

# Posti's Financial Statements 2018

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# Board of Directors' Report 2018

## Description of the business model

Posti is a service company in the postal and logistics industry that serves both private individuals and business customers as well as the public sector. Posti's business consists of delivery services for parcels and printed products, e-commerce services, comprehensive supply chain solutions, such as warehousing and inhouse logistics services, as well as a broad range of transport services for businesses and organizations, including food logistics and freight services. Posti also provides various digital services, global software solutions as well as home and care services. Posti reports its results of operations for Mail, Parcel and Logistics Services, Itella Russia and OpusCapita segments. Posti's business is managed in five business groups starting January 1, 2019: Postal Services, Parcel & eCommerce, Logistics Solutions, Itella Russia and OpusCapita. The company operates in 11 countries. At the end of the 2018 financial year, the number of personnel stood at approximately 18,500. In Finland, the company employed about 15,700 people at the end of the financial year, which makes it one of the country's largest private-sector employers.

## Business environment

Posti's economical environment remained good in 2018. The Bank of Finland estimates that the Finnish Gross Domestic Product (GDP) grew by 2.7% in 2018. The growth was supported by private consumption. Employment growth, wage rises, and low inflation strengthened households' purchasing power. The Bank of Finland estimates that GDP will grow also in 2019, but at a slower speed.

The Russian economy continued to grow moderately. According to the International Monetary Fund (IMF), the Russian GDP grew by 1.7% in 2018. The IMF forecasts Russian GDP growth to remain slightly below 2% during 2019 and 2020. The ruble depreciated by 14.9% from the end of the previous year.

Although the economic situation is expected to be stable, the operating environment is undergoing a dramatic transformation. Changes in consumer behavior, accelerated digitalization,

the transformation of the retail industry, the rapid growth of e-commerce, intense market competition and the advancement of technology are all challenging Posti. It is very important for Posti to continuously improve the quality of customer satisfaction and the customer experience, which are essential for ensuring competitiveness and profitability in a period of industry transformation.

The number of letters delivered in Finland has decreased by half within ten years, and the delivery volume of printed newspapers has fallen to '1950s' levels. On average, Posti delivers only eight delivery items per week to Finnish households. In the coming years, the amount of mail will continue to decrease rapidly as the communication of citizens, companies and the public sector becomes digital.

The trend is particularly evident in the volumes of addressed mail and printed newspapers. Competition in mail delivery has also increased. In addition to Posti, there are currently 16 operators delivering mail in Finland.

The growth of e-commerce in Finland remained at a good level, which was reflected favorably in Posti's parcel volumes. Finns differ significantly from other Europeans in how they prefer to receive their parcels. For example, 22% of Finnish consumers prefer to have parcels delivered to parcel lockers, according to IPC Online Shopper survey. According to surveys made by Posti Corporation, 59% of the Finns have already used parcel lockers. Posti has increased the number of parcel lockers substantially in recent years. The volume of purchases from foreign online stores is growing. Consumers estimate that in 2025 e-commerce will account for 30% of their purchases, according to other survey made by Posti in 2018.

Posti's goal is to evolve into a customer-oriented and profitable logistics and postal service company by 2020. At the core of the strategy are five main objectives that will see Posti emerge as a winner through this period of transformation: win e-commerce play, keep mail relevant to customers, rethink logistics, renew service culture, and securing digitally powered service delivery.

## Net sales and profit performance in 2018

The number of working days in 2018 was 251, the same as in the previous year. The number of working days affects the Group's net sales and result, having an impact on year-on-year comparison.

The Group's net sales decreased by 2.2% to EUR 1,610.3 (1,647.0) million. Net sales increased 0.4% in Mail, Parcel and Logistics Services but decreased 12.8% in Itella Russia mainly driven by currency exchange rates and the divestment of courier company Maxipost.

Net sales declined by 0.2% in Finland and declined by 13.9% in other countries. International operations accounted for 12.8% (14.6%) of net sales. The decline in international operations' net sales was mainly related to the divestments in Russia as well as divestment of OpusCapita's Finance and Accounting Outsourcing and related subsidiaries in Q3/2017.

The Group's adjusted EBITDA declined to EUR 112.8 (118.6) million, 7.0% (7.2%). The negative development was due to Mail, Parcel and Logistics Services. The adjusted EBITDA increased both in OpusCapita and Itella Russia. EBITDA increased to EUR 105.0 (83.7) million, 6.5% (5.1%).

The adjusted operating result increased to EUR 44.8 (42.4) million, or 2.8% (2.6%) of net sales.

The special items during 2018 amounted to EUR 39.1 million, which includes EUR 30.0 million impairment loss on OpusCapita's goodwill, a EUR 2.0 million gain on the divestment of the Scandinavian debt collection business and costs relating to personnel restructuring and strategic projects. Also OOO Itella Connexions, a Posti subsidiary in Russia, was divested in December. The loss on disposal EUR 1.3 million was recognized in the fourth quarter.

The operating result was EUR 5.7 (-27.5) million, or 0.4% (-1.7%) of net sales.

Universal service obligation was 4.6% (5.5%) of all Posti's delivery volumes. Operations under the universal service obligation amounted to EUR 135.0 (136.7) million, or 8.4% (8.3%) of the Group's net sales.

## Key figures of Posti Group

	2018	2017
Net sales, EUR million	1,610.3	1,647.0
Adjusted EBITDA, EUR million	112.8	118.6
Adjusted EBITDA margin, %	7.0	7.2
EBITDA, EUR million	105.0	83.7
EBITDA margin, %	6.5	5.1
Adjusted operating result, EUR million	44.8	42.4
Adjusted operating result margin, %	2.8	2.6
Operating result, EUR million	5.7	-27.5
Operating result margin, %	0.4	-1.7
Result for the period, EUR million	0.7	-44.3
Return on equity (12 months), %	0.1	-8.0
Return on capital employed (12 months), %	1.3	-5.5
Net debt, EUR million	-31.3	-43.4
Net debt / Adjusted EBITDA	-0.3x	-0.4x
Equity ratio, %	48.6	48.8
Adjusted free cash flow	29.9	38.8
Gross capital expenditure, EUR million	66.1	73.3
Personnel, end of period	18,522	20,014
Personnel on average, FTE	16,780	17,912
Earnings per share, basic, EUR	0.02	-1.11
Dividend per share, EUR	0.71	1.00
Dividends, EUR million	28.4*	40.0

\* Board of Directors' proposal to the Annual General Meeting

## Mail, Parcel and Logistics Services

The year-on-year development of Posti's product volumes was as follows:

- Addressed letters: -9% (-10%)
- Parcels in Finland and the Baltics: +10% (+9%), of which B2C parcels +16% (+12%)
- Domestic freight\* measured in waybills: +5% (+8%)
- Warehouse fill rate in Finland on average, January-December 74% (78%)

\* The reported figure for domestic freight excludes food logistics

The net sales of Mail, Parcel and Logistics Services increased by 0.4% to EUR 1,454.5 (1,448.7) million. The business mix continued to move towards parcel and logistics.

The net sales of Mail and Marketing Services decreased. The decline in volumes was compensated for by changes in pricing. The prices of Posti's cash letter services changed on May 4, 2018. As consumer behaviors are changing and digital transformation is progressing, the mail volume decline continued, especially in addressed letter. The volume decline accelerated especially after the second quarter. At the beginning of the year the rate of volume decrease was lower than previous year due to extra seasonal, such as GDPR-related mail deliveries. However, the downward trend accelerated in H2. The net sales is strongly influenced by the last quarter of the year and especially by the Christmas season. Christmas greetings are still part of the Finnish Christmas tradition, but volumes are declining. More than 23 million Christmas cards were sent this year in Finland compared to 26 million in 2017

At the same time, the competition has become more intensive. The Parliament of Finland opened up postal services to full competition in 2016 and, as a result, there are now 16 delivery companies delivering letter mail in Finland. Also the Press Services revenue was affected both by volume decline and price competition.

Parcel Services saw very positive development. The net sales of Parcel Services grew particularly due to growth in consumer parcels. The number of parcels going through parcel points grew by 28%. The total amount of parcels delivered by Posti in Finland and the Baltic countries increased to 44.1 (40.1) million parcels. The figure does not include letter-like e-commerce items. In the Baltic countries, parcel volumes increased by 17%.

In Logistics Services, the net sales of domestic freight increased by 1.4% due to the Finnish business environment. Transport volumes in heavy traffic begins to even out on Finland's main roads after a strong growth period. The adjusted EBITDA of Mail, Parcel and Logistics Services was EUR 95.7 (106.3) million, 6.6% (7.3%). The result was mainly affected by the slowdown in Logistics Services. EBITDA decreased to EUR 96.1 (102.2) million.

The adjusted operating result decreased to EUR 53.9 (60.4) million, 3.7% (4.2%). The operating result increased to EUR 53.0 (49.3) million.

#### Net sales of Mail, Parcel and Logistics Services:

Net sales, EUR million	2018	2017	Change
Mail and Marketing Services	620.8	630.2	-1.5%
Press Services	163.1	166.9	-2.3%
Parcel Services	299.0	287.5	4.0%
Logistics Services	378.6	373.4	1.4%
Other and eliminations	-7.0	-9.3	
Total	1,454.5	1,448.7	0.4%

#### Itella Russia

Itella Russia's net sales measured in local currency decreased by 2.0%. Reported euro-denominated net sales decreased by 12.8% to EUR 103.9 (119.1) million due to currency translation effects. In April 2018, Itella Russia divested its MaxiPost courier business to the Moscow-based Strategic Business Alliance. This impacted negatively on the net sales. Net sales also decreased slightly in Road transport and Contract logistics.

The adjusted EBITDA was EUR 8.6 (3.7) million, 8.3% (3.1%). EBITDA was EUR 4.9 (-14.4) million. The adjusted operating result improved significantly and reached EUR 2.6 (-3.5) million. Most of the result improvement came from Contract Logistics and closure of unprofitable site during 2017 and the Road business.

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 87% (84%), while in other regions it was 67% (74%). The fill rate in the regions was negatively influenced by change of business model.

The operating result was EUR -1.2 (-21.5) million.

#### OpusCapita

OpusCapita net sales increased by 0.2% and totaled EUR 64.8 (64.7) million. SaaS subscription based net sales growth reached 33% while the net sales in paper-based transaction products continued to decline following the global digitalization trend. Net sales in paper-based transaction products continued to decline as expected. Both Cash Management & Procurement and Invoice Automation product lines closed landmark deals during the fourth quarter – Cash Management is successfully penetrating the central European market while Procurement and Invoice Automation is expanding in the Nordics. In 2018, OpusCapita won several international deals, including Equinor (formerly Statoil) and Schindler.

The adjusted EBITDA increased to EUR 2.0 (-2.6) million, 3.1% (-4.0%). EBITDA improved to EUR 0.6 (-3.6) million. The improvement in EBITDA was due to growth in high value product segments as well as the Q2/2018 restructuring program. OpusCapita announced a restructuring program on May 3, 2018, to strengthen the company's finances. The aim was to refocus OpusCapita's internal resources to support continued investments in product development and further enhancement of the customer experience. As a part of the restructuring program, OpusCapita finalized cooperation negotiations in several of its operating countries. Therefore, the second quarter EBITDA was burdened by a EUR 0.6 million restructuring program-related special item.

The adjusted operating result improved to EUR -2.2 (-7.9) million, -3.3% (-12.3%). The operating result was EUR -33.6 (-35.9) million. As a result of a management evaluation of OpusCapita's business plan, including the execution schedule and required investments to implement the plan and the risk-premium of the discount rate, an impairment loss on goodwill of EUR 30.0 million was recognized in the first quarter of the year.

## Key figures for segments

EUR million	2018	2017
<b>Net sales</b>		
Mail, Parcel and Logistics Services	1,454.5	1,448.7
Itella Russia	103.9	119.1
OpusCapita	64.8	64.7
Other and unallocated	4.2	23.5
Intra-Group sales	-17.1	-9.0
<b>Posti Group</b>	<b>1,610.3</b>	<b>1,647.0</b>
<b>Net sales change-%</b>		
Mail, Parcel and Logistics Services	0.4%	2.3%
Itella Russia	-12.8%	13.8%
OpusCapita	0.2%	4.4%
<b>Posti Group</b>	<b>-2.2%</b>	<b>2.5%</b>
<b>Adjusted EBITDA</b>		
Mail, Parcel and Logistics Services	95.7	106.3
Itella Russia	8.6	3.7
OpusCapita	2.0	-2.6
Other and unallocated	6.4	11.2
<b>Posti Group</b>	<b>112.8</b>	<b>118.6</b>
<b>Adjusted EBITDA, %</b>		
Mail, Parcel and Logistics Services	6.6%	7.3%
Itella Russia	8.3%	3.1%
OpusCapita	3.1%	-4.0%
<b>Posti Group</b>	<b>7.0%</b>	<b>7.2%</b>
<b>EBITDA</b>		
Mail, Parcel and Logistics Services	96.1	102.2
Itella Russia	4.9	-14.4
OpusCapita	0.6	-3.6
Other and unallocated	3.4	-0.6
<b>Posti Group</b>	<b>105.0</b>	<b>83.7</b>
<b>EBITDA, %</b>		
Mail, Parcel and Logistics Services	6.6%	7.1%
Itella Russia	4.8%	-12.0%
OpusCapita	0.9%	-5.6%
<b>Posti Group</b>	<b>6.5%</b>	<b>5.1%</b>

EUR million	2018	2017
<b>Adjusted operating result</b>		
Mail, Parcel and Logistics Services	53.9	60.4
Itella Russia	2.6	-3.5
OpusCapita	-2.2	-7.9
Other and unallocated	-9.5	-6.5
<b>Posti Group</b>	<b>44.8</b>	<b>42.4</b>
<b>Adjusted operating result, %</b>		
Mail, Parcel and Logistics Services	3.7%	4.2%
Itella Russia	2.5%	-2.9%
OpusCapita	-3.3%	-12.3%
<b>Posti Group</b>	<b>2.8%</b>	<b>2.6%</b>
<b>Operating result</b>		
Mail, Parcel and Logistics Services	53.0	49.3
Itella Russia	-1.2	-21.5
OpusCapita	-33.6	-35.9
Other and unallocated	-12.5	-19.4
<b>Posti Group</b>	<b>5.7</b>	<b>-27.5</b>
<b>Operating result, %</b>		
Mail, Parcel and Logistics Services	3.6%	3.4%
Itella Russia	-1.2%	-18.1%
OpusCapita	-51.8%	-55.4%
<b>Posti Group</b>	<b>0.4%</b>	<b>-1.7%</b>

## Financial position and investments

In 2018, the consolidated cash flow from operating activities was 79.8 (96.0) million, the cash flow from investing activities EUR -28.1 (-20.4) million and the cash flow from financing activities -30.6 (-70.9) million following the dividend payment totaling EUR 40.0 (60.0) million.

Investments in intangible assets, property, plant and equipment and business acquisitions according to the statement of cash flow amounted to EUR 63.4 (77.0) million. During the 2018, the Group invested in the new freight terminal in Vantaa, information systems, the transport fleet and production projects.

At the end of December, liquid assets amounted to EUR 131.0 (123.7) million, and undrawn committed credit facilities totaled EUR 150.0 (210.0) million. The Group took out a new long-term loan of EUR 60 million in the second quarter. The Group's interest-bearing liabilities were EUR 129.7 (120.0) million. The equity ratio was 48.6% (48.8%) and the net debt totaled EUR -31.3 (-43.4) million.

In May, Posti Group Corporation signed a new EUR 150 million syndicated revolving credit facility which replaced the previous EUR 150 million facility. The new facility has a tenor of five years and it has an option to extend the maturity with two years.

## Research and development

Research and development Expenditure related to research and development activities in 2018 amounted to EUR 4.7 (5.6) million, or 0.3% (0.4%) of the Group's total operating expenses. Posti will continue to invest in digital services, increased automation and improving the competitiveness of our core business.

The Mail, Parcel and Logistics Services segment invested in the development of digital services for consumers. Digital services help Posti improve the services offered to private customers as well as the customer experience. For example, Posti's new mobile application provides consumers with new services that make daily routines easier and fulfill a growing number of customer needs.

In 2018 OpusCapita launched a new Invoice Process Automation product and by the end of the year had rolled-out several customers in production. A new Business Network Portal was also released in 2018. The Business Network Portal facilitates interactions between suppliers and buyers

## Statement of non-financial information to be published as part of the Report of the Board of Directors

### Introduction

Posti complies with responsible business practices in all of its operations. Posti's responsibility policies take into account the UN Global Compact principles, the UN Guiding Principles on Business and Human Rights and the UN Sustainable Development Goals. The Global Compact principles comprise self-regulation pertaining to human rights, the environment and corruption. The UN Guiding Principles specify a company's responsibility with regard to human rights and call on companies to respect human rights. The UN Sustainable Development Goals contain guidelines aimed at ensuring sustainable development.

Posti reports on sustainability in accordance with the international Global Reporting Initiative GRI G4 reporting framework. In addition, Posti complies with the reporting requirements of its owner, the Finnish State. The environmental accounting applies the WBCSD (World Business Council for Sustainable Development) Greenhouse Gas (GHG) protocol and the GHG Inventory Standard for the Postal Sector protocol, which includes more detailed instructions for the postal industry. The various aspects of corporate responsibility will be discussed in more detail in the next Sustainability Report, to be published in March 2019.

### Environmental responsibility

Posti identifies, evaluates and manages environmental aspects in its operations and, through its quality and environmental policy, is committed to reducing the environmental impacts of its operations with regard to transport as well as the energy consumption of properties. Examples of identified environmental responsibility risks include traffic accidents, which may cause significant environmental damage. If realized, such a risk can have a negative impact on nature as well as customer property. The risk is managed as part of occupational safety management, through measures such as driver training, appropriate work instructions and careful employee orientation.

Posti's environmental management is based on the ISO 14001 environmental management standard. Employees' awareness of environmental issues is promoted through training and employee orientation as part of the ISO 14001 management system. Environmental issues are also regularly discussed in the channels of internal communication. At the end of 2018, certified environmental management systems covered 77% (87%) of the Group's employees. The change has to do with a correction in measurement and organizational changes.

Posti's successful environmental management also helps its customers reduce their environmental impact through the use of Posti's services. All of Posti's services in Finland are carbon neutral Posti Green services. The carbon-dioxide emissions arising from transport are reduced by combining transports and using route planning, smooth and safe driving styles and the renewal of the fleet. The remaining emissions are compensated for by participating in certified climate projects.

Posti's target is to reduce carbon-dioxide emissions in Finland by 30% by 2020, in proportion to net sales, compared to 2007. By the end of 2018, Posti's emissions relative to net sales had declined by 17.7% (28.6%) in Finland. In 2018, the calculation method was developed to cover all significant greenhouse gas emissions (equivalents) affecting climate change, not only carbon dioxide and to follow the market-based method according to Greenhouse Gas Protocol. Additionally, emission factors were updated to reflect the latest information, such as the latest country-specific statistics on energy network emissions. As a result, the results of 2018 are not directly comparable with the old published results. To enable comparison the baseline year result for 2007 and 2017 were adjusted to reflect the changes in calculation method. Due to the change in calculation method the company will adjust its carbon-dioxide based climate target in 2019 to cover all the greenhouse gases.

The Group's absolute greenhouse gas emissions in 2018 were 222,689 (205,297) metric tons of carbon dioxide equivalent. Absolute greenhouse gas emissions in Finland were 168,687 (145,585) metric tons of carbon dioxide equivalent. The increase in emissions is mainly due to a decrease in the share of renewable electricity used in Posti's operations in Finland and an increase in parcel and freight volumes.

## Social issues and personnel

For Posti, social responsibility means a commitment to producing reliable and high-quality services for various customer groups. Posti processes all information and product flows in strict confidence and with a high level of information security. The Group deals ethically, openly and transparently with all of its stakeholders.

The EU General Data Protection Regulation (GDPR) set out new provisions concerning the processing of personal data, effective from May 25, 2018. Posti prepared for the changes brought about by the new Regulation by improving data protection preparedness, the awareness of personnel and the protection of processes and systems, among other things. The Group provided Basics of Data Protection training for personnel. All employees are required to complete the training. More in-depth data protection training was also organized for certain personnel groups. As of the end of 2018, some 80% (61%) of the Group's personnel (excl. Itella Russia) had completed the basic training. The training is intended to prevent potential risks related to data protection, such as personal data ending up in the wrong hands.

Providing a safe and healthy working environment for employees is the key objective of Posti's people responsibility. This can be achieved by continuously developing the management of occupational safety and well-being at work. In a labor-intensive industry, the successful management of sick leave and the effective and extensive prevention of accidents are extremely important in terms of employee well-being and productivity as well as the Group's profitability.

The long-term goal is to be a zero-accident workplace. To achieve this goal, occupational safety is systematically managed as part of day-to-day management. Personnel competence and awareness related to occupational safety is increased and safety-promoting working methods are systematically developed. All accidents and hazardous situations are investigated. Making safety observations and implementing corrective actions in response to the observations is part of continuous improvement. In 2018, the Group's personnel made a total of 13,463 (11,699) safety observations. The figure covers Posti's operations in Finland and Estonia.

Posti continued to advance its work ability management projects during the reporting year. For example, with the support

of the Posti Welfare Foundation (Työhyvinvointisäätiö), and in cooperation with Mehiläinen, an extensive project called "Tame the Pain" was carried out with the aim of providing early support, such as working physiotherapy, for the symptoms, pain and treatment of musculoskeletal disorders. The aim is to prevent long-term disability problems. Challenges related to work ability are a key risk in the context of occupational safety and well-being at work.

Posti monitors the frequency of occupational accidents that lead to absences by using the LTA1 indicator (occupational accidents per million working hours). The LTA1 of Finnish operations decreased to 43 (46). For other countries, including Russia, the LTA1 figure was 31 (13). The scope of the Group figure was expanded in 2018, so it is not directly comparable to the previous year. The figures include occupational accidents that occurred during working hours and led to an absence of at least one day. Serious occupational accidents leading to an absence of more than one month decreased in the Group by 12% compared to the previous year.

The Group's sick leave rate was 5.7% (5.7%), including all countries of operation except Russia and Latvia. The sick leave rate for Finland continued to decline and stood at 5.8% (5.9%). The figure covers all Finnish operations.

## Respecting human rights and preventing bribery and corruption

Posti is committed to respecting human rights in all of its operations, and requires the same from partners and suppliers. Posti adheres to the UN Global Compact principles in realizing the Group's responsibility for human rights. The Group also takes into account the UN Guiding Principles on Business and Human Rights in its key responsibility documents: the Code of Conduct, the Group's Corporate Responsibility Principles and the Supplier Code of Conduct. Posti has also published and implemented a Group-level policy on gifts and hospitality as part of the Group's compliance program. Posti has a zero-tolerance policy with regard to human rights violations, corruption and bribery.

Posti's Code of Conduct and Supplier Code of Conduct cover legal and regulatory compliance, good business practices, principles concerning equality and non-discrimination, the avoidance of conflicts of interest, the prohibition of unethical commercial practices and environmental responsibility. The Code of Conduct also documents the principles concerning

the consequences of misconduct. It also specifies the whistleblowing channels established by the Group for employees to confidentially report suspected cases of misconduct or other problems. While anonymous reporting is possible, Posti encourages employees to report problems and shortcomings under their own names to make it easier to investigate the issues.

The risks identified in this area are related to potential human rights violations, supplier management, failure of internal control and corruption. The most significant risks related to human rights and corruption are business-related reputation risks. Posti prevents these risks by providing Code of Conduct training to all employees. The content of the Code of Conduct is the same for all employees and it is included in the employee orientation for new recruits. Training on the content of the Code of Conduct is provided electronically to employees who have access to a computer. For other employees, training is organized separately using either written training materials or classroom training. As of December 31, 2018, some 74% (78%) of the Group's employees had completed the training. More in-depth training on the subject matter is also organized for the most significant target groups, such as management as well as the sales and sourcing functions.

Potential risks related to human rights and the prevention of corruption and bribery in the supply chain are prevented by monitoring suppliers' sustainability performance by means of a self-assessment tool and also by conducting sustainability audits when necessary. The Group also uses financial management monitoring tools and confirmation processes to support the management of corruption risks.

## Share capital and shareholding

In Posti, the Finnish State exercises the shareholder's decision-making power. The State's direct ownership of Posti Group Corporation is 50.1%, with 49.9% of the shares owned by the Finnish State Business Development Company (Vake Oy).

Posti Group Corporation's share capital consists of 40,000,000 shares of equal value. The company holds no treasury shares and does not have subordinated loans. No loans have been granted to related parties, and no commitments have been given on their behalf. The company has not issued shares, stock options or other rights with entitlement to company shares. The Board of Directors is not authorized to issue shares, stock options, or other rights with entitlement to company shares.



## Administration and auditors

### Annual General Meeting

Posti Group Corporation's Annual General Meeting was held in Helsinki on March 27, 2018.

In line with the Board of Directors' proposal, the Annual General Meeting decided to distribute a dividend of EUR 27 million based on the result in 2017 and an extra dividend of EUR 13 million. Dividend distribution was altogether EUR 40 million. The dividend was paid on March 28, 2018.

The Annual General Meeting also adopted the 2017 financial statements and discharged the Supervisory Board, Board of Directors and President and CEO from liability.

It was decided that the Board of Directors be composed of nine members. The following continued as members of the Board of Directors: Eero Hautaniemi, M.Sc. (Econ.); Petri Järvinen, M.Sc. (Tech.); Markku Pohjola, B.Sc. (Econ.); Marja Pokela, BBA, M.Sc. (Adm.); Suvi-Anne Siimes, Licentiate of Political Science. (Econ.); and Arja Talma, M.Sc. (Econ.), eMBA.

Frank Marthaler (Lic.oec. HSG); and Per Sjödell B.Sc (econ); were elected as new members of the Board of Directors and Pertti Miettinen as an employee representative for one year pilot.

Markku Pohjola was elected as the Chairman of the Board of Directors and Suvi-Anne Siimes as the Vice Chairman.

The Annual General Meeting elected twelve members to the Supervisory Board in 2018. The following continued as members of the Supervisory Board: Maria Guzenina, MP, Social Democratic Party; Rami Lehto, MP, Finns Party; Eeva-Maria Maijala, MP, Centre Party; Mats Nylund MP, Swedish People's Party of Finland; Juha Pylväs, MP, Centre Party; Sari Raassina, MP, National Coalition Party; Markku Rossi, MP, Centre Party; Satu Taavitsainen, MP, Social Democratic Party; Jani Toivola, MP, The Greens of Finland.

MP Juhana Vartiainen, National Coalition Party; MP Kari Kulmala, Blue Reform and MP Silvia Modig, Left Alliance were elected as new members of the Supervisory Board.

Markku Rossi was re-elected as the Chairman of the Supervisory Board and Jani Toivola as the Vice Chairman.

The authorized public accountancy firm PricewaterhouseCoopers Oy was elected as Posti Group

Corporation's auditor, with Authorized Public Accountant Merja Lindh as the principal auditor. No changes were made to the Board of Directors' or Supervisory Board's fees. Members of the Board of Directors receive a monthly remuneration and a meeting fee. Members of the Supervisory Board receive a meeting fee.

