

Posti Group Corporation

Interim Report

January-June 2017

July 27, 2017



posti

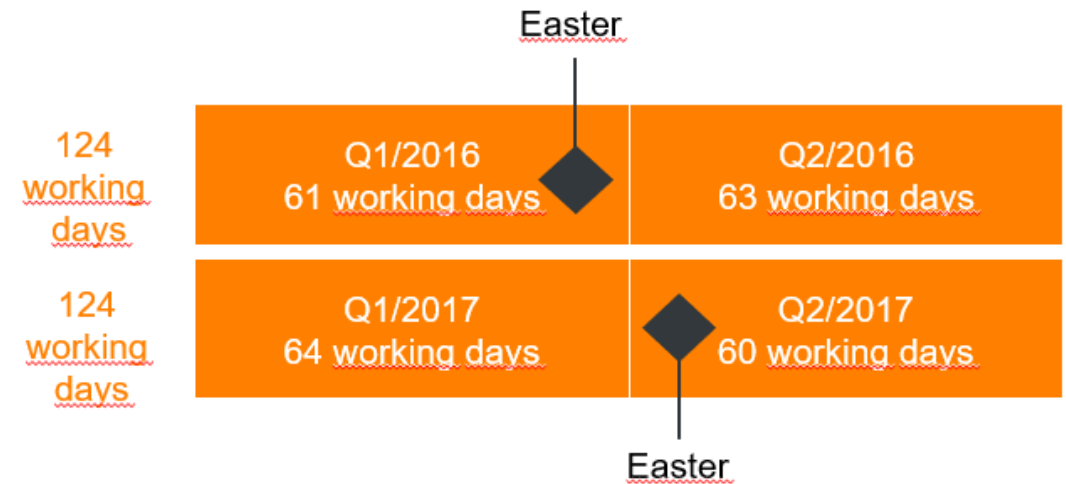
Agenda

- April-June 2017
- January-June 2017
- Segments
 - Mail, Parcel and Logistics Services
 - Itella Russia
 - OpusCapita
- Current Topics
- Attachments



Operating environment

- The economic uptrend has strengthened in Finland. Bank of Finland's forecast for the Finnish GDP growth in 2017 is 2.1%, Ministry of Finance's forecast is 2.4%.
- Transport volumes in heavy traffic have continued to increase since April 2016.
- New Postal Act was approved by the Parliament on June 21, 2017.
- Digitalization continues. The decline in traditional mail delivery volumes was reflected in the addressed letter volumes in Q2 and the volumes of OpusCapita's iPost products and particularly the printing services.
- Competition has tightened. In addition to Posti, there are currently 13 operators delivering mail in Finland.
- The Russian ruble strengthened in the beginning of 2017, but weakened in June by 12.0% against the euro and by 4.9% against the US dollar compared to the closing rate in March. GDP growth in Russia was 3.1% in May. Ministry of Economic Development forecasts that the GDP will grow 1.3% in 2017.



January-June 2017 in a nutshell

Posti in figures

816.1

Net sales
(EUR million)



55.3

Adjusted EBITDA
(EUR million)



15.8

Adjusted operating
result (EUR million)



20,334

Personnel
on average



4.3%

Share of USO
deliveries



10

Countries of
operation



Mergers and acquisitions

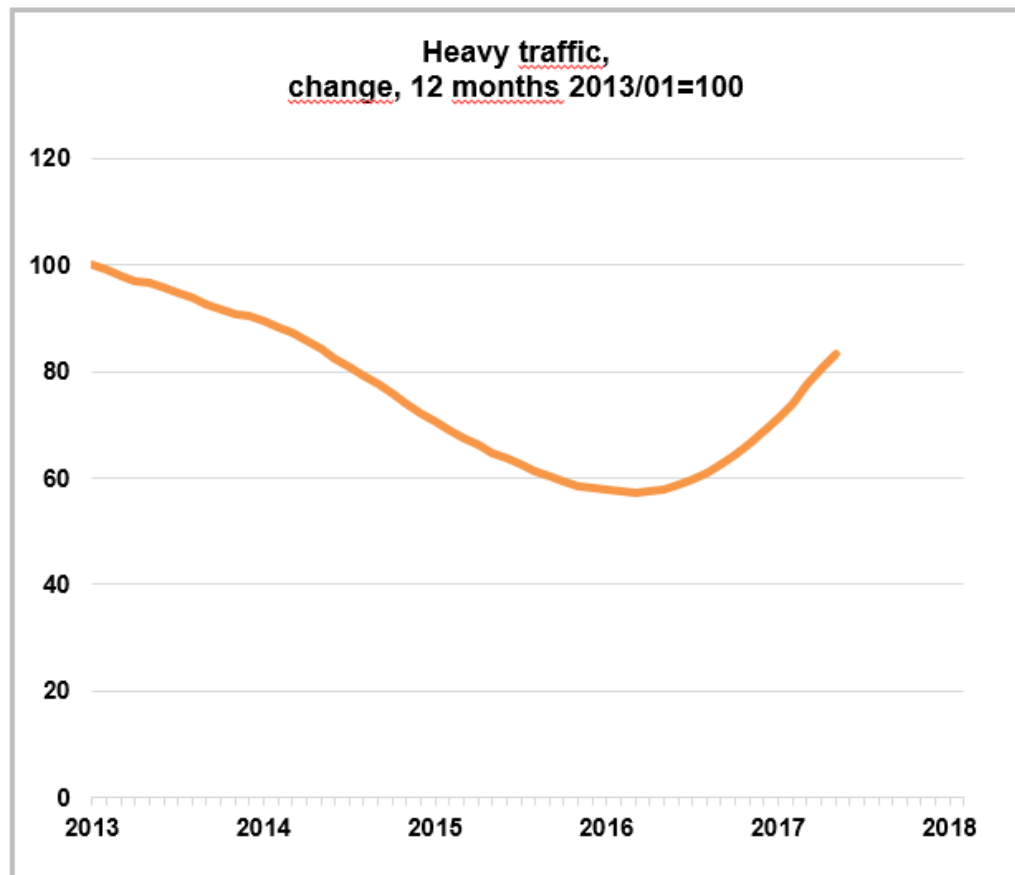
- The sell of OpusCapita's Finance and Accounting Outsourcing business. Estimated finalization is in September.
- The acquisition of SOL personal assistance service business.
- The acquisition of Kaakon Viestintä's early morning delivery service.
- The sell of OpusCapita's digitization business in Sweden,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

Other changes

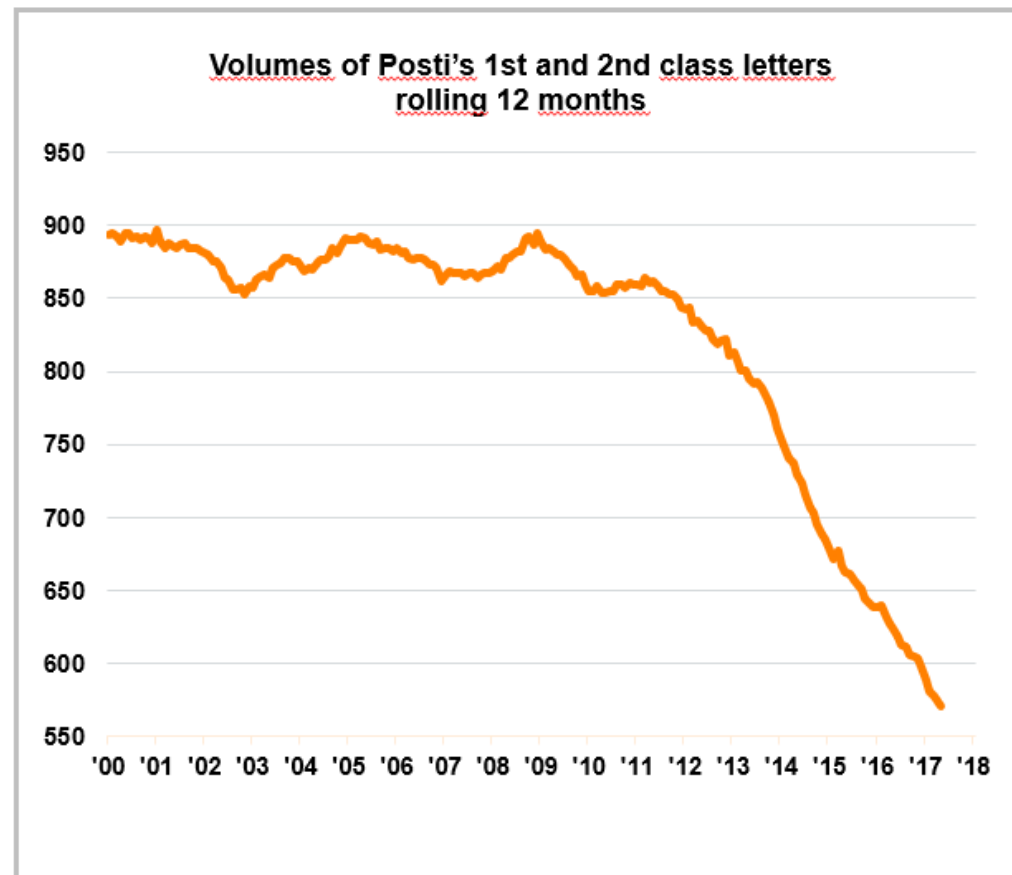
- New Postal Act was approved by the Parliament on June 21, 2017.
- Posti merges its early-morning delivery operations into a newly established subsidiary, Posti Palvelut Oy.
- Posti and SOL founded a joint venture that provides in-house logistics services.



