ahead of last year, but volume decline was high, at 10.2% and the financial impact of the ACM measures was also visible in the underlying performance.

Revenue was down to EUR 395 million.

The actual volume decline of 10.2% was driven by a higher than expected substitution rate but also by a loss of volumes to competition.

Supported by the earlier measures of ACM, other postal operators delivered more through their own networks.

Cost savings for the quarter were solid, at EUR 16 million.

The underlying cash operating income amounted to EUR 7 million, which is the result of the volume / price / mix effect and autonomous cost increases, not fully balanced by cost savings and lower cash out for provisions and pensions.

Thanks to some positive incidentals, for example a better result from sale of buildings and lower amortisation costs, underlying cash operating income came in above last year's number.

Delivery quality remains high at 96.5% this quarter.

Besides, an in principle collective labour agreement was agreed with three trade unions, parties agreed on salary increases of 2.6% in five set steps in 2017 and 2018.

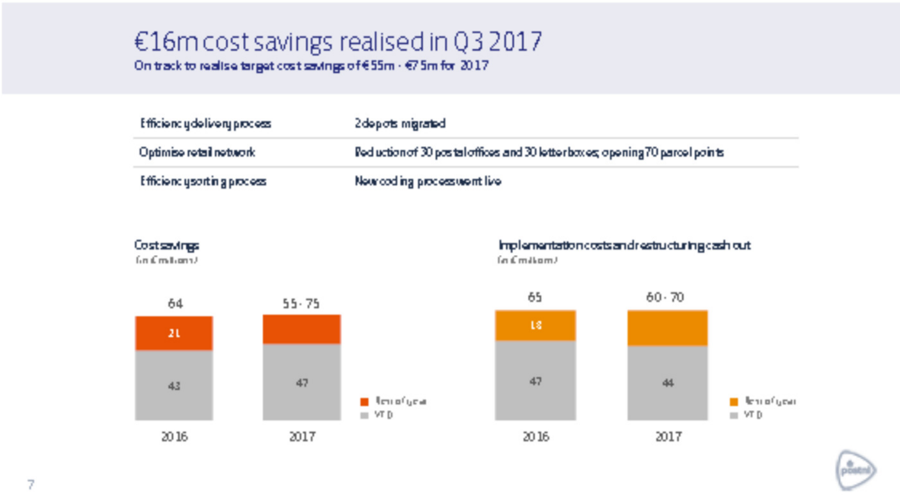
As you remember, ACM decided that PostNL had significant market power in the 24-hours bulk mail segment and must grant postal operators in this segment network access.

The development of the tariff proposal and related conditions per products requires a precise process and together with ACM we agreed to start the implementation on 1st December 2017.

As earlier indicated, the financial impact of ACM measures is expected to be between EUR 30 million and EUR 50 million annualised, on the higher end of the range.

Taking into account its ongoing decline, we are concerned about the future of the postal market, its accessibility, it reliability, its quality and the labour conditions for people who work in this field.

To adjust capacity to the reality of the declining market, we are of the opinion that consolidation is inevitable. We therefore repeat our call to politicians for urgent action.



Cost savings in the third quarter were EUR 16 million, which brings the total over the first nine months to EUR 47 million, on track towards our full-year target of between EUR 55 million and EUR 75 million.

We migrated another two depots and we further optimised our retail network, closed 30 post offices and removed 30 letter boxes.

We also made progress in the improvement of the efficiency in our sorting process as the new coding process now is live. We have also made progress in the centralisation of our HR department.

The related cash-out so far this year is below last year’s number. On a full-year basis we expect this to be more or less in line with last year, which is lower than we have indicated before.

The underlying trend in Parcels continues to be strong. The volume growth is even at 23% driven by domestic, Belgian and international volumes.