### Changes in management

**Jani Jolkkonen**, Director, ICT and digitalization, and a member of the Posti Group Corporation Executive Board left Posti Group Corporation on January 11, 2018.

**Petteri Naulapää**, M.Sc. (Tech.), was appointed as the Senior Vice President, ICT and Digitalization of the Posti Group Corporation and as a member of the Posti Group Corporation Executive Board. Naulapää started in his new role on June 23, 2018.

**Hanna Reijonen**, M.Sc. (Econ.), was appointed as Senior Vice President, Human Resources and as a member of the Posti Group Corporation Executive Board as of March 22, 2018.

**Jaana Jokinen**, who has acted as Senior Vice President, Human Resources since 2009, retired on June 30, 2018.

In August 2018, Posti announced the renewal of its organization and operating model to better correspond to market needs and e-commerce growth. Posti Group's business were divided into five business groups, of which three were new ones. Starting January 1, 2019, the new business groups are:

- **Postal Services**, headed by M.Sc. (Tech.) **Yrjö Eskola** starting January 1, 2019. Eskola was previously Posti's Vice President, Operations.
- **Parcel & eCommerce**, headed from January 1, 2019 by M.Sc. (Tech.) **Turkka Kuusisto**, who was previously Vice President of the Postal Services business group.
- **Logistics Solutions**, headed by M.Sc. (Econ.) **Sari Helander** from September 1, 2018. Helander has worked as CFO of Posti since 2011.
- With Helander's transfer to Logistics Solutions, Sc. (Econ.) **Tom Jansson** began as acting CFO starting September 1, 2018. He was appointed as CFO from December 19, 2018. Jansson was previously the Head of Finance in OpusCapita Solutions.

**Jukka Rosenberg**, the Vice President of former Parcel and Logistics Services, and a member of the Posti Group Corporation Executive Board left Posti Group Corporation on September 1, 2018.

The **Itella Russia** and **OpusCapita** business groups have remained unchanged and continued to be headed by **Jussi Kuutsa** and **Patrik Sallner**, respectively.

From May 1, 2018 Posti clarified Posti's management roles by discontinuing the Management Board.

## Employees

The Group's personnel	2018	2017
Personnel at period-end	18,522	20,014
Personnel on average, FTE*	16,780	17,912

\*Full time equivalent personnel on average

### Personnel at the end of the year:

- Finland: 15,676 (16,595) employees
- Other countries of operation: 2,846 (3,419) employees

The Group's personnel expenses amounted to EUR 675.1 (696.6) million in year 2018, down 3.1% from the previous year. The personnel expenses included EUR 2.1 (5.0) million in restructuring costs. Excluding restructuring costs, the personnel expenses declined by 2.7% year-on-year.

The Uusi polku (New path) program December 31, 2018 (YTD):

- Applications: 204
- Approved: 85

Launched at the beginning of 2014, the Uusi polku (New path) program offers personnel not only financial support, but also training and support for job seeking, as well as support for retraining or starting a business.

## Acquisitions, divestments and changes in corporate structure

On March 2018, Posti's Finnish Debt Collection business was sold to Intrum and the Norwegian Debt Collection business to Visma. In June 2018, Posti's Swedish Debt Collection business was sold to Collectia Sverige AB.

On April 2018, Itella Russia divested its MaxiPost courier business to the Moscow-based Strategic Business Alliance. According to its strategy, Itella Russia focuses on its core businesses, contract logistics and transportation.

Posti and Solemo Oy (SOL) established a joint venture providing in-house logistics services, Flexo Palvelut Oy in 2017. On October 2018, Posti acquired the remained share capital

of Flexo Palvelut Oy from SOL and therefore Posti is the only shareholder.

On December 2018, OOO Itella Connexions, a Posti subsidiary in Russia, was divested. Itella Connexions is a customer relationship management and digital agency serving a number of international automobile and fast moving consumer goods accounts.

## Regulatory environment

Posti executed its first mandatory tendering procedure based on the Postal Act amendment, which became effective on July 1, 2018. The mandatory tendering procedure covers the five-day delivery of universal service letters in areas not covered by the early-morning newspaper delivery, which is based on commercial agreements. The areas subject to the tendering procedure are based on a decision issued by The Finnish Communications Regulatory Authority. The tendering covers more than 1,700 areas. A total 33 companies submitted tenders as part of the competitive tendering process that began in January. The companies that won the competitive tendering process have carried out deliveries for Posti before.

According to the legislator, the aim of this regulation is to introduce new delivery activities, including a combination of existing deliveries, in sparsely populated areas. In Posti's view, increased co-operation in sparsely populated areas is a positive development.

## Legal proceedings

In March 2018, the Supreme Court did not grant leave to appeal in litigation concerning the value added tax on postal services requested by the claimants against Posti. This means that the decision given at September 2017 by the Court of Appeal of Helsinki to overrule the complaint as requested by Posti and to compensate the legal expenses of Posti remains final.

The Supreme Administrative Court of Finland rendered an order on September 27, 2018 confirming that Posti's pricing concerning the delivery of unaddressed advertising mail during 2007–2013 had not violated the competition law.

## Business risks

The risks and uncertainties related to Posti's business include risks relating to Posti's operating environment, operational risks, legal and regulatory risks as well as financing risks.

Posti's business is dependent on the general economic conditions, and their developments in Finland and in the surrounding countries. Further, the continued decline of letter mail and print volumes due to the increased digital substitution and rapidly developing customer expectations, coupled with increasing competition in mail but also other business areas involves particular challenges to Posti. Posti is executing a profound business transformation to adapt to the changing business environment, and the success of the chosen transformation strategy, including the realization of the targeted growth and efficiency improvements, is central for Posti's success in the future.

Posti is dependent on the reliability, functionality and cost-efficiency of its' ICT systems and infrastructure, which may not fully meet the requirements of Posti's current or planned new businesses or support them.

Other dependencies consist of the business seasonality with focus on the end-of the year, the key customers and partners that may be lost and not appropriately replaced, limitations of UPU payment terminals, Posti's operational facilities and transportation infrastructure in Finland and Russia with limited or no comparable back-ups, as well as Posti's ability to recruit and retain competent leaders and managers, as well as talented employees, and to keep them motivated. Other operational risks include, among others, potential challenges in acquisition and divestments, and integration of possibly acquired businesses, general reputation management and the risk of general compliance in a complex regulatory requirement.

Even if the Postal Act in Finland was amended in 2017 in a manner where many restrictions earlier imposed on the USO (Universal Service Obligation) operator were deleted, there is a need for further amendments to the same direction. However, there is no certainty of stability, nor certainty for adoption of the additional needed amendments, in the legal environment as to the postal regulation in Finland or the legislation in general in other countries, Russia in particular. The sanctions imposed by the US and EU on a number of Russian persons, entities and activities may also have an adverse impact on Posti's overall operations. In Finland, Posti tends to be subject to a number of antitrust reviews and investigations on a continuous basis.

### Events after the review period

On January 14, 2019 Posti announced that it will buy three new sorting machines suitable for letter, advertisement and publication sorting. The machines will be located in Helsinki. Helsinki postal center handles approximately 80% of print mail.

On January 25, 2019, Posti Group Corporation completed the acquisition of the in-house logistics company Suomen Transval Group Oy. The acquisition was announced in September 2018. Posti acquired the entire share capital of Suomen Transval Group Oy from MB Rahastot and the other shareholders of the company. Transval's net sales in 2017 were approximately EUR 148 million. It employs 3,500 logistics professionals.

On January 29, 2019 Posti announced that it would begin cooperation negotiations to reorganize its work in administration and service production due to the decline in mail volumes. The cooperation negotiations concern both administration and service production. According to a published estimate, the personnel reduction need is a maximum of 236 employees.

### Dividend policy and long-term financial targets

In May, the Board of Directors adopted a dividend policy pursuant to which the Company aims to pay out a continuously increasing ordinary dividend.

Posti's Board of Directors also set in May the following long-term financial targets for Posti's operations:

- Adjusted operating result margin of 4%
- Net debt / Adjusted EBITDA less than 2.0x
- Strict management of free cash flow

### Outlook for 2019

Net sales, excluding possible new acquisitions and divestments, is expected to increase from 2018 driven by Transval acquisition. The Group's adjusted operating result is expected to increase from 2018 due to Transval acquisition and transition to IFRS 16 accounting principles.

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 and consumer parcels, the first and fourth quarters are typically strong, while the second and third quarters are weaker.

### Board of Directors' proposal for the distribution of profit

In the financial statements, the parent company's distributable funds total EUR 434,523,515.34, of which the loss for the financial year 2018 is EUR 5,482,674.62.

No material changes have taken place in the Group's financial standing since the end of the financial period, nor does the solvency test, as referred to in Section 2 of Chapter 13 of the Limited Liability Companies Act, affect the proposed distributable profit.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 28.4 million will be distributed.

Helsinki, February 13, 2019

#### Posti Group Corporation

Board of Directors

## Calculation of key figures

In addition to IFRS-based performance measures, Posti Group discloses alternative performance measures as additional information to financial measures presented in the consolidated income statement, consolidated balance sheet, consolidated statement of cash flows and in the notes disclosures. Management believes that adjusted performance measures provide meaningful supplemental information to both management and investors regarding the business performance. Adjusted EBITDA and adjusted operating result are also one of the key business performance indicators in Posti Group's management reporting.

### Reconciliation of adjusted free cash flow

	2018	2017
Cash flow from operating activities	79.8	96.0
Purchase of intangible assets and property, plant and equipment	-58.4	-67.6
<b>Free cash flow from operations</b>	21.4	28.4
Cash flow impact of personnel restructuring costs	5.3	9.4
Cash flow impact of strategic project costs	3.2	1.0
<b>Adjusted free cash flow</b>	<b>29.9</b>	<b>38.8</b>

EBITDA	Operating result excluding depreciation, amortization and impairment losses.
Adjusted EBITDA	EBITDA excluding special items.
Adjusted operating result	Operating result excluding special items.
Special items	Special items are defined as significant items of income and expenses, which are considered to incur outside the ordinary course of business. Special items include restructuring costs, significant impairment losses on assets, impairment on goodwill, significant gains or losses on sale of shares, real estates or business operations, changes in contingent purchase considerations originated from business combinations, costs for strategic key projects and other material items outside of ordinary course of business.
Gross capital expenditure	Additions to intangible assets and property, plant and equipment including additions through finance leases as well as business acquisitions comprising of total amount of purchase considerations.
Equity ratio, %	$\frac{\text{Total equity}}{\text{Total assets} - \text{advances received}} \times 100$
Return on equity, %	$\frac{\text{Result for the period (12 months rolling)}}{\text{Total equity (average of opening and closing balance of the previous 12 months)}} \times 100$
Return on capital employed, %	$\frac{\text{Operating result (12 months rolling)}}{\text{Capital employed (average of opening and closing balance of the previous 12 months)}} \times 100$
Capital employed	Non-current assets less deferred tax assets plus inventories and trade and other receivables less other non-current liabilities, less advances received, less provisions, less defined benefit pension obligations, less trade and other payables.
Net debt	Interest bearing borrowings – liquid funds – debt certificates.
Net debt / Adjusted EBITDA	$\frac{\text{Net debt}}{\text{Adjusted EBITDA (12 months rolling)}}$
Interest-bearing borrowings	Non-current and current borrowings.
Liquid funds	Cash and cash equivalents + money market investments + investments in bonds.
Personnel on average, FTE	Full time equivalent personnel on average.
Adjusted free cash flow	Cash flow from operating activities as presented in the consolidated statement of cash flows less purchase of intangible assets and property, plant and equipment as presented in the consolidated statement of cash flows and less cash flow impacts of personnel restructuring costs and costs of strategic key projects.

# Consolidated Financial Statements

## Consolidated Income Statement

EUR million	Note	2018	2017
<b>Net sales</b>	1	1,610.3	1,647.0
Other operating income	3	15.1	15.4
Materials and services	4	-513.6	-508.0
Employee benefits	5	-675.1	-696.6
Other operating expenses	6	-331.7	-374.1
Depreciation and amortization	7	-67.8	-75.8
Impairment losses	7	-31.6	-35.4
<b>Operating result (EBIT)</b>		<b>5.7</b>	<b>-27.5</b>
Finance income	8	7.7	3.8
Finance expenses	8	-8.5	-13.1
<b>Result before income tax</b>		<b>4.9</b>	<b>-36.9</b>
Income tax	9	-4.2	-7.4
<b>Result for the period</b>		<b>0.7</b>	<b>-44.3</b>
<b>Result for the period attributable to</b>			
Parent company shareholders		0.8	-44.3
Non-controlling interest		-0.1	0.0
Earnings per share, basic, EUR		0.02	-1.11
Earnings per share, diluted, EUR		0.02	-1.11

## Consolidated Statement of Comprehensive Income

<b>EUR million</b>	<b>2018</b>	<b>2017</b>
Result for the period	0.7	-44.3
<b>Other comprehensive income</b>		
<b>Items that may be reclassified to profit or loss:</b>		
Changes in the fair value of financial assets at fair value through other comprehensive income*	0.0	-0.1
Change in fair value of cash flow hedges	0.1	-0.9
Translation differences	-10.2	-7.0
Income tax relating to these items	0.0	0.2
<b>Items that will not be reclassified to profit or loss:</b>		
Remeasurements of post-employment benefit obligations	1.6	-0.4
Income tax relating to these items	-0.3	0.1
<b>Comprehensive income for the period</b>	<b>-8.1</b>	<b>-52.5</b>
<b>Comprehensive income attributable to</b>		
Parent company shareholders	-8.1	-52.5
Non-controlling interest	-0.1	0.0

\* In 2018, new term according to IFRS9, 2017: Changes in the fair value of available-for-sale financial assets.

# Consolidated Balance Sheet

## Assets

EUR million	Note	2018	2017
<b>Non-current assets</b>			
Goodwill	10	147.4	180.7
Other intangible assets	10	57.0	56.9
Investment property	11	3.9	9.1
Property, plant and equipment	12	327.6	346.4
Other non-current investments	20	3.5	3.5
Non-current receivables	20	1.3	1.4
Deferred tax assets	13	9.2	11.0
<b>Total non-current assets</b>		<b>549.8</b>	<b>609.0</b>
<b>Current assets</b>			
Inventories	14	3.7	4.8
Trade and other receivables	15	288.2	314.2
Current income tax receivables		2.2	1.5
Current financial assets	20	54.7	77.4
Cash and cash equivalents	20	106.6	86.0
<b>Total current assets</b>		<b>455.3</b>	<b>483.9</b>
<b>Total assets</b>		<b>1,005.1</b>	<b>1,092.9</b>

## Equity and liabilities

EUR million	Note	2018	2017
<b>Equity attributable to the shareholders of the parent company</b>			
Share capital	16	70.0	70.0
General purpose reserve	16	142.7	142.7
Fair value reserve	16	-0.7	-0.8
Translation differences	16	-100.7	-90.6
Retained earnings		332.4	370.9
<b>Total shareholders' equity</b>		<b>443.7</b>	<b>492.3</b>
Non-controlling interests		0.0	0.3
<b>Total equity</b>		<b>443.7</b>	<b>492.6</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	13	19.8	23.7
Non-current borrowings	20	120.2	70.5
Other non-current payables	19	10.3	16.8
Advances received	19	14.2	14.0
Non-current provisions	18	9.9	20.6
Defined benefit pension plan liabilities	17	10.0	11.8
<b>Total non-current liabilities</b>		<b>184.4</b>	<b>157.4</b>
<b>Current liabilities</b>			
Current borrowings	20	9.5	49.5
Trade and other payables	19	278.7	317.6
Advances received	19	77.0	68.7
Current income tax liabilities		0.5	0.2
Current provisions	18	11.3	6.9
<b>Total current liabilities</b>		<b>377.0</b>	<b>442.9</b>
<b>Total liabilities</b>		<b>561.4</b>	<b>600.3</b>
<b>Total equity and liabilities</b>		<b>1,005.1</b>	<b>1,092.9</b>



## Consolidated Statement of Cash Flows

EUR million	Note	2018	2017
<b>Result for the period</b>		<b>0.7</b>	<b>-44.3</b>
Adjustments for:			
Depreciation and amortization	7	67.8	75.8
Impairment losses	7	31.6	35.4
Gains on sale of intangible and tangible assets	3	-3.1	-3.6
Losses on sale of intangible and tangible assets	6	1.8	8.3
Finance income	8	-7.7	-3.8
Finance expense	8	7.1	12.3
Income tax	9	4.2	7.4
Other non-cash items		-2.3	12.8
<b>Cash flow before change in net working capital</b>		<b>100.1</b>	<b>100.4</b>
Change in trade and other receivables	15	17.3	-24.2
Change in inventories	14	0.9	-0.8
Change in trade and other payables	19	-32.0	29.1
<b>Change in net working capital</b>		<b>-13.8</b>	<b>4.1</b>
<b>Cash flow before financial items and income tax</b>		<b>86.3</b>	<b>104.4</b>
Interests paid	8	-4.0	-7.4
Interests received	8	1.7	2.9
Other financial items	8	1.4	0.8
Income tax paid	9	-5.5	-4.7
<b>Cash flow from financial items and income tax</b>		<b>-6.5</b>	<b>-8.4</b>
<b>Cash flow from operating activities</b>		<b>79.8</b>	<b>96.0</b>

<b>EUR million</b>	<b>Note</b>	<b>2018</b>	<b>2017</b>
Purchase of intangible assets	10	-19.2	-13.2
Purchase of property, plant and equipment	12	-39.2	-54.4
Proceeds from sale of intangible and tangible assets	10, 12	1.5	7.4
Business acquisitions, net of cash acquired	2	-5.0	-9.4
Proceeds from business disposals less cash and cash equivalents	2	5.6	-7.1
Cash flow from financial assets	20	22.4	
Financial assets at fair value through profit or loss	20		39.3
Financial assets held to maturity	20		15.0
Cash flow from other investments		5.8	2.0
<b>Cash flow from investing activities</b>		<b>-28.1</b>	<b>-20.4</b>
Increases in current loans	20		39.9
Repayment of current loans	20	-40.0	-99.9
Increases in non-current loans	20	59.0	60.3
Finance lease payments	20	-9.6	-12.7
Dividends paid		-40.0	-60.0
Transactions with non-controlling interests			1.5
<b>Cash flow from financing activities</b>		<b>-30.6</b>	<b>-70.9</b>
<b>Change in cash and cash equivalents</b>		<b>21.1</b>	<b>4.7</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>86.0</b>	<b>82.0</b>
Effect of exchange rates changes		-0.5	-0.7
<b>Cash and cash equivalents at the end of the period</b>		<b>106.6</b>	<b>86.0</b>

## Consolidated Statement of Changes in Equity

Attributable to the owners of the parent company

EUR million	Share capital	General purpose reserve	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
<b>Equity Jan 1, 2018</b>	<b>70.0</b>	<b>142.7</b>	<b>-0.8</b>	<b>-90.6</b>	<b>370.9</b>	<b>492.3</b>	<b>0.3</b>	<b>492.6</b>
Change in accounting policies IFRS 9 and IFRS 15*			0.0		-0.7	-0.7		-0.7
<b>Jan 1, 2018, restated</b>	<b>70.0</b>	<b>142.7</b>	<b>-0.7</b>	<b>-90.6</b>	<b>370.2</b>	<b>491.6</b>	<b>0.3</b>	<b>491.9</b>
<b>Comprehensive income</b>								
Result for the period					0.8	0.8	-0.1	0.7
Other comprehensive income:								
Changes in the fair value of cash flow hedges, net of tax			0.1			0.1		0.1
Translation differences				-10.2		-10.2		-10.2
Remeasurements of post-employment benefit obligations, net of tax					1.2	1.2		1.2
<b>Total comprehensive income for the period</b>			<b>0.1</b>	<b>-10.2</b>	<b>2.0</b>	<b>-8.1</b>	<b>-0.1</b>	<b>-8.1</b>
<b>Transactions with equity holders</b>								
Acquisition of non-controlling interest					0.2	0.2	-0.2	0.0
Dividends paid					-40.0	-40.0		-40.0
<b>Equity Dec 31, 2018</b>	<b>70.0</b>	<b>142.7</b>	<b>-0.7</b>	<b>-100.7</b>	<b>332.4</b>	<b>443.7</b>	<b>0.0</b>	<b>443.7</b>

\* Impact of changes in accounting policies is described in Accounting policies.

Attributable to the owners of the parent company

EUR million	Share capital	General purpose reserve	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
<b>Equity Jan 1, 2017</b>	<b>70.0</b>	<b>142.7</b>	<b>0.1</b>	<b>-83.5</b>	<b>479.2</b>	<b>608.4</b>	<b>-</b>	<b>608.4</b>
<b>Comprehensive income</b>								
Result for the period					-44.3	-44.3	0.0	-44.3
Other comprehensive income:								
Changes in the fair value of available-for-sale financial assets and cash flow hedges, net of tax			-0.8			-0.8		-0.8
Translation differences				-7.0		-7.0		-7.0
Remeasurements of post-employment benefit obligations, net of tax					-0.4	-0.4		-0.4
<b>Total comprehensive income for the period</b>			<b>-0.8</b>	<b>-7.0</b>	<b>-44.6</b>	<b>-52.5</b>	<b>0.0</b>	<b>-52.5</b>
<b>Transactions with equity holders</b>								
Contributions by non-controlling interest					1.2	1.2	0.3	1.5
Other transactions with non-controlling interest					-4.8	-4.8		-4.8
Dividends paid					-60.0	-60.0		-60.0
<b>Equity Dec 31, 2017</b>	<b>70.0</b>	<b>142.7</b>	<b>-0.8</b>	<b>-90.6</b>	<b>370.9</b>	<b>492.3</b>	<b>0.3</b>	<b>492.6</b>

# Notes to the Consolidated Financial Statements

## Company information

Posti Group Corporation and its subsidiaries (together "Posti" or the "Group") provides businesses and consumers postal and logistics services, e-commerce services as well as extended purchase-to-pay and order-to-cash solutions. Posti operates in 11 countries. The Group's parent company, Posti Group Corporation ("the Company"), is domiciled in Helsinki, and its registered address is Postintaival 7 A, FI-00230 Helsinki.

## Accounting policies

Posti's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and related interpretation of the IFRS interpretation committee (IFRICs). The consolidated financial statements are also in compliance with Finnish accounting and company legislation.

The consolidated financial statements are prepared under the historical cost convention, with the exception of financial assets and liabilities measured at fair value through profit or loss and non-current assets held for sale and available-for-sale financial assets. All amounts in the consolidated financial statements are presented in millions of euros, unless otherwise stated. The figures are rounded and thus the sum total of individual figures may be different than the total presented. These policies have been consistently applied to all the years presented, unless stated otherwise.

## Application of new or amended IFRS standards

The impacts of the new standards IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments on these financial statements have been described below. The new accounting policies for revenue recognition and financial assets and liabilities can be found in the separate sections later in this document.

## Impact of adoption of IFRS 15 Revenue from contracts with customers

The Group has adopted the new standard IFRS 15 Revenue from contracts with customers on January 1, 2018 using the modified retrospective application. Under the modified retrospective application, the comparative financial information presented in these financial statements has not been restated. The impact of adoption of IFRS 15 was recognized in the retained earnings on January 1, 2018. The Group has applied IFRS 15 only to contracts that were not completed at January 1, 2018.

The new standard defines a five-step model to recognize revenue based on contracts with the customers and replaces the predecessor standards IAS 18 and IAS 11 as well as related interpretations. The timing of the revenue recognition can take place over time or at a point of time, depending on the transfer of control. The standard also entails increased disclosures on revenue from customer contracts.

## Adjustment to retained earnings January 1, 2018 from IFRS 15

### EUR million

<b>Retained earnings Dec 31, 2017</b>	<b>370.9</b>
Revenue recognition change in Parcel Services	-0.8
Revenue recognition change in Russian freight services	0.0
Impact on deferred tax	0.2
<b>Adjustment to retained earnings Jan 1, 2018 - before restatement of IFRS 9</b>	<b>-0.7</b>
<b>Retained earnings Jan 1, 2018, restated - before restatement of IFRS 9</b>	<b>370.3</b>

Revenue recognition for parcel business in Finland has been changed and the revenue for parcel services is recognized when the parcel has been delivered. According to previous accounting policies the revenue was recognized when parcel was received to the Group's delivery network. The impact of the transition

recognized in the shareholders' equity was EUR -0.8 million before and EUR -0.6 million after deferred tax.

Revenue recognition for long-term transport services in Itella Russia segment has been redefined. Revenue and related expected costs are recognized during the progress of the transport. Progress towards complete satisfaction of a performance obligation is measured using an output method based on days of delivery performed related to estimated total delivery days. According to previous accounting policies revenue and related expected costs were recognized at the beginning of the transport. The impact of the transition was EUR -0.3 million in net sales and EUR -0.3 million in freight expenses, total impact to equity was EUR 0.0 million.

A significant portion of the Group's revenue is generated by rendering of short-term services. These services include freight services in Finland and in the Baltic countries, parcel services in the Baltic countries, delivery of international mail from Finland and via Finland, and delivery of unaddressed direct marketing. According to IFRS 15 revenue for these services should be recognized over time. However, the Group continues to recognize the revenue for these services when the delivery is received to the Group's delivery network because the Group has concluded that this has only a minor impact on the Group's income statement and balance sheet.

In addition to the short-term services described above, where the impact of the new standard is minor, the Group has identified the following areas where the new standard involves special consideration:

The Group has identified that some of the customer contracts of Supply Chain Solutions and Posti Messaging include payments and costs relating to the implementation of the services. According to IFRS 15, these contract cost for fulfilling the service obligation are capitalized and amortized over the contract period. Also, the payments received for these services are allocated over the contract period. The impact of the change was minor.

Certain service level penalty fees were previously recognized as expense and according to IFRS 15 they are recognized as a deduction of net sales. The impact on the financial statements was minor.

OpusCapita sell its customers either licenses or software as a service (SaaS). Licenses or service agreements do not involve significant tailoring but may include implementation services, which are considered as separate performance obligations. According to IFRS 15 the revenue for licenses is recognized when the license is granted and for SaaS the revenue is recognized over time. Revenue for implementation services is recognized for the period during which the service is performed. Before the implementation of IFRS 15 revenue for part of these services were recognized on invoicing basis, but the impact of this accounting policy change was immaterial.

Any possible sales bonuses for obtaining a customer contract were previously recognized as an expense. According to IFRS 15 they should be capitalized and accrued over the contract period. However, the Group has only a small amount of sales bonuses, relating to a limited amount of customers, that fulfill the capitalization criteria of IFRS 15 and consequently this does not have a material impact on the Group's income statement or balance sheet.

During the financial year of January 1, 2018 – December 31, 2018, the implementation of IFRS 15 increased the Group's net sales EUR 0.5 million and operating result EUR 0.4 million as compared to the net sales and operating result reported in accordance with the previous standards. The impact on balance sheet items was less than EUR 1 million.