Heavy traffic and letter volumes



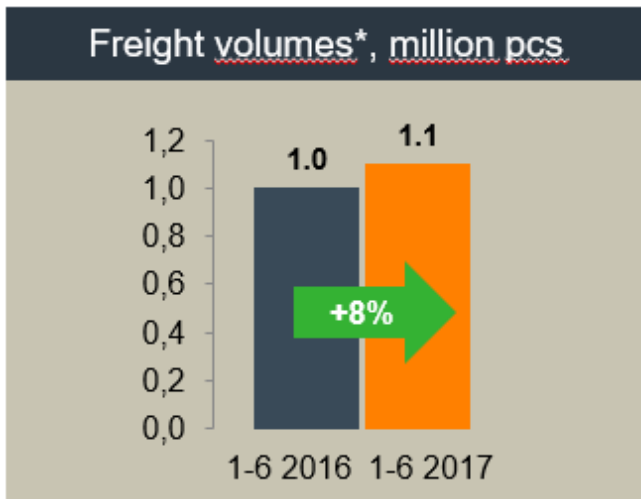
Source: [Finnish Transport Agency](#)



Source: [Posti](#)

Freight and parcel volumes continued to grow

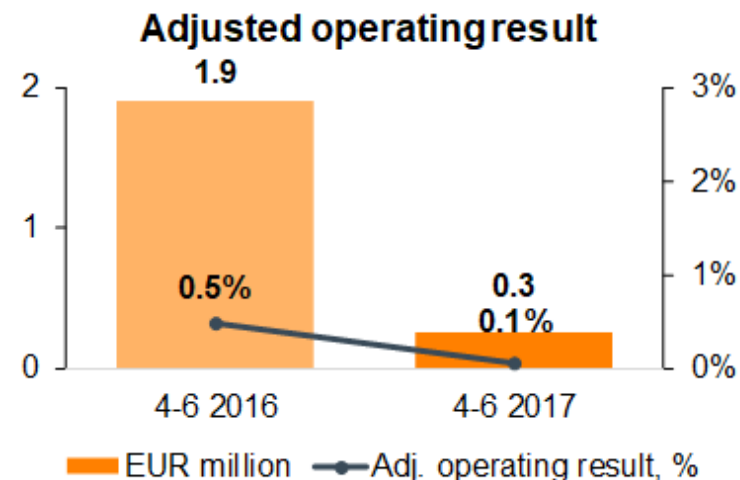
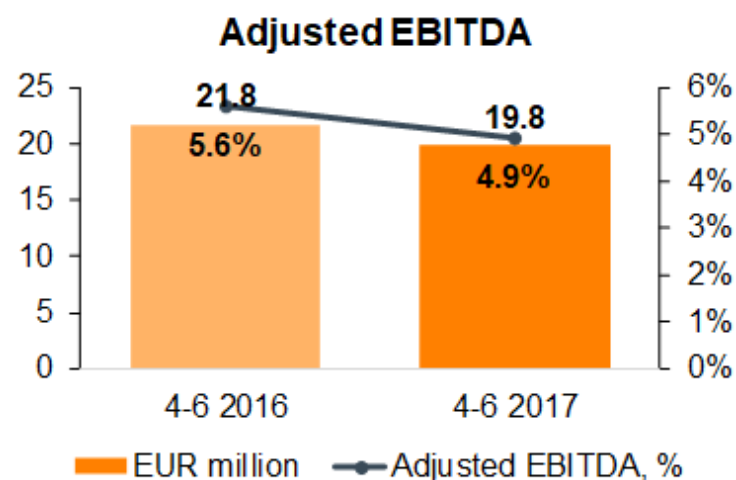
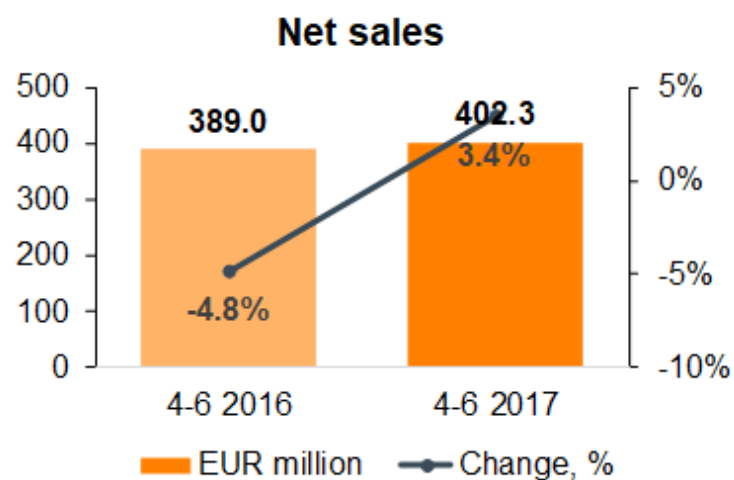
January-June