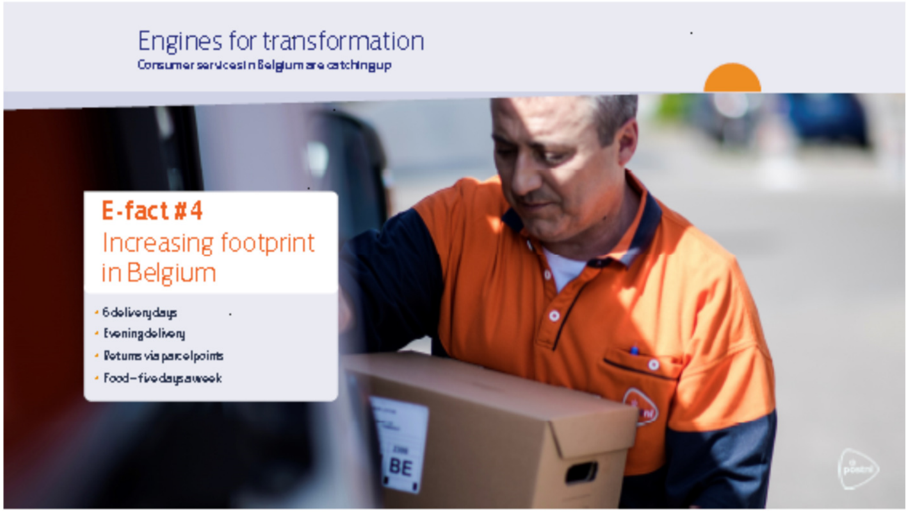
Strong growth in our B2C followed the continuing positive trend of growth.

Revenue in Parcels amounted to EUR 274 million, growth of 21%. Volume growth was only slightly offset by a negative price / mix effect, fuelled by the demand for additional services.

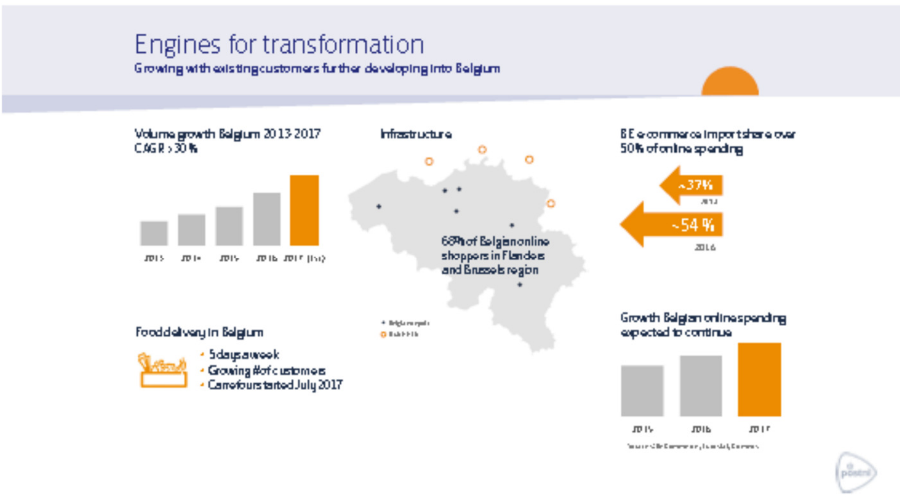
Also in Logistics, revenue increased organically as well as through the acquisition of the two Dutch companies in the second quarter of this year.

Business performance was therefore solid, as was operational efficiency. Our underlying cash operating income in Parcels increased to EUR 27 million, which is better than last year.

In Nieuwegein, we opened a new depot with cross dock facilities and also climate controlled distribution. And we now have a sorting centre located in the facilities of a big customer bol.com and by doing so, we further optimised the chain from ordering to product delivery.



Each quarter, we highlight one or more engines for transformation, which proves that we are truly transforming into a company that provide logistic solutions in the Benelux.



Today, I want to focus on our service in Belgium, where our footprint is increasing. Step by step, our service levels in Belgium are coming more and more in line with those in the Netherlands. We deliver parcels six days a week now and also added evening delivery to our portfolio.

Our return service can be used via the many parcel points of our retail network in Belgium. In May, we have started food delivery service and we now bring food boxes to Belgian consumers five days a week.