### Impact of adoption of IFRS 9 Financial instruments

IFRS 9 Financial Instruments replaced the classification and measurement models in IAS 39 from 1 January, 2018. Posti Group applies the new standard for the future periods with prospective application. Under the prospective application, the comparative financial information presented in these financial statements has not been restated. The impact of adoption of IFRS 9 Financial instruments was recognized in the opening balance sheet on January 1, 2018. The new standard brought changes to classification and measurement of financial assets, to their impairment assessment and to hedge accounting.

### Adjustment to retained earnings January 1, 2018 from IFRS 9 and IFRS 15

#### EUR million

<b>Retained earnings Dec 31, 2017</b>	<b>370.9</b>
Reclassify investments from available-for-sale to FVPL	0.0
Reclassify investments from FVPL to amortized cost	-0.3
Increase in loss allowance for debt investments at amortized cost	-0.1
Decrease in loss allowance for trade receivables	0.3
Impact on deferred tax	0.0
<b>Adjustment to retained earnings Jan 1, 2018 from IFRS 9</b>	<b>-0.1</b>
<b>Adjustment to retained earnings Jan 1, 2018 from IFRS 15</b>	<b>-0.7</b>
<b>Retained earnings Jan 1, 2018, restated</b>	<b>370.2</b>

### Impairment of trade receivables

Impairment of financial asset is based on a new expected credit loss method. Posti Group applies a simplified provision matrix approach for trade receivables whereby the impairment loss is measured over the life of the asset unless the asset is already written off. A loss allowance of 100% is recognized for trade receivables past due for more than 180 days.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowances for trade receivables as at December 31, 2017 reconcile to the opening loss allowances on January 1, 2018 as follows:

#### EUR million

December 31, 2017 – calculated under IAS 39	1.5
Amounts restated through opening retained earnings	-0.3
Opening loss allowance January 1, 2018 - calculated under IFRS 9	1.2

### Classification, measurement and impairment of other financial assets

A debt instrument is measured at amortized cost only if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt and equity instruments are recognized at fair value and the fair value movements on these assets are taken through the income statement.

The new guidance had an impact on the classification and measurement of the Group's financial assets. Money market investments and investments in bonds that were previously classified at fair value through profit or loss are currently classified at amortized cost category based on business model and SPPI (solely payments of principal and interest) test. The impact of reclassification was a decrease in the carrying amount of EUR 0.3 million. Further, equity instruments previously classified as available for sale are currently classified at fair value through profit or loss. The reclassification of equity investments to fair value through profit or loss had no impact on the carrying amount.

The Group estimates that the changes in classification of financial assets due to new standard decrease the volatility in the income statement to some extent.

The Group revised its impairment methodology under IFRS 9 for financial assets at amortized cost. The Group assesses the expected credit losses associated with its debt instruments carried at amortized cost on a forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For low credit risk bond investments, Posti applies a 'low credit risk' exemption, where the loss allowance recognized is limited to 12 months' expected credit losses. The impact of adopting impairment model under IFRS 9 on the carrying amounts was EUR -0.1 and is included in the below change effect.

The effects of reclassification, measurement and impairment on other financial assets than trade receivables are presented below:

EUR million	Measurement category		Carrying amount		
	Dec 31, 2017 (IAS 39)	Jan 1, 2018 (IFRS 9)	Dec 31, 2017 (IAS 39)	Jan 1, 2018 (IFRS 9)	Change effect *
<b>Non-current financial assets</b>					
Investments in non-trading equities	Available for sale	FVPL**	3.5	3.5	
<b>Current financial assets</b>					
Money market investments	FVPL**	Amortized cost	57.0	56.9	0.0
Investments in bonds	FVPL**	Amortized cost	18.2	17.9	-0.3
Equity fund investments	Available for sale	FVPL**	0.1	0.1	

\* The change effects noted in this column are the result of applying the new expected credit loss model and the change of measurement category.

\*\* FVPL = financial assets measured at fair value through profit or loss

## Hedge accounting

The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a rule, it is easier to apply hedge accounting going forward because only prospective effectiveness testing is required. However, the Group has not increased hedge accounting following the new standard. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

## Consolidation Principles

### Subsidiaries

The consolidated financial statements include the accounts of the parent company, Posti Group Corporation, and all of its subsidiaries. Subsidiaries are entities over which the Group has control. Control exists, directly or indirectly, if the Group has decision-making powers, is exposed to, and has rights to, variable returns, and is able to use its decision-making powers to affect the amount of the variable returns. Subsidiaries are consolidated

from the date on which the Group is able to exercise control and are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations.

All intercompany transactions, balances, distribution of profits and unrealized gains on transactions between group companies are eliminated.

### Associates

Associates are entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20 per cent and 50 per cent of the voting rights. Investments in associated companies are accounted for using the equity method of accounting, under which the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee.

The Group's share of associates' results is presented separately before operating profit in the consolidated income statement.

## Joint operations

Posti has investments in mutual real estate companies. These investments are accounted for as joint operations. As such Posti's direct share of the assets, liabilities, income and expenses in these arrangements is recognized in the consolidated financial statements under the appropriate headings.

## Foreign currency translation

### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the Group.

### Transaction and balances

Transactions denominated in foreign currencies are translated into the functional currency using the exchange rates at the dates of the transactions. Monetary items in the balance sheet denominated in foreign currencies are translated into functional currency using the exchange rates at the balance sheet date and non-monetary items using the exchange rates at the transaction date, excluding items measured at fair value in a foreign currency which are translated using the exchange rates at the date when the fair value was determined. Foreign exchange gains and losses arising from business operations are presented in the income statement under the respective items above operating profit. Foreign exchange gains and losses that relate to financing activities are presented in the income statement within finance income and finance expenses except for the long-term intercompany loans that are attributable to the net investment in foreign entities of which exchange rate differences are recognized in other comprehensive income.

## Group companies

If the subsidiaries' functional currency differs from the Group's presentation currency, their income statements, statement of comprehensive income are translated into euros using the average exchange rates for the financial year, and their balance sheets using the exchange rates at the closing rate at the balance sheet date. All resulting translation differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment are recognized in other comprehensive income. When a foreign entity is disposed of, the associated translation differences are reclassified through profit or loss, as part of gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated into euros using the rate at the balance sheet date.

## Revenue recognition

A significant portion of the Group's revenue is generated by rendering of short-term postal and logistics services. Revenue for services is recognized when the entity satisfies the performance obligations of the customer contract. Performance obligations are satisfied either over time or at a point in time, depending on the transfer of control. For most of Group's services performance obligations are satisfied over time.

Net sales comprise the revenue generated by the sale of goods and services net of value added taxes, discounts, service level related and other refunds to customers and foreign exchange differences.

At contract inception, the Group assesses the services promised in the contract with a customer to identify performance obligations. Performance obligation can be either a promise to transfer to the customer a distinct good or service or a series of distinct goods or services. For majority of contracts, the Group has identified a promise to transfer a series of distinct services as a performance obligation.

Some contracts include variable components of transaction price, such as volume discounts or service level penalty fees. Variable consideration is recognized to net sales using the expected value or most likely amount method, to the extent that it is highly probable that a significant reversal will not occur.

The revenue is typically invoiced when the performance obligation is satisfied, apart from the implementation costs invoiced from the customer related to certain services. The Group follows market practices for payment terms, which most commonly vary between 14 and 30 days. Payment terms on terminal dues related to international mail are in accordance with international multilateral contracts. Consequently, the Group's contracts do not include significant financing components.

## Mail, marketing and press services

Revenue for mail, marketing and press services is recognized over time as the Group satisfies performance obligations. The progress towards complete satisfaction of a performance obligation is measured using an output method based on days of delivery performed related to estimated total delivery days. For unaddressed direct marketing and delivery of international mail from Finland and via Finland the revenue is recognized when the delivery is received to the Group's delivery network. The difference between the applied method and a method measuring progress towards complete satisfaction is considered immaterial for the Group. Where the payments are received for a service to be provided over a specified period of time (such as post-office boxes), payments received are recognized as deferred revenue and released to the income statement over the period that the service is performed.

The Group acts as a principal for outbound international mail and parcel services under universal service obligation and revenue is recognized as gross with terminal dues to third parties charged as expenses and reported as operating costs.

Volume-based invoicing of document processing automatization services is recognized as revenue for the period when the service has been performed.

The Group recognizes the revenue for certain prepaid services, including stamps, franking machines and prepaid envelopes, based on their estimated usage. Estimated usage is based on statistical model that incorporates historical sales and usage volumes and price changes. The unperformed services are accrued as a deferred revenue liability on the balance sheet. The amount of the liability is based on a statistical sampling that has been carried out to consumers, small businesses and associations and a survey carried out to the retailers. The volume of stamps held but not used by the customers to be used in the foreseeable future has been assessed based on the survey.

Management estimates the value of these stamps based on the statistical model reflecting the usage of stamps and stamp prices. Stamp retailers' share of the liability has been estimated based on a survey carried out to the retailers. Deferred revenue is presented on the balance sheet as current and non-current. The portion of the prepaid services that are estimated to be performed within the next 12 months is presented as a current liability. The rest of the liability is presented as non-current.

The commissions to the retailers are recognized as an expense when Posti has performed the prepaid service. Accordingly, the sales commissions estimated to relate to unused stamps which are paid in advance to the retailers are recognized as receivables on the balance sheet and recognized as expense when the related revenue is recognized in net sales.

The Group has used external specialists for developing both the revenue recognition model and statistical research. These models and researches are regularly updated to generate as up-to-date estimate as possible on the existing conditions. Changes in estimates are accounted for in the consolidated financial statements in accordance with IAS 8.

## Parcel and logistics services

Revenue for parcel and logistics services is recognized over time as Posti satisfies performance obligations. The progress towards complete satisfaction of a performance obligation is measured using an output method based on days of delivery performed related to estimated total delivery days. The revenue for parcel services in Finland is recognized when the parcel has been delivered. For freight services in Finland and in the Baltic countries and for parcel services in the Baltic countries the revenue is recognized when the delivery is received to Group's delivery network. The difference between the applied method and a method measuring progress towards complete satisfaction is considered immaterial for the Group. For long-term transports in Itella Russia progress towards complete satisfaction of a performance obligation is measured using an output method based on days of delivery performed related to estimated total delivery days.

Supply chain services include reception of goods, handling and storage of goods, order picking and dispatch of goods and warehouse accounting. Revenue is recognized when the service has been performed based on the number of occurrences and

the space allocated to the customer's goods. Group's customer contracts do not contain a lease contract.

### Other mail, parcel and logistics revenue

Revenue for the sale of goods comprising of various packaging materials, stationary products and office supplies sold in retail outlets is recognized when the customer makes the purchase and takes the possession of the goods.

### OpusCapita services

OpusCapita offers software solutions for sourcing, payment and cash management either by selling licenses or software as a service (SaaS). Licenses or service agreements do not involve significant tailoring but may include implementation services, which are considered as separate performance obligations. Revenue for licenses is recognized at a point in time when the license is granted and for software as a service over time during the contract period. Revenue for software implementation projects is recognized over time during the project. For implementation services the progress towards complete satisfaction of a performance obligation is measured using an output method based on actual labor hours spent relative to the total expected labor hours.

### Contract costs

Incremental costs of obtaining a contract, for example sales commissions are capitalized if they expect to be recovered. Incremental costs with amortization period of one year or less are expensed.

Costs to fulfill a contract are capitalized in balance sheet and recognized as expense during the contract period if criteria for capitalization is met. Costs need to relate directly to a contract, to generate or enhance resources to be used in satisfying performance obligations of the contract and to be recovered. General or administrative costs are not capitalized.

### Government grants

Government grants mainly refer to product and business development grants, which are recognized as income and presented in other operating income when management has reasonable assurance that the grants will be received, and the Group will comply with all attached conditions.

## Employee benefits

### Pensions

The company has several pension plans of which the majority relate to defined contribution plans. For the defined contribution plans, the Group pays contributions to pension insurance plans on a mandatory or contractual basis. The contributions are recognized as employee benefit expenses in the income statement when occurred. The Group has no further payment obligations once the contributions have been paid.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income. More information on the Group's defined benefit pension plans is presented in note 17.

### Income taxes

Income tax expense shown in the consolidated income statement includes Group companies' current income tax calculated on their taxable profit for the financial year using the applicable income tax rate for each jurisdiction based on local tax laws enacted or substantively enacted at the balance sheet date, as well as any tax adjustments for previous financial years and changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred taxes are calculated on temporary differences arising between the tax basis of assets and liabilities and their carrying

amounts in the consolidated financial statements. The largest temporary differences arise from depreciation of property, plant and equipment, defined benefit pension plans, unused tax losses and fair value adjustments related to acquisitions. Deferred taxes are determined using the tax rates enacted or substantially enacted by the balance sheet date and which are expected to be applied when the related deferred tax asset is realized, or deferred tax liability is settled.

A deferred tax asset is recognized to the extent that it appears probable that future taxable profit will be available against which the temporary difference and losses can be utilized.

Where positions taken in tax returns are subject to interpretation and uncertainty, current and deferred tax assets and liabilities are recorded based on Posti's assessment of the expected outcome.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

## Intangible assets

### Business combinations and goodwill

Acquisition method of accounting is used to account for all business combinations. The purchase consideration for the acquisition of a subsidiary or business operations comprises the fair values of cash consideration and contingent consideration arrangements. Any contingent consideration for a business combination is estimated by calculating the present value of the future expected cash flows. Contingent consideration is classified as a financial liability and presented in other payables. It is subsequently remeasured to fair value with changes in fair value recognized in the profit or loss.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the purchase consideration over the Group's interest in the fair value of the net identifiable assets acquired is recognized in the balance sheet as goodwill.

After initial recognition, goodwill is carried at cost less any accumulated impairment losses. Goodwill is not amortized but



it is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose impairment testing goodwill is allocated to the cash generating units. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. For more information on impairment testing see below "Impairment testing" and note 10.

### Research and development expenditure

Research and development costs are primarily expensed as incurred. Only development costs arising from new significant or substantially improved software products, service applications and enterprise resource planning systems are capitalized as intangible assets. Asset is capitalized only if it is technically and commercially feasible, the Group has intention and resources to complete the intangible asset and use or sell it, the expenditure attributable to the product during its development can be reliably measured and it is probable that the development asset will generate future economic benefits. Capitalized development costs are recognized as intangible assets and amortized over the assets' useful lives 3–5 years from the moment that they are ready for use.

### Other intangible assets

Separately acquired intangible assets, such as software licenses and applications, are initially recognized at cost. Intangible assets acquired through business combinations, such as customer portfolios, trademarks, acquired technology, are recognized at fair value at the acquisition date comprising the amortizable acquisition cost. Intangible rights in the balance sheet mainly comprise software licenses and customer portfolios and trademarks acquired through business combinations. The Group's intangible rights have finite useful lives, over which period they are amortized. The expected useful lives are as follows:

Software licenses	3–5 years
Customer portfolios	5–10 years
Trademarks	5 years
Acquired technology	5 years

### Property, plant and equipment

Property, plant and equipment (PPE) are carried at cost less any accumulated depreciation and impairment losses. The initial costs of an asset includes the expenditure that is directly attributable to the acquisition of the items such as purchase price, costs of bringing the asset into working condition and installation costs. PPE are depreciated on a straight-line basis over their expected useful lives or in case of certain leased equipment, over the lease term, if shorter. Land and water are not depreciated. Useful lives are reassessed, and adjusted, if necessary if estimates over their useful lives change.

The Groups PPE comprises land and water areas, production and office buildings and structures, machinery and equipment such as letter and parcel sorting machines, conveyors, vehicles and forklifts as well as other tangible assets consisting of e.g. storage shelves and storage systems and parcel points.

The expected useful lives of PPE are as follows:

Production buildings	15–40 years
Office buildings	25–40 years
Structures	15 years
Production equipment	3–13 years
Vehicles	3–5 years
Storage shelves and systems	5–13 years
Other tangible assets	3–10 years

If an asset under PPE constitutes several items with differing useful lives, each of them is accounted for as a separate asset. In such a case, the cost of replacing the item is recognized as an asset. Otherwise, subsequent costs, such as modernization and renovation project costs, are capitalized if it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Regular repair, maintenance and service costs are expensed as incurred.

### Assets held for sale

When an asset's carrying amount is expected to be recovered principally through a sale rather than through continuing use, it is classified as held for sale. An asset is classified as held for sale if its sale is highly probable and it is available and ready

for immediate sale. Furthermore, the company's management must be committed to a plan to sell the asset within 12 months of classification as held for sale. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. They are not amortized or depreciated while classified as held for sale.

### Investment property

Investment property refers to land or buildings, or part thereof that Posti holds for rental income or capital appreciation. It is measured at cost less accumulated depreciation and impairment losses. Investment property buildings are depreciated over a period of between 30 to 40 years using the straight-line method and land is not depreciated. The fair value disclosed in the notes is determined by external, independent and qualified valuers and is used for impairment testing purposes. Impairment losses are recognized in accordance with the principles described under the section headed Impairment testing.

### Impairment testing

Goodwill and intangible or tangible assets not yet in use (e.g. capitalized development projects not yet completed) are not subject to amortization and are tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. Other long-lived assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Value in use refers to estimated future net cash flows from an asset or a cash generating unit, discounted to their present value. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

For purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Posti's

cash-generating units that form the basis for goodwill impairment testing are presented in note 10.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## Leases

Leases of property, plant and equipment, in which substantially all risks and rewards of ownership transfer to the lessee, are classified as finance leases. Leases in which risks and rewards remain with the lessor are classified as operating leases.

### The Group as lessee

Finance leases are capitalized 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 or short-term debt. Each lease payment is allocated between the liability and finance cost. Property, plant and equipment recognized under finance lease are depreciated over the shorter of the asset's useful life and the lease term (notes 12 and 21).

Payments made under operating leases are expensed to profit or loss on a straight-line basis over the lease term (note 21).

## Inventories

Group's inventories comprise stamps, packaging materials, retail goods and production material, such as paper and envelopes. Inventories are valued on a weighted average cost basis and carried at the lower of cost or net realizable value. Cost includes all direct expenditure attributable to the inventories. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

## Financial assets and liabilities

### Financial assets

The Group classifies its financial assets into the following categories: measured at amortized cost and measured at fair value through profit or loss. The classification is based on the Group's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets, whose business model is to hold the assets until maturity for collection

of contractual cash flows where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Other financial assets are measured at fair value through profit or loss.

Financial assets are recognized and derecognized at the settlement date. The Group derecognizes a financial asset when its contractual right to the cash flows from the asset has expired or is forfeited, or it has transferred substantially all risks and rewards outside the Group. Any gain or loss arising on derecognition of a financial asset is recognized directly in profit or loss and presented in finance income or expenses (or in other operative income or expenses for trade receivables), together with foreign exchange gains and losses.

### Financial assets at amortized cost

Financial assets at amortized cost include investments in bonds and money-market investments, fixed-term bank deposits as well as trade receivables and other receivables. Interest income from these financial assets is included in financial income using the effective interest rate method.

The Group assesses the expected credit losses associated with its debt instruments carried at amortized cost on forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For low credit risk bond investments, the Group applies a low credit risk exemption, where the loss allowance recognized is limited to 12 months expected credit losses. The changes in loss allowance are presented in other financial expenses.

For trade receivables, the Group applies a simplified loss allowance matrix approach whereby the impairment loss is measured over the life of the asset unless the asset is already written off. Write-off is based on indicators that there is no reasonable expectation of recovery for example due to failure to make contractual payments or bankruptcy. The changes in loss allowance and loss from write-off are presented in other operating expenses.

### Financial assets at fair value through profit or loss

The Group classifies investments in equity instruments as financial assets at fair value through profit or loss. This category includes unlisted shares and equity fund investments for which the fair value is determined by the fund manager. The changes in the

fair value of investments in equity instruments are recognized in financial income or expenses at each balance sheet date.

Also, derivatives for which hedge accounting is not applied are included in the financial assets at fair value through profit or loss. For these derivatives, realized and unrealized gains and losses from changes in fair values are recognized in the income statement in the period in which they have arisen.

### Financial liabilities

The Group classifies its financial liabilities either into financial liabilities at amortized cost or financial liabilities at fair value through profit or loss.

### Financial liabilities at amortized cost

Non-derivative financial liabilities are classified as financial liabilities at amortized cost. They are initially recognized at fair value based on the consideration received. Transaction costs are included in the initial carrying amount of financial liabilities. Subsequently, financial liabilities, except for derivative liabilities, are measured at amortized cost using the effective interest rate method.

### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivatives for which hedge accounting is not applied. For these derivatives, realized and unrealized gains and losses from changes in fair values are recognized in the income statement in the period in which they have arisen.

## Derivative contracts and hedge accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at each balance sheet date. Gain or loss arising from valuation at fair value is recognized in accordance with the derivative contract's purpose of use. The income effect of the value changes of derivative contracts, which constitute effective hedging instruments, and which are subject to hedge accounting, is shown consistently with the hedged item. The Group recognizes derivative contracts as hedges of highly probable future transactions (cash flow hedge) or as economic hedges, to which hedge accounting is not applied.

When hedge accounting is applied, the Group documents at the inception of the hedging transaction the relationship

between the hedged item and the hedge instruments as well as the objectives of the Group's risk management and the strategy for carrying out the hedging transaction. The Group also documents and assesses prospectively at inception of the hedge and at each reporting date the effectiveness of the hedging relationship by inspecting the hedge instruments' ability to offset the changes in fair values or cash flows of hedged items.

Effective portion of changes in the fair value of derivatives that are designated and qualify as cash-flow hedges are recognized in other comprehensive income. Possible ineffective portion is recognized through profit or loss according to its nature either in other operating income or expenses or financial items. Amounts accumulated in equity are reclassified into profit or loss when the hedged item is recognized through profit or loss. The Group applies cash flow hedging for hedging against foreign exchange risk on certain commitments in foreign currencies and interest-rate risk of a loan with variable interest-rate. For foreign currency forwards the Group designates the whole forward contract as the hedging instrument. If a derivative contract classified as a cash flow hedging instrument expires or it is sold, or it no longer meets the conditions for hedge accounting, the accumulated fair value gain or loss is retained in the equity until the projected business transaction occurs. However, if the projected business transaction is no longer expected to occur, the accumulated fair value gain or loss is recognized through profit or loss immediately.

For certain derivative instruments while entered into for risk management purposes, hedge accounting is not applied. Such derivatives include currency derivatives hedging against foreign exchange risk of currency denominated receivables and liabilities. For these contracts, the changes in their fair value are recognized through profit or loss and presented in financial items or other operating income or expenses, depending on the purpose of hedging.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments that can be easily exchanged for a pre-determined amount of cash and which are subject to an insignificant risk of changes in value. The money-market investments classified as the Group's cash and cash equivalents have a maximum maturity of three months at the acquisition.

### Provisions and contingent liabilities

A provision is recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions for restructuring are recognized when the related, detailed and official plan has been approved and disclosed.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group. Contingent liabilities also include obligations that will most likely not require the fulfillment of a payment obligation or the amount of which cannot be reliably determined. Contingent liabilities are disclosed in the notes to the consolidated financial statements.

### Fair Value Measurement

The Group measures financial assets and liabilities at fair value through profit and loss derivatives, as well as assets and liabilities acquired through a business combination at fair value. Also, assets held-for-sale are carried at fair value if the fair value is lower than book value.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy as follows:

**Level 1:** Fair values are based on the quoted prices of identical asset or liabilities in active markets.

**Level 2:** Fair values are, to a significant degree, based on data other than quoted prices included in level 1, but on data that are either directly or indirectly observable for the asset or liability in question. To determine the fair value of these instruments, the

Group uses generally accepted valuation models that are, to a significant degree, based on observable market data.

**Level 3:** Fair values are based on data regarding the asset group or liability that is not based on observable market data.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Critical accounting estimates and judgments in applying accounting policies

Preparing the consolidated financial statements in compliance with IFRS requires that the Group's management makes certain estimates and judgments in applying the accounting policies. These estimates and assumptions are based on the management's best knowledge of current events and actions, but the actuals may differ from the estimates and assumptions stated in the financial statements. The areas involving a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong are disclosed below.

### Impairment testing of Posti's cash generating unit Itella Russia

Itella Russia offers its customers comprehensive logistics solutions comprised of warehousing and freight in all significant economic regions in Russia. The Russian economy is largely driven by raw material exports and depends heavily on oil price. Fluctuations of oil price also affect the Russian ruble ("RUB" or the "ruble") that in its turn determines the purchasing power of imported goods. The prolonged Ukraine crisis and related sanctions have, in turn, affected the Russian economy and weakened Russian's growth and growth prospects. Also property prices in the real estate market have decreased. As the market situation in Russia continues to be difficult, conducting business in Russia is subject to uncertainties and challenges especially in relation to Posti's ability to predict with certainty the development of Itella Russia's logistics operations in the long-term.

Itella Russia is a group of cash generating units with most significant assets relating to real estate investments in several locations. Due to the uncertainties in the Russian market, Posti has determined that it is not possible to determine value in use for Itella Russia as a whole and as such, management has determined that the appropriate way of testing for impairment for the Itella Russia long-lived assets is using the fair value less cost to sell method.

Posti has engaged external, independent and qualified valuers to determine the fair value for its real estate property in Russia each year. The valuation is performed at minimum annually on an asset by asset basis and the valuation method takes into consideration the current market prices in each active market for the properties. The key inputs in the valuation are the rent levels and investors' yield requirements. The most significant estimates in the valuation relate to these key inputs and if the RUB continues to decline or if the key inputs of the valuation change unfavourably, it may result in an impairment of Itella Russia's carrying values for its property potentially leading into an adverse effect on Posti's business, financial condition, results of operations and future prospects.

### Goodwill impairment testing

Posti has made significant investments in business acquisitions and intangible assets including IT systems, licences, acquired trademarks and customer portfolios as well as in property, plant and equipment comprising mainly vehicles and other production equipment. Goodwill and intangible assets not yet in use are tested for impairment annually or more often if indicators of impairment exist, whereas other assets are tested for impairment when circumstances indicate there may be a potential impairment.

The determination of impairments of goodwill and other intangible assets involves the use of estimates that include, but are not limited to, the cause, timing, and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in Posti's businesses, increased cost of capital, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions, and other changes in circumstances that indicate an impairment exists. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair

values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives, and residual values. When determining the values in use for the cash generating units, additional planning uncertainties are factored in that reflect the risks of macroeconomic development, which could adversely affect future results of operations. The most significant assumptions in goodwill impairment testing comprise of growth in net sales, development of EBIT margin, determination of the discount rate (WACC), and long-term growth rate used after the five-year forecast period.

Based on the impairment test, an impairment loss amounting to EUR 30.0 million on Posti's cash generating unit OpusCapita goodwill was recognized in Q1 2018. Further details on goodwill impairment testing, including a sensitivity analysis, are included in note 10.