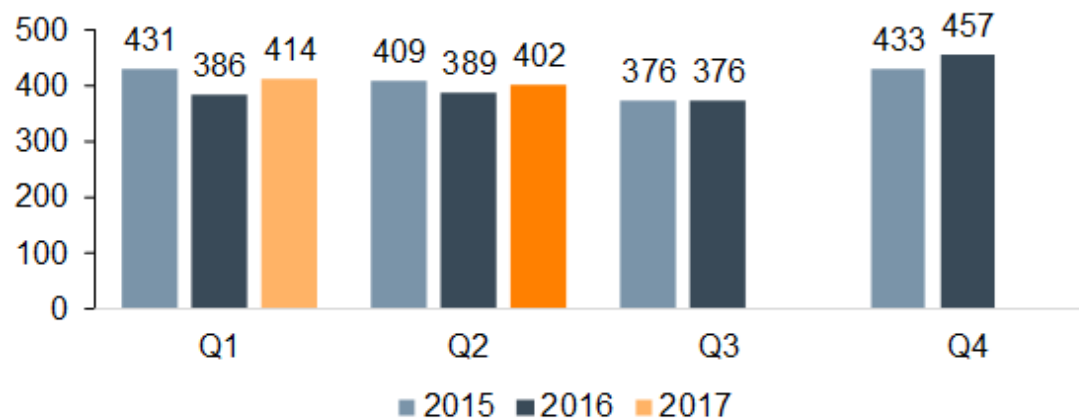
April-June 2017

Net sales and adjusted operating result

April-June



Net sales by quarters, EUR million



Key figures

April-June

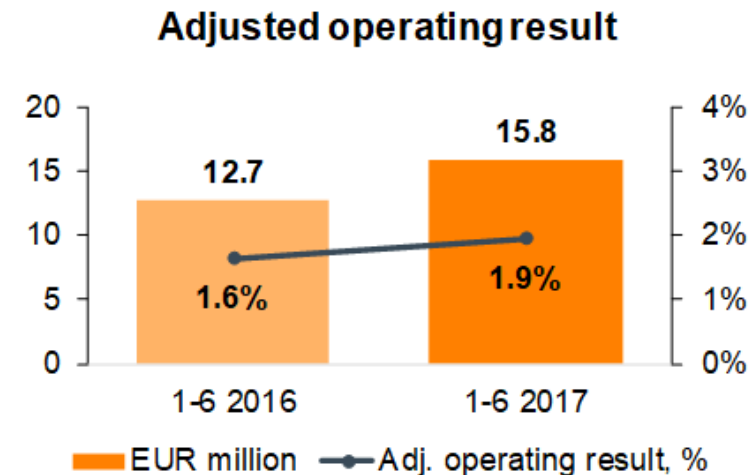
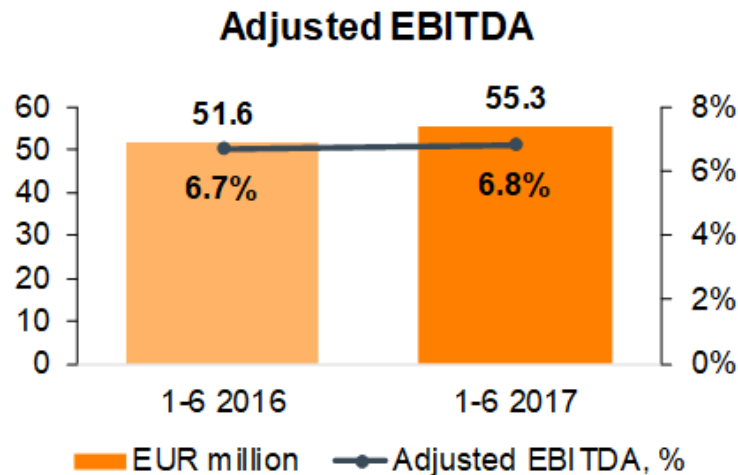
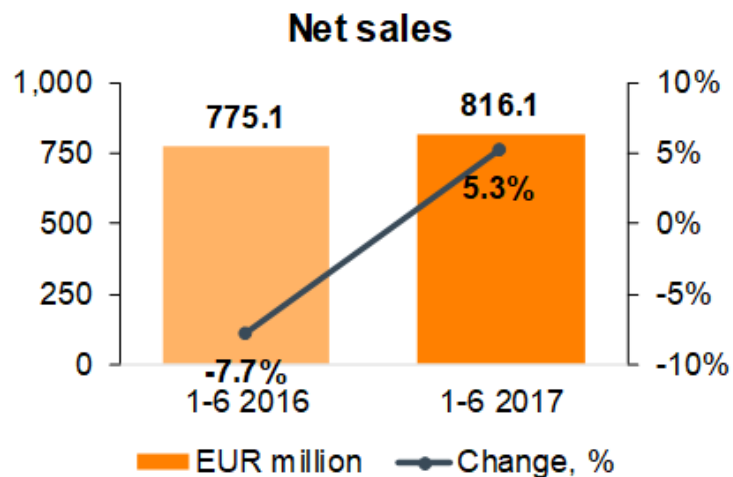
	4-6 2017	%	4-6 2016	%
Net sales, EUR million	402.3		389.0	
Adjusted EBITDA, EUR million	19.8	4.9%	21.8	5.6%
EBITDA, EUR million	12.8	3.2%	17.0	4.4%
Adjusted operating result, EUR million	0.3	0.1%	1.9	0.5%
Operating result, EUR million	-7.6	-1.9%	-2.9	-0.7%
Result before taxes, EUR million	-12.3	-3.1%	-1.4	-0.3%
Result for the period, EUR million	-13.0	-3.2%	-0.8	-0.2%
Gross capital expenditure, EUR million	11.9		48.4	

- The Group's net sales increased by 3.4%.
- Net sales increased by 3.0% in Finland and by 5.7% in other countries.
- International operations accounted for 15.0% of net sales.
- Special items amounted to EUR 7.8 million. There were special items particularly in OpusCapita. Special items also included a sales gain from the sale of the main post office building in Seinäjoki.
- Mail items covered by the universal service obligation accounted for 4.2% of all of Posti's mail items. Operations under the universal service obligation amounted to EUR 27.5 million, or 6.8% of the Group's net sales.
- Easter fell in the second quarter of 2017, unlike last year, when it fell in the first quarter. The number of working days in April-June was lower than in the previous year by three days. The number of working days affects the comparability of Group's net sales and result.

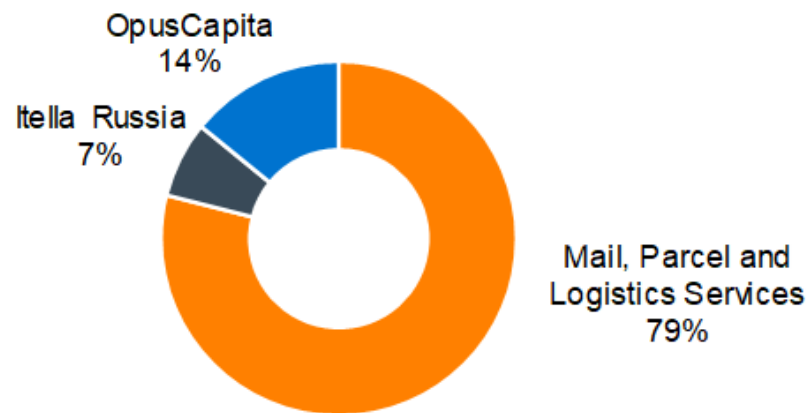
January-June

Net sales and adjusted operating result

January-June



External net sales by segment



Key figures

January-June

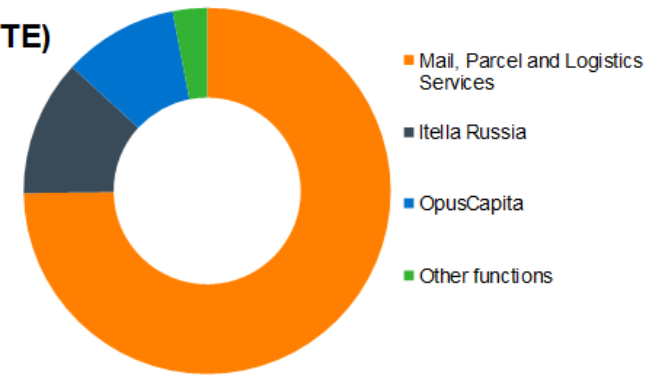
	1-6 2017	%	1-6 2016	%
Net sales, EUR million	816.1		775.1	
Adjusted EBITDA, EUR million	55.3	6.8%	51.6	6.7%
EBITDA, EUR million	42.9	5.3%	38.2	4.9%
Adjusted operating result, EUR million	15.8	1.9%	12.7	1.6%
Operating result, EUR million	2.5	0.3%	-2.3	-0.3%
Result before taxes, EUR million	-2.6	-0.3%	-2.0	-0.3%
Result for the period, EUR million	-7.0	-0.9%	-0.8	-0.1%
Cash flow from operating activities, EUR million	28.2		28.2	
Return on equity (12 months), %	3.0		0.5	
Return on invested capital (12 months), %	4.8		1.2	
Equity ratio, %	49.3		47.0	
Gearing, %	-3.7		-4.3	
Gross capital expenditure, EUR million	36.3		59.8	

- The Group's net sales increased by 5.3%. The increase in net sales was supported by the Group's expansion through acquisitions as well as the strengthening of the Russian ruble.
- Net sales increased by 4.5% in Finland and by 9.9% in other countries.
- International operations accounted for 14.7% of net sales.
- Profitability improved.
- The Group's net financing costs amounted to EUR 5.1 (income of 0.3) million. The change was attributable to exchange rate differences and non-recurring expenses.
- Mail items covered by the universal service obligation accounted for 4.3% of all of Posti's mail items.
- Operations under the universal service obligation amounted to EUR 56.1 million, or 6.9% of the Group's net sales.