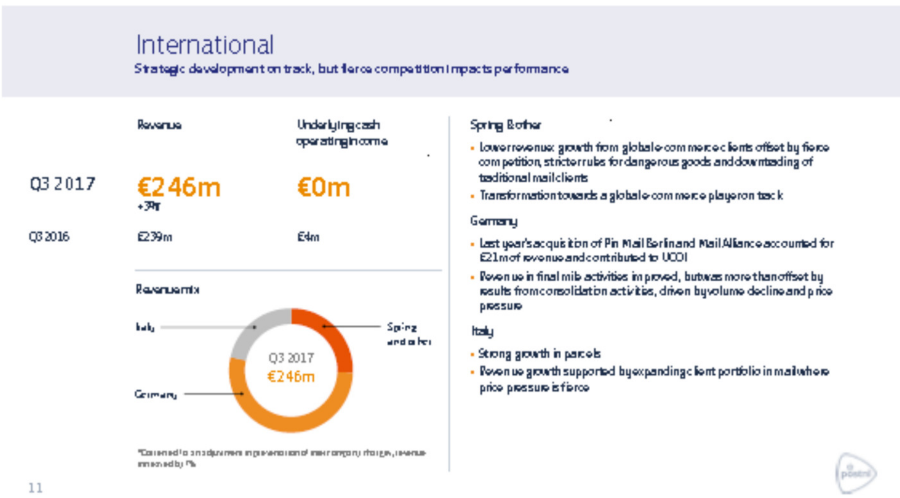
Belgium is an attractive market for PostNL. First, the online spending in Belgium is expected to continue its growth. Currently, only 70% of total spending is done online. Secondly, more than 50% of the e-commerce flows are import in Belgium. A lot of this import comes from Dutch web shops and these are often customers of PostNL.

68% of the Belgian online shoppers live in the Flanders and Brussels region. We can therefore grow with the further development of our customers into Belgium.

If we take a look at our volume growth in Belgium, the average yearly growth rate since 2013 was above 30%.

Last but not least, a couple of words on food delivery in Belgium, a growth market. We now deliver five days a week. The number of customers is increasing and since July of this year, Carrefour uses our services.

In the next coming years, we will further invest into Belgium. We want to introduce new services to further strengthen our market position and to meet our ambitions to become the provider of logistic solutions in the Benelux.



In International, revenue increased to EUR 246 million or by 7% on a like-for-like basis, adjusted for foreign exchange effects and a change in the presentation of our intercompany charges. The anticipated improvement in the operational result is not yet visible.

Let me dive into the business performance.

Revenue for Spring was below last year and impacted by competition, stricter rules for dangerous goods and downtrading of traditional Mail customers.

In Germany, revenue was up to EUR 130 million from EUR 112 million last year.

The revenue increase was supported by the acquisition of Pin Berlin and Mail Alliance and added EUR 21 million in revenue, and contributed also to our results. In consolidation, we lost volume and revenue, due to price pressure.

In Italy, revenue was slightly up. We see strong growth in our parcels activities. In the mail activities, new customers started business but price competition from Poste Italiane remains fierce.

In the third quarter, the underlying cash operating income was zero compared to EUR 4 million last year.

Let’s now have a closer look at the financials.

Financial highlights Q3 & YTD 2017

Underlying cash operating income above last year

(in € millions)	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Reported revenue	809	770	2,515	2,458
Reported operating income	35	42	153	162
Restructuring related charges	9	2	17	14
Project costs and other	1	-	4	10
Underlying operating income	45	44	174	186
Underlying cash operating income	31	27	127	135
Net cash (used in)/from operating and investing activities	(18)	(105)	(106)	537
Normalised net cash, excluding sale of stake in TNT Express and bond buy-back in 2016	*(18)*	*(62)*	*(106)*	*(63)*

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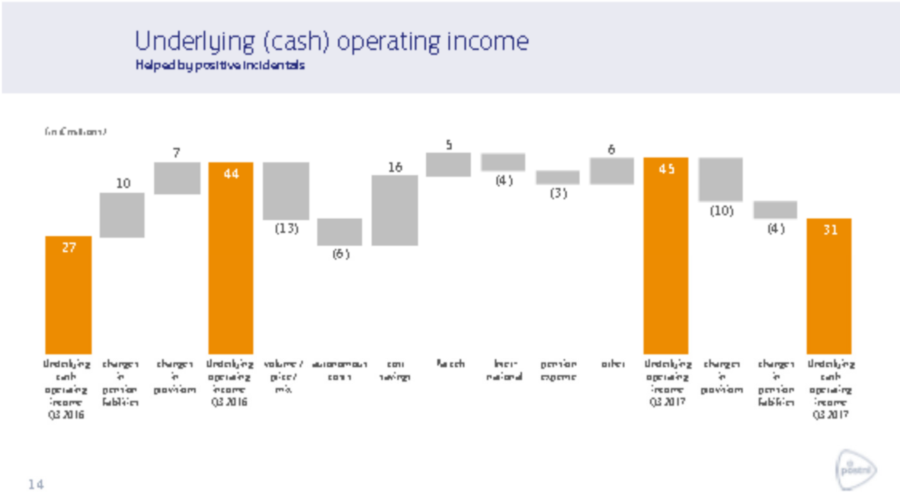
First, our financial highlights showing our main KPIs. Revenue was higher, explained by growth in Parcels and International, only partly offset by the revenue decline in Mail the Netherlands.

