

Posti Group Corporation

# Financial Statements 2017

March 1, 2018



posti

# Agenda









- Highlights of 2017
- October-December 2017
- Year 2017
- Segments
  - Mail, Parcel and Logistics Services
  - Itella Russia
  - OpusCapita
- Strategy

# Highlights of 2017



# Year 2017 in a nutshell

## Posti in figures

1 647.0	Net sales (EUR million)	
118.6	Adjusted EBITDA (EUR million)	
42.4	Adjusted operating result (EUR million)	
20 316	Personnel on average	
5.5%	Share of USO deliveries	
11	Countries of operation	

## Operational highlights

- Parcel volumes rose to record levels thanks to strong growth in e-commerce and improved economic climate.
- Posti is expanding its network by installing up to 1,000 new Smartpost parcel lockers.
- The amount of addressed letters decreased by 10%.
- Posti's new strategy has four key goals.
- New two-year collective agreement for the postal industry entered into force on November.
- The Postal Act reform was approved on September and entered into force on 15th of September, 2017. It applies to universal service products (USO).
- Restructuring of OpusCapita continued and the segment now consists of the Buyer-Supplier Ecosystem business.

## Other key events

- Parcel and Logistics Services exceeded the Postal Services for the first time in the third quarter.
- On September, the Helsinki Court of Appeal issued a positive ruling for Posti in a case concerning the compensation of value added taxes.
- Restructuring continued:
  - The sale of OpusCapita's Finance and Accounting Outsourcing business.
  - The acquisition of the personal assistance business of SOL Henkilöstöpalvelut Oy and HR Hoiva Oy.
  - The acquisition of the early morning delivery operations of Kaakon Viestintä Oy.
  - Posti and Solemo Oy established Flexo, a joint venture.

The Group's adjusted operating result is expected to remain on par with 2017 or decrease slightly.

# Business Environment

- Posti's business environment is still undergoing a dramatic transformation. Digitalization is accelerating the shift from paper to online communications, which in turn creates opportunities for new services.
- According to the Bank of Finland, economic growth accelerated and Finnish GDP increased by 3.1%. Domestic demand has remained strong as the employment rate and consumer purchasing power have improved.
- The growth of e-commerce accelerated toward the end of the review period, which was reflected favorably in Posti's parcel volumes. Posti's services, especially parcel lockers, match consumer preferences.
- Competition in delivery of addressed letters has increased. The Postal Act reform entered into force on 15th of September, 2017.
- The new collective agreement for the mail communications and logistics industry entered into force on November. Achieving a two-year agreement is very significant for Posti in the current period of major transformation.

- Posti is prepared for changes in the business environment through a renewed strategy. At the core of the strategy are four main objectives that will see Posti emerge as a winner through this period of transformation: win e-commerce play, keep mail relevant to customers, renew service culture, and securing digitally powered service delivery.