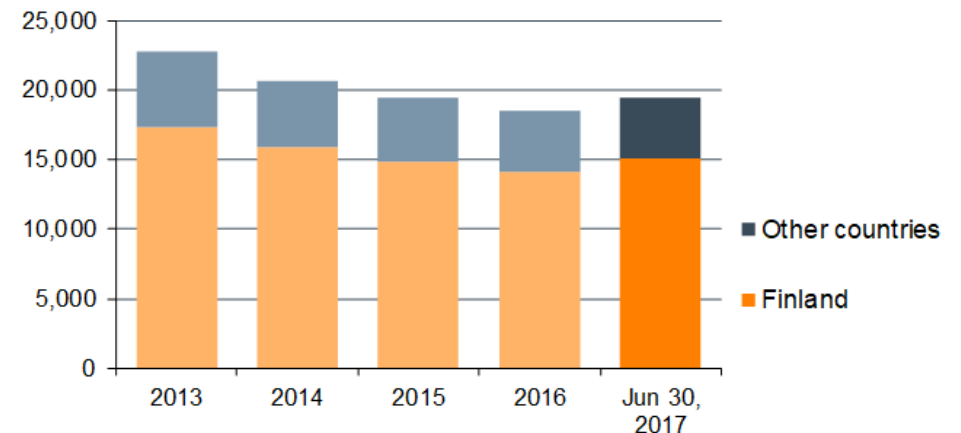
Employees

- Number of employees converted into full-time equivalents on June 30, 2017 was:
 - The Group: 19,433 (19,472)
 - Finland: 15,108 (15,289)
 - Other countries of operation: 4,325 (4,182)
- The Group employs 2,400 summer workers this summer.
- The Group's personnel expenses decreased by 6.0% compared to the previous year. Excluding restructuring costs, personnel expenses declined by 2.8% year-on-year.
- By the end of June, 2 722 employees had applied for the Uusi polku (New path) program and 1,891 had been approved.

Employees (FTE) by segment



Number of employees (FTE) in Finland and other countries



Segments

Mail, Parcel and Logistics Services

April-June

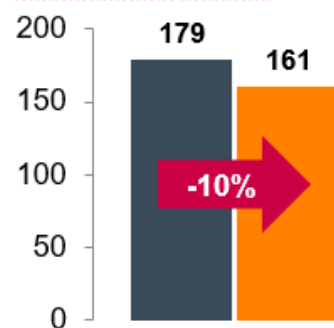
- The net sales grew by 3.8% due to acquisitions as well as higher demand for logistics services.
- Parcels grew in Finland and in the Baltics by +4% (+5%), of which B2C parcels grew by +5% (+7%).
- The number of parcels going through parcel points grew by 13%.
- Profitability improved, customer demand is transferring to logistics services.
- On April 13, 2017, Posti and Solemo Oy established Flexo, a joint venture that will provide in-house logistics services.
- Posti strengthens its early-morning delivery by acquiring the early-morning delivery business of Kaakon Viestintä. Early-morning delivery operations will be merged into a newly established subsidiary, Posti Palvelut Oy.
- Posti acquires the personal assistance business of SOL Henkilöstöpalvelut Oy.

EUR million	4-6 2017	% of Net sales	4-6 2016	% of Net sales
Net sales	329.2		317.3	
Net sales change, %	3.8%		-3.5%	
Adjusted EBITDA	15.5	4.7%	14.7	4.6%
EBITDA	13.8	4.2%	10.5	3.3%
Adjusted operating result	4.9	1.5%	4.4	1.4%
Operating result	3.2	1.0%	0.2	0.1%