Our main performance indicator – underlying cash operating income – was EUR 31 million, EUR 4 million above last year and supported by some positive incidentals.

Normalised net cash benefitted from lower interest paid and a more favourable development of working capital compared to last year.

Remember also, that in Q3 2016, we did a relatively large acquisition in Mail in the Netherlands.



The next slide explains the development of the underlying operating income and the underlying cash operating income in the third quarter.

First, we look at the underlying operating income between the second and third orange bar, an increase of EUR 1 million. The volume / price / mix effect was again negative. Volume decline of 10.2% and a negative impact of ACM measures was partly offset by positive price effects. This effect combined with autonomous cost increases was partly compensated by cost savings of EUR 16 million.

Compared to last year, the contribution from Parcels improved. The anticipated improvement of results in International was not yet visible.

The line ‘Other’ is a mix of positives for example the sale of buildings, lower amortisation costs, and less additions to the provisions and also negative results, amongst other, lower results in cross-border mail. That add ups in total to a positive number of EUR 6 million.

The additional cash-out for pension and provisions showed an improvement of EUR 3 million. In total therefore, the increase in underlying cash operating income was EUR 4 million.

Now, more details when we look at the results per segment.

Results by segment

Strong performance in Parcels

(in € millions)	Revenue		Underlying operating income		Underlying cash operating income	
	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016
Mail in the Netherlands	395	412	20	16	7	5
Parcels	274	227	28	23	27	22
International	246	239	0	4	0	4
PostNL Other	18	43	(3)	1	(3)	(4)
Intercompany	(124)	(151)				
Total PostNL	809	770	45	44	31	27

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Revenue in Mail in the Netherlands in the quarter was down 4.1%. The underlying cash operating income increased to EUR 7 million. There, the negative volume price mix effect and autonomous cost increases were not fully balanced by cost savings. The result was helped by a couple of positive incidentals, as explained before.

Parcels revenue increased by 21%. The underlying cash operating income in the third quarter was 27 and, as said, explained by a solid business performance.

International revenue increased by 3% to EUR 246 million, mainly driven by the acquisition in Germany. The underlying cash operating income was zero.

The underlying cash operating income in PostNL Other improved by EUR 1 million.

Statement of income

Normalised profit Q3 2017 in line with last year

(in € millions)	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Revenue	809	770	2,515	2,548
Operating income	35	42	153	162
Net financial expenses*	(10)	(55)	(31)	55
Results from investments in joint ventures and associates	1	1	(5)	2
Income taxes	(7)	3	(28)	(23)
Profit for the period	19	(9)	89	196
Normalised profit for the period (excluding sale of stake in TNT Express and bond buy-back in 2016)	*19*	*20*	*89*	*60*

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This slide shows the development of our net profit. The normalised net profit was in line with last year. The decline in operating income and higher income taxes were almost offset by lower financial expenses, following last year's bond buy-back.

Net cash from operating and investing activities

In line with expectations

(in € millions)	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Cash generated from operations	19	15	64	101
Interest paid	(17)	(71)	(20)	(73)
Income taxes paid	(3)	(1)	(66)	(68)
Net cash (used in)/from operating activities	(1)	(57)	(22)	(40)
Interest / dividends received / acquisitions / other	3	(22)	(19)	620
Capex	(28)	(30)	(80)	(57)
Proceeds from sale of assets	8	4	15	14
Net cash (used in)/from operating and investing activities	(18)	(105)	(106)	537
Normalised net cash, excluding sale of stake in TNT Express and bond buy-back in 2016	(18)	(62)	(106)	(63)

	Q3 2017	YTD 2017	
Base capex	25	58	
Cost savings initiatives	1	10	
New sorting and delivery centres	2	12	
Total capex	28	80	around 125 (FY outlook)