# Parcel services keep growing

October-December and 2017

The number of parcels going through Posti Parcel Lockers 2017

**+47%**

The number of parcels going through Posti Parcel Lockers 10–12 2017

**+36%**

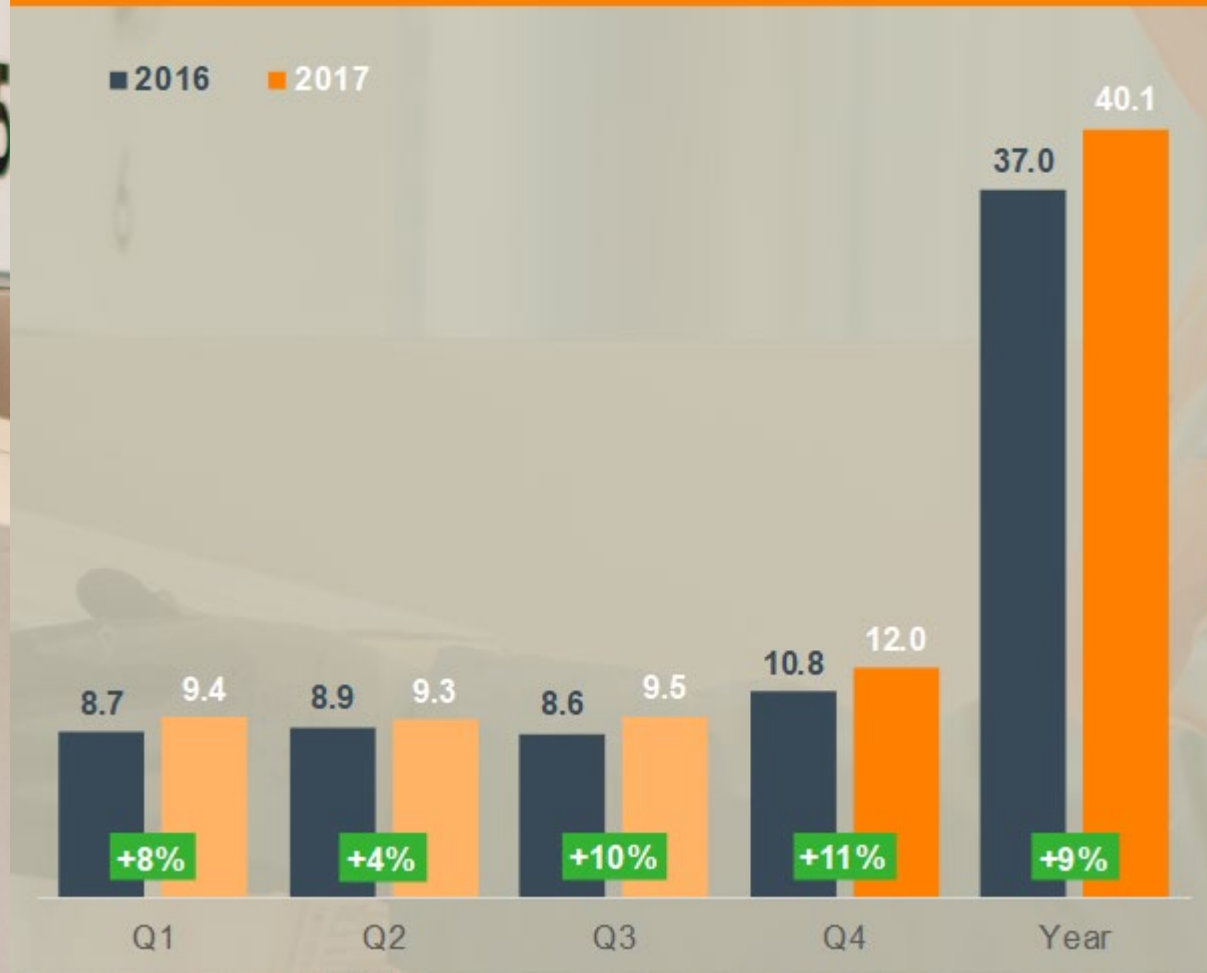
B2C parcel volume growth in Finland and in the Baltics 2017

**+12%**

B2C parcel volume growth in Finland and in the Baltics 10–12 2017

**+18%**

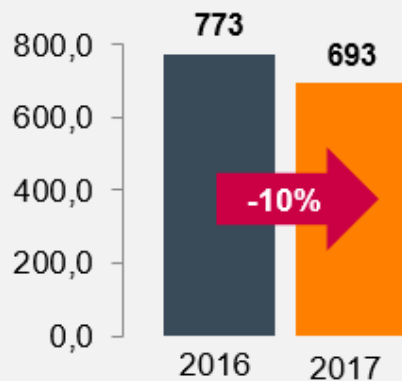
## Parcel volumes (million units) in Finland and the Baltics combined