### Uncertainty regarding the utilization of deferred tax assets

Deferred tax assets are recognized to the extent that it probable that future taxable amounts will be available to utilize the underlying temporary differences and losses. Significant judgement is required to determine the amount that can be recognized and depends foremost on the expected timing and level of taxable profits as well as potential tax planning opportunities. The judgements relate primarily to tax losses carried forward generated in some of Posti's foreign operations and whether these tax loss carryforwards will be utilized in these jurisdictions or in Finland. Posti assesses at each balance sheet date the expected utilization of deferred tax assets considering the likelihood of (a) expected future taxable profits and (b) positions taken in tax returns being sustained.

When an entity has a history of recent losses the deferred tax asset arising from unused tax losses is recognized only to the extent that there is convincing evidence that sufficient future taxable profit will be generated. Estimated future taxable profit is not considered as convincing evidence unless the entity has demonstrated the ability of generating significant taxable profit for the current year or there are certain other events providing sufficient evidence of future taxable profit. Uncertainty related to new transactions and events and the interpretation of new tax rules may also affect these judgements.

As at December 31, 2018 Posti had unused tax losses for which it has not recognized deferred tax assets of EUR 146.3 million (2017: EUR 153.7 million). Refer to note 13 for details on deferred tax assets and liabilities.

### Provisions – onerous contracts

Provisions for onerous contracts by Posti are determined based on the net present value (NPV) of Posti's total estimated unavoidable costs for onerous contracts. The estimates are based on future estimated level of losses considering the estimated revenue from these contracts and related directly attributable expenses. The estimates include the effect of inflation, cost-base development, the exchange rate development and discounting. Because of the inherent uncertainties in this evaluation process, actual losses may differ from the originally estimated provision and the carrying amounts of provisions are regularly reviewed and adjusted to reflect any changes in estimates.

## Changes in standards not yet effective

### IFRS 16 Leases

The standard becomes effective for years commencing on or after 1 January 2019. Posti adopts the standard on its effective date prospectively, thus the previous periods are not restated. The standard will affect primarily the accounting by lessees and as a result Posti will recognize almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. The standard continues to require Posti to distinguish between service contracts and lease contracts.

Given that Posti leases a large number of production, office and warehousing premises, transportation vehicles and production equipment from third parties for time periods longer than a year or under cancellable leases, the application of the standard is expected to have a significant impact on components of Posti's consolidated financial statements. Operating lease expense recorded on a straight-line basis will be replaced with interest and depreciation, so key metrics like operating result and EBITDA will change. The amount of leased assets and respective lease liabilities in the balance sheet will increase, which has an impact on balance sheet-based performance indicators, such as the net debt.

Cash flow from operating activities will be higher as cash payments for the principal portion of the lease liability are classified within cash flow from financing activities and payments that reflect interest will continue to be presented as operating cash flows.

Posti's preparations for the implementation of the new standard have included the definition of accounting policies and management judgments, planning and developing the accounting processes, tools and related controls as well as training of finance organization and communication.

The new standard requires management to apply judgment regarding the accounting treatment of leases. For leases that have been classified as operating leases under IAS 17, the lease liability will be recognized at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease. Where the rate is not available, Posti uses its incremental borrowing rate. Posti defines the rate separately for each significant geographical area, contract term and asset type.

Posti will make use of the practical expedients provided for leases with low-value asset and short-term leases (12 months or less). Also part of rental contracts for premises, where Posti and the lessor both have termination options within 12 months or less, are classified as short-term leases. In case the contract includes termination or extension option, Posti will consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

As at December 31, 2018, Posti has off-balance sheet non-cancellable operating lease commitments of EUR 218 million. The Group estimates that approximately EUR 210–230 million of these commitments and other cancellable leases will result in the recognition of an asset and a liability according to IFRS 16. In addition, Posti estimates that EUR 60–70 million of the lease expenses will be reclassified into depreciation and interest. The impact on operating result is estimated to be positive EUR 4–6 million and minor on the result for the period. A portion of the operating lease commitments will fall under the relief for short-term and low-value leases and therefore continue to be recognized as lease expense in the consolidated income statement under operating expenses. The impact estimate is based on the current lease portfolio and certain assumptions. Posti will provide disclosures about the impact of the new standard in the first interim report of 2019.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group financial statements.

## 1. Operating segments

Posti's reportable segments consist of four operating segments: Postal Services, Parcel and Logistics Services, Itella Russia and OpusCapita. The Group's operating segments are based on the various services and products they offer and on the respective markets. The operating segments are managed as separate businesses. The President and CEO is the chief operating decision maker, being responsible for allocating resources to operating segments and the evaluation of the segments' results.

The Postal Services operating segment and the Parcel and Logistics Services operating segments have been aggregated into a single reportable segment called Mail, Parcel and Logistics Services. Posti reports its result of operations according to the following reportable segments: Mail, Parcel and Logistics Services; Itella Russia and OpusCapita. The aggregated reportable segment for the most part shares common operative functions, such as production, retail network and customer service. These functions represent the majority of the combined segment's expenses, so the financial performance of the segments is dependent on the allocation principles of the shared cost base. In addition to similar financial characteristics and common production processes, the aggregated operating segments are similar in terms of their services, customers and distribution channels.

OpusCapita carried out significant restructuring measures during the year 2017. OpusCapita sold its Finance and Accounting Outsourcing business. In addition, the digitizing production in Sweden, Norway and Poland was outsourced to the US-based BancTec. OpusCapita's sending of documents and invoices as well as the digitizing operations in Finland were transferred to Posti's Postal Services business group. The Buyer-Supplier Ecosystem business continues as a unit of its own within OpusCapita segment. Segment reporting was changed to reflect the new operative structure.

The chief operating decision maker primarily uses measures of adjusted EBITDA and adjusted operating result to assess the performance of the operating segments. He also receives information about the segments' net sales and assets on a monthly basis. Balance sheet items allocated to the segments include non-current and current operating assets and liabilities, including non-interest bearing liabilities and provisions. Operating assets and liabilities are items the segment uses in its operations or that may be reasonably allocated to the segments. Capital expenditure consists of additions of tangible and intangible assets including additions of financial leases and business acquisitions.

The measurement and recognition principles used in the internal management reporting comply with Posti's accounting principles. Transactions between the segments are carried out at market prices.

### Mail, Parcel and Logistics Services

#### *Postal Services (PS)*

Postal Services is in charge of mail, press and marketing services as well as document sending and digitizing services. Mail Services is in charge of stamps, mail redirection services, Netposti, international postal cooperation and mail services offered to companies and consumers. Press Services provides newspaper, magazine and free distribution paper delivery services for business customers. Marketing Services provides addressed and unaddressed direct marketing services for companies as well as value-added services, such as register services, target groups, the Contact service, and printed products that can be ordered online. Posti Messaging provides digitizing services, electronic archiving and multi-channel solutions for sending documents and invoices.

#### *Parcel and Logistics Services (PLS)*

PLS is in charge of comprehensive supply chain solutions, parcel and eCommerce services, transport services for companies, as well as warehousing and supplementary services. PLS is the market leader in the B2C and B2B parcel business and in warehousing services in Finland. In transport services PLS is among the three largest operators in Finland.

### Itella Russia

Itella Russia offers comprehensive logistics services to both Russian and international companies. Itella is the market leader in warehousing in Russia. In addition, Itella offers road, air, sea and rail freight services as well as customs clearance services.

### OpusCapita

OpusCapita focuses on global procurement, payments and cash management solutions with target to become a leading operator in global B2B procurement and payment ecosystem. OpusCapita operates in Finland, Scandinavia, Latvia, Poland, Germany, Switzerland and USA and its solutions are used globally.

### Other and unallocated

In addition to operating segments, Posti has group headquarters, centralized support functions as well as real-estate company Posti Kiinteistöt which owns the facilities in Finland and offers facility management services to the businesses. These centralized Group functions and related corporate level costs including financing are reported under "Other and unallocated". Also the 2017 divested financial accounting outsourcing business for the period prior the divestment is included in this.

### Adjusted EBITDA and adjusted operating result

In order to enhance the comparability between periods, Posti reports adjusted EBITDA and adjusted operating result, which exclude effects of significant items of income and expenses which are considered to incur outside of the ordinary course of business. These adjusting items are referred as special items. The chief operating decision maker assesses the performance of the segments primarily based on these performance measures. Special items include restructuring costs, significant impairment losses on assets, significant gains or losses on sale of shares, real-estates or business operations, changes in contingent purchase considerations originated from business combinations, and other material items outside of the ordinary course of business.

2018

EUR million	Mail, Parcel and Logistics Services	Itella Russia	Opus-Capita	Segments total	Other and unallocated	Eliminations	Group total
External sales	1,446.5	103.9	60.0	1,610.4	0.0		1,610.3
Inter-segment sales	8.0	0.0	4.8	12.8	4.3	-17.1	
<b>Net sales</b>	<b>1,454.5</b>	<b>103.9</b>	<b>64.8</b>	<b>1,623.2</b>	<b>4.2</b>	<b>-17.1</b>	<b>1,610.3</b>
<b>EBITDA</b>	<b>96.1</b>	<b>4.9</b>	<b>0.6</b>	<b>101.6</b>	<b>3.4</b>		<b>105.0</b>
<b>Special items included in EBITDA:</b>							
Personnel restructuring costs	0.7	0.3	1.2	2.1	0.0		2.1
Disposals of subsidiaries, real-estates and businesses, net gain (-) /loss (+)	-2.0	1.3		-0.7	-1.7		-2.4
Onerous contracts	0.9	2.0		2.9			2.9
Changes in contingent purchase considerations	-0.2			-0.2			-0.2
Other	0.3		0.2	0.6	4.7		5.3
<b>Special items included in EBITDA total</b>	<b>-0.3</b>	<b>3.7</b>	<b>1.4</b>	<b>4.7</b>	<b>3.0</b>		<b>7.7</b>
<b>Adjusted EBITDA</b>	<b>95.7</b>	<b>8.6</b>	<b>2.0</b>	<b>106.3</b>	<b>6.4</b>		<b>112.8</b>
<b>Operating result</b>	<b>53.0</b>	<b>-1.2</b>	<b>-33.6</b>	<b>18.2</b>	<b>-12.5</b>		<b>5.7</b>
<b>Special items included in operating result:</b>							
Special items included in EBITDA	-0.3	3.7	1.4	4.7	3.0		7.7
Impairment losses	1.2	0.2	30.0	31.4			31.4
<b>Special items total</b>	<b>0.8</b>	<b>3.8</b>	<b>31.4</b>	<b>36.1</b>	<b>3.0</b>		<b>39.1</b>
<b>Adjusted operating result</b>	<b>53.9</b>	<b>2.6</b>	<b>-2.2</b>	<b>54.3</b>	<b>-9.5</b>		<b>44.8</b>
Financial income and expense							-0.8
<b>Profit/loss for the period before taxes</b>							<b>4.9</b>
Assets	597.8	113.1	74.9	785.7	227.4	-8.0	<b>1,005.1</b>
Liabilities	349.1	26.8	19.5	395.5	174.0	-8.0	<b>561.4</b>
Capital expenditure	33.6	2.2	4.0	39.8	26.3		<b>66.1</b>
Depreciation and amortization	41.7	6.0	4.2	51.8	15.9		<b>67.8</b>
Impairment losses	1.4	0.2	30.0	31.6	0.0		<b>31.6</b>
Personnel at period-end	15,760	1,734	337	17,831	691		<b>18,522</b>
Personnel on average, FTE	13,775	1,960	356	16,091	689		<b>16,780</b>

2017

EUR million	Mail, Parcel and Logistics Services	Itella Russia	Opus-Capita	Segments total	Other and unallocated	Eliminations	Group total
External sales	1,447.5	119.1	62.5	1,629.0	18.0		1,647.0
Inter-segment sales	1.2	0.1	2.1	3.5	5.5	-9.0	
<b>Net sales</b>	<b>1,448.7</b>	<b>119.1</b>	<b>64.7</b>	<b>1,632.5</b>	<b>23.5</b>	<b>-9.0</b>	<b>1,647.0</b>
<b>EBITDA</b>	<b>102.2</b>	<b>-14.4</b>	<b>-3.6</b>	<b>84.2</b>	<b>-0.6</b>		<b>83.7</b>
<b>Special items included in EBITDA:</b>							
Personnel restructuring costs	3.8	0.3	0.7	4.9	0.1		5.0
Disposals of subsidiaries, real-estates and businesses, net gain (-) /loss (+)				0.0	8.1		8.1
Onerous contracts		17.7		17.7	-1.1		16.6
Changes in contingent purchase considerations				0.0	2.5		2.5
Other	0.2		0.3	0.5	2.2		2.7
<b>Special items included in EBITDA total</b>	<b>4.1</b>	<b>18.0</b>	<b>1.0</b>	<b>23.1</b>	<b>11.8</b>		<b>35.0</b>
<b>Adjusted EBITDA</b>	<b>106.3</b>	<b>3.7</b>	<b>-2.6</b>	<b>107.4</b>	<b>11.2</b>		<b>118.6</b>
<b>Operating result</b>	<b>49.3</b>	<b>-21.5</b>	<b>-35.9</b>	<b>-8.1</b>	<b>-19.4</b>		<b>-27.5</b>
<b>Special items included in operating result:</b>							
Special items included in EBITDA	4.1	18.0	1.0	23.1	11.8		35.0
Impairment losses	7.0	0.0	26.9	33.9	1.1		35.0
<b>Special items total</b>	<b>11.1</b>	<b>18.0</b>	<b>27.9</b>	<b>57.0</b>	<b>12.9</b>		<b>69.9</b>
<b>Adjusted operating result</b>	<b>60.4</b>	<b>-3.5</b>	<b>-7.9</b>	<b>48.9</b>	<b>-6.5</b>		<b>42.4</b>
Financial income and expense							-9.4
<b>Profit/loss for the period before taxes</b>							<b>-36.9</b>
Assets	616.6	138.6	101.4	856.7	239.1	-2.9	<b>1,092.9</b>
Liabilities	383.7	29.4	12.9	426.0	177.2	-2.9	<b>600.3</b>
Capital expenditure	28.3	2.3	4.3	34.9	38.4		<b>73.3</b>
Depreciation and amortization	45.5	7.0	5.3	57.8	18.0		<b>75.8</b>
Impairment losses	7.5	0.2	26.9	34.6	0.8		<b>35.4</b>
Personnel at period-end	16,615	2,329	404	19,348	666		<b>20,014</b>
Personnel on average, FTE	14,133	2,325	372	16,830	1,082		<b>17,912</b>



## Net sales distribution of Mail, Parcel and Logistics Services

<b>Net Sales, EUR million</b>	<b>2018</b>	<b>2017</b>
Mail & Marketing Services	620.8	630.2
Press Services	163.1	166.9
Parcel Services	299.0	287.5
Logistics Services	378.6	373.4
Other and eliminations	-7.0	-9.3
<b>Total</b>	<b>1,454.5</b>	<b>1,448.7</b>

## Geographical areas

The group operates in four geographical areas: Finland, Scandinavia, Russia and Other countries. The net sales of the geographical areas are determined by the geographical location of the Group's customer. Assets are presented according to their geographical location, and they include non-current assets except Group goodwill, deferred tax assets and financial instruments. Finland is the only individual country that generates a material part of the Group's net sales. The Group's customer base consists of a large number of customers over several market areas, and net sales to any single customer does not represent a significant part of the Group's net sales.

### 2018

<b>EUR million</b>	<b>Finland</b>	<b>Other Nordic countries</b>	<b>Russia</b>	<b>Other countries</b>	<b>Total</b>
Net sales	1,296.3	105.9	103.0	105.1	<b>1,610.3</b>
Non-current assets	287.7	1.0	80.8	22.3	<b>391.9</b>

### 2017

<b>EUR million</b>	<b>Finland</b>	<b>Other Nordic countries</b>	<b>Russia</b>	<b>Other countries</b>	<b>Total</b>
Net sales	1,289.2	124.9	118.8	114.2	<b>1,647.0</b>
Non-current assets	290.7	3.1	98.0	24.0	<b>415.8</b>

## Revenue streams

<b>EUR million</b>	<b>2018</b>	<b>2017</b>
Sales of services	1,591.8	1,627.2
Sales of goods	8.1	9.7
Sales of licenses	10.4	10.1
<b>Total</b>	<b>1,610.3</b>	<b>1,647.0</b>

## 2. Acquired and divested businesses

### Acquired businesses 2018

There were no business acquisitions during 2018. Paid earn-out considerations for acquisitions carried out in earlier accounting periods amounted to EUR 5.0 million.

Posti continues its growth in logistics according to its strategy. Posti announced on September 28th that Posti, MB Funds and other shareholders have signed an agreement Posti acquiring the entire share capital of Suomen Transval Group Oy. Transval is one of the leading in-house logistics service providers in Finland. The closing of the acquisition was subject to an approval by the Finnish Competition and Consumer Authority. Because of the abovementioned requirement of approval, the acquisition is not yet recognized in the financial statement release. The Finnish Competition and Consumer Authority has issued at 17th January 2019 a final approval decision on Posti's Transval acquisition. As a result of this acquisition, Posti and Transval will together become a significant operator in logistics outsourcing solutions in Finland.

### Business divestments in 2018

In March, Posti's Finnish Debt Collection business was sold to Intrum and the Norwegian Debt Collection business to Visma. The business was reported in the Mail, Parcel and Logistics Services segment. The divestment did not have a material impact on the Group's income statement or balance sheet.

In April, Itella Russia divested its MaxiPost courier business. MaxiPost offers courier services for both small and large companies, as the main market areas located in Moscow, St.Petersburg and their neighboring areas. The divestment did not have a material impact on the Group's income statement or balance sheet.

In June, Posti sold Debt Collection business in Sweden (OpusCapita Kredithanterarna AB and Svenska Fakturaköp AB). The business was reported in the Mail, Parcel and Logistics Services segment. The gain on disposal amounted EUR 0.9 million. The divestment had one-off positive impact on Group's second quarter cash flow.

OOO Itella Connexions, a Posti subsidiary in Russia, was divested in December. Itella Connexions is a customer relationship management and digital agency serving a number of international automobile customers and customers operating with fast moving consumer goods. Financial figures were reported in Itella Russia segment. The loss on disposal EUR 1.3 million was recognized in the fourth quarter.

### Acquired businesses 2017

Posti acquired HR Hoiva Oy in January 2017. HR Hoiva Oy provides home care and personal assistance services for municipalities, joint municipal authorities and private customers. HR Hoiva's net sales in 2016 were approximately EUR 2.5 million. The acquisition cost was EUR 2.2 million, of which the contingent earn-out component recognized in liabilities amounted to EUR 1.0 million. The goodwill arising from the acquisition amounts to EUR 0.8 million. The goodwill is generated by the opportunities generated by the expansion to a new business area and geographically.

Early-morning delivery of newspapers operated by Kaakon Viestintä transferred to Posti. Transfer of business became effective May 31, 2017 and concerned about 400 employees. As supported by Posti's strategy, the acquisition strengthened the services offered in early-morning delivery of newspapers and related business will expand to regions of Lappeenranta, Kotka, Kouvola, Mikkeli and Savonlinna. Purchase price was EUR 0.5 million. The acquisition did not have a material impact on the Group's income statement or balance sheet.

Posti Home Services acquired personal assistance business from SOL Henkilöstöpalvelut on June 30, 2017. The business offers services in the regions of Helsinki capital area, Kouvola, Kuusamo and Tornio. The business has about 200 employees. The purchase consideration EUR 1.2 million was paid in June and the acquisition did not have a material impact on the Group's income statement or balance sheet.

On July 13, 2017 OpusCapita acquired the Swiss Billexco AG which operates in e-invoicing markets. The acquisition strengthens the buyer-supplier network and expands geographical reach. Billexco is a portal for electronic invoice exchange in both business-to-business and business-to-government markets. Purchase price was EUR 0.2 million. Acquisition did not have a material effect on Group's income statement or balance sheet.

### The assets and liabilities recognized as a result of the acquisition are as follows

Effect on assets EUR million	Acquired businesses total Fair value
Intangible assets	4.1
Property, plant and equipment	0.2
Deferred tax asset	0.0
Inventory	0.0
Receivables	0.5
Cash and cash equivalents	0.2
<b>Effect on assets</b>	<b>5.1</b>

### Effect on liabilities

EUR million	
Deferred tax liability	0.4
Non-current liabilities	0.0
Trade payables and other liabilities	1.2
<b>Effect on liabilities</b>	<b>1.5</b>
<b>Net assets acquired</b>	<b>3.5</b>

### Components of acquisition cost

EUR million	
Cash considerations	3.3
Earn-out consideration (estimate)	1.0
<b>Total cost of acquisition</b>	<b>4.3</b>
Fair value of net assets acquired	3.5
<b>Goodwill</b>	<b>0.8</b>

### Cash flow effect of the acquisition

EUR million	
Purchase price paid in cash	3.1
Cash and cash equivalents of the acquired subsidiary	0.2
<b>Cash flow</b>	<b>-2.9</b>
Earn-out considerations paid for the earlier accounting period business acquisitions	-6.5
<b>Cash flow total</b>	<b>-9.4</b>

### Business and subsidiary divestments in 2017

In September 2017, OpusCapita divested its Finance and Accounting Outsourcing business to Norwegian private equity investor Longship. The net sales of the business in 2016 was approximately EUR 30 million. In total 800 employees in 8 countries transferred to Longship. The transaction had a one-off negative impact, amounting to EUR 10.1 million, on the Group's result.

### 3. Other operating income

EUR million	2018	2017
Gains on disposals of property, plant and equipment	2.2	3.6
Rental income	4.2	5.6
Rents from investment property	2.3	1.9
Gains on sale of subsidiaries and businesses	2.1	0.0
Other items	4.3	4.3
<b>Total</b>	<b>15.1</b>	<b>15.4</b>

The largest item of gain on disposals of property, plant and equipment in 2018 is related to the sale of investment property located in Kotka. Rental income consists mainly of rent incomes from buildings and condominiums owned by Posti. Other items include income from the sale of services and materials.

### 4. Materials and services

EUR million	2018	2017
Production materials	17.3	17.8
Subcontracting and external services	193.3	206.0
Mail transport and delivery services	267.2	240.7
Freight and transport	35.5	43.3
Other production cost	0.3	0.2
<b>Total</b>	<b>513.6</b>	<b>508.0</b>

External services consist mainly of purchased subcontracting services for production such as freight, forwarding and transport services.

### 5. Employee benefits

EUR million	2018	2017
Wages and salaries	552.1	564.3
Pensions (defined contribution plans)	92.8	93.6
Pensions (defined benefit plans)	0.1	0.1
Other social expenses	30.1	38.5
<b>Total</b>	<b>675.1</b>	<b>696.6</b>

### Employee benefits

More detailed information on defined benefit pension plans can be found in note 17.

Employee benefit expense includes EUR 2.1 million (2017: 5.0) of personnel restructuring costs relating primarily to restructuring carried out in conjunction with the operational transformation and the Group's various profitability improvement programs.

The Group's experts and managers are involved in the cash-settled performance-based bonus scheme. The bonus is based on the Group's, the unit's and the team's financial indicators and on personal or team-specific performance indicators. Posti confirms annually the threshold values for these indicators.

Decisions concerning long-term incentive schemes are made by the Board of Directors on the recommendation of the Remuneration and Nomination Committee. Long-term incentive schemes are rolling 3-year programs, which are settled in cash. The schemes include the Executive Board as well as key employees per scheme named by the Board of Directors. The schemes have been implemented in accordance with the guidelines by the state-owner concerning the remuneration of executive management, issued on August 13, 2012.

For key management compensation, see note 23.

### 6. Other operating expenses

EUR million	2018	2017
Rents and leases	91.6	122.2
Voluntary employee expenses	15.4	15.3
Losses on disposal of businesses and property, plant and equipment	1.8	8.3
IT operating costs	67.5	70.2
Facility maintenance	36.8	36.5
Other production costs	46.8	41.2
Office, marketing and travel	37.0	41.8
Other operating items	34.8	38.7
<b>Total</b>	<b>331.7</b>	<b>374.1</b>

Other operating expenses include expenses on leased premises, vehicles and other equipment, voluntary personnel expenses, IT operating costs, facility maintenance expenses related to premises and vehicles and other operating expenses containing expenses related to fuels and lubricants and other production expenses, sales commissions paid to non-employees as well as other sales and marketing costs, administration, traveling and entertainment expenses. In 2017 rental expenses included EUR 17.7 million provisions for onerous leases.

Posti Group other operating expenses and employee benefits include EUR 4.7 (2017: 5.6) million research and development costs. Amortization on capitalized development costs and internally generated intangible rights amounted to EUR 2.5 (2017: 3.4) million.

Office expenses includes auditor fees as follows:

EUR million	2018	2017
<b>Auditor fees</b>		
Audit	0.6	0.5
Other services	0.9	1.1
<b>Total</b>	<b>1.6</b>	<b>1.6</b>

## 7. Depreciation, amortization and impairment losses

EUR million	2018	2017
<b>Amortization on intangible assets</b>		
Development costs	1.2	1.5
Intangible rights	14.7	17.1
<b>Total</b>	<b>15.9</b>	<b>18.6</b>
<b>Impairment losses on intangible assets</b>		
Impairment losses on intangible rights	1.4	1.2
Impairment losses on goodwill	30.2	33.9
<b>Total</b>	<b>31.5</b>	<b>35.1</b>
<b>Depreciation on property, plant and equipment</b>		
Buildings and structures	11.6	12.6
Investment properties	0.6	0.6
Machinery and equipment	30.2	31.6
Assets leased under finance lease	9.1	11.7
Other tangible assets	0.3	0.8
<b>Total</b>	<b>51.8</b>	<b>57.2</b>
<b>Impairment losses on property, plant and equipment</b>		
Impairment losses on machinery and equipment	0.0	0.2
Impairment losses on buildings	0.0	0.1
Impairment losses on other tangible assets	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.3</b>
<b>Total depreciation, amortization and impairment losses</b>	<b>99.3</b>	<b>111.2</b>

Goodwill is not amortized but is tested for impairment annually and whenever there are indications for impairment.

As a result of management evaluation on OpusCapita's business plan, including the execution schedule and required investments to implement the plan and the risk-premium of the discount rate, an impairment loss on goodwill of EUR 30.0 million was recognized in 2018.

In 2017, the future outlook and cash flow projections for the cash generating unit of OpusCapita were updated. On the basis of these, an impairment of EUR 33.9 million was recognized for goodwill. In addition, an impairment of approximately EUR 0.8 million was recorded in customer relationships as part of the sale of the financial management outsourcing business (FAO) of OpusCapita. The fair value measurement was based on the expected selling price (level 2 of the fair value hierarchy).

More information about impairment testing of goodwill is presented in note 10.