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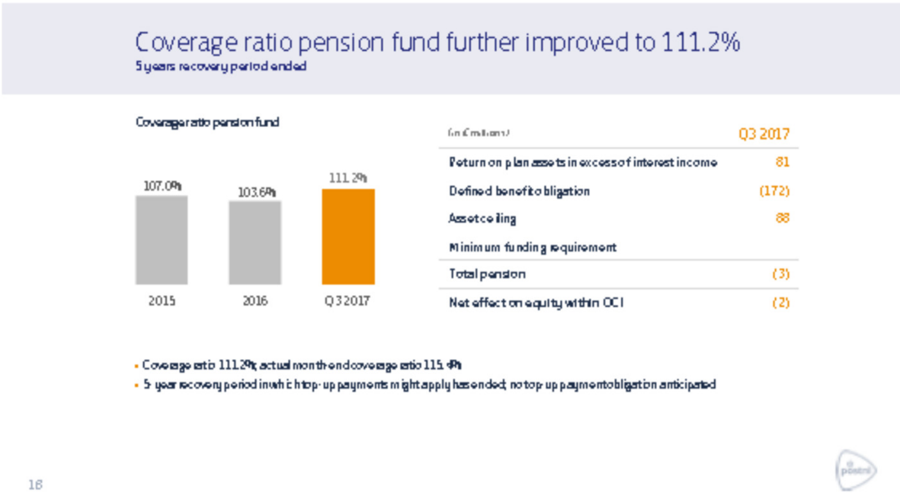
Our normalised net cash from operating and investing activities was minus EUR 18 million. That is EUR 44 million better than last year.

Cash generated from operations included a more favourable development in working capital compared to last year.

Capex was a bit lower and last year we did the acquisition of, as mentioned, of Yourzine and SearchResults in the segment Mail in the Netherlands.

All in all, resulting in a net cash of minus EUR 18 million.



Then to pensions. Given the interest rate development and the asset performance, the actual coverage ratio of the pension fund developed positively to over 115%, which brings the 12-months average ratio to 111%, above the minimum required level.

The 5-years recovery period, in which top-up payments might apply, has now ended, as predicted before.

Consolidated statement of financial position

Consolidated equity on track to turn positive in 2017

(in € millions)	30 Sep 2017		30 Sep 2017
Intangible fixed assets	241	*Consolidated equity*	(17)
Property, plant and equipment	510	*Non-controlling interests*	3
Financial fixed assets	46	Total equity	(14)
Other current assets	593	Pension liabilities	393
Cash	491	Other non-current liabilities	69
Assets classified as held for sale	8	Short-term debt	553
		Other current liabilities	888
Total assets	1,889	Total equity & liabilities	1,889

- Net debt position of €62m
- Monitoring capital markets for refinancing opportunities up to €400m, in line with financial strategy
- Corporate equity of €2,688m, of which €241m distributable

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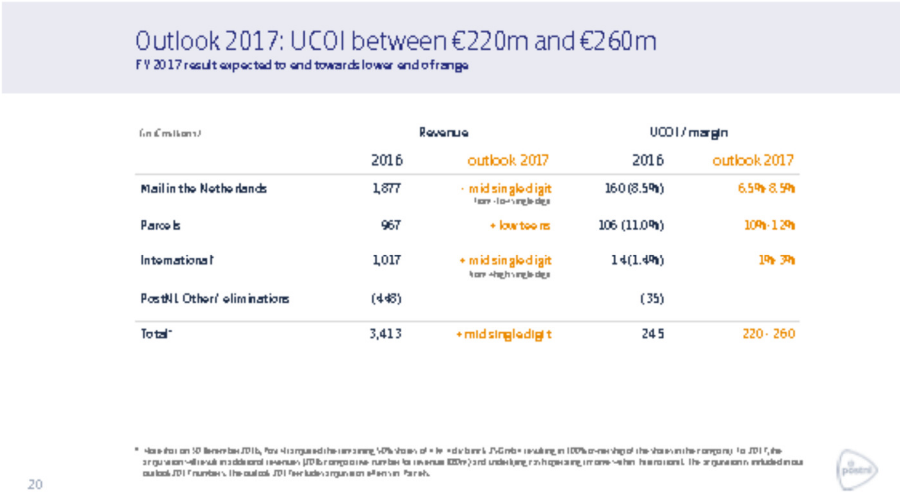
This quarter’s performance is also visible in our balance sheet. Our consolidated equity was stable, at minus EUR 17 million, and is on track to turn positive later this year. The main movements were in net profit and paid dividend. Our net debt position was EUR 62 million, EUR 32 million lower than at the end of Q2.