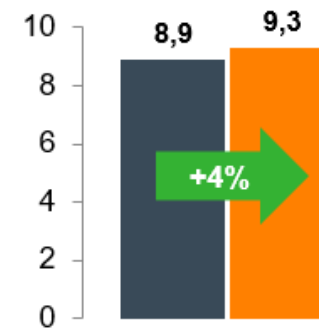
Volumes, million pcs

■ 4-6 2016 ■ 4-6 2017

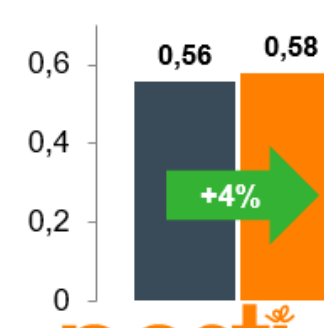
Addressed letters



Parcels

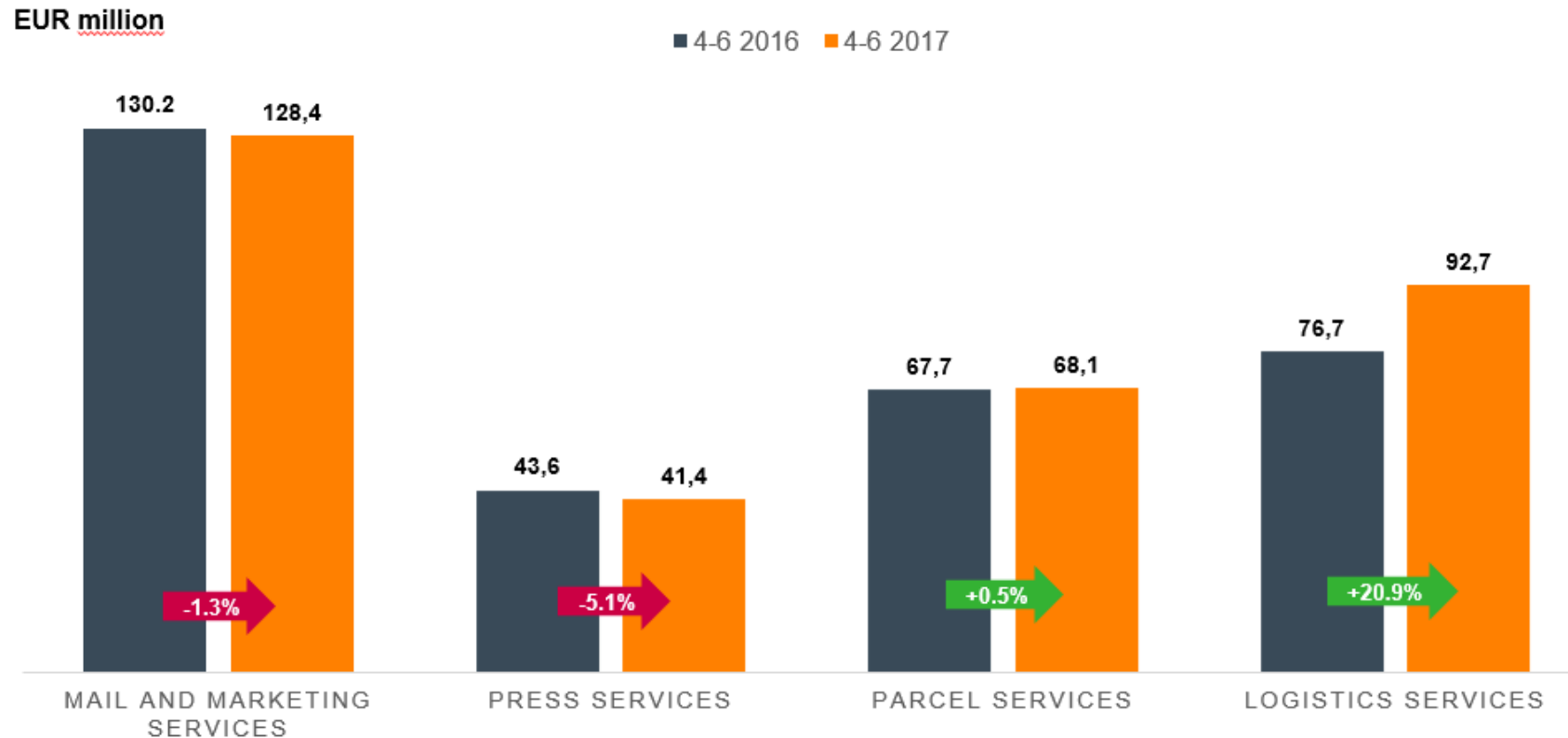


Domestic freight



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

April-June



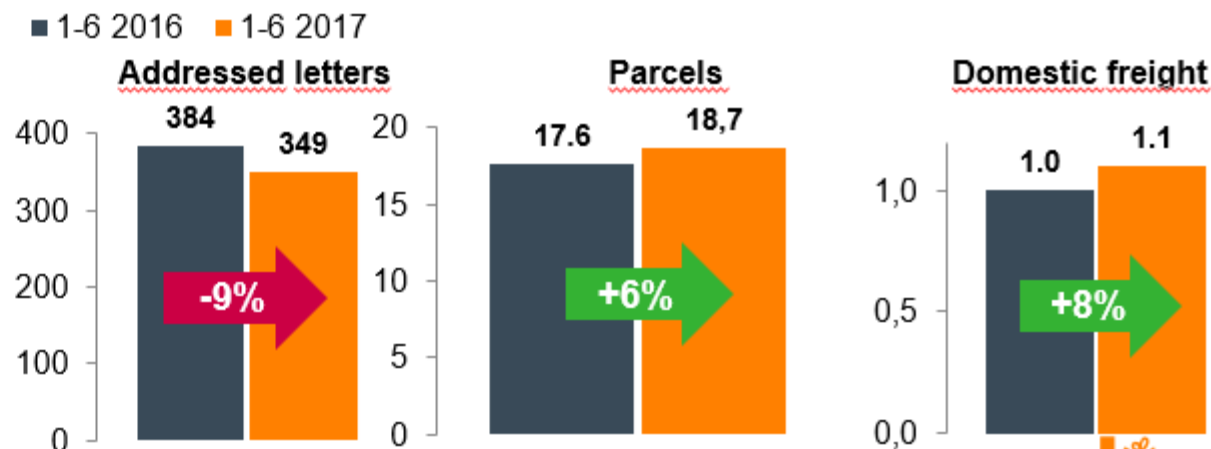
Mail, Parcel and Logistics Services

January-June

- The net sales grew by 5.2% mainly due to acquisitions as well as higher demand for parcel, freight and logistics services.
- The decline in the result of traditional postal operations was compensated for by the growth and improved result of freight and parcel services.
- The number of parcels going through parcel points grew by 20%.
- The volume of electronic letters (Netposti) fell by 9%. The number of digital mailbox Netposti users increased by 12% and stood at 750,000 (663,000) at the end of June.
- Warehouse fill rate in Finland on average was 76% (71%).
- On June 30, 2017, Posti had a total of 1,432 service points in Finland, of which 484 were parcel points.

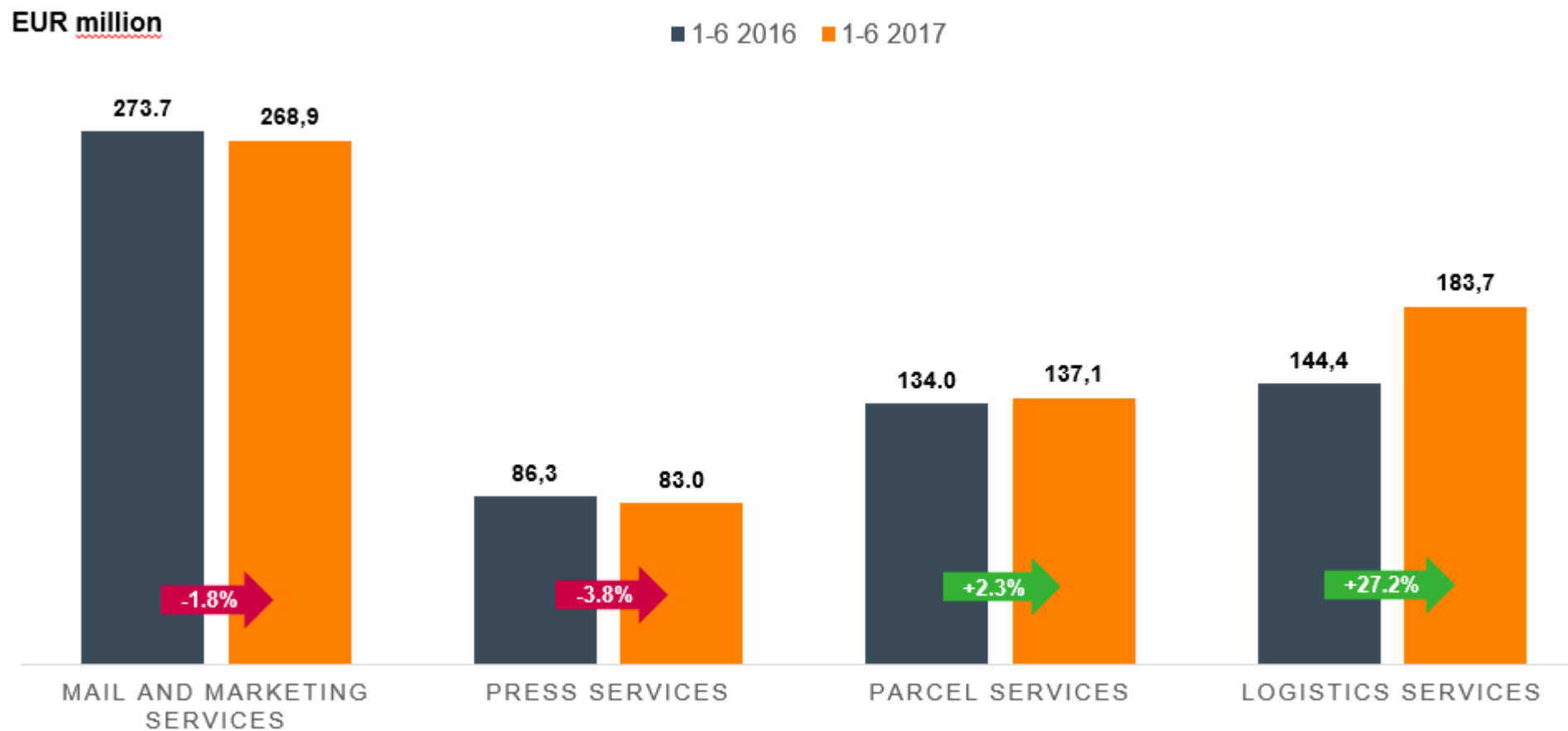
EUR million	1-6 2017	% of Net sales	1-6 2016	% of Net sales
Net sales	669.9		636.8	
Net sales change, %	5.2%		-6.6%	
Adjusted EBITDA	42.5	6.3%	38.9	6.1%
EBITDA	39.4	5.9%	26.4	4.1%
Adjusted operating result	21.2	3.2%	18.5	2.9%
Operating result	18.1	2.7%	5.9	0.9%

Volumes, million pcs



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

January-June



Itella Russia

April-June

- Euro-denominated net sales increased by 15.9%. Measured in rubles, net sales decreased by 2.7%. Net sales were negatively affected by the weakness of the economy and international trade, as well as the decreased warehouse space.
- Growth was seen in air and sea freight as well as e-commerce.
- The decline was the steepest in the demand for contract logistics, particularly warehousing. The handling volumes of warehousing operations declined.
- The average fill rate for warehouses was 84.0% (79.6%) in Moscow and 72.7% (86.7%) in other regions.

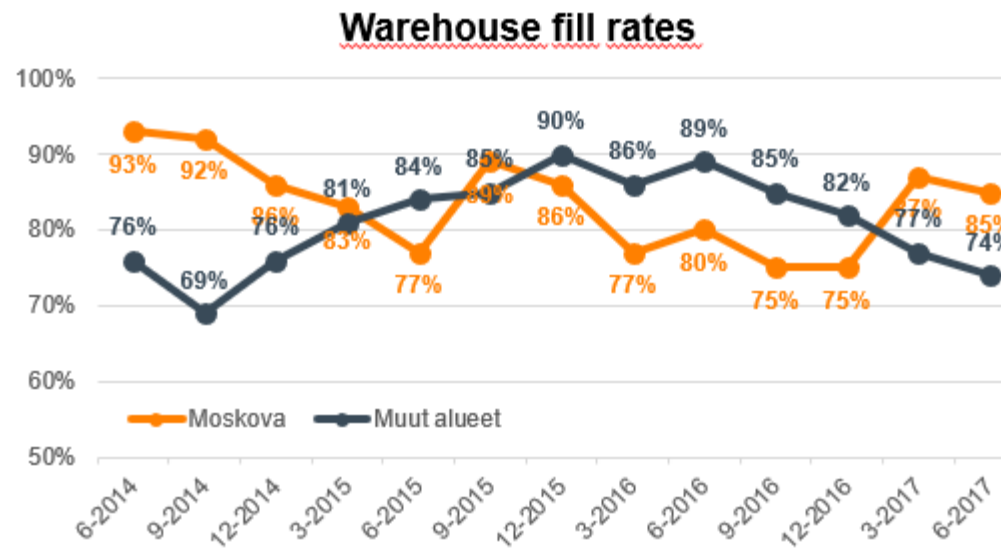
EUR million	4-6 2017	% of Net sales	4-6 2016	% of Net sales
Net sales	29.2		25.2	
Net sales change, %	15.9%		-18.9%	
Adjusted EBITDA	0.1	0.5%	0.0	0.2%
EBITDA	0.1	0.2%	0.0	0.1%
Adjusted operating result	-1.7	-5.9%	-1.6	-6.2%
Operating result	-1.8	-6.2%	-1.6	-6.3%