## 8. Financial income and expenses

Financial income EUR million	2018	2017
Dividend income	0.4	0.2
Interest income		
Financial assets at amortised cost	1.2	-
Financial assets at fair value through profit or loss	-	1.4
Loans and receivables	-	0.8
Assets held to maturity	-	0.3
Gains on disposal of financial assets at fair value through profit or loss	-	0.1
Exchange rate gains		
Interest-bearing receivables and liabilities	2.3	0.8
Currency derivatives, non-hedge accounting	0.8	0.3
Other financial income*	3.1	-
<b>Total</b>	<b>7.7</b>	<b>3.8</b>

**Financial expenses**

<b>EUR million</b>	<b>2018</b>	<b>2017</b>
Interest expenses		
Financial liabilities at amortised cost	1.7	5.8
Losses on disposal of financial assets at fair value through profit or loss	-	0.0
Changes in fair value of financial assets at fair value through profit or loss	0.0	1.0
Exchange rate losses		
Interest-bearing receivables and liabilities	4.5	2.7
Currency derivatives, non-hedge accounting	1.2	0.4
Impairment on financial assets**	0.2	2.6
Other financial expenses	0.9	0.6
<b>Total</b>	<b>8.5</b>	<b>13.1</b>

\*Other financial income include EUR 3.1 million gain on a share option related to subsidiary acquisition.

\*\*In 2017 includes EUR 2.6 million impairment on financial assets available for sale.

**9. Income tax**

<b>EUR million</b>	<b>2018</b>	<b>2017</b>
Current tax expense	5.2	7.5
Taxes for previous years	-0.1	0.1
Deferred tax	-0.9	-0.2
<b>Total</b>	<b>4.2</b>	<b>7.4</b>

Additional information about deferred taxes are disclosed in Note 13.

<b>Reconciliation of tax charge at Finnish tax rate (20%)</b>		
Profit or loss before tax and associates' results	4.9	-36.9
Income tax at parent company's tax rate of 20%	1.0	-7.4
Difference in foreign subsidiaries tax rates	-0.2	-0.4
Non-deductible expenses and other differences	5.5	9.4
Tax-exempt income	-1.9	-0.1
Adjustments in taxes from previous years	-0.1	0.1
Unrecognized deferred tax asset on losses for the period	0.2	5.3
Changes in deferred tax assets for previous years' losses	-0.2	0.5
<b>Income tax</b>	<b>4.2</b>	<b>7.4</b>
Effective tax rate	85.0%	-20.0%

Effective tax rate in 2018 was significantly impacted by non-deductible expenses and tax-exempt income. The most significant non-deductible item was impairment loss recognized on OpusCapita's goodwill. Tax-exempt income was significantly impacted by the partial release of the provision related to onerous lease contracts in Russia. The release of the provision is treated as tax-exempt income, as the release of provision is not taxable in Russia. The Group has not recognized deferred tax asset on this provision in earlier periods due to unprofitable results.

## 10. Intangible assets

2018

EUR million	Goodwill	Intangible rights	Development costs	Advances paid and work in progress	Total other intangible assets
Cost January 1	277.6	253.6	37.6	16.8	308.0
Translation differences and other adjustments	-0.5	-3.5			-3.5
Acquired businesses					0.0
Business divestments	-2.6	-1.5			-1.5
Additions		10.5		8.6	19.2
Disposals		-1.0			-1.0
Transfers between items		0.5		-0.5	0.0
<b>Cost December 31</b>	<b>274.5</b>	<b>258.7</b>	<b>37.6</b>	<b>24.9</b>	<b>321.2</b>
Accumulated amortization and impairment losses January 1	-97.0	-213.1	-34.7	-3.4	-251.2
Translation differences and other adjustments		3.5			3.5
Business divestments					0.0
Amortization for the financial period		-14.7	-1.2		-15.9
Impairments	-30.2	-1.4			-1.4
Accumulated amortization on disposals and transfers		0.6			0.6
<b>Accumulated amortization and impairment losses December 31</b>	<b>-127.1</b>	<b>-225.0</b>	<b>-35.9</b>	<b>-3.4</b>	<b>-264.3</b>
<b>Carrying amount on January 1</b>	<b>180.7</b>	<b>40.5</b>	<b>2.9</b>	<b>13.5</b>	<b>56.9</b>
<b>Carrying amount on December 31</b>	<b>147.4</b>	<b>33.7</b>	<b>1.7</b>	<b>21.6</b>	<b>57.0</b>

2017

<b>EUR million</b>	<b>Goodwill</b>	<b>Intangible rights</b>	<b>Development costs</b>	<b>Advances paid and work in progress</b>	<b>Total other intangible assets</b>
Cost January 1	276.8	250.5	37.6	9.4	297.5
Translation differences and other adjustments		-2.7			-2.7
Acquired businesses	0.9	4.1			4.1
Business divestments		-0.9			-0.9
Additions		5.7	0.2	7.5	13.3
Disposals		-3.3			-3.3
Transfers between items		0.2	-0.2	-0.1	0.0
<b>Cost December 31</b>	<b>277.6</b>	<b>253.6</b>	<b>37.6</b>	<b>16.8</b>	<b>308.0</b>
Accumulated amortization and impairment losses January 1	-63.1	-200.3	-33.2	-3.4	-236.8
Translation differences and other adjustments		2.4			2.4
Business divestments					0.0
Amortization for the financial period		-17.1	-1.5		-18.6
Impairments	-33.9	-1.2			-1.2
Accumulated amortization on disposals and transfers		3.1			3.1
<b>Accumulated amortization and impairment losses December 31</b>	<b>-97.0</b>	<b>-213.1</b>	<b>-34.7</b>	<b>-3.4</b>	<b>-251.2</b>
<b>Carrying amount on January 1</b>	<b>213.7</b>	<b>50.2</b>	<b>4.4</b>	<b>6.1</b>	<b>60.7</b>
<b>Carrying amount on December 31</b>	<b>180.7</b>	<b>40.5</b>	<b>2.9</b>	<b>13.5</b>	<b>56.9</b>

Intangible rights include customer portfolios acquired in business combinations as well as licenses and applications.

## Goodwill and impairment testing

Posti has made significant investments in business acquisitions and intangible assets including IT systems, licences, acquired trademarks and customer portfolios as well as in property, plant and equipment comprising mainly real-estates, vehicles and other production equipment. Goodwill and intangible assets not yet in use are tested for impairment annually or more often if indicators of impairment exist, whereas other assets are tested for impairment when circumstances indicate there may be a potential impairment.

The determination of impairments of goodwill and other intangible assets involves the use of estimates and is one of the critical accounting policies where the management makes estimates and judgments. This has been described in the accounting policies under the section "Critical accounting estimates and judgments in applying accounting policies."

Allocation of goodwill to the Group's cash-generating units (CGUs) is presented in the table below. Operating segment of each CGU is presented in brackets. MaxiPost, which was part of Itella Russia segment, was divested during the financial year and the related goodwill was derecognized at the divestment.

<b>EUR million</b>	<b>2018</b>	<b>2017</b>
Postal Services (Postal Services)	61.5	63.6
OpusCapita (OpusCapita)	40.4	70.4
Parcel and Transportation Services (Parcel and Logistics Services)	32.6	32.7
Supply Chain Solutions (Parcel and Logistics Services)	12.9	12.9
MaxiPost (Itella Russia)	0.0	1.1
<b>Total</b>	<b>147.4</b>	<b>180.7</b>

## The result of the goodwill impairment testing in 2018

Posti has performed the annual impairment tests for each cash-generating units containing goodwill. The Group does not have other intangible assets with indefinite useful life. No impairment losses were recognized based on the goodwill impairment tests. Posti evaluated OpusCapita's business plan, including the execution schedule and required investments to implement the plan and the risk-premium of the discount rate. Based on the evaluation an impairment loss on goodwill of EUR 30.0 million was recognized in the first quarter of the year. In 2017, Posti recognized an impairment loss of 33.9 million on OpusCapita's goodwill.

## Impairment testing and sensitivity analysis

The recoverable amount of the CGU's is based on the value-in-use method. The value-in-use is based on forecasted discounted cash flows. Cash flow forecasts are prepared for a five-year period and they are based on strategic plans. The forecasts and the assumptions about the development of the business environment are in line with the current business structure and approved by the management. The key assumptions influencing the cash flow forecasts are the long-term market growth, market positions and the profitability level. Investments are expected to be ordinary replacement investments. The tests were performed applying the euro-exchange rates of the foreign currencies on the testing date.

The terminal value beyond five years of cash-generating units is based on a moderate growth rate expectation of 1% (2017: 1%) with the exception of Postal Services where the estimated terminal growth rate is -5% (2017: -5%) due to expected decline in paper delivery volumes.

Weighted average cost of capital (WACC) before taxes determined for each CGU has been used as discount rate. Pre-tax discount rates reflect specific risks relating to the relevant CGUs. The discount rates decreased in comparison with previous year which is mainly attributable to a lower market equity risk premium.



## The key outcomes and the parameters used in testing

### 2018

	Value-in-use exceeds carrying amount, MEUR	EBIT margin average, %	Terminal growth rate, %	Discount rate, %	Terminal year EBIT margin, %
Postal Services	17	2.9	-5.0	6.5	2.1
OpusCapita	25	4.7	1.0	9.0	11.9
Parcel and Transportation Services	295	2.9	1.0	6.2	4.6
Supply Chain Solutions	17	1.5	1.0	6.2	3.0

### 2017

	Value-in-use exceeds carrying amount, MEUR	EBIT margin average, %	Terminal growth rate, %	Discount rate, %	Terminal year EBIT margin, %
Postal Services (after reallocation)	97	4.9	-5.0	7.6	4.4
OpusCapita (after reallocation)	22	2.5	1.0	9.5	8.6
Parcel and Transportation Services	375	3.7	1.0	7.4	5.8
Supply Chain Solutions	135	6.2	1.0	7.4	9.1
MaxiPost	2	0.6	3.0	13.4	5.1

A sensitivity analysis was performed for those cash-generating units where the Group estimates that a reasonably possible change in the key assumptions could cause recognition of an impairment loss. The analysis was done by determining which key parameter values would produce a carrying amount that would equal the value-in-use. The parameters used in the analysis were the discount rate and the terminal year EBIT margin. The analysis was carried out by changing the values of a single parameter while leaving the others constant. The table below indicates the limits within which the carrying amount and value-in-use are equal.

	Discount rate, %	Terminal year EBIT margin, %
Postal Services	8.7	1.6
OpusCapita	7.9	11.8
Supply Chain Solutions	8.0	1.9

The sensitivity analysis has not been prepared for Parcel and Transportation Services as the management has considered and assessed reasonably possible changes for key assumption and has not identified any instances that could cause the carrying amounts of the CGU to exceed the recoverable amount.

## 11. Investment property

EUR million	2018	2017
Cost January 1	16.1	16.1
Disposals	-10.9	-
<b>Cost December 31</b>	<b>5.2</b>	<b>16.1</b>
Accumulated depreciation and impairment losses January 1	-6.9	-6.3
Depreciation for the period	-0.6	-0.6
Accumulated depreciation on disposals	6.3	
<b>Accumulated depreciation and impairment losses December 31</b>	<b>-1.2</b>	<b>-6.9</b>
<b>Carrying amount on January 1</b>	<b>9.1</b>	<b>9.7</b>
<b>Carrying amount on December 31</b>	<b>3.9</b>	<b>9.1</b>

Investment property includes three properties that Posti has leased out to external parties. Two of the properties are land areas and one is a building. On December 31, 2018, the fair value of investment property totaled EUR 10.8 (2017: 15.1) million. Fair values are based on an external real estate agents' appraisals. In 2018 rental income from investment property totaled EUR 2.3 (2017: 1.9) million and maintenance charges amounted to EUR 1.0 (2017: 0.9) million.

## 12. Property, plant and equipment

2018

EUR million	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and work in progress	Total
Cost on January 1	62.4	387.5	444.1	13.1	20.8	927.9
Translation differences and other adjustments	-2.6	-15.4	-5.8	-0.3	-0.1	-24.2
Acquired businesses						0.0
Business divestments			-0.5			-0.5
Additions	0.0	5.0	24.8		16.8	46.6
Disposals	-0.0	-0.3	-24.3	-0.6		-25.2
Transfers between items	0.4	21.5	0.9	0.6	-23.4	0.0
<b>Cost on December 31</b>	<b>60.1</b>	<b>398.4</b>	<b>439.2</b>	<b>12.8</b>	<b>14.0</b>	<b>924.5</b>
Accumulated depreciation and impairment losses January 1	-0.5	-241.6	-329.1	-10.4	0.0	-581.5
Translation differences and other adjustments		6.7	5.1	0.3		12.0
Depreciation for the period		-11.6	-39.3	-0.3		-51.3
Impairment			-0.0			-0.0
Accumulated depreciation on disposals and transfers		0.1	23.8			23.9
<b>Accumulated depreciation and impairment losses December 31</b>	<b>-0.5</b>	<b>-246.4</b>	<b>-339.5</b>	<b>-10.4</b>	<b>0.0</b>	<b>-596.9</b>
<b>Carrying amount on January 1</b>	<b>61.9</b>	<b>145.9</b>	<b>115.1</b>	<b>2.7</b>	<b>20.8</b>	<b>346.4</b>
<b>Carrying amount on December 31</b>	<b>59.6</b>	<b>151.9</b>	<b>99.7</b>	<b>2.4</b>	<b>14.0</b>	<b>327.6</b>

## 2017

EUR million	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and work in progress	Total
Cost on January 1	63.9	390.5	462.8	12.8	9.2	939.2
Translation differences and other adjustments	-1.6	-9.6	-4.1	0.3	-0.2	-15.2
Acquired businesses			0.2			0.2
Additions	0.5		19.0	0.1	35.3	54.9
Disposals	-0.3	-5.9	-44.9			-51.1
Transfers between items		12.5	11.1		-23.5	0.0
<b>Cost on December 31</b>	<b>62.4</b>	<b>387.5</b>	<b>444.1</b>	<b>13.1</b>	<b>20.8</b>	<b>927.9</b>
Accumulated depreciation and impairment losses January 1	-0.5	-236.3	-332.2	-9.6	0.0	-578.7
Translation differences and other adjustments		3.7	3.6			7.4
Depreciation for the period		-12.6	-43.3	-0.8		-56.6
Impairment		-0.1	-0.2			-0.3
Accumulated depreciation on disposals and transfers		3.7	43.0			46.6
<b>Accumulated depreciation and impairment losses December 31</b>	<b>-0.5</b>	<b>-241.6</b>	<b>-329.1</b>	<b>-10.4</b>	<b>0.0</b>	<b>-581.5</b>
<b>Carrying amount on January 1</b>	<b>63.4</b>	<b>154.2</b>	<b>130.6</b>	<b>3.1</b>	<b>9.2</b>	<b>360.5</b>
<b>Carrying amount on December 31</b>	<b>61.9</b>	<b>145.9</b>	<b>115.1</b>	<b>2.7</b>	<b>20.8</b>	<b>346.4</b>

Property, plant and equipment include the following assets leased under finance lease:

## 2018

EUR million	Machinery and equipment
Cost on Dec 31	53.7
Accumulated depreciation Dec 31	-44.2
<b>Carrying amount on Dec 31</b>	<b>9.5</b>

## 2017

EUR million	Machinery and equipment
Cost on Dec 31	67.9
Accumulated depreciation Dec 31	-49.5
<b>Carrying amount on Dec 31</b>	<b>18.4</b>

In 2018, additions to assets leased under finance leases totaled EUR 0.3 (2017: 0.3) million.

### 13. Deferred tax assets and liabilities

Changes in deferred tax assets and liabilities are as follows:

#### Deferred tax assets 2018

EUR million	1 Jan	Translation difference and other changes	Acquired/ Divested subsidiaries	Recorded through profit or loss	Recorded through other comprehensive income	31 Dec
Unused tax losses	4.4			-1.5		3.0
Pension obligations	2.4			-0.1	-0.3	2.0
Restructuring provision	2.0			-0.6		1.4
Impairment on real estate shares	1.1			-0.1		1.0
Other temporary differences	1.1			0.8		1.9
<b>Total</b>	<b>11.0</b>			<b>-1.5</b>	<b>-0.3</b>	<b>9.2</b>

#### Deferred tax liabilities 2018

EUR million	1 Jan	Translation difference and other changes	Acquired/ Divested subsidiaries	Recorded through profit or loss	Recorded through other comprehensive income	31 Dec
Fair value measurement of intangible and tangible assets in acquisition	14.2	-1.2	-0.4	-2.0		10.7
Intangible and tangible assets	5.9			0.2		6.1
Accumulated depreciation in excess of plan	3.5			-0.6		2.9
Other temporary differences	0.1			0.1		0.2
<b>Total</b>	<b>23.7</b>	<b>-1.2</b>	<b>-0.4</b>	<b>-2.3</b>		<b>19.8</b>

#### Deferred tax assets 2017

EUR million	1 Jan	Translation difference and other changes	Acquired/ Divested subsidiaries	Recorded through profit or loss	Recorded through other comprehensive income	31 Dec
Unused tax losses	4.8	0.0		-0.4		4.4
Pension obligations	2.4			-0.1	0.1	2.4
Restructuring provision	2.6			-0.6		2.0
Impairment on real estate shares	2.0	-0.1		-0.7		1.1
Other temporary differences	1.8	0.1	-0.1	-0.9	0.2	1.1
<b>Total</b>	<b>13.6</b>	<b>0.0</b>	<b>-0.1</b>	<b>-2.8</b>	<b>0.3</b>	<b>11.0</b>

#### Deferred tax liabilities 2017

EUR million	1 Jan	Translation difference and other changes	Acquired/ Divested subsidiaries	Recorded through profit or loss	Recorded through other comprehensive income	31 Dec
Fair value measurement of intangible and tangible assets in acquisition	16.2	0.0	0.2	-2.1		14.2
Intangible and tangible assets	5.6			0.3		5.9
Accumulated depreciation in excess of plan	4.7			-1.2		3.5
Other temporary differences	0.1	-0.1		0.0		0.1
<b>Total</b>	<b>26.6</b>	<b>-0.1</b>	<b>0.2</b>	<b>-3.0</b>		<b>23.7</b>

Deferred tax assets are recognized to the extent that it is probable that future taxable amounts will be available to utilize the underlying temporary differences and losses. Significant judgment is required to determine the amount that can be recognized. This judgment is described in the accounting principles under the section "Critical accounting estimates and judgments in applying accounting policies".

The change of the deferred tax assets during 2018 was mainly impacted by utilization of unused tax losses from previous accounting periods and write offs, and also the change in restructuring provision. Deferred tax assets decreased during 2017 mostly due to decrease in restructuring provisions and sale of real estate shares.

On December 31, 2018, the Group had unused tax losses for which it has not recognized deferred taxes of EUR 146.3 (2017: 153.7) million, mainly arising from businesses outside Finland. The majority of these losses do not expire.

The amount includes EUR 61.5 million of losses which the Finnish tax authorities have rejected. The rejected amounts relate to foreign tax losses and capital losses from foreign real estate entity sale. During the financial period Posti's appeal was dismissed but Posti has appealed furthermore. Posti has recognized only a minor amount of deferred tax assets for these losses. A positive outcome of the disputes would decrease the Group's taxes by EUR 11.2 million. However, the probability of positive outcome is uncertain.

The Group has EUR 10.7 million (2017: 18.2) of temporary differences in taxation, for which the Group has not recognized deferred tax asset. The amount relates to provisions for onerous leases in Russia which was recognized in the income statement in 2017.

## 14. Inventories

EUR million	2018	2017
Materials and supplies	0.1	0.1
Goods	2.9	3.2
Advance payments for inventories	0.8	1.5
<b>Total</b>	<b>3.7</b>	<b>4.8</b>

Inventories include stamps, packaging materials, paper supplies which Posti sells in its service points, print paper and envelopes.

## 15. Trade and other receivables

EUR million	2018	2017
Trade receivables	221.4	236.1
Trade receivables from associated companies	0.2	0.2
Accrued income and prepayments	64.2	63.8
Other receivables	2.3	14.0
<b>Total</b>	<b>288.2</b>	<b>314.2</b>

More information on trade receivables is provided in note 20 Financial instruments and financial risk management.

Other receivables mainly include credit card receivables from banks and financing companies.

The largest item under accrued income and prepayments includes EUR 34.1 million (2017: 31.1) accrued terminal rate receivables from other postal administrations. Other accrued income and prepayments include ordinary sales accruals and prepaid expenses.

## 16. Equity

EUR million	2018	2017
Share capital	70.0	70.0
General purpose reserve	142.7	142.7
Fair value reserve	-0.7	-0.8
Translation differences	-100.7	-90.6
Retained earnings	332.4	370.9
<b>Equity attributable to the shareholders of the parent company</b>	<b>443.7</b>	<b>492.3</b>
<b>Non-controlling interests</b>	<b>0.0</b>	<b>0.3</b>
<b>Total equity</b>	<b>443.7</b>	<b>492.6</b>

### Share capital

Posti Group Corporation has one class of ordinary shares. The total number of shares is 40,000,000 as of December 31, 2018. 50.1% of the shares are held by the Finnish State and 49.9% by the Valtion kehitysyhtiö Vake Oy. The shares do not have a nominal value. Posti Group Corporation's share capital amounts to EUR 70,000,000 for all periods presented. All issued shares have been paid in full.

### General purpose reserve

The general purpose reserve amounts to EUR 142.7 million and includes reserves transferred from the share premium to the reserve. The reserve is included in the distributable funds of the Group's parent company.

### Fair value reserve

Changes in the fair value derivatives hedging foreign currency risk and interest rate risk (cash flow hedge) are recognized in the fair value reserve.

### Translation difference

Translation differences include the differences resulting from the translation of foreign units' financial statements and net investments in foreign currencies.

Consolidated statement of changes in equity contains additional information on changes in equity items.

## Distributable funds

The distributable funds of the Group's parent company Posti Group Corporation:

EUR million	2018	2017
General purpose reserve	142.7	142.7
Retained earnings	291.8	337.6
<b>Total distributable funds</b>	<b>434.5</b>	<b>480.3</b>

## Dividend distribution

EUR million	2018	2017
Dividend based on the result for the financial year	28.4*	27.0
Extra dividend	-	13.0
<b>Total dividend distribution</b>	<b>28.4</b>	<b>40.0</b>

\* Board of Directors' proposal to the Annual General Meeting

The Board of Directors proposes the Annual General Meeting a dividend distribution of EUR 28.4 million (0.71 per share) for the year 2018. Dividends distributed for the year 2017 totaled EUR 40.0 million (ordinary dividend of EUR 0.675 per share and extra dividend of EUR 0.325 per share).

## 17. Pension liabilities

### Main characteristics of the defined benefit pension plans

The Group applies several pension plans in different countries, managed according to the local regulations and practice effective in each country. The Group's defined benefit pension schemes are related to Finnish insured voluntary pension plans. The plans are voluntary plans supplementing statutory pensions. Funded plans are insurance policies and the assets of the plan are part of the investment assets of the insurance company. The insurance covers the old-age pension, and the level of benefits provided depends usually on the employee's salary level and the length of service.

The Group is exposed to the various risks of the defined benefit plans. As the discount rates applied in measuring the defined benefit obligation are determined based on yields of corporate bonds, the Group is exposed to the related interest-rate risk. Since the majority of plans entail life time benefits to the members, the increase in the life expectancy for pensioners increases the Group's liability. Certain plans are also adjusted to inflation and higher inflation increases the present value of the plan. The majority of the plan assets are not affected by the inflation; consequently higher inflation increases the deficit of the plan.

### Defined benefit pension liabilities in the balance sheet

EUR million	2018	2017
Present value of funded obligation	68.4	76.5
Fair value of plan assets	-58.4	-64.7
<b>Deficit</b>	<b>10.0</b>	<b>11.8</b>

### Defined benefit pension expenses in the income statement

#### Income statement

EUR million	2018	2017
Current service cost	0.0	0.0
Interest expense	0.1	0.1
<b>Total</b>	<b>0.1</b>	<b>0.1</b>

### Statement of comprehensive income

EUR million	2018	2017
Remeasurement gains (+) and losses (-)	1.6	-0.5

### Changes in the present value of the pension obligation

EUR million	2018	2017
Obligation at the beginning of the period	76.5	80.2
Current service cost	0.0	0.0
Interest expense	0.7	0.8
Paid benefits	-5.1	-5.2
Disposed of in business combinations	0.0	-0.2
Actuarial gains (-) and losses (+) on changes in financial assumptions	-3.3	2.5
Actuarial gains (-) and losses (+) on changes in demographic assumptions	0.0	0.0
Experience-based gains (-) and losses (+)	-0.4	-1.7
<b>Obligation at the end of the period</b>	<b>68.4</b>	<b>76.5</b>

### Changes in the fair value of the plan assets

EUR million	2018	2017
Fair value of the plan assets at the beginning of the period	64.7	68.3
Interest income	0.6	0.7
Paid benefits	-5.1	-5.2
Employer contributions	0.4	0.5
Actual return on plan assets less interest income	-2.1	0.4
<b>Fair value of the plan assets at the end of the period</b>	<b>58.4</b>	<b>64.7</b>

Estimated contributions payable to the defined benefit plans during the next financial period total EUR 0.4 million. The average duration of the defined benefit plan obligation at the end of the reporting period is 9 years.



## Key actuarial assumptions and sensitivity analysis

	2018	2017
Discount rate	1.27–1.77	0.84–1.45
Future pension increase expectation	1.7–1.9	1.8–2.1

EUR million	Change in assumption	Change in defined benefit liability			
		Increase in assumption		Decrease in assumption	
Discount rate	0.25%	-0.4	-3.6%	0.8	7.8%
Pension increase rate	0.25%	1.4	14.4%	-0.6	-5.7%

EUR million	Increase by one year		Decrease by one year	
Life expectancy at birth	0.9	8.8%	-0.8	-8.2%

The above analysis is based on a change in an assumption while holding all other assumptions constant.

## 18. Provisions

## 2018

EUR million	Restructuring provision	Onerous contracts	Other	Total
Carrying amount on 1 Jan	10.0	17.3	0.3	27.6
Translation difference		-2.2		-2.2
Increase in provisions	2.3	0.9	2.5	8.8
Used provisions	-3.2	-3.5	-0.2	-7.5
Unused amounts reversed	-2.2	-0.7		-5.5
<b>Carrying amount on 31 Dec</b>	<b>6.9</b>	<b>11.6</b>	<b>2.7</b>	<b>21.2</b>

## 2017

EUR million	Restructuring provision	Onerous contracts	Other	Total
Carrying amount on 1 Jan	13.1	4.4	0.3	17.8
Translation difference				0.0
Increase in provisions	1.7	17.3	0.2	19.2
Used provisions	-3.5	-3.0	-0.2	-6.7
Unused amounts reversed	-1.3	-1.4		-2.8
<b>Carrying amount on 31 Dec</b>	<b>10.0</b>	<b>17.3</b>	<b>0.3</b>	<b>27.6</b>

## EUR million

	2018	2017
Long-term provisions	9.9	20.6
Short-term provisions	11.3	6.9
<b>Total</b>	<b>21.2</b>	<b>27.6</b>

## Restructuring provisions

Restructuring provisions are primarily related to the statutory labor negotiations conducted in recent years. A significant portion of the long-term personnel expense provisions in the Group's Finnish companies is the employer's liability component within the unemployment insurance contribution towards the Unemployment Insurance Fund.