All in all, a solid financial position.

In line with our financial strategy, we are monitoring capital markets for refinancing opportunities up to EUR 400 million.



Then some forward-looking comments. Based on the year-to-date numbers, we adjusted our full-year revenue projections for Mail in the Netherlands and International, respectively to minus mid-single digit and plus mid-single digit.

Our guidance remains unchanged. Full year 2017 underlying cash operating income is expected to be in the lower end of the EUR 220 million and EUR 260 million range.

To summarise, we make progress in our e-commerce growth and see an increasing contribution in e-commerce revenues, now at 37%.

Our underlying cash operating income in the third quarter was above last year and Parcels had a very strong quarter. However, the improvement in International was not yet visible. The result in Mail in the Netherlands was helped by positive incidentals.

The Dutch postal market has changed fundamentally and volumes are expected to decline further. Regulation must be amended to reflect this reality and to facilitate an orderly and rational adjustment of the postal market.

To safeguard the reliability and accessibility of the postal service and to preserve decent labour conditions in such a shrinking market, over the long run, we are of the view that consolidation is inevitable.

We repeat therefore our call to politicians and urge them to take well-sized and considered action.

As a conclusion, I reconfirm our outlook at between EUR 220 million and EUR 260 million towards the lower end of the range and our aim for progressive dividend.

With that, I would like to hand back to Karen for Q and A.

Karen Berg: Thank you, Jan. We will now open for Q and A.

- **Ruben Devos – KBC**

Good morning. I have two questions, the first is on the mail volumes. Regarding this decline, the press release points to e-substitution impact from regulatory measures as the main cause, basically in line with previous quarterly reporting. Giving the somewhat higher decline versus the first half-year trend could you indicate which factor has been prominent in Q3 and now that we are early November, how have you seen competitive intensity in the consumer market now that some of your peers have expanded their activities?

My second question is regarding Belgium. You have been making quite some headway into the Belgian market, growing volumes over 30%. Will it be possible to give some colour on the competitive dynamics in the North and the South of the country and potentially provide a rough indication of PostNL's market share in the residential and business market?

Jan Bos: Let me start with the first question. The 10.2% that we saw in the last quarter – Q3 – was a little bit more a substitution, especially in the telco industry. Next to that, we see the impact of accelerated ACM measures are also lost to competition, mainly because also operators distribute more of the volume themselves. So, for Q4 we do not have any comments to do. We see of course comments of our competitors in the market, but we are confident on our strength.

For Belgium, we do not publish or disclose any numbers on market share. We have strong volume growth in Belgium, as you have heard in my comments.

Ruben Devos – KBC: Alright. And then a small follow-up on pensions. the pension fund improved substantially the financial position versus Q3 last year. The 5-year covered period has ended, so going forward, based on the visibility it has today and no additional top-up payments, would you be able to share the pension cash contributions that you expect next year?

Jan Bos: What we have said before: we expect some lower pension cash contributions for the coming year but that is mainly linked to a lower number of employees, for whom we are paying pension premium. But further no other impact on the pension cash contribution for the coming years.

Ruben Devos – KBC: Thank you.

- **David Kerstens – Jeffries**

Good morning. I have two questions, first of all on the EUR 30 million to EUR 50 million significant market power impact. With now letter volumes declining by 10%, somewhat worse than your guidance range, are you still confident that the lower end of that range, the EUR 50 million, reflects are worst-case scenario or is there further downside risk to this number when the smaller regional competitors are taking a larger share of the market?

Secondly, there is a lot of noise from Sandd in the past quarter with the acquisition of Van Straaten Post, using your network, a new stamp and a potential interest in taking over the United Service Obligation. What is your view on this seems, all quite bizarre, and would they still be able to use your network in the case of a potential bid for the USO?

Then finally on the labour agreement. You said you have in principle an agreement. What is the risk of any potential industrial action from FNV at this point?