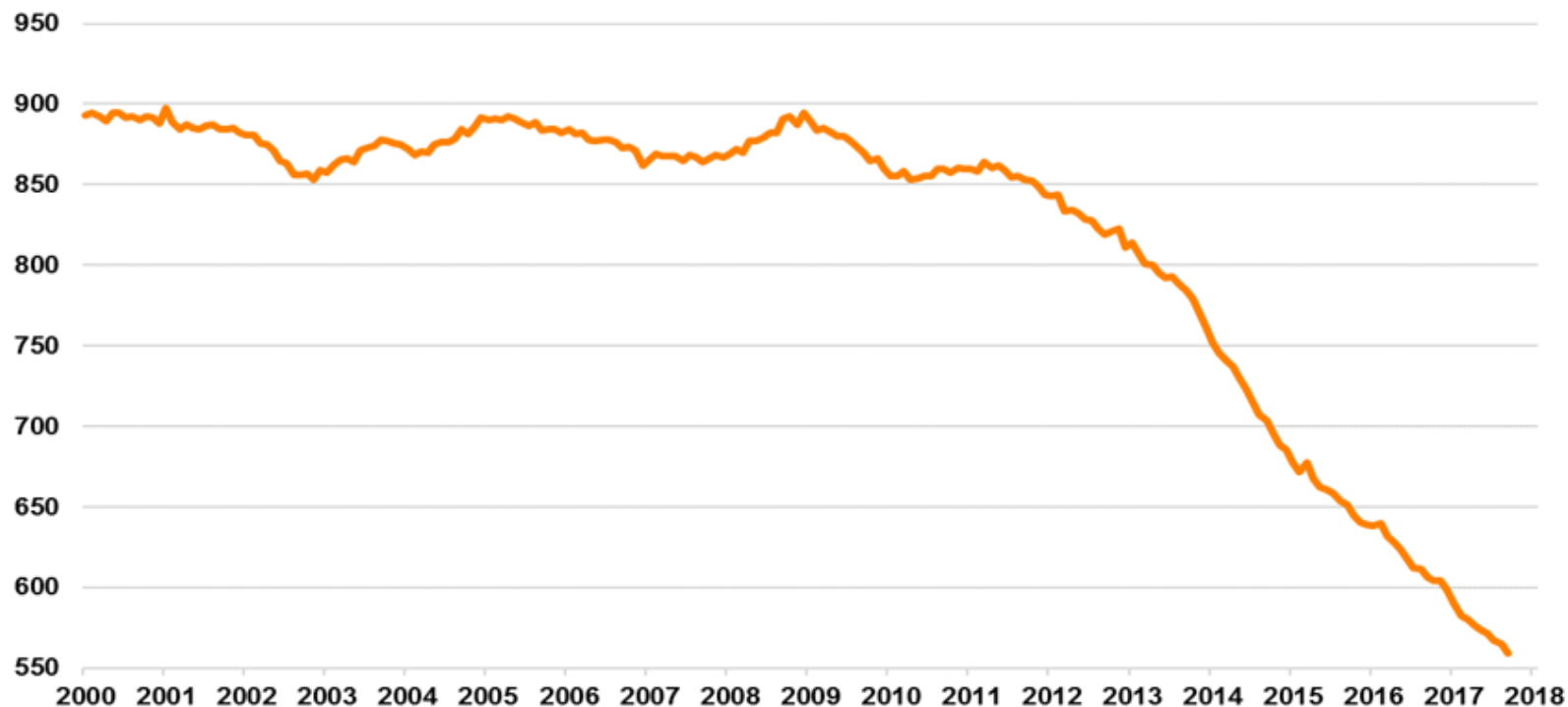
# Letter volumes declined by 10%

Year 2017

Letter volumes, million units



Volumes of Posti's 1st and 2nd class letters, rolling 12 months

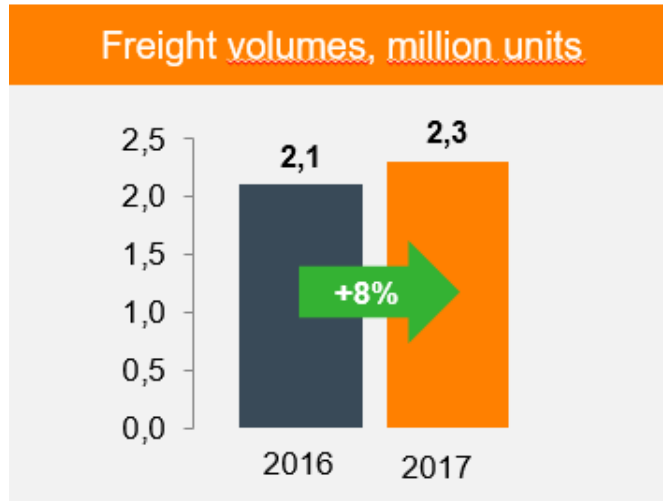


Source: Posti

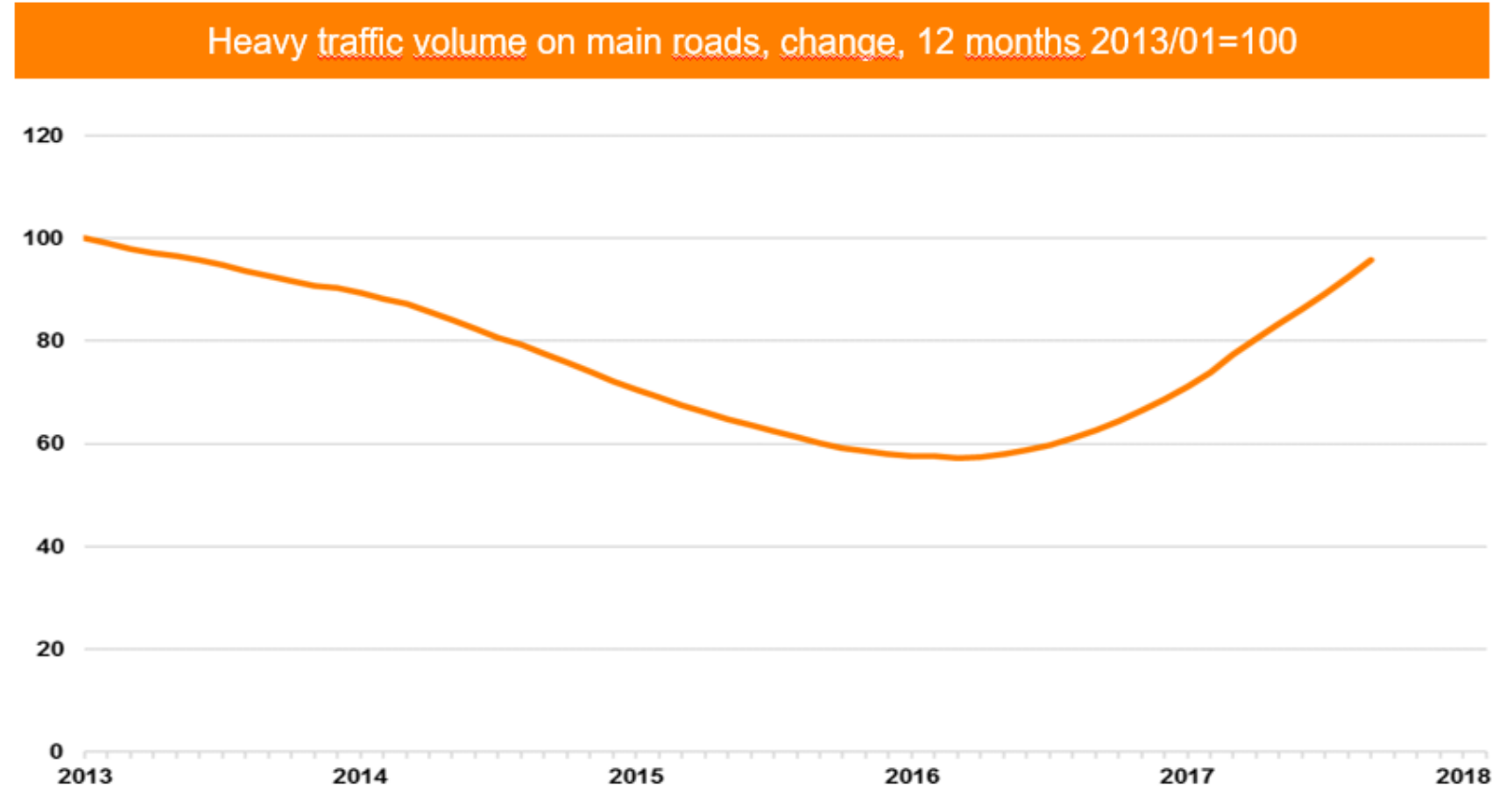


# Freight volumes grew by 8%

Year 2017

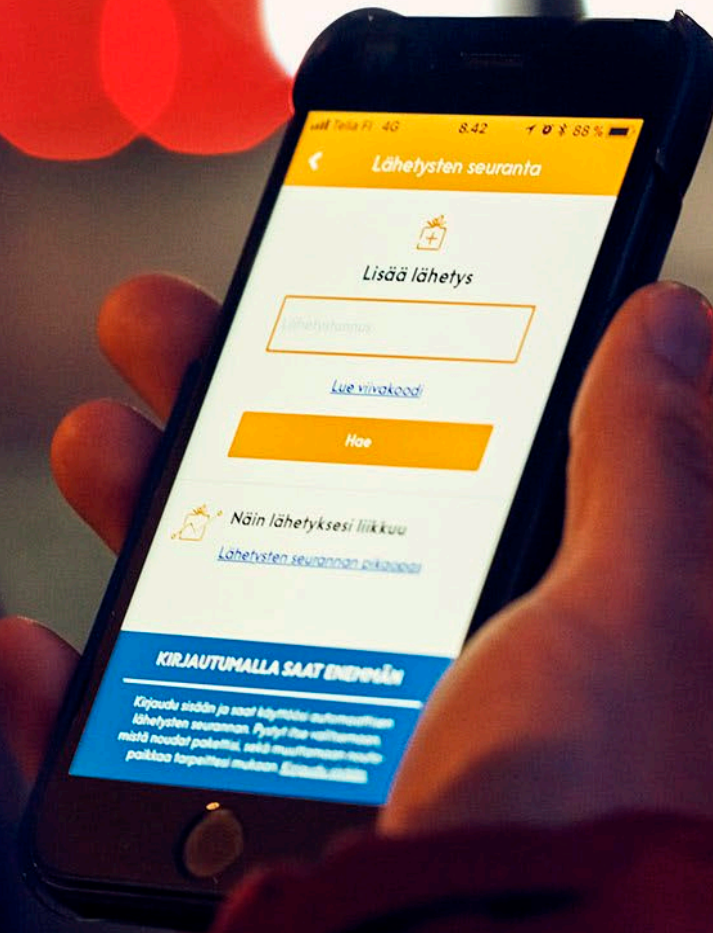