## Onerous contracts

Majority of provisions for onerous contracts relate to Russian real-estate leases and customer agreements. Provisions have been recognized to the amount of expected obligations exceeding the income arising from the contracts during the years 2019–2020. The provisions are regularly reviewed as the amount of expected obligations are dependent on the anticipated costs for fulfilling the contracts which vary over time. The provisions are also dependent on the exchange rate of the Russian ruble against the US dollar.

## 19. Trade and other payables

### Other non-current payables

EUR million	2018	2017
Advances received and deferred revenue	14.2	14.0
Other liabilities	4.2	5.4
Derivative contracts	0.9	5.7
Other accrued expenses	5.2	5.7
<b>Total</b>	<b>24.6</b>	<b>30.8</b>

### Current trade and other payables

EUR million	2018	2017
Derivative contracts	0.1	0.2
Trade payables	67.7	98.4
Advances received and deferred revenue	77.0	68.7
Accrued personnel expenses	118.4	113.6
Other accrued expenses	55.4	60.4
Other liabilities	37.1	44.9
<b>Current trade and other payables</b>	<b>355.7</b>	<b>386.2</b>

Advances received includes deferred revenue for stamps, franking machines and prepaid envelopes held by the customer to be used in future periods. The amount has been determined using statistical models and surveys. The method has been described in more detail in the accounting policies in section "Revenue recognition." The total amount of non-current and current liability is EUR 25.8 (2017: 25.9) million.

The most significant item within other accrued expenses is estimated payables for terminal payments to other Postal administrations, totaling EUR 10.2 (2017: 14.5) million. The remaining items comprise ordinary accruals of expenses.

## 20. Financial instruments and Financial risk management

### Financial assets and liabilities

2018

EUR million	At fair value through profit or loss	Measured at amortised cost	Derivatives, hedge accounting	Carrying value	Fair value	Level
<b>Financial assets - non-current</b>						
Other non-current investments	3.4			3.4	3.4	3
Non-current receivables		1.3		1.3	1.3	2
<b>Non-current financial assets</b>	<b>3.4</b>	<b>1.3</b>	<b>0.0</b>	<b>4.7</b>	<b>4.7</b>	
<b>Financial assets - current</b>						
Trade and other receivables		264.5		264.5	264.5	
Equity fund investments	0.0			0.0	0.0	3
Currency derivatives	0.1		0.1	0.1	0.1	2
Money market investments		13.9		13.9	14.0	2
Investments in quoted bonds		10.5		10.5	10.7	1
Debt certificates		30.0		30.0	30.0	
<b>Current financial assets</b>	<b>0.1</b>	<b>318.9</b>	<b>0.1</b>	<b>319.1</b>	<b>319.3</b>	
Money market investments		30.9		30.9	31.0	2
Cash and bank		75.6		75.6	75.6	
<b>Cash and cash equivalents</b>	<b>0.0</b>	<b>106.6</b>	<b>0.0</b>	<b>106.6</b>	<b>106.6</b>	
<b>Total financial assets</b>	<b>3.5</b>	<b>426.8</b>	<b>0.1</b>	<b>430.3</b>	<b>430.6</b>	
<b>Financial liabilities - non-current</b>						
Loans from financial institutions		119.7		119.7	120.2	2
Finance lease liabilities		0.4		0.4	0.4	2
Other		0.0		0.0	0.0	2
<b>Non-current borrowings</b>	<b>0.0</b>	<b>120.2</b>	<b>0.0</b>	<b>120.2</b>	<b>120.7</b>	
Interest-rate derivatives			0.9	0.9	0.9	2
<b>Other non-current financial liabilities</b>	<b>0.0</b>	<b>0.0</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	
<b>Financial liabilities - current</b>						
Finance lease liabilities		9.5		9.5	9.5	
<b>Current borrowings</b>	<b>0.0</b>	<b>9.5</b>	<b>0.0</b>	<b>9.5</b>	<b>9.5</b>	
Foreign currency derivatives	0.1			0.1	0.1	2
Trade payables and other liabilities		125.1		125.1	125.1	
<b>Other current financial liabilities</b>	<b>0.1</b>	<b>125.1</b>	<b>0.0</b>	<b>125.2</b>	<b>125.2</b>	
<b>Total financial liabilities</b>	<b>0.1</b>	<b>254.8</b>	<b>0.9</b>	<b>255.8</b>	<b>256.4</b>	

2017

EUR million	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Assets held to maturity	Financial assets available-for-sale	Financial liabilities at amortized cost	Derivatives, hedge accounting	Carrying value	Fair value	Level
<b>Financial assets – non-current</b>									
Other non-current investments				3.5			3.5	3.5	3
Non-current receivables		1.4					1.4	1.4	2
<b>Non-current financial assets</b>		<b>1.4</b>		<b>3.5</b>			<b>4.8</b>	<b>4.8</b>	
<b>Financial assets – current</b>									
Trade and other receivables		282.9					282.9	282.9	
Equity fund investments				0.1			0.1	0.1	3
Currency derivatives	0.0						0.0	0.0	2
Money market investments	19.5						19.5	19.5	2
Investments in quoted bonds	13.9						13.9	13.9	1
Investments in unquoted bonds	4.3						4.3	4.3	2
Debt certificates			39.7				39.7	39.7	
<b>Current financial assets</b>	<b>37.7</b>	<b>282.9</b>	<b>39.7</b>	<b>0.1</b>			<b>360.3</b>	<b>360.3</b>	
Money market investments	37.5						37.5	37.5	2
Cash and bank		48.5					48.5	48.5	
<b>Cash and cash equivalents</b>	<b>37.5</b>	<b>48.5</b>					<b>86.0</b>	<b>86.0</b>	
<b>Total financial assets</b>	<b>75.2</b>	<b>332.8</b>	<b>39.7</b>	<b>3.5</b>			<b>451.2</b>	<b>451.2</b>	
<b>Financial liabilities – non-current</b>									
Loans from financial institutions					59.9		59.9	60.1	2
Finance lease liabilities					9.8		9.8	9.8	2
Other					0.8		0.8	0.8	2
<b>Non-current borrowings</b>					<b>70.5</b>		<b>70.5</b>	<b>70.8</b>	
Interest-rate derivatives						0.9	0.9	0.9	2
Equity derivatives	4.8						4.8	4.8	3
<b>Other non-current financial liabilities</b>	<b>4.8</b>					<b>0.9</b>	<b>5.7</b>	<b>5.7</b>	
<b>Financial liabilities – current</b>									
Commercial papers					40.0		40.0	40.0	
Finance lease liabilities					9.5		9.5	9.5	
Other	0.0						0.0	0.0	
<b>Current borrowings</b>	<b>0.0</b>				<b>49.5</b>		<b>49.5</b>	<b>49.5</b>	
Foreign currency derivatives	0.2					0.1	0.2	0.2	2
Trade payables and other liabilities					155.8		155.8	155.8	
<b>Other current financial liabilities</b>	<b>0.2</b>				<b>155.8</b>	<b>0.1</b>	<b>156.0</b>	<b>156.0</b>	
<b>Total financial liabilities</b>	<b>5.0</b>				<b>275.8</b>	<b>0.9</b>	<b>281.7</b>	<b>282.0</b>	

## Hierarchy levels

Level 1: Fair values are based on the quoted prices of identical asset groups or liabilities in active markets.

Level 2: Fair values are, to significant degree, based on data other than quoted prices included in level 1, but on data that can be either directly or indirectly verified for the asset group or liability in question. To determine the fair value of these instruments, the Group uses generally accepted valuation models that are, to a significant degree, based on verifiable market data.

Level 3: Fair values are based on other data than verifiable market data regarding the asset or liability.

The fair value of currency forward contracts is calculated by valuing forward contracts at the present value of the forward rates on the reporting date. The fair values of interest rate swaps are calculated by discounting the forecasted cash flows of the contracts with the market interest rate curves on the reporting date. The fair values of interest rate swap related options are based on the generally used option pricing models. The measurement of equity funds relies on valuations delivered by external investment managers, based on the general valuation techniques used by asset managers.

The fair values of investments in money market instruments are based on the market interest rate curves on the reporting date. The fair values of investments in bonds are based on the quoted market prices on the reporting date (Level 1) or a price based on observable market information such as interest yield and issuer's credit spread (Level 2). The fair values of the loans from financial institutions and finance lease liabilities are calculated by discounting the forecast cash flows with the market rates on the reporting date. Due to the short-term nature of the trade and other current receivables and trade payables and other current liabilities, their carrying amount is considered to be the same as their fair value.

No transfers between fair value hierarchy levels were made during 2018 or 2017. The Group identifies and recognizes transfers between different levels as the transaction is exercised or at the moment when the parameters change materially.

## Reconciliation of Level 3 financial assets

2018

EUR million	Shares and investments in equity funds	Equity derivatives - liabilities	Total
<b>Carrying amount 1 Jan</b>	<b>3.5</b>	<b>-4.8</b>	<b>-1.3</b>
Profits and losses			
In income statement	0.0	3.1	3.1
In other comprehensive income			
Additions			
Exercises	0.0	1.7	1.7
<b>Carrying amount 31 Dec</b>	<b>3.4</b>	<b>0.0</b>	<b>3.4</b>
<b>Total profits and losses recognized on assets held at the end of the reporting period</b>			
In financial income and expenses	0.0	0.0	0.0

Financial income and expenses include EUR 3.1 million fair value change of share option related to acquisition of Flexo Palvelut Oy. The Group exercised its call option during the financial year and acquired 100% of Flexo Palvelut Oy shares.

2017

<b>EUR million</b>	<b>Shares and investments in equity funds</b>	<b>Equity derivatives – liabilities</b>	<b>Total</b>
<b>Carrying amount 1 Jan</b>	<b>6.3</b>	<b>-</b>	<b>6.3</b>
Profits and losses			
In income statement	-2.6	-	-2.6
In other comprehensive income	-0.1	-	-0.1
Additions	-	-4.8	-4.8
Exercises	0.0	-	0.0
<b>Carrying amount 31 Dec</b>	<b>3.5</b>	<b>-4.8</b>	<b>-1.3</b>
<b>Total profits and losses recognized on assets held at the end of the reporting period</b>			
In financial income and expenses	-2.6	-	-2.6

## Financial risk management

### Principles of risk management

The target of financial risk management is to secure adequate and competitive financing for executing the Group's operative businesses and strategy and to minimize the effects of market risks in Group's financial results, financial position and cash flows. The Group aims to identify risk concentrations and hedge against them to necessary extent. The Group's business involves financial risks, such as market, liquidity, credit and counterparty risks. Of Group's commodity risks, the price risk related to electricity is monitored actively, and managed with price secured electricity products.

### Risk management organization

The Group's financing and financial risk management is centralized to Group Treasury in Posti Group corporation in line with the treasury policy approved by the Board of Directors. Group Treasury is responsible for the entire Group's currency, interest rate, liquidity and refinancing risk management in close co-operation with the business operations. The business operations are responsible for the identification, management and reporting of the financial risks associated with their

operations to Group Treasury. Credit risk related to customer receivables is managed by the sales organizations of the business operations. Posti's real-estate function is responsible for managing the price risk of electricity.

### Market risks

#### Foreign Currency risk

The goal of currency risk management is to reduce the Group's currency risk to an optimal level as well as improve the transparency of profitability and predictability of financial results. The Group's transaction risk primarily consists of currency-denominated receivables, payables and commitments. The key principle is to achieve full hedging against the transaction risks in the balance sheet related to financial operations. Unhedged exposure is permitted within the limits specified in the Group's treasury policy. Loans granted by the parent company to subsidiaries are in the subsidiary's domestic currency, in which case the subsidiary has no currency risk arising from financial agreements. Due to high hedging costs of Russian ruble the Group does not currently hedge the ruble-denominated receivables of the parent company. The Group may hedge contract based operative cash flows at maximum to 100 per

cent of the following 12 months cash flows. The objective of cash flow hedging is to decrease the volatility in cash flow and operating result caused by the exchange rate fluctuations. The Group hedges Itella Russia's USD denominated lease payments of the most significant lease contracts with currency derivatives at maximum to the following 12 months. The hedging contracts are scheduled to be due simultaneously when the cash flows of the hedged item occur. The Group applies cash flow hedge accounting to the lease contracts' hedges. On the balance sheet date, the Group had hedged EUR 3.2 (2017: 3.0) million or 100 (2017: 24.7) per cent of the highly probable operative cash flows for the following 12 months defined as hedged items. On the balance sheet date, the Group had currency derivatives with a nominal value of EUR 14.1 (2017: 13.4) million in total used to hedge against the currency risk associated with loans, receivables and commitments.

The Group is exposed also to translation risk in connection with the net investments in subsidiaries outside the euro zone. The objective of translation risk management is to ensure exchange rate fluctuations do not cause any material changes in the Group's gearing. On the balance sheet date, the Group did not hedge against translation risk in any of the foreign net investments.

### Major transaction risk positions on the balance sheet date

2018 EUR million	EUR-companies					RUB-companies
	RUB	SEK	NOK	PLN	USD	USD
Cash flows under hedging						-3.2
Trade receivables and payables	0.4	-0.4	0.2	-0.2	0.5	0.0
Loans and bank accounts*	16.7	-2.6	-1.8	1.7	0.0	0.1
Derivatives**		2.6	1.8	-1.6	0.0	3.2
Open position	17.1	-0.4	0.2	-0.1	0.5	0.1

  

2017 EUR million	EUR-companies					RUB-companies
	RUB	SEK	NOK	PLN	USD	USD
Cash flows under hedging						-12.2
Trade receivables and payables	-	-2.7	0.0	-0.2	0.1	0.0
Loans and bank accounts*	22.0	-5.1	-2.0	1.0	0.1	0.0
Derivatives**	-	5.1	2.0	-1.0	0.0	3.0
Open position	22.0	-2.7	-0.1	-0.2	0.2	-9.1

\* Includes cash and cash equivalents, interest-bearing receivables and liabilities

\*\*Including derivatives for hedging purposes

The sensitivity analysis on currency risk is based on the items denominated in other than functional currencies of the group companies on the balance sheet date. Strengthening of the euro by 10 per cent against all other currencies would have an impact of EUR -1.4 (2017: -0.8) million on the Group's profit before taxes. Correspondingly, the strengthening of the USD against RUB by 10 per cent would have an impact of EUR +0.0 (2017: +0.0) million on the Group's profit before taxes and EUR +0.3 (2017 +0.3) million on other items of equity before taxes.

### Major translation risk positions on the balance sheet date

Net investments EUR million	RUB	SEK	NOK	PLN
2018	62.7	22.0	3.5	6.8
2017	76.4	27.0	4.4	7.2

The net investment positions have been unhedged on each balance sheet date presented.

## Interest rate risk

The Group is exposed to interest rate risks through its investments and interest-bearing liabilities. The goal of interest rate risk management is to minimize financing costs and decrease the uncertainty that interest rate movements cause for the Group's financial result. According to the treasury policy the interest rate risk of the debt portfolio is managed by balancing the proportion of the floating and fixed rate debt in the debt portfolio, taking into account the number, the maturity and the value of the debt instruments as well as the market conditions. The proportion of the fixed interest rate debt is to be at minimum 20% of the debt portfolio, including the interest rate derivatives. The interest rate risk of the interest bearing financial assets is managed by investing the assets into different investment classes, interest periods and maturities. In addition to diversification, interest rate risks associated with interest-bearing receivables and liabilities can be hedged with interest rate derivatives within the limits defined in treasury policy.

On the balance sheet date, the Group's interest-bearing liabilities amounted to EUR 129.7 (2017: 120.0) million and interest-bearing receivables to EUR 161.0 (2017: 163.4) million. On the balance sheet date, the Group had long-term floating rate loan EUR 120.0 (60.0) million and short-term fixed rate loan EUR 0.0 (40.0) million. Of the floating rate loan EUR 60.0 (60.0) million was hedged to fixed rate by an interest-rate swap. The Group has applied hedge accounting to the interest-rate swap hedging the loan.

The EUR 100.0 million bond issued in 2011 was paid off in its entirety on December 2017.

### Interest-bearing receivables and debt according to interest rate fixing

2018

EUR million	Less than 1 year	1-5 years	More than 5 years	Total
Interest-bearing receivables	-159.5	-1.5		-161.0
Loans from financial institutions	119.7			119.7
Finance lease liabilities	10.0			10.0
Other liabilities	0.0			0.0
Net debt	-29.8	-1.5	0.0	-31.3
Impact of interest rate swaps	-60.0		60.0	0.0
<b>Total</b>	<b>-89.8</b>	<b>-1.5</b>	<b>60.0</b>	<b>-31.3</b>

2017

EUR million	Less than 1 year	1-5 years	More than 5 years	Total
Interest-bearing receivables	-152.2	-11.2		-163.4
Loans from financial institutions	59.9			59.9
Commercial papers	40.0			40.0
Finance lease liabilities	9.5	9.7	0.0	19.3
Other liabilities	0.8			0.8
Net debt	-42.0	-1.4	0.0	-43.4
Impact of interest rate swaps	-60.0		60.0	0.0
<b>Total</b>	<b>-102.0</b>	<b>-1.4</b>	<b>60.0</b>	<b>-43.4</b>

The sensitivity analysis on interest rate risk includes interest-bearing receivables and liabilities as well as interest rate derivatives. An increase of 1 percentage point in the interest rates at the end of the financial period would affect the Group's profit before taxes for the next 12 months by EUR +0.3 (2017: +0.5) million and other items of equity by EUR +2.5 (2017: +3.5) million before taxes



## Electricity price risk

The electricity price risk management aims to reduce the volatility in Group's profit and cash flows caused by electricity price fluctuations. The Group employs price-secured electricity products to reduce the price risk related to electricity procurement.

## Derivative contracts

### 2018

EUR million	Nominal value	Net fair value	Positive fair value	Negative fair value
Currency forward contracts, non-hedge accounting	10.9	0.0	0.1	-0.1
Currency forward contracts, hedge accounting	3.2	0.1	0.1	-
Interest rate swaps, hedge accounting	60.0	-0.9	-	-0.9

### 2017

EUR million	Nominal value	Net fair value	Positive fair value	Negative fair value
Currency forward contracts, non-hedge accounting	10.3	-0.2	0.0	-0.2
Currency forward contracts, hedge accounting	3.1	-0.1	-	-0.1
Interest rate swaps, hedge accounting	60.0	-0.9	-	-0.9
Equity derivatives*	-	-4.8	-	-4.8

\* The equity derivative is related to corporate acquisitions

## Offsetting of financial instruments

### Derivative assets

	2018	2017
Derivative assets, reported as gross amount	0.1	0.0
Related derivative liabilities subject to master netting agreements	0.0	0.0
Net amount	<b>0.1</b>	<b>0.0</b>

### Derivative liabilities

	2018	2017
Derivative liabilities, reported as gross amount	1.0	1.1
Related derivative assets subject to master netting agreements	0.0	0.0
Net amount	<b>1.1</b>	<b>1.1</b>

Derivative agreements are subject to offsetting in the case of default, insolvency or bankruptcy of the counterparty. Derivative agreements have not been offset in the balance sheet.

<b>Terminal due assets</b>	<b>2018</b>	<b>2017</b>
Terminal due assets, reported as gross amount	73.9	69.8
Related terminal due liabilities subject to offsetting rules	59.8	56.9
Net amount	<b>14.2</b>	<b>12.8</b>

<b>Terminal due liabilities</b>	<b>2018</b>	<b>2017</b>
Terminal due liabilities, reported as gross amount	77.8	80.1
Related terminal due assets subject to offsetting rules	59.8	56.9
Net amount	<b>18.0</b>	<b>23.2</b>

Terminal dues related to international mail are subject to offsetting rules defined in international multilateral contracts, such as Universal Postal Convention. Terminal dues have not been offset in the balance sheet. Terminal due assets are included in balance sheet line trade and other receivables and contain invoiced and accrued receivables as well as advances paid. Terminal due liabilities are included in balance sheet lines trade and other payables and advances received and contain invoiced and accrued payables as well as advances received. Advances paid and received are not included in financial assets and liabilities.

### Liquidity risk

The liquidity and refinancing risk means that the Group's liquidity reserve is insufficient to cover the Group's commitments and investment possibilities or that the cost of the refinancing or additional financing need is exceptionally high. The Group places a considerable emphasis on accurate cash management and liquidity planning in order to minimize liquidity risks generated by large daily fluctuations in the Group's cash flows. In addition to cash and cash equivalents, the Group aims to secure sufficient financing in all circumstances, and has as financial reserves, a syndicated credit facility (committed) of EUR 150.0 million, maturing in 2023, and a non-binding commercial paper program of EUR 200.0 million.

On the balance sheet date, the Group had liquid funds of EUR 131.0 (2017: 123.7) million and unused committed credit facilities of EUR 150.0 (2017: 210.0) million. Liquid funds include cash and cash equivalents and investments tradable on the secondary market whose tradability is secured by the liquid size of the issue and the creditworthiness of the issuer. In addition, the Group had an unused commercial paper program of EUR 200.0 (2017: 160.0) million.

<b>EUR million</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	106.6	86.0
Money market investments and investments in bonds	24.5	37.7
Liquid funds	<b>131.0</b>	<b>123.7</b>

**Contractual cash flows from financial liabilities and derivatives including interest payments**
**2018**

<b>EUR million</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023–</b>	<b>Total</b>
Loans from financial institutions	0.7	0.7	0.7	60.5	60.5	<b>123.1</b>
Finance lease liabilities	6.4	3.5				<b>10.0</b>
Other liabilities		0.0				<b>0.0</b>
Trade payables and other liabilities	125.1					<b>125.1</b>
Derivatives:						<b>0.0</b>
Interest rate derivatives (net settled)	0.4	0.4	0.4	0.4	0.6	<b>2.3</b>
Currency derivatives, cash flows payable	14.1					<b>14.1</b>
Currency derivatives, cash flows receivable	-14.1					<b>-14.1</b>
<b>Total</b>	<b>132.6</b>	<b>4.6</b>	<b>1.1</b>	<b>61.0</b>	<b>61.2</b>	<b>260.5</b>

**2017**

<b>EUR million</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022–</b>	<b>Total</b>
Loans from financial institutions	0.4	0.4	0.4	0.4	60.9	<b>62.4</b>
Commercial papers	40.0					<b>40.0</b>
Finance lease liabilities	9.9	9.6	0.2	0.0	0.0	<b>19.8</b>
Other liabilities					0.8	<b>0.8</b>
Trade payables and other liabilities	155.8					<b>155.8</b>
Derivatives:						
Interest rate derivatives (net settled)	0.4	0.4	0.4	0.4	1.1	<b>2.7</b>
Currency derivatives, cash flows payable	13.4					<b>13.4</b>
Currency derivatives, cash flows receivable	-13.2					<b>-13.2</b>
Equity derivatives, cash flows payable					4.8	<b>4.8</b>
<b>Total</b>	<b>206.7</b>	<b>10.4</b>	<b>1.0</b>	<b>5.6</b>	<b>62.8</b>	<b>286.6</b>

Finance lease liabilities are in fact secured liabilities since, in default of payment, rights to the leased property transfer back to the lessor. Other loans have no security.

## Credit and counterparty risk

Pursuant to authorizations given by the Board of Directors, the Group invests its liquid funds in debt instruments and bonds issued by companies, banks and states with good creditworthiness, as well as bank deposits. Posti Group makes derivative contracts only with solvent banks and credit institutions. The credit and counterparty risk related to investing of liquid funds and derivative contracts are managed by the limits set for the counterparties. The assessment method for expected credit losses of investments is described in Accounting principles in section Financial assets and liabilities. During the financial year the Group has recognized impairment losses of investments EUR 0.2 (2017: 0.0) million. On the balance sheet date the expected credit loss was insignificant.

Trade receivables are subject to only minor credit risk concentrations due to the Group's extensive customer base. The Group applies a simplified provision matrix approach for expected credit losses on trade receivables. Terminal due receivables form a separate category in trade receivables, since the expected credit loss on terminal due receivables is minor due to netting arrangement and customer base. Trade receivables include EUR 39.8 (2017: 34.5) million terminal due receivables. More than 180 days overdue receivables include EUR 7.4 (2017: 8.0) million terminal due receivables. Credit losses recognized were EUR 1.0 (2017: 0.7) million.

### Aging of trade receivables

EUR million	2018	2017
Not yet due	187.4	200.4
1–30 days overdue	24.0	24.4
31–60 days overdue	0.2	2.4
61–90 days overdue	2.1	0.8
91–180 days overdue	1.2	0.8
181–365 days overdue	7.9	8.6
<b>Trade receivables gross</b>	<b>222.8</b>	<b>237.5</b>
Expected credit loss	-1.4	-1.5
<b>Trade receivables net</b>	<b>221.4</b>	<b>236.1</b>

## Capital management

The target of the Group's capital management is to secure financing required by businesses and the Group's ability to operate in capital markets under all circumstances. Although the Group has no public credit rating issued by a credit rating agency, it seeks to maintain a capital structure that would be required for investment grade rating. The Board of Directors assesses the capital structure on a regular basis. The covenants associated with the Group's loan agreements are standard terms and conditions that feature limitations on securities given, material changes in business activities, and changes in majority holdings. The Group has met the conditions of the covenants in 2018 and 2017. The Group's loan agreements do not contain financial covenants.

The Group monitors its capital structure by assessing net debt to adjusted EBITDA and equity ratio.

Net debt	2018	2017
Interest-bearing liabilities	129.7	120.0
Cash and cash equivalents	106.6	86.0
Investments in maturities over 3 months	24.5	37.7
Debt certificates	30.0	39.7
<b>Total</b>	<b>-31.3</b>	<b>-43.4</b>
Net debt / Adjusted EBITDA	-0.3x	-0.4x
Equity ratio, %	48.6	48.8

## Reconciliation of net debt

2018

EUR million	Borrowings	Borrowings on finance lease	Borrowings total	Liquid funds	Debt certificates	Net debt total
<b>Carrying amount on Jan 1</b>	<b>100.7</b>	<b>19.3</b>	<b>120.0</b>	<b>123.7</b>	<b>39.7</b>	<b>-43.4</b>
Cash flows	19.2	-9.6	9.5	7.9	-9.7	11.4
Business acquisitions	0.0	0.0	0.0	0.0		
Effect of exchange rate changes	0.0	0.0	0.0	-0.5		0.5
Other non-cash items	-0.1	0.3	0.2	0.0		0.2
<b>Carrying amount on Dec 31</b>	<b>119.7</b>	<b>10.0</b>	<b>129.7</b>	<b>131.0</b>	<b>30.0</b>	<b>-31.3</b>
<b>Fair value on Dec 31</b>	<b>120.3</b>	<b>10.0</b>	<b>130.2</b>			

2017

EUR million	Borrowings	Borrowings on finance lease	Borrowings total	Liquid funds	Debt certificates	Net debt total
<b>Carrying amount on Jan 1</b>	<b>100.4</b>	<b>31.6</b>	<b>132.1</b>	<b>159.9</b>	<b>54.7</b>	<b>-82.5</b>
Cash flows	0.3	-12.7	-12.4	-34.5	-15.0	37.2
Business acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Effect of exchange rate changes	0.0	0.0	0.0	-0.7	0.0	0.7
Other non-cash items	0.0	0.3	0.3	-1.0	0.0	1.2
<b>Carrying amount on Dec 31</b>	<b>100.7</b>	<b>19.3</b>	<b>120.0</b>	<b>123.7</b>	<b>39.7</b>	<b>-43.4</b>
<b>Fair value on Dec 31</b>	<b>101.0</b>	<b>19.3</b>	<b>120.3</b>			

## 21. Lease agreements

### Finance leases

#### Finance lease liabilities: minimum lease payments:

EUR million	2018	2017
Less than 1 year	6.6	9.9
1–5 years	3.5	9.9
More than 5 years	0.0	0.0
Minimum lease payments total	10.1	19.8
Future interest expenses	-0.1	-0.5
<b>Total</b>	<b>10.0</b>	<b>19.3</b>

#### Present value of minimum lease payments:

EUR million	2018	2017
Less than 1 year	6.4	9.5
1–5 years	3.5	9.7
More than 5 years	0.0	0.0
<b>Total</b>	<b>10.0</b>	<b>19.3</b>

Finance leases consist mainly of leased transport equipment. Duration of leasing contracts is typically 3–8 years.