Jan Bos: I will answer your first question. The EUR 30 million to EUR 50 million is the annualised impact eventually visible in 2019. It includes our expectation on also a volume loss to postal operators, so we do not see any change in that. The EUR 30 million to EUR 50 million, so the high end of that bandwidth is still valid.

Herna Verhagen: Then to your second question: of course, the postal market is declining strongly and the way we look into the take-over of VSP by Sandd is that this in our view is an example of a market party that is looking for opportunities to survive in the long-term with such a strong declining market. I think the real question we have to answer -- that is also what I said in the quote of the press release – is how we are able to keep mail services in the Netherlands reachable and of course also payable in the long term. Therefore, PostNL is advocating that if you want to have a mail network which is still reliable in the long term, consolidation in the mail market is inevitable.

If you look into the Universal Service Obligation, always remember that the Universal Service Obligation in the Netherlands means that you deliver five days a week, that you have a nation-wide coverage. So every area in the Netherlands, also the rural areas, are serviced. That is also what we do for all medical mail, for mail for blind people, funeral mail, et cetera. Next to that, we have of course 1,700 post offices, more than 4,000 points where you can buy stamps, and around 16,000 letter boxes, which are of course used at least five times a week. So, if you look into the Universal Service Obligation, it is much more than what most of the people think today and especially what we saw in relation to the proposals of Sandd. Last but not least on this: the way we look into this is that if you want to have a reliable service in the future, which is not in the end paid by the employees, you have to make sure that you create a market in which consolidation is possible and in which the people who work in that market can earn a decent amount of money. That is not the way people are paid today with the competition.

When it comes to the FNV or to the union FNV: they did not sign the principle agreement, which we regret of course because we are still in favour of having all unions signing our agreement on the CLA. At this moment in time, we are of course still trying to do everything to create a possibility to make that come true.

David Kerstens – Jeffries: How many unions do you have in total? You have a in-principle agreement with three?

Herna Verhagen: Yes, we have four in total.

David Kerstens – Jeffries: Great. Thank you very much.

- **Edward Stanford – HSBC**

Good morning, I have a couple of questions. First of all, could you provide some illustration of the acquisition effects on the Parcels' business in the third quarter? Are you able to quantify the – forgive me if I missed it – beneficial impact, of the one-offs in Mail, particularly from the sale of the buildings?

In terms of your refinancing – I noticed you are obviously going out to the market with a EUR 400 million bond – is there any need to refinance the bond that matures next year or can that be satisfied from cash resources?

Jan Bos: On your first question, the acquisition impact, it is around EUR 4 million in the third quarter in Parcels, in revenue. The one-offs in Mail: we have indicated that it is not only sales of buildings, it is also amortisation costs and a few bilaterals. The total of that is between EUR 5 million and EUR 10 million.

On the bond: we have to pay off one bond now and repay that in 2018, so we use the possible proceeds if we would issue a new bond to pay that off.

Edward Stanford – HSBC: Thank you. And just on the positive incidentals. Is that a revenue number?

Jan Bos: It is an operational result number.

Edward Stanford – HSBC: Thank you.

- **Maarten Bakker – ABN AMRO**

Good morning. I have two questions. First of all, I know that it is still subject of negotiations but can you give some colour or some feel on the impact that we should reckon with in relation to the tariff proposals and conditions regarding the ACM measures? Maybe you can clarify as to when the impact will be seen, is it expected that the tariffs could be in line with the current tariffs that contractors pay?

My second question is whether you can confirm whether the 23% volume growth for Parcels is based on the same definition as it was in previous years. It is not clear to me whether in the past it included also international volumes or whether it was only based on domestic volumes.

Jan Bos: Let me start with your last question. It is the same definition, so Belgium and international parcels were also included on the definition before.

On your first question on the impact of the tariff proposal: within the guided impact of EUR 30 million to EUR 50 million annualised, we still expect that to be at the high end of the bandwidth. So, a final implementation of the tariff proposal and operational conditions are now planned for 1 December. Then, the ACM has to approve that proposal and of course, all I can see is that subject to that condition it is EUR 30 million to EUR 50 million, annualised.

Maarten Bakker – ABN AMRO: But the impact will be seen instantly? It will not be gradually, I guess?

Jan Bos: No, of course not, it will also be gradually depending on the volumes.