\* The reported figure for domestic freight excludes food logistics



Source: Finnish Transport Agency

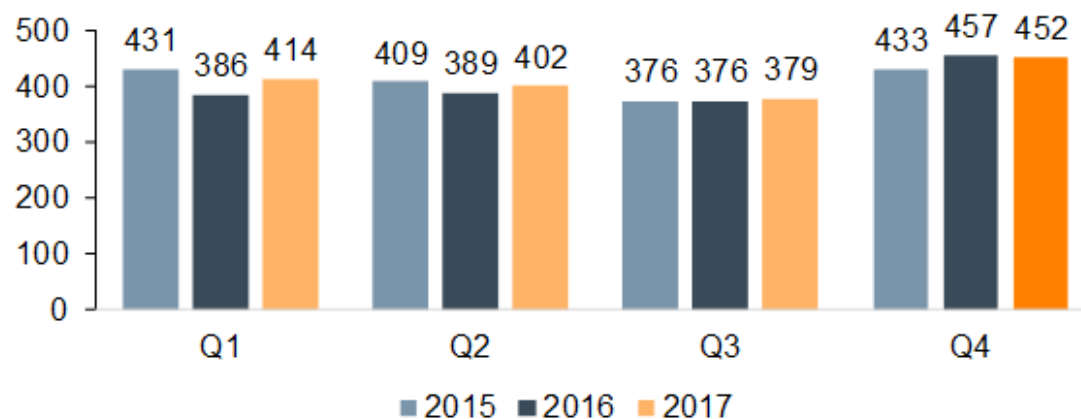
# October-December 2017



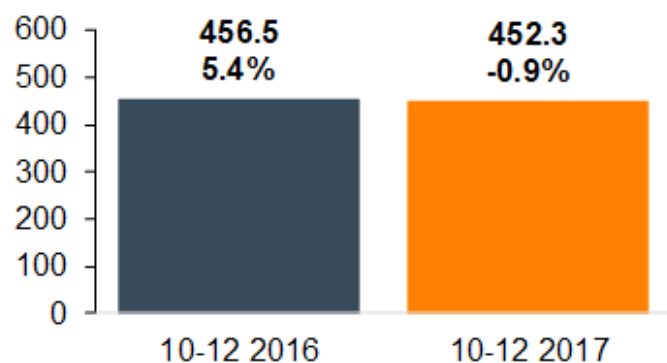
# Net sales and adjusted operating result

October-December

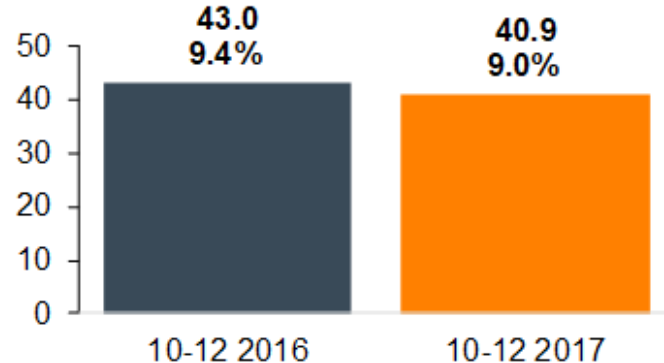
### Net sales by quarters, EUR million



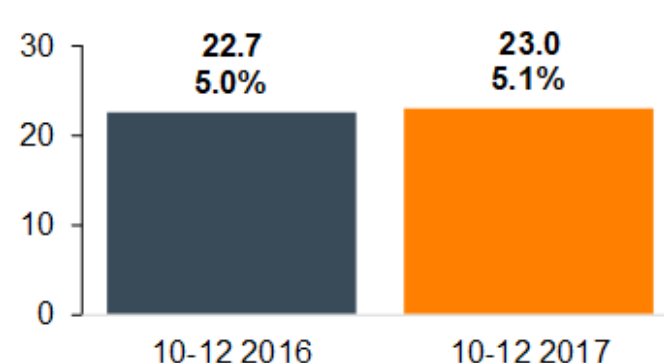
### Net Sales EUR million and change, %



### Adjusted EBITDA EUR million and %



### Adjusted operating result EUR million and %



# Key figures

October-December

	10-12 2017	%	10-12 2016	%
<b>Net sales, EUR million</b>	<b>452.3</b>		<b>456.5</b>	
<b>Adjusted EBITDA, EUR million</b>	<b>40.9</b>	<b>9.0%</b>	<b>43.0</b>	<b>9.4%</b>
EBITDA, EUR million	22.9	5.1%	38.6	8.4%
<b>Adjusted operating result, EUR million</b>	<b>23.0</b>	<b>5.1%</b>	<b>22.7</b>	<b>5.0%</b>
Operating result, EUR million	5.0	1.1%	14.2	3.1%
Result before taxes, EUR million	2.3	0.5%	14.7	3.2%
<b>Result for the period, EUR million</b>	<b>-2.1</b>	<b>-0.5%</b>	<b>10.4</b>	<b>2.3%</b>
Gross capital expenditure, EUR million	20.4		23.3	