Itella Russia

January-June

- Euro-denominated net sales increased by 22.8%. Measured in rubles, net sales decreased by 1.8%.
- The adjusted operating result improved due to the optimization of warehouse space in the Moscow region and the appreciation of the ruble.
- The average fill rate for warehouses showed a year-on-year increase in Moscow and a decrease in other regions. The average fill rate was 80.0% (78.8%) in Moscow and 75.7% (86.8%) in other regions. One large warehouse in Moscow was closed down in the first quarter, which has had a positive effect.
- The Russian ruble appreciated by 5.6% compared to the previous year. Nevertheless, in June, the ruble depreciated by 12.0% against the euro and by 4.9% against the US dollar, compared to the end of March.

EUR million	1-6 2017	% of Net sales	1-6 2016	% of Net sales
Net sales	56.7		46.2	
Net sales change, %	22.8%		-21.5%	
Adjusted EBITDA	1.0	1.8%	-0.8	-1.8%
EBITDA	1.0	1.7%	1.3	2.8%
Adjusted operating result	-2.7	-4.8%	-3.9	-8.5%
Operating result	-2.8	-4.9%	-1.8	-4.0%



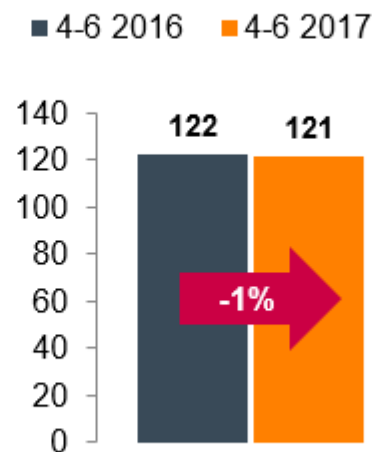
OpusCapita

April-June

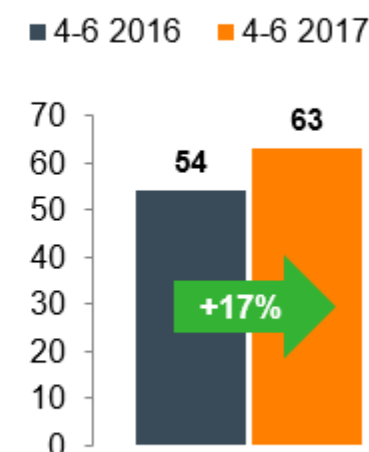
- The year-on-year development of OpusCapita's volumes was as follows: electronic transactions (comparable) +17%, iPost products -3%.
- 58% of the net sales came from Finland, 42% from other countries. The Buyer-Supplier Ecosystem business grew by 5%.
- The adjusted operating result declined due to the lower volumes of iPost products as well as investments in the growth of the Buyer-Supplier Ecosystem business.
- OpusCapita is carrying out significant restructuring measures. OpusCapita sells its Finance and Accounting Outsourcing business (in September). Sending of documents and invoices as well as the digitizing operations in Finland will be transferred to Posti's Postal Services. Digitizing production in Sweden, Norway and Poland will be outsourced. The Buyer-Supplier Ecosystem business will stay as a unit of its own. The changes are expected to enter into effect within 2017. OpusCapita acquired the Switzerland-based Billexco AG.

EUR million	4-6 2017	% of Net sales	4-6 2016	% of Net sales
Net sales	58.1		60.8	
Net sales change, %	-4.4%		-6.9%	
Adjusted EBITDA	2.3	4.0%	3.7	6.2%
EBITDA	-4.1	-7.1%	3.3	5.4%
Adjusted operating result	-0.2	-0.4%	1.4	2.3%
Operating result	-7.5	-12.8%	0.9	1.5%

Transactions in total, million pcs



Electronic transactions, million pcs



OpusCapita

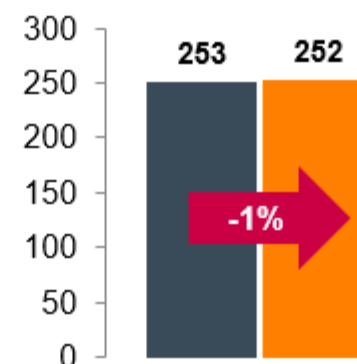
January-June

- The year-on-year development of OpusCapita's volumes was as follows: electronic transactions (comparable) +18%, iPost products -4%.
- OpusCapita transmitted a total of 252 million transactions. The electronic transaction volume was 123 million transactions, which represents 49% of the total transaction volume.
- Some 58% of the net sales came from Finland, while the remaining 42% was from other countries.
- The Buyer-Supplier Ecosystem business grew by 13%, mainly due to an acquisition.
- The adjusted operating result declined. The decline was attributable to the lower volumes of iPost products as well as investments in growth.

EUR million	1-6 2017	% of Net sales	1-6 2016	% of Net sales
Net sales	119.0		122.1	
Net sales change, %	-2.5%		-8.0%	
Adjusted EBITDA	6.3	5.3%	7.5	6.2%
EBITDA	-3.3	-2.8%	5.2	4.2%
Adjusted operating result	1.2	1.0%	3.4	2.8%
Operating result	-9.3	-7.8%	-0.6	-0.5%

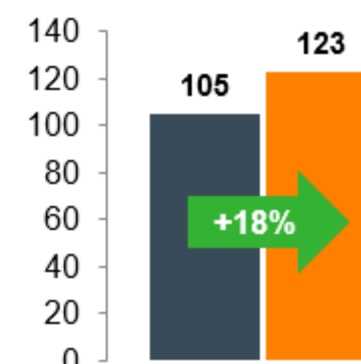
Transactions in total, million pcs

■ 1-6 2016 ■ 1-6 2017



Electronic transactions, million pcs

■ 1-6 2016 ■ 1-6 2017



Outlook 2017

Net sales

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

Operating result

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

Capital expenditure

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

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

Current Topics



Key achievements in strategy implementation Q2/2017

GROWTH FROM NEW SERVICES

- Growth from parcel and logistics services
 - Posti expands into in-house logistics through a joint venture **Flexo** with **Sol**
 - Smartpost parcel lockers increase: significant contracts with **YIT** and **Bonava**, pilot in **Heka** rental houses
 - **Kauppahalli24** grocery deliveries to Smartpost parcel lockers
 - Posti Parcel Points increasingly popular – 4,200 lockers to be added
 - Laundry service piloted at Posti Parcel Points
- Posti acquires **SOL Henkilöstöpalvelut Oy** personal assistance business
- **ABC** chain and Posti collaborate in collecting fuel prices
- New beta version of Posti mobile application published

STRONG CORE

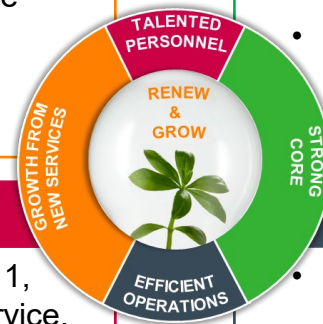
- New Postal Act allows three day-per-week mail delivery
- Posti to continue providing delivery services for **Sanoma Media Finland** in the capital area and parts of Uusimaa
- **Karjalainen** newspaper extended its contract with Posti
- Posti strengthens early-morning delivery of newspapers
 - Posti acquires early-morning delivery of **Kaakon Viestintä**
 - Posti merges its early-morning delivery to subsidiary **Posti Palvelut Oy**
- OpusCapita sells its Financial and Accounting Outsourcing business to private equity investor **Longship AS**
- Document and invoice sending, debt collection and Finnish digitizing to move under Postal Services from OpusCapita