Maarten Bakker – ABN AMRO: Okay. Thank you.

- **Henk Slotboom – The Idea**

Good morning, I have a couple of questions. Herna, seen where you are coming from with your calls for consolidation – I think we are on the same page there – I have two questions in that respect. First of all, do you have any indication where the new coalition stands in this respect? Secondly, supposed that they are – let me put it politely – as indecisive as the previous coalition, is there anything you can do yourself? What is the first thing? The second thing relates of course to International. What exactly is playing with Spring? You mentioned the issue of the increased security before, earlier this year, but if I understood it correctly, this was to be mitigated or fully offset by the contracts you entered into with AliExpress earlier this year but I still see pressure on the top line there.

What exactly is playing in Italy? Earlier this year, we saw a big client coming in after a long battle you had with Poste Italiane and I would expect that this would have driven your top line and not so much the Parcels business, which is still relatively small in Italy. Perhaps you can shed some more light on that.

Herna Verhagen: I do not know at the moment in time where the coalition stands. What can we do ourselves? I think it is very important to get the political back-up. As we have discussed already a few times, we do not have the possibility when it comes to competition reasons, so we do need political back-up in that sense.

When it comes to Spring and of course Italy, but let's first answer your question on Spring: it is partly dangerous goods and it is partially competition from in the route Asia to Europe, where we see that dangerous goods were already there and competition has been very fierce in the last quarters.

In Italy you see of course more volume because of the new customer in mail and we do see much more parcels. On the other hand, we also see price competition from Poste Italiane and that has an impact on revenue.

Henk Slotboom – The Idea: Thank you.

- **Matthias Gergolet – Goldman Sachs**

Good morning. One question from me, regarding the regulatory developments and the potential significant market power impact. You quantify EUR 30 million to EUR 50 million of potential impact by 2019, at the upper end of that. What impact do you expect already for this year? Could you give us some numerical number, more or less?

Jan Bos: We do not disclose the exact impact of ACM measures year on year. What we have seen and what we have communicated also at Q2, is accelerated impact from ACM measures and that also had an impact on our operational results this year.

Matthias Gargolet – Goldman Sachs: Okay. I was just trying to understand the delta for next year and for 2019. But okay, I get your point. Thank you.

Karen Berg: We do not have any further callers. I would like to thank you all very much for your attention and your questions and talk to you next quarter.

End of call

Q3 2017 Results

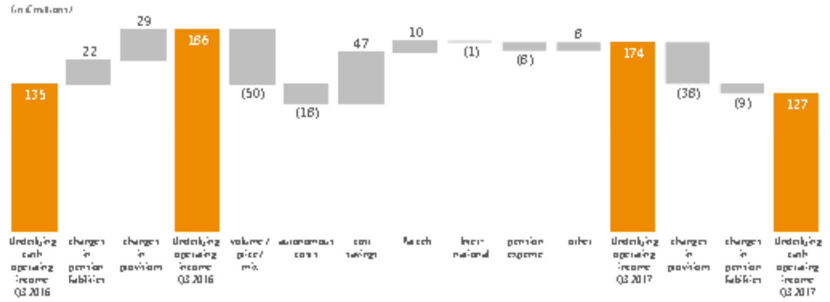
Appendix

- Results by segment YTD
- Underlying (cash) operating income YTD 2017
- Breakdown pension cash contribution and expenses

Results by segment YTD

In € millions	Revenue		Underlying operating income		Underlying cash operating income	
	YTD 2017	YTD 2016	YTD 2017	YTD 2016	YTD 2017	YTD 2016
Mail in the Netherlands	1,279	1,337	93	108	52	72
Parcels	789	696	89	79	87	77
International	778	752	7	8	6	7
PostNL Other	55	132	(15)	(9)	(18)	(21)
Intercompany	(386)	(459)				
Total PostNL	2,515	2,458	174	186	127	135

Underlying (cash) operating income YTD 2017



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Breakdown pension cash contribution and expenses

	Q3 2017		Q3 2016	
	Expenses	Cash	Expenses	Cash
Business segments	25	32	27	35
IFRS difference	3		(2)	
PostNL	**28**	**32**	**25**	**35**
Interest	2		3	
Total	30		28	

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Prinses Beatrixlaan 23
2595 AK The Hague
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