The Group does not act as a lessor in finance lease contracts.

### Operating leases

#### Maturity of minimum lease payments:

EUR million	2018	2017
Less than 1 year	51.5	56.0
1–5 years	108.9	118.8
More than 5 years	57.7	79.5
<b>Total</b>	<b>218.2</b>	<b>254.3</b>

The income statement includes EUR 91.6 (2017: 122.2) million expenses for operating lease agreements. The Group has leased e.g. premises, office equipment and vehicles. The lease period for vehicles varies between 3 and 8 years. There are many variations in the premise lease periods.

#### Maturity of minimum lease payment receivables:

EUR million	2018	2017
Less than 1 year	1.7	2.1
1–5 years	1.4	1.8
More than 5 years	1.7	1.8
<b>Total</b>	<b>4.8</b>	<b>5.7</b>

The Group leases out premises in its possession. The notice period of leases generally varies between 1 and 12 months, few leases having a notice period from 1 to 4 years.

## 22. Pledges, commitments and other contingent liabilities

EUR million	2018	2017
Pledges given for own behalf:		
Bank guarantees	7.4	6.7
Guarantees	3.8	4.2
Pledges	0.1	0.2
<b>Total</b>	<b>11.3</b>	<b>11.1</b>

## Litigation

In March 2018, the Supreme Court did not grant leave to appeal in litigation concerning the value added tax on postal services requested by the claimants against Posti. This means that the decision given at September 2017 by the Court of Appeal of Helsinki to overrule the complaint as requested by Posti and to compensate the legal expenses of Posti remains final.

In 2011 and 2012, seven financial institutions submitted a claim primarily against Posti, and secondarily against Posti and the State of Finland in order to receive compensation for the value added tax charged by Posti on its postal services in 1999–2014. The claim was based on the allegation that the Finnish Value Added Tax Act had been, and still remained, contrary to the EU's Value Added Tax Directive. According to the claims, the postal services provided for the financial institutions should have been VAT exempt. The claims were rejected in their entirety by a decision of the Helsinki District Court in September 2015, and by a decision of the Court of Appeal of Helsinki in September 2017. Posti is not obliged to compensate the VAT that it has charged from its customers. During the process, Posti has considered that the allegations made by the plaintiffs to be without merit.

In September 2018, the Supreme Administrative Court of Finland has made a decision on the request for action submitted by Suomen Suoramainonta Oy (SSM) concerning Posti's operations in the unaddressed mail delivery services market. According to the decision by the Supreme Administrative Court, Posti's pricing concerning the delivery of unaddressed advertising mail is not in violation of the competition law.

## Other contingent liabilities

In accordance with the environmental permit, the Group is subject to environmental liability regarding the cleanup of land of Pohjois-Pasila building lots. The liability amounts to approximately EUR 19.9 million and it will be realized if the construction in the building lots begins.

### 23. Related party transactions

Parties are considered to be related parties if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operational decisions. Posti's related parties include the Company's subsidiaries, associates and joint operations as well as the Company's sole shareholder, the State of Finland. Related parties also include the members of the Board of Directors of the Company, the President & CEO, the Executive Board of Posti and the management team members of the business groups, the close family members of these individuals and entities that are controlled or jointly controlled by a person identified as a related party. Also entities that are controlled or jointly controlled by, or are associates of the State, are related parties of Posti.

The key management consists of the members of the Board of Directors, President & CEO and members of the Executive Board. No financial loans have been granted to the key management. Business transactions with entities identified as a related party, such as associates and other state-owned companies, are carried out on market terms and conditions. Posti did not have significant business transactions with the key management or their related parties during the periods presented. Posti has business relations with the government-related entities. During the periods presented, Posti did not carry out any business transactions with these entities that were individually or collectively significant quantitatively or qualitatively.

#### Transactions with related parties

The following transactions with related parties consist of transactions with the associated companies:

EUR million	2018	2017
Net sales	0.5	1.9
Trade receivables and other receivables	0.2	0.2

#### Salaries and fees of the management

EUR million	2018	2017
President & CEO	1.0	0.8
Executive Board (excl. CEO)	3.6	3.1
Board of Directors	0.4	0.3
Supervisory Board	0.0	0.0
<b>Total</b>	<b>4.9</b>	<b>4.2</b>

#### The management's pension commitments

Persons appointed to the Executive Board after 2012 are not within any supplementary pension plans. Persons who have been appointed earlier than this are within a defined contribution pension scheme, and their retirement age is in accordance with the Employees Pensions Act (TyEL).

EUR million	2018	2017
Pensions – Defined contribution plans	0.2	0.2

#### The Board of Directors' salaries and fees

EUR thousand	2018	2017
Markku Pohjola (chairman) *	60.0	44.2
Eero Hautaniemi *	42.6	27.6
Arto Hiltunen **	0.0	14.7
Petri Järvinen	39.0	40.2
Petri Kokko ****	9.0	38.4
Frank Marthaler ***	44.4	-
Pertti Miettinen ***	-	-
Kirsi Nuotto ****	9.0	40.2
Marja Pokela	40.8	40.2
Arja Talma	43.7	39.6
Suvi-Anne Siimes	40.8	41.9
Per Sjödelldell ***	39.6	-
<b>Total</b>	<b>369.0</b>	<b>327.0</b>

\* member of the Board since March 27, 2017  
 \*\* member of the Board until March 27, 2017  
 \*\*\* member of the Board since March 27, 2018  
 \*\*\*\* member of the Board until March 27, 2018



## 24. Group companies

The Group's parent company is Posti Group Corporation.

Subsidiaries Dec 31, 2018	Group's holding %	Country
Billlexco AG	100	Switzerland
Flexo Kymppi Oy	100	Finland
Flexo Palvelut Oy	100	Finland
Flexo Ykkönen Oy	100	Finland
Global Mail FP Oy	100	Finland
Itella Estonia OÜ	100	Estonia
Itella Logistics SIA	100	Latvia
Itella Logistics UAB	100	Lithuania
Itella Services OÜ	100	Estonia
NLC International Corporation Ltd	100	Cyprus
OOO Itella	100	Russia
OOO Itella Express	100	Russia
OOO Kapstroymentazh	100	Russia
OOO NLC-Bataisk	100	Russia
OOO NLC-Ekaterinburg	100	Russia
OOO RED-Krekshino	100	Russia
OOO Rent-Center	100	Russia
OOO Terminal Lesnoy	100	Russia
OOO Terminal Sibir	100	Russia
OpusCapita s.r.o.	100	Slovakia
OpusCapita Software GmbH	100	Germany
OpusCapita Software Inc.	100	USA

Subsidiaries Dec 31, 2018	Group's holding %	Country
OpusCapita Solutions AB	100	Sweden
OpusCapita Solutions AS	100	Norway
OpusCapita Solutions Oy	100	Finland
OpusCapita Solutions Sp. z o.o.	100	Poland
Posti Fokus Oy	100	Finland
Posti Global Oy	100	Finland
Posti Kiinteistöt Oy	100	Finland
Posti Kotipalvelut Oy	100	Finland
Posti Kuljetus Oy	100	Finland
Posti Messaging AB	100	Sweden
Posti Messaging AS	100	Norway
Posti Messaging GmbH	100	Germany
Posti Messaging Oy	100	Finland
Posti Messaging OÜ	100	Estonia
Posti Messaging SIA	100	Latvia
Posti Messaging Sp. z o.o.	100	Poland
Posti Oy	100	Finland
Posti Palvelut Oy	100	Finland
Posti Scandinavia AB	100	Sweden

Associated companies Dec 31, 2018	Group's holding %	Country
BPO4U AB	50	Sweden

## 25. Events after the reporting period

On January 25, 2019, Posti Group Corporation completed the acquisition of the in-house logistics company Suomen Transval Group Oy. The acquisition was announced in September 2018. Posti acquires the entire share capital of Suomen Transval Group Oy from MB Rahastot and the other shareholders of the company. Transval's net sales in 2017 were approximately EUR 148 million. It employs 3,500 logistics professionals.

On January 29, 2019 Posti announced to begin cooperation negotiations in order to reorganize its work in administration and service production due to the decline in mail volumes. The cooperation negotiations concern both administration and service production. According to a published estimate, the personnel reduction need is a maximum of 236 employees.

# Parent Company's Financial Statements, FAS

## Income Statement of the Parent Company

EUR	Note	2018	2017
<b>Net sales</b>	1	<b>11,303,946.17</b>	<b>12,505,785.55</b>
Other operating income	2	83,827.01	110,303.47
Materials and services	3	-930.42	-2,806.78
Personnel expenses	4	-4,794,568.35	-5,811,528.67
Depreciation, amortization and impairment losses	5	-904,239.61	-1,122,294.14
Other operating expenses	6	-16,711,653.03	-16,830,780.92
<b>Operating profit/loss</b>		<b>-11,023,618.23</b>	<b>-11,151,321.49</b>
Financial income and expenses	8	-23,729,769.44	-35,404,318.18
<b>Profit/loss before appropriations</b>		<b>-34,753,387.67</b>	<b>-46,555,639.67</b>
Group contributions	9	33,445,000.00	43,947,000.00
<b>Profit/loss before income tax</b>		<b>-1,308,387.67</b>	<b>-2,608,639.67</b>
Income tax	10	-4,174,286.95	-6,062,446.03
<b>Profit/loss for the financial period</b>		<b>-5,482,674.62</b>	<b>-8 671 085,70</b>

## Balance Sheet of the Parent Company

EUR	Note	2018	2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	11	1,672,671.08	1,923,405.70
Tangible assets	12	1,479,941.81	2,016,184.74
Investments	13	545,955,534.74	576,430,731.19
<b>Total non-current assets</b>		<b>549,108,147.63</b>	<b>580,370,321.63</b>
<b>Current assets</b>			
Non-current receivables	14	78,322,248.43	94,150,372.49
Current receivables	15	70,108,043.65	72,169,105.10
Current investments	16	85,462,562.99	114,900,887.02
Cash and bank		4,397.02	2,858,474.91
<b>Total current assets</b>		<b>233,897,252.09</b>	<b>284,078,839.52</b>
<b>Total assets</b>		<b>783,005,399.72</b>	<b>864,449,161.15</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
	17		
Share capital		70,000,000.00	70,000,000.00
Fair value reserve		-739,655.37	-707,410.11
Other reserves		142,703,761.93	142,703,761.93
Retained earnings		297,302,428.03	346,260,090.22
Profit/loss for the financial period		-5,482,674.62	-8,671,085.70
<b>Total equity</b>		<b>503,783,859.97</b>	<b>549,585,356.34</b>
<b>Provisions</b>	18	<b>308,373.84</b>	<b>326,561.41</b>
<b>Liabilities</b>			
Non-current	20	123,761,755.55	72,261,643.82
Current	21	155,151,410.36	242,275,599.58
<b>Total liabilities</b>		<b>278,913,165.91</b>	<b>314,537,243.40</b>
<b>Total equity and liabilities</b>		<b>783,005,399.72</b>	<b>864,449,161.15</b>

## Cash Flow Statement of the Parent Company

EUR	2018	2017
<b>Cash flow from operations</b>		
Profit/loss before appropriations	-34,753,387.67	-46,555,639.67
Adjustments:		
Depreciation and amortization	904,239.61	1,122,294.14
Gains or losses on disposal of fixed assets	295,944.71	25,321.11
Financial income (-) and expense (+)	-6,022,764.97	1,804,318.18
Impairment losses on non-current investments	29,375,148.28	33,600,000.00
Other adjustments	-62,747.59	-519,529.16
<b>Cash flow before change in working capital</b>	<b>-10,263,567.63</b>	<b>-10,523,235.40</b>
Interest-free current receivables, increase (-), decrease (+)	319,725.30	-1,491,952.00
Interest-free non-current receivables, increase (-), decrease (+)	127,655.53	-182,015.53
Inventories, increase (-), decrease (+)	28.57	-2,056.00
Interest-free current liabilities, increase (+), decrease (-)	49,980.83	-600,298.00
Interest-free non-current liabilities, increase (+), decrease (-)	-2,392,613.71	-596,503.15
<b>Change in working capital</b>	<b>-1,895,223.48</b>	<b>-2,872,824.68</b>
<b>Cash flow from operating activities before financial items and taxes</b>	<b>-12,158,791.11</b>	<b>-13,396,060.08</b>
Interests paid	-1,235,714.98	-5,214,118.30
Interests received	5,911,214.60	5,917,872.85
Other financial items	-750,523.59	-585,394.84
Income tax paid	-5,370,142.13	-4,877,859.00
<b>Cash flow from financial items and taxes</b>	<b>-1,445,166.10</b>	<b>-4,759,499.29</b>
<b>Cash flow from operating activities (A)</b>	<b>-13,603,957.21</b>	<b>-18,155,559.37</b>

EUR	2018	2017
Investments in tangible and intangible assets	-669,821.77	-547,571.41
Other investments	-1,702,556.00	-8,778,320.46
Proceeds from sale of other investments	256,615.00	10,280.00
Loans granted	-6,775,538.28	-18,665,836.60
Repayments of loan receivables	13,092,013.65	17,719,914.79
Dividends received	7,069,573.30	156,161.00
<b>Cash flow from investing activities (B)</b>	<b>11,270,285.90</b>	<b>-10,105,372.68</b>
Increases in current loans		64,671,662.02
Repayment of current loans	-41,593,438.17	-99,881,255.73
Increases in non-current loans	59,781,960.00	59,863,435.98
Dividends paid	-40,000,000.00	-60,000,000.00
Group contributions received and paid	43,947,000.00	28,500,000.00
<b>Cash flow from financing activities (C)</b>	<b>22,135,521.83</b>	<b>-6,846,157.73</b>
<b>Change in cash and cash equivalents (A+B+C)</b>	<b>19,801,850.52</b>	<b>-35,107,089.78</b>
Change in group cash pool	-52,094,252.44	8,625,577.19
<b>Change in cash and cash equivalents</b>	<b>-32,292,401.92</b>	<b>-26,481,512.59</b>
<b>Cash and cash equivalents at the beginning of the financial period</b>	<b>117,759,361.93</b>	<b>144,240,874.52</b>
<b>Cash and cash equivalents at the end of the financial period</b>	<b>85,466,960.01</b>	<b>117,759,361.93</b>

# Accounting Policies

Posti Group Corporation has prepared its financial statements in accordance with Finnish accounting and company legislation.

## Revenue recognition and net sales

Major part of Posti Group Corporation's revenues consists of management and administration services rendered to Posti Group's subsidiaries. Revenue is recognized when the service is rendered as agreed. Net sales derive from revenue based on the sale services net of indirect taxes and exchange rate differences.

## Other operating income

Other operating income includes capital gains on sale of assets and income other than generated by the sale of services.

## Valuation of fixed assets

Tangible and intangible assets are carried at historical acquisition cost less accumulated depreciation.

Fixed assets are depreciated on a straight-line basis according to plan. The depreciations are based on expected useful lives, starting from the time items are in use. The common expected useful lives in Posti Group Corporation are as follows:

Immaterial rights and other long-term expenses	3–5 years
Machinery and equipment	3–5 years
Land and water are not subject to depreciation.	

Non-current investments are valued at their original acquisition cost. If it is probable that the future revenue on the investment is permanently smaller than the acquisition cost, the difference is recognized as an impairment loss.

## Leasing

Lease payments are expensed in the income statement and leased assets are not included in the fixed assets.

## Cash in hand and at banks

Cash in hand and at banks include bank accounts and other cash equivalents.

## Pension schemes

Posti Group Corporation's statutory pension coverage is provided by Ilmarinen Mutual Pension Insurance Company. Supplementary pension coverage (for those in the long-time service for Post and Telecommunications) is provided by OP Life Assurance Company Ltd.

## Provisions

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of this obligation can be made. Provisions for restructuring are recognized when the related, detailed and official plan has been approved and disclosed.

## Income taxes

Income tax includes tax calculated on the profit for the current financial year as well as tax adjustments for previous financial years.

Deferred taxes are calculated using the tax rate effective on the balance sheet date. A deferred tax asset is recognized to the extent that it appears probable that future taxable profit will be available against which the temporary difference can be utilized.

## Foreign currency transactions

Transactions denominated in foreign currencies are translated into euros at the exchange rate quoted on the transaction date.

Receivables and liabilities in foreign currencies are translated into euros using the average exchange rate quoted on the balance sheet date by the European Central Bank. The exchange rate gains or losses arising from the business operations are recognized as adjustments of net sales and purchases. The exchange rate gains and losses arising from financial instruments are included in the financial income and expenses.

## Financial assets and liabilities

### Financial assets

Posti Group Corporation classifies its financial assets into the following categories: measured at amortized cost and measured at fair value through profit or loss. The classification is based on Posti Group Corporation's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets, whose business model is to hold the assets until maturity for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Other financial assets are measured at fair value through profit or loss.

Financial assets are recognized and derecognized at the settlement date. Posti Group Corporation derecognizes a financial asset when its contractual right to the cash flows from the asset has expired or is forfeited, or it has transferred substantially all risks and rewards outside Posti Group Corporation. Any gain or loss arising on derecognition of a financial asset is recognized directly in profit or loss and presented in finance income or expenses (or in other operative income or expenses for trade receivables), together with foreign exchange gains and losses.

### Financial assets at amortized cost

Financial assets at amortized cost include investments in bonds and money-market investments, fixed-term bank deposits as well as trade receivables and other receivables. Interest income from these financial assets is included in financial income using the effective interest rate method.

Posti Group Corporation assesses the expected credit losses associated with its debt instruments carried at amortized cost on forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For low credit risk bond investments, Posti Group Corporation applies a low credit risk exemption, where the loss

allowance recognized is limited to 12 months expected credit losses. The changes in loss allowance are presented in other financial expenses.

For trade receivables, Posti Group Corporation applies a simplified loss allowance matrix approach whereby the impairment loss is measured over the life of the asset unless the asset is already written off. Write-off is based on indicators that there is no reasonable expectation of recovery for example due to failure to make contractual payments or bankruptcy. The changes in loss allowance and loss from write-off are presented in other operating expenses.

### Financial assets at fair value through profit or loss

Posti Group Corporation classifies investments in equity instruments as financial assets at fair value through profit or loss. This category includes unlisted shares and equity fund investments for which the fair value is determined by the fund manager. The changes in the fair value of investments in equity instruments are recognized in financial income or expenses at each balance sheet date.

Also, derivatives for which hedge accounting is not applied are included in the financial assets at fair value through profit or loss. For these derivatives, realized and unrealized gains and losses from changes in fair values are recognized in the income statement in the period in which they have arisen.

### Financial liabilities

Posti Group Corporation classifies its financial liabilities either into financial liabilities at amortized cost or financial liabilities at fair value through profit or loss.

### Financial liabilities at amortized cost

Non-derivative financial liabilities are classified as financial liabilities at amortized cost. They are initially recognized at fair value based on the consideration received. Transaction costs are included in the initial carrying amount of financial liabilities. Subsequently, financial liabilities, except for derivative liabilities, are measured at amortized cost using the effective interest rate method.

### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivatives for which hedge accounting is not applied. For these derivatives, realized and unrealized gains and losses from changes in fair values are recognized in the income statement in the period in which they have arisen.

### Derivative contracts and hedge accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at each balance sheet date. Gain or loss arising from valuation at fair value is recognized in accordance with the derivative contract's purpose of use. The income effect of the value changes of derivative contracts, which constitute effective hedging instruments, and which are subject to hedge accounting, is shown consistently with the hedged item. Posti Group Corporation recognizes derivative contracts as hedges of highly probable future transactions (cash flow hedge) or as economic hedges, to which hedge accounting is not applied.

When hedge accounting is applied, Posti Group Corporation documents at the inception of the hedging transaction the relationship between the hedged item and the hedge instruments as well as the objectives of Posti Group Corporation's risk management and the strategy for carrying out the hedging transaction. Posti Group Corporation also documents and assesses prospectively at inception of the hedge and at each reporting date the effectiveness of the hedging relationship by inspecting the hedge instruments' ability to offset the changes in fair values or cash flows of hedged items.

Effective portion of changes in the fair value of derivatives that are designated and qualify as cash-flow hedges are recognized in other comprehensive income. Possible ineffective portion is recognized through profit or loss according to its nature either in other operating income or expenses or financial items. Amounts accumulated in equity are reclassified into profit or loss when the hedged item is recognized through profit or loss. Posti Group Corporation applies cash flow hedging for hedging against foreign exchange risk on certain commitments in foreign currencies and interest-rate risk of a loan with

variable interest-rate. For foreign currency forwards Posti Group Corporation designates the whole forward contract as the hedging instrument. If a derivative contract classified as a cash flow hedging instrument expires or it is sold, or it no longer meets the conditions for hedge accounting, the accumulated fair value gain or loss is retained in the equity until the projected business transaction occurs. However, if the projected business transaction is no longer expected to occur, the accumulated fair value gain or loss is recognized through profit or loss immediately.

For certain derivative instruments while entered into for risk management purposes, hedge accounting is not applied. Such derivatives include currency derivatives hedging against foreign exchange risk of currency denominated receivables and liabilities. For these contracts, the changes in their fair value are recognized through profit or loss and presented in financial items or other operating income or expenses, depending on the purpose of hedging.

The fair values of derivatives are determined on the basis of the market values of similar derivatives or standard valuation models. The fair value of currency forward contracts is calculated by valuing forward contracts at the present value of the forward rates on the reporting date and the fair value of interest-rate swaps is the present value of future interest cash flows. The fair values of interest rate swap related options are based on the generally used option pricing models.

## 1. Net sales by geographical location

	2018	2017
Finland	10,474,484.10	11,493,159.00
Russia	829,462.07	1,012,626.55
<b>Total</b>	<b>11,303,946.17</b>	<b>12,505,785.55</b>

## 2. Other operating income

	2018	2017
Gains on sale of intangible and tangible assets	48,715.46	0.00
Rental income	65,288.95	64,750.21
Other operating income	-30,177.40	45,553.26
<b>Total</b>	<b>83,827.01</b>	<b>110,303.47</b>

## 3. Materials and services

	2018	2017
Purchases during the financial period	930.42	2,652.64
External services	0.00	154.14
<b>Total</b>	<b>930.42</b>	<b>2,806.78</b>

## 4. Personnel expenses

	2018	2017
Wages and salaries	5,861,755.05	6,305,655.16
Pension expenses	-1,105,693.12	-430,679.75
Other social expenses	38,506.42	-63,446.74
<b>Total</b>	<b>4,794,568.35</b>	<b>5,811,528.67</b>

### Management remuneration

President and CEO	987,764.00	782,193.56
Executive Board (excl. CEO)	880,340.00	1,222,772.94
Board of Directors	369,026.00	327,046.77
Supervisory Board	26,900.00	20,900.00
<b>Total</b>	<b>2,264,030.00</b>	<b>2,352,913.27</b>

### Average number of personnel during the financial period

Administrative employees	48	53
<b>Total</b>	<b>48</b>	<b>53</b>

## 5. Depreciation, amortization and impairment losses

	2018	2017
Intangible rights	902,772.39	1,121,246.72
Machinery and equipment	1,467.22	1,047.42
<b>Total</b>	<b>904,239.61</b>	<b>1,122,294.14</b>

## 6. Other operating expenses

	2018	2017
Rents and leases	380,268.47	476,663.74
Losses on sale of fixed assets	344,660.17	25,321.11
Personnel related costs	836,886.60	318,977.60
Travelling expenses	124,763.78	133,279.29
Marketing expenses	782,570.98	797,559.95
Entertainment expenses	20,845.62	64,440.80
Facility maintenance expenses	14,381.55	3,169.64
Office and administrative expenses	4,781,047.33	5,128,097.88
IT operating costs	8,268,347.76	8,602,127.34
Other operating expenses	1,157,880.77	1,281,143.57
<b>Total</b>	<b>16,711,653.03</b>	<b>16,830,780.92</b>

## 7. Auditors' remuneration

	2018	2017
Audit	311,840.75	201,266.29
Tax advisory	5,947.75	9,340.00
Other services	907,160.50	1,009,415.22
<b>Total</b>	<b>1,224,949.00</b>	<b>1,220,021.51</b>

## 8. Financial income and expenses

	2018	2017
<b>Financial income</b>		
Dividend income from Group companies	6,696,767.30	-
Dividend income from others	372,806.00	156,161.00
Interest income from Group companies	1,852,926.73	3,236,839.22
Interest income from others	628,292.00	1,663,294.30
Gains on disposal of financial assets at fair value through profit or loss	-	73,357.50
Exchange rate gains		
Interest-bearing receivables and liabilities	2,249,779.08	890,013.48
Currency derivatives, non-hedge accounting	761,850.63	257,703.58
Other financial income from Group companies	1,333,842.28	1,458,357.03
<b>Total</b>	<b>13,896,264.02</b>	<b>7,735,726.11</b>
<b>Financial expense</b>		
Interest expense to Group companies	207,255.39	199,213.53
Interest expense to others	1,068,080.12	4,848,857.28
Losses on disposal of financial assets at fair value through profit or loss	-	370.00
Changes in fair value of financial assets at fair value through profit or loss	-	951,377.41
Exchange rate losses		
Interest-bearing receivables and liabilities	5,402,822.87	3,245,392.33
Currency derivatives, non-hedge accounting	1,146,186.58	435,746.80
Impairment losses in Group companies	29,127,752.45	30,273,693.10
Impairment losses on non-current investments	247,229.71	2,600,000.00
Other financial expenses	426,706.34	585,393.84
<b>Total</b>	<b>37,626,033.46</b>	<b>43,140,044.29</b>
Change in fair value of investments recognized in the fair value reserve loss (-), gain (+)	15,865.60	-126,726.00
of which deferred tax	-3,173.12	25,345.20
Change in fair value of hedging interest rate derivatives recognized in the fair value reserve loss (-), gain (+)	-924,569.21	-868,397.00
of which deferred tax	184,913.84	173,679.40