TALENTED PERSONNEL

- Posti will establish a Posti Service Center (PSC) as of August 1, which will provide support services in sales, ICT, customer service, finance, sourcing and human resources
- Interest in summer jobs at Posti increased even by 35% - a total of 9,500 applications
- PostiLean trainings held in delivery operations
- License to Lead trainings held for all supervisors

EFFICIENT OPERATIONS

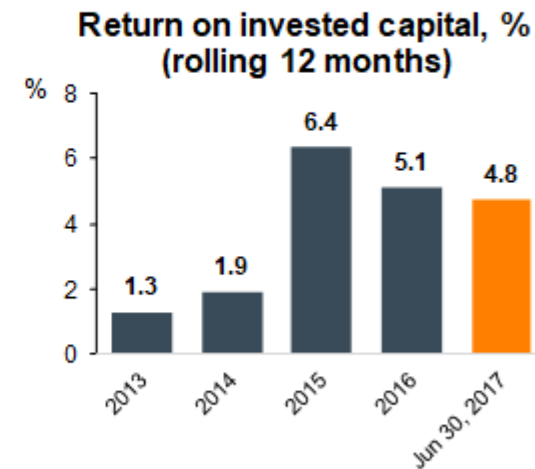
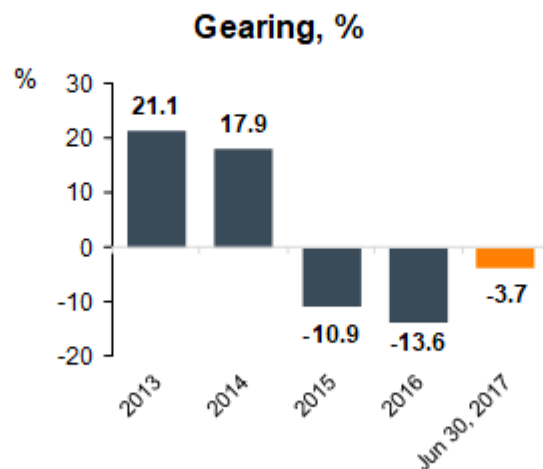
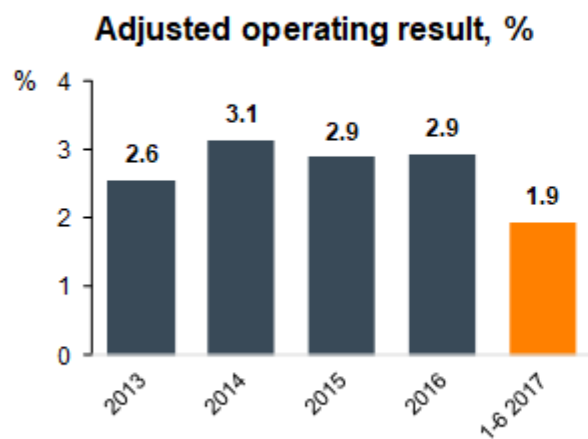
- Success with measures to secure delivery quality: postal delivery quality 99.91% in April, 99.91% in May and 99.90% in June
- Delivery day renewal prepared – will proceed during the summer
- Posti Mobile project proceeds
 - PoMo taken into use in whole delivery, also transportation utilizing Pomo in new services (e.g. fuel price collection)
 - New applications (e.g. working time tracking with possibility to update advertising bans)