## 9. Group contributions

	2018	2017
Group contributions received	36,200,000.00	44,000,000.00
Group contributions distributed	-2,755,000.00	-53,000.00
<b>Total</b>	<b>33,445,000.00</b>	<b>43,947,000.00</b>

## 10. Income tax

	2018	2017
Income tax on group contributions	6,689,000.00	8,789,400.00
Income tax on business activities	-2,621,245.12	-2,868,056.94
Income tax from previous years	10,893.81	-9,788.20
Change in deferred tax assets	95,638.26	150,891.17
<b>Total</b>	<b>4,174,286.95</b>	<b>6,062,446.03</b>



## 11. Intangible assets

	2018	2017
<b>Intangible rights</b>		
Cost 1 Jan	27,222,613.89	25,584,485.15
Additions	652,037.77	546,972.81
Disposals	0.00	-1,748.95
Transfers between items	0.00	1,092,904.88
<b>Cost 31 Dec</b>	<b>27,874,651.66</b>	<b>27,222,613.89</b>
Accumulated amortization 1 Jan	25,299,208.19	24,179,189.31
Accumulated amortization on disposals	0.00	-1,227.84
Amortization for the financial period	902,772.39	1,121,246.72
<b>Accumulated amortization 31 Dec</b>	<b>26,201,980.58</b>	<b>25,299,208.19</b>
<b>Book value 31 Dec</b>	<b>1,672,671.08</b>	<b>1,923,405.70</b>
<b>Prepayments</b>		
Cost 1 Jan	2,478,953.26	3,571,858.14
Disposals	-2,478,953.26	0.00
Transfers between items	0.00	-1,092,904.88
<b>Cost 31 Dec</b>	<b>0.00</b>	<b>2,478,953.26</b>
Accumulated impairment 1 Jan	2,478,953.26	2,478,953.26
Impairment	-2,478,953.26	0.00
<b>Accumulated impairment 31 Dec</b>	<b>0.00</b>	<b>2,478,953.26</b>
<b>Book value 31 Dec</b>	<b>0.00</b>	<b>0.00</b>
<b>Total intangible assets</b>	<b>1,672,671.08</b>	<b>1,923,405.70</b>

## 12. Tangible assets

	2018	2017
<b>Land and water</b>		
Cost 1 Jan	891,396.01	891,396.01
<b>Cost 31 Dec</b>	<b>891,396.01</b>	<b>891,396.01</b>
<b>Book value 31 Dec</b>	<b>891,396.01</b>	<b>891,396.01</b>
<b>Machinery and equipment</b>		
Cost 1 Jan	77,253.14	76,654.54
Additions	17,784.00	598.60
<b>Cost 31 Dec</b>	<b>95,037.14</b>	<b>77,253.14</b>
Accumulated depreciation 1 Jan	76,067.54	75,020.12
Depreciation for the financial period	1,467.22	1,047.42
<b>Accumulated depreciation 31 Dec</b>	<b>77,534.76</b>	<b>76,067.54</b>
<b>Book value 31 Dec</b>	<b>17,502.38</b>	<b>1,185.60</b>
<b>Other tangible assets</b>		
Cost 1 Jan	1,189,127.90	1,189,127.90
Disposals	-552,559.71	0.00
<b>Cost 31 Dec</b>	<b>636,568.19</b>	<b>1,189,127.90</b>
Accumulated depreciation 1 Jan	65,524.77	65,524.77
<b>Accumulated depreciation 31 Dec</b>	<b>65,524.77</b>	<b>65,524.77</b>
<b>Book value 31 Dec</b>	<b>571,043.42</b>	<b>1,123,603.13</b>
<b>Total tangible assets</b>	<b>1,479,941.81</b>	<b>2,016,184.74</b>

### 13. Investments

Shares in Group companies	2018	2017
Cost 1 Jan	976,317,804.24	960,367,664.19
Additions	1,752,556.00	15,950,140.05
<b>Cost 31 Dec</b>	<b>978,070,360.24</b>	<b>976,317,804.24</b>
Accumulated impairment losses 1 Jan	431,372,787.46	400,372,787.46
Impairment losses	3,716,752.45	31,000,000.00
<b>Book value 31 Dec</b>	<b>542,980,820.33</b>	<b>544,945,016.78</b>
<b>Other shares and holdings</b>		
Cost 1 Jan	5,959,428.53	6,242,383.71
Disposals	-40,000.00	-282,955.18
<b>Cost 31 Dec</b>	<b>5,919,428.53</b>	<b>5,959,428.53</b>
Accumulated impairment losses 1 Jan	2,984,714.12	632,589.30
Impairment losses	0.00	2,600,000.00
Reversal of impairment losses	-40,000.00	-247,875.18
<b>Book value 31 Dec</b>	<b>2,974,714.41</b>	<b>2,974,714.41</b>
<b>Receivables from Group companies</b>		
<b>Capital loan receivables</b>		
Cost 1 Jan	28,511,000.00	28,511,000.00
<b>Cost 31 Dec</b>	<b>28,511,000.00</b>	<b>28,511,000.00</b>
Accumulated impairment losses 1 Jan	28,511,000.00	0.00
<b>Book value 31 Dec</b>	<b>0.00</b>	<b>28,511,000.00</b>
<b>Total investments</b>	<b>545,955,534.74</b>	<b>576,430,731.19</b>

### 14. Non-current receivables

	2018	2017
<b>Receivables from Group companies</b>		
Loan receivables	77,090,315.01	92,928,590.43
<b>Total</b>	<b>77,090,315.01</b>	<b>92,928,590.43</b>
<b>Receivables from others</b>		
Loan receivables	157,706.11	0.00
Other receivables	57,006.94	184,662.47
Deferred tax assets	1,017,220.37	1,037,119.59
<b>Total</b>	<b>1,231,933.42</b>	<b>1,221,782.06</b>
<b>Total non-current receivables</b>	<b>78,322,248.43</b>	<b>94,150,372.49</b>

### 15. Current receivables

	2018	2017
<b>Receivables from Group companies</b>		
Trade receivables	9,098,920.61	10,828,573.20
Loan receivables	5,490,918.02	1,005,709.19
Interest receivables	9,591,242.93	11,195,843.11
Other receivables	2,685,800.78	10,234.95
Prepayments and accrued income	36,491,492.67	44,083,458.25
<b>Total</b>	<b>63,358,375.01</b>	<b>67,123,818.70</b>
<b>Receivables from others</b>		
Trade receivables	0.00	-201.81
Loan receivables	0.00	151,369.14
Other receivables	651,710.84	65,672.15
Prepayments and accrued income	6,097,957.80	4,828,446.92
<b>Total</b>	<b>6,749,668.64</b>	<b>5,045,286.40</b>
<b>Total current receivables</b>	<b>70,108,043.65</b>	<b>72,169,105.10</b>
<b>Key items in prepayments and accrued income</b>		
Interest receivables	364,228.77	591,876.97
Income tax receivable	1,382,245.09	558,606.94
Other prepayments and accrued income	4,351,483.94	3,677,963.01
<b>Total</b>	<b>6,097,957.80</b>	<b>4,828,446.92</b>

## 16. Financial instruments and financial risk management

2018

EUR million	Financial assets and liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Derivatives, hedge accounting	Carrying value	Fair value	Level
<b>Financial assets – non-current</b>						
Other non-current investments	3.0			3.0	3.0	3
Non-current receivables		77.3		77.3	77.3	
<b>Non-current financial assets</b>	<b>3.0</b>	<b>77.3</b>		<b>80.3</b>	<b>80.3</b>	
<b>Financial assets – current</b>						
Trade and other receivables		28.9		28.9	28.9	
Equity fund investments	0.0			0.0	0.0	3
Currency derivatives	0.1			0.1	0.1	2
Money market investments		13.9		13.9	14.0	2
Investments in quoted bonds		10.5		10.5	10.7	1
Debt certificates		30.0		30.0	30.0	
<b>Current financial assets</b>	<b>0.1</b>	<b>83.4</b>		<b>83.5</b>	<b>83.7</b>	
Money market investments		30.9		30.9	31.0	2
Cash and bank		0.0		0.0	0.0	
<b>Cash and cash equivalents</b>		<b>31.0</b>		<b>31.0</b>	<b>31.0</b>	
<b>Total financial assets</b>	<b>3.1</b>	<b>191.6</b>	<b>0.0</b>	<b>194.7</b>	<b>194.9</b>	
<b>Financial liabilities – non-current</b>						
Loans from financial institutions		119.7		119.7	120.2	
<b>Non-current borrowings</b>		<b>119.7</b>		<b>119.7</b>	<b>120.2</b>	
Interest-rate derivatives			0.9	0.9	0.9	2
<b>Other non-current financial liabilities</b>			<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	
<b>Financial liabilities – current</b>						
Liabilities to Group companies		145.1		145.1	145.1	
Foreign currency derivatives	0.1			0.1	0.1	2
Trade and other payables		5.3		5.3	5.3	
<b>Current borrowings</b>	<b>0.1</b>	<b>150.4</b>		<b>150.5</b>	<b>150.5</b>	
<b>Total financial liabilities</b>	<b>0.1</b>	<b>270.1</b>	<b>0.9</b>	<b>271.1</b>	<b>271.6</b>	

2017

EUR million	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Assets held to maturity	Financial assets available-for-sale	Financial liabilities at amortized cost	Derivatives, hedge accounting	Carrying value	Fair value	Level
<b>Financial assets – non-current</b>									
Other non-current investments				3.0			3.0	3.0	3
Non-current receivables		93.1					93.1	93.1	
<b>Non-current financial assets</b>		<b>93.1</b>		<b>3.0</b>			<b>96.1</b>	<b>96.1</b>	
<b>Financial assets – current</b>									
Trade and other receivables		23.8					23.8	23.8	
Equity fund investments				0.1			0.1	0.1	3
Currency derivatives	0.0						0.0	0.0	2
Money market investments	19.5						19.5	19.5	2
Investments in quoted bonds	13.9						13.9	13.9	1
Investments in unquoted bonds	4.3						4.3	4.3	2
Debt certificates			39.7				39.7	39.7	
<b>Current financial assets</b>	<b>37.7</b>	<b>23.8</b>	<b>39.7</b>	<b>0.1</b>			<b>101.2</b>	<b>101.2</b>	
Money market investments	37.5						37.5	37.5	2
Cash and bank		2.9					2.9	2.9	
<b>Cash and cash equivalents</b>	<b>37.5</b>	<b>2.9</b>					<b>40.3</b>	<b>40.3</b>	
<b>Total financial assets</b>	<b>75.2</b>	<b>119.7</b>	<b>39.7</b>	<b>3.0</b>			<b>237.6</b>	<b>237.6</b>	
<b>Financial liabilities – non-current</b>									
Loans from financial institutions					59.9		59.9	60.1	
<b>Non-current borrowings</b>					<b>59.9</b>		<b>59.9</b>	<b>60.1</b>	
Interest-rate derivatives						0.9	0.9	0.9	2
Equity derivatives	4.8						4.8	4.8	3
<b>Other non-current financial liabilities</b>	<b>4.8</b>					<b>0.9</b>	<b>5.7</b>	<b>5.7</b>	
<b>Financial liabilities – current</b>									
Commercial papers					40.0		40.0	40.0	
Liabilities to Group companies					196.0		196.0	196.0	
Foreign currency derivatives	0.2						0.2	0.2	2
Trade and other payables					2.5		2.5	2.5	
<b>Current borrowings</b>	<b>0.2</b>				<b>238.4</b>		<b>238.6</b>	<b>238.6</b>	
<b>Total financial liabilities</b>	<b>5.0</b>				<b>298.3</b>	<b>0.9</b>	<b>304.1</b>	<b>304.4</b>	

The financial risk management of the company has been described on the Note 20 of the consolidated financial statements. The Company follows the Group's treasury policy and risk management principles.

## 17. Equity

	2018	2017
Share capital 1 Jan	70,000,000.00	70,000,000.00
<b>Share capital 31 Dec</b>	<b>70,000,000.00</b>	<b>70,000,000.00</b>
Fair value reserve 1 Jan	-707,410.11	88,688.32
Profit or loss at fair value, other current investments	-32,245.26	-796,098.43
<b>Fair value reserve 31 Dec</b>	<b>-739,655.37</b>	<b>-707,410.11</b>
<b>Restricted equity total</b>	<b>69,260,344.63</b>	<b>69,292,589.89</b>
<b>Unrestricted equity</b>		
Other reserves 1 Jan	142,703,761.93	142,703,761.93
<b>Other reserves 31 Dec</b>	<b>142,703,761.93</b>	<b>142,703,761.93</b>
Retained earnings 1 Jan	337,589,004.52	406,260,090.22
Change in IFRS9 accounting policies	-286,576.49	0.00
Dividend distribution	-40,000,000.00	-60,000,000.00
<b>Retained earnings 31 Dec</b>	<b>297,302,428.03</b>	<b>346,260,090.22</b>
<b>Profit/loss for the financial year 31 Dec</b>	<b>-5,482,674.62</b>	<b>-8,671,085.70</b>
<b>Total unrestricted equity</b>	<b>434,523,515.34</b>	<b>480,292,766.45</b>
<b>Total equity</b>	<b>503,783,859.97</b>	<b>549,585,356.34</b>
<b>Calculation of distributable equity 31 Dec</b>		
Other reserves	142,703,761.93	142,703,761.93
Retained earnings	297,302,428.03	346,260,090.22
Profit/loss for the financial period	-5,482,674.62	-8,671,085.70
<b>Total</b>	<b>434,523,515.34</b>	<b>480,292,766.45</b>

## 18. Provisions

	2018	2017
Pension provision	291,198.00	297,183.00
Restructuring provision	17,175.84	29,378.41
<b>Total</b>	<b>308,373.84</b>	<b>326,561.41</b>

## 19. Deferred tax assets

Deferred tax assets	2018	2017
From provision	61,674.77	65,312.07
From impairments	68,942.82	68,939.86
From temporary differences	497,333.76	497,334.00
Other items	389,269.02	405,533.66
<b>Total</b>	<b>1,017,220.37</b>	<b>1,037,119.59</b>

## 20. Non-current liabilities

	2018	2017
Loans from financial institutions	119,699,989.24	59,863,435.98
Interest-rate derivatives, hedge accounting	924,569.21	868,397.03
Other non-current liabilities	3,137,197.10	11,529,810.81
<b>Total</b>	<b>123,761,755.55</b>	<b>72,261,643.82</b>

## 21. Current liabilities

	2018	2017
<b>Amounts owed to Group companies</b>		
Trade payables	60,443.41	-138,926.23
Interest liabilities	120,236.55	130,486.94
Other liabilities	147,713,448.74	196,027,195.37
<b>Total</b>	<b>147,894,128.70</b>	<b>196,018,756.08</b>
<b>Amounts owed to others</b>		
Trade payables	2,737,552.51	1,744,115.57
Commercial papers	0.00	39,996,378.15
Other liabilities	2,520,332.34	1,894,987.04
Accruals and deferred income	1,999,396.81	2,621,362.74
<b>Total</b>	<b>7,257,281.66</b>	<b>46,256,843.50</b>
<b>Total current liabilities</b>	<b>155,151,410.36</b>	<b>242,275,599.58</b>
<b>Key items in other liabilities</b>		
Payroll and related social costs	198,592.03	207,172.30
VAT-liability	1,005,506.56	1,477,281.04
Additional purchase price accrual	1,200,000.00	0.00
Other liabilities	116,233.75	210,533.70
<b>Total</b>	<b>2,520,332.34</b>	<b>1,894,987.04</b>
<b>Key items in accruals and deferred income</b>		
Payroll and related social costs	1,323,920.12	1,910,210.48
Accrued interests	143,088.34	105,737.60
Other accruals and deferred income	532,388.35	605,414.66
<b>Total</b>	<b>1,999,396.81</b>	<b>2,621,362.74</b>
<b>Interest-bearing liabilities</b>		
Non-current liabilities	119,699,989.24	59,863,435.98
Current liabilities	73,386,159.23	74,983,219.25
<b>Total</b>	<b>193,086,148.47</b>	<b>134,846,655.23</b>

## 22. Pledged assets, commitments and other liabilities

	2018	2017
<b>Pledges given for Group companies</b>		
Guarantees	200,355,950.00	226,982,368.00
<b>Total</b>	<b>200,355,950.00</b>	<b>226,982,368.00</b>
<b>Lease contracts unpaid amounts</b>		
Payable within one year	61,777.71	69,106.57
Payable in later years	101,317.86	98,427.06
<b>Total</b>	<b>163,095.57</b>	<b>167,533.63</b>
<b>Rental liabilities</b>	<b>815.00</b>	<b>815.00</b>
<b>Other commitments</b>	<b>26,424.00</b>	<b>26,424.00</b>
<b>Derivative contracts</b>		
<b>Currency forward contracts</b>		
Fair value	-19,803.63	-168,846.28
Nominal value	10,879,564.74	10,281,984.28
<b>Interest rate swaps</b>		
Fair value	-924,569.21	-868,397.03
Nominal value	60,000,000.00	60,000,000.00

Derivative instruments are used for hedging the foreign exchange rate risk and interest rate risk and they are valued at the market rates available on the balance sheet date. Currency forward contracts are used to hedge against currency-denominated receivables and payables. Generally, transaction positions arising from subsidiary financing are hedged fully. A company's long-term variable-interest loan has been converted to fixed-interest loan with an interest-rate swap.

## Litigation

In March 2018, the Supreme Court did not grant leave to appeal in litigation concerning the value added tax on postal services requested by the claimants against Posti. This means that the decision given at September 2017 by the Court of Appeal of Helsinki to overrule the complaint as requested by Posti and to compensate the legal expenses of Posti remains final.

In 2011 and 2012, seven financial institutions submitted a claim primarily against Posti, and secondarily against Posti and the State of Finland in order to receive compensation for the value added tax charged by Posti on its postal services in 1999–2014. The claim was based on the allegation that the Finnish Value Added Tax Act had been, and still remained, contrary to the EU's Value Added Tax Directive. According to the claims, the postal services provided for the financial institutions should have been VAT exempt. The claims were rejected in their entirety by a decision of the Helsinki District Court in September 2015, and by a decision of the Court of Appeal of Helsinki in September 2017. Posti is not obliged to compensate the VAT that it has charged from its customers. During the process, Posti has considered that the allegations made by the plaintiffs to be without merit.

## 23. Shares and holdings of Posti Group Corporation

Company name and domicile	Number of shares	Ownership (%)	Book value
<b>Group companies</b>			
Global Mail FP Oy, Helsinki	4,200	99.92	122,838,632.95
OpusCapita Solutions, Helsinki	2,000	100.00	31,993,715.12
Posti Scandinavia AB, Stockholm	4,000	100.00	1,781.31
Itella Logistics SIA, Riga	20	100.00	0.00
Itella Logistics UAB, Vilnius	1,000	100.00	918,147.59
Itella Services OÜ, Tallinn	1	100.00	2,500.00
Posti Kiinteistöt Oy, Helsinki	103,488	100.00	192,730,895.55
Posti Palvelut Oy, Helsinki	500	100.00	102,500.00
Posti Kotipalvelut Oy, Helsinki	100	100.00	4,032,320.46
Flexo Palvelut Oy, Helsinki	80	80.00	1,710,000.00
NLC International Corporation, Limassol	3,844	100.00	1.00
Posti Oy, Helsinki	2,538,295	100.00	106,659,037.70
Posti Messaging Oy, Helsinki	1,000	100.00	47,985,238.65
Posti Fokus Oy, Helsinki	500	100.00	2,500.00
Posti Global Oy, Helsinki	999	99.90	34,003,550.00
<b>Total</b>			<b>542,980,820.33</b>
<b>Other companies</b>			
As. Oy Raisio Keskuslähiö, Raisio	6,350	9.77	33,000.00
Huhtakeskus Oy, Jyväskylä	328	3.28	60,000.00
Cooperative Vereniging IPC, Amsterdam	5	0.05	6,040.80
East Office of Finnish Industries Oy, Helsinki	1		10,000.00
Helsinki Halli Oy, Helsinki	19	0.03	238,826.85
Kiinteistö Oy Turun Monitoimihalli, Turku	2	0.04	136,703.15
Vierumäki Golf Oy, Helsinki	7	0.06	61,516.41
Oy Samlink Ab, Espoo	8,590	5.88	2,400,067.20
Golfsarfvik	1		28,560.00
<b>Total</b>			<b>2,974,714.41</b>

## Board of Directors' proposal

### Board of Directors' proposal to the Annual General Meeting

According to the financial statements for 2018, the parent company's distributable funds total EUR 434,523,515.34 of which the loss for the financial year accounts for EUR 5,482,674.62.

No material changes in the company's financial standing since the end of the financial period, nor does the solvency test, as referred to in Section 13(2) of the Finnish Limited Liability Companies Act, affect the proposed distributable profits.

The Board of Directors proposes to the Annual General Meeting a dividend of EUR 28,400,000.00 to be distributed and EUR 406,123,515.34 would be retained in the shareholders' equity.

## Statement by the Supervisory Board

At its meeting today, the Supervisory Board of Posti Group Corporation has considered the Board of Directors' Report, Financial Statements and the Auditors' Report for 2018 of Posti Group Corporation.

The Supervisory Board proposes to the 2019 Annual General Meeting that the Income Statement and Balance Sheet for 2018 be adopted, and concurs with the proposal made by the Board of Directors on disposal of the profit.

Helsinki, March 14, 2019

### Markku Rossi

Chairman of the Supervisory Board

## Signatures of the Board of Directors' Report and the Financial Statements

Helsinki, February 13, 2019

### Markku Pohjola

Hallituksen puheenjohtaja

### Heikki Malinen

Toimitusjohtaja

### Eero Hautaniemi

### Petri Järvinen

### Frank Marthaler

### Pertti Miettinen

### Marja Pokela

### Suvi-Anne Siimes

### Per Sjödel

### Arja Talma

Our auditor's report has been issued today.  
Helsinki, February 13, 2019

PricewaterhouseCoopers Oy  
Authorized Public Accountants

### Merja Lindh

Authorized Public Accountant



# Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Posti Group Oyj

## Report on the Audit of the Financial Statements

### Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

### What we have audited

We have audited the financial statements of Posti Group Oyj (business identity code 1531864-4) for the year ended 31 December 2018. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 6 to the Financial Statements.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. 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.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
<p><b>Goodwill valuation</b></p> <p><i>Refer to Accounting policies and to note 10 in the consolidated financial statements for the related disclosures.</i></p> <p>At 31 December 2018 the Group's goodwill balance is valued at 147 million euro and is allocated to the Group's four cash-generating units.</p> <p>The company tests goodwill for potential impairment annually and whenever there is an indication that the carrying amount may be impaired by comparing the recoverable amount against the carrying value of the goodwill. The recoverable amounts are determined by using a value in use model. Value in use calculations are subject to significant management judgement in a form of estimates of future cash flows and discount rates.</p> <p>The goodwill allocated to OpusCapita CGU amounts to 40 million euro, the goodwill allocated to Postal Services CGU amounts to 62 million euro and the goodwill allocated to Supply Chain Solutions amounts to 13 million euro. Our work is focused on the risk that goodwill may be overstated in these CGU:s.</p>	<p>Our audit focused on assessing the appropriateness of management's judgment and estimates used in the goodwill impairment analysis through the following procedures:</p> <ul style="list-style-type: none"> <li>· We tested the methodology applied in the value in use calculation by comparing it to the requirements of IAS 36, Impairment of Assets, and we tested the mathematical accuracy of the calculation;</li> <li>· We evaluated the process by which the future cash flow forecasts were drawn up, including comparing them to strategic plans approved by the Board of Directors;</li> <li>· We tested the key underlying management assumptions, including sales and profitability forecasts, discount rates used and the implied growth rates beyond the forecasted period;</li> <li>· We compared the current year actual results included in the prior year impairment model to consider whether forecasts included assumptions that, with hindsight, had been optimistic;</li> <li>· We considered whether the sensitivity analysis performed by the management around key assumptions of the cash flow forecast was appropriate by considering the likelihood of the movements of these key assumptions; and</li> <li>· The discount rates applied within the model were assessed by PwC business valuation specialists including comparison external benchmarks as appropriate.</li> <li>· We also considered the appropriateness of the related disclosures provided in note 10 in the financial statements.</li> </ul>

### Impairment testing of Posti's cash generating unit Itella Russia

*Refer to Accounting policies.*

Itella Russia is a cash generating unit with most of its significant assets relating to real estate investments in several locations, following the impairment of all goodwill in prior years.

Due to the uncertainties in the Russian market, Posti has determined that it is not possible to determine the value in use for Itella Russia as a whole. Management has therefore determined that the appropriate method to test Itella Russia's long-lived assets for impairment is using the fair value less cost to sell method.

Posti has engaged external, independent and qualified valuers to determine the fair value of its real estate property in Russia each year. The valuation is performed at a minimum annually on an asset by asset basis and the valuation method takes into consideration the current market prices in each active market for the properties.

We have determined this to be a key audit matter because the volatility of the real estate market in Russia.

Management has requested broker's opinions of values for the real estate owned by Itella Russia. We evaluated the competency, qualifications and experience and objectivity of the property valuation experts used.

In addition, we have evaluated the methods and assumptions used.

We compared the book values of real estate owned by Itella Russia to the market values provided by the property valuation expert.

### Uncertainty regarding the utilization of deferred tax assets

*Refer to Accounting policies and to note 13 in the consolidated financial statements for the related disclosures.*

At 31 December 2018 the Group has recognized deferred tax assets amounting to 9 million euro of which 3 million euro relate to losses carried forward.

At 31 December 2018 the Group has unused tax losses of 146 million euro for which it has not recognized deferred tax asset.

Posti assesses at each balance sheet date the expected utilization of deferred tax assets considering the likelihood of expected future taxable profits and positions taken in tax returns being sustained.

We determined this to be a key audit matter because of significant judgements that relate primarily to tax losses carried forward generated in some of Posti's foreign operations, and whether these tax loss carry-forwards will be utilized in these jurisdictions or in Finland.

We assessed the available tax losses carried forward with special focus on the most judgmental balances in this regard.

We considered the local expiry periods together with any applicable restrictions in recovery.

In addition, our audit procedures included evaluating and challenging management's:

- forecasts about the future taxable profits and the possibilities to use tax losses; and
- assessment of the outcome of positions taken in tax returns.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

## Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. 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.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.
- Obtain 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 parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director'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 parent company's or the group'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 the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Other Reporting Requirements

### Appointment

We were first appointed as auditors by the annual general meeting in 2012. Our appointment represents a total period of uninterrupted engagement of 7 years.

### Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Other statements

We support the proposal that the financial statements are adopted. The proposal by the Board of Directors regarding the distribution of profits is in compliance with the Limited Liability Companies Act. We support that the Members of the Administrative Board, the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 13 February 2019

### PricewaterhouseCoopers Oy

Authorised Public Accountants

### Merja Lindh

Authorised Public Accountant (KHT)

posti