Attachments

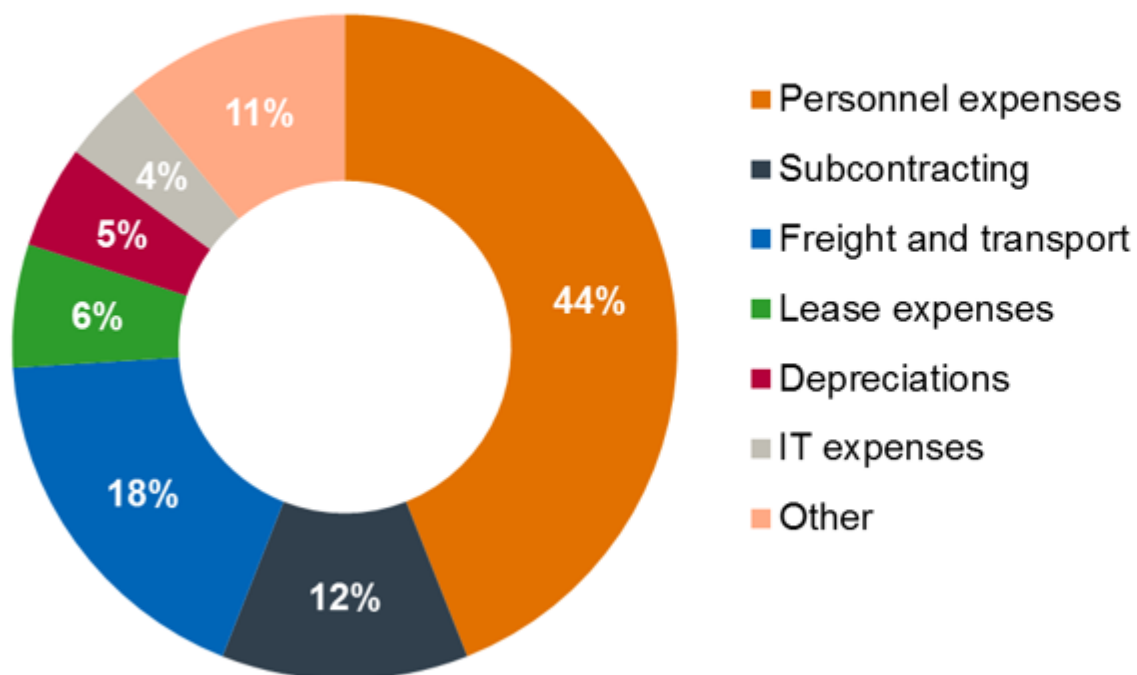
Financial Targets

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

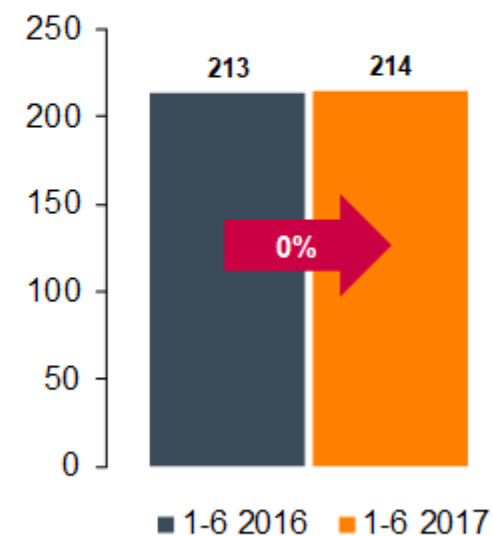


Group cost structure

January-June



Indirect costs, EUR million

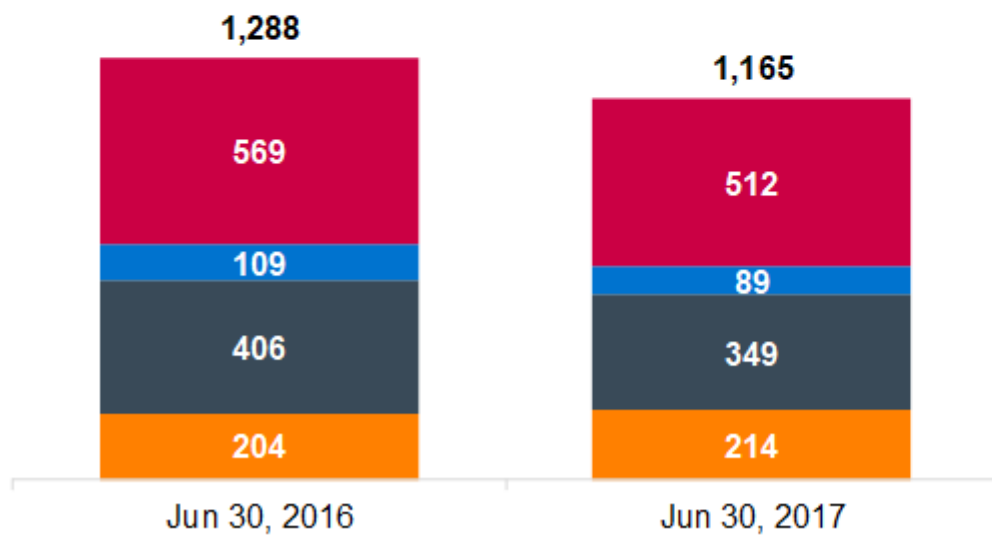


Balance sheet

EUR million

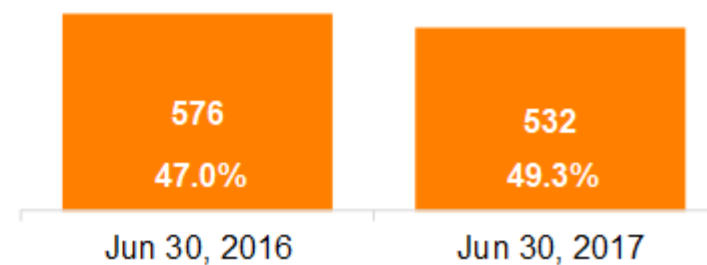
Assets

- Goodwill
- Other non-current assets
- Tangible assets
- Current assets



Equity and Equity ratio

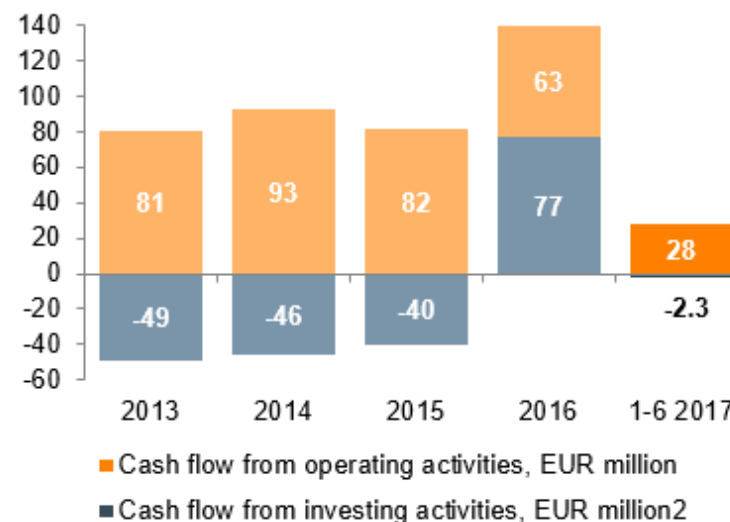
- Equity
- Equity ratio, %



Cash flow

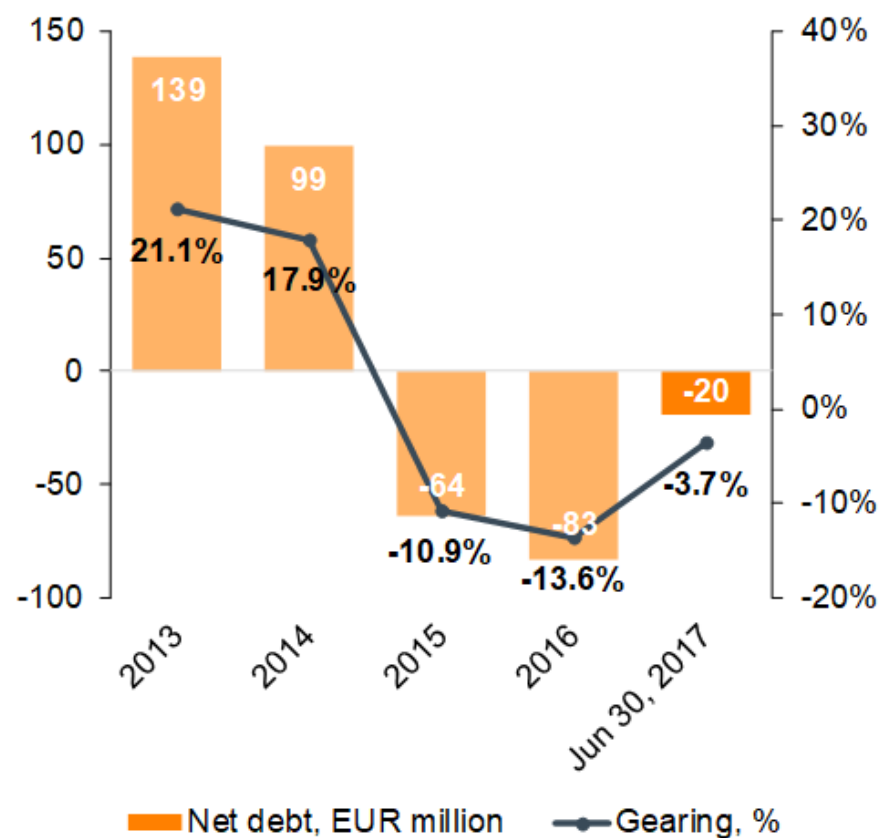
	1-6 2017	1-6 2016	2016
Result for the period	-7.0	-0.8	23.2
Cash flow from operating activities before financial items and taxes	32.0	42.5	88.7
Cash flow from operating activities	28.2	28.2	63.1
Cash flow from investing activities	-2.3	-25.0	76.7
Cash flow from financing activities	-5.3	-24.9	-188.6
Change in cash and cash equivalents	20.6	-21.7	-48.9
Cash and cash equivalents at the end of the review period	102.1	109.2	82.0

- The consolidated cash flow from operating activities before capital expenditure was EUR 28.2 million.
- Investments according to the statement of cash flow amounted to EUR 38.8 million. During January-June, the Group invested in the acquisitions of Kaakon Viestintä Oy, SOL personal assistance service business and HR Hoiva Oy. In addition, the Group invested in information systems, the transport fleet and production projects.
- At the end of the review period, liquid funds totaled EUR 149.9 million and undrawn committed credit facilities amounted to EUR 210.0 million. During the second quarter, the Group withdrew a long-term bank loan of EUR 60 million.

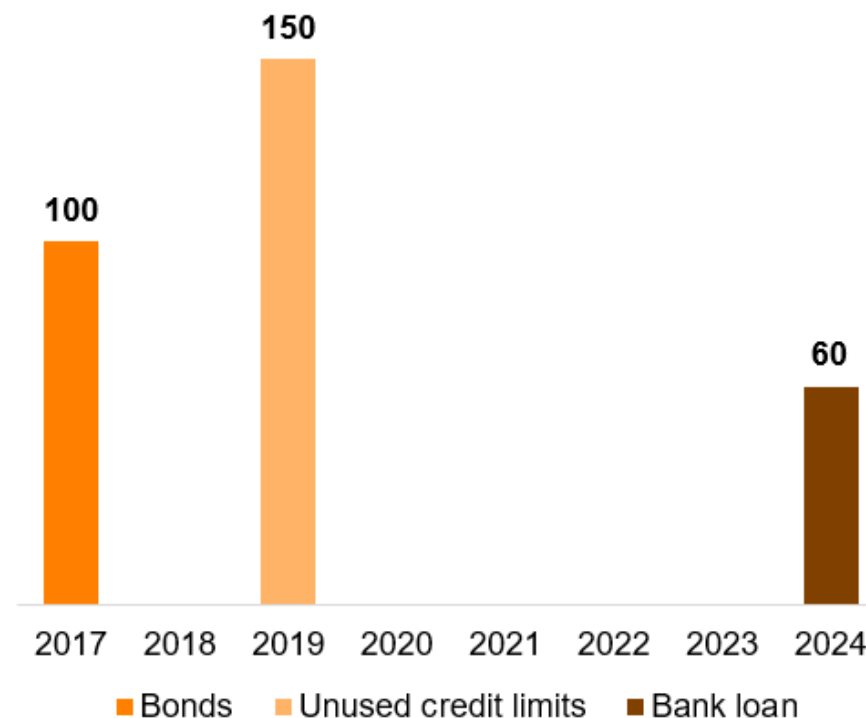


Net debt and the maturity structure of loans

Net debt and gearing



Maturity structure of loans and financing arrangements, EUR million



Thank you!