- The Group's net sales decreased by 0.9%. In Finland the decrease was 0.2% and in other countries 5.4%.
- Net sales of Parcel and Logistics Services exceeded those of the Postal Services.
- The growth of adjusted operating result was mainly due to improved result in Postal, Parcel and Logistics Services.
- A provision of EUR 18.2 million related to warehouse lease agreements was recognized.
- Parcel volumes kept growing. Christmas season has a significant impact on the number of deliveries.
- Strongest growth came from B2C parcels (18%).
- Main items covered by the universal service obligation accounted for 9.4% of all of Posti's mail items.
- Operations under the universal service obligation amounted to 12.0% of the Group's net sales.
- The number of working days in October–December was lower by one day. The number of working days affects the Group's net sales and result.

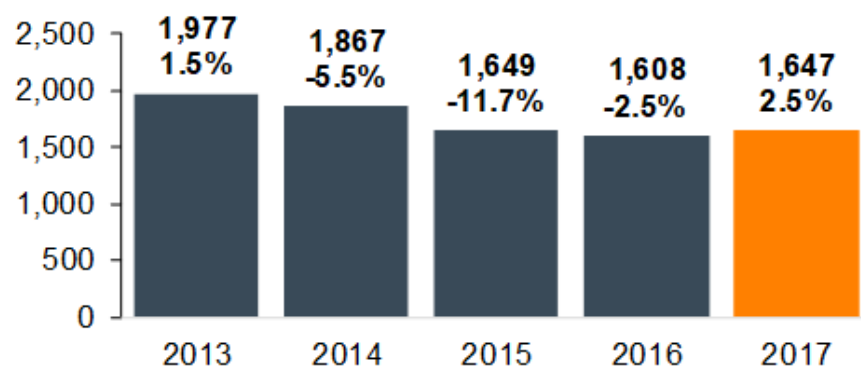
Year 2017



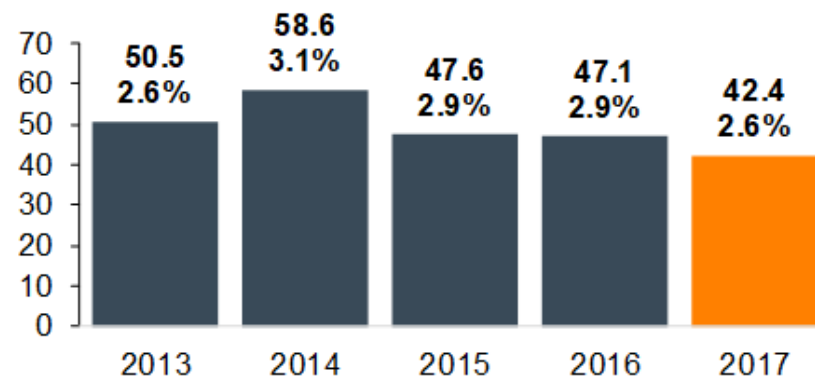
# Net sales and adjusted operating result

Year 2017

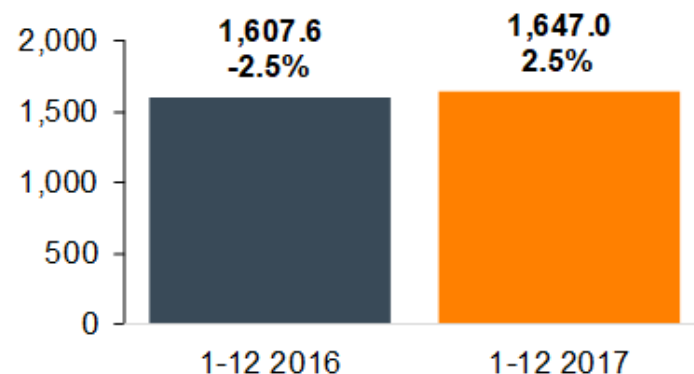
**Net Sales**  
EUR million and change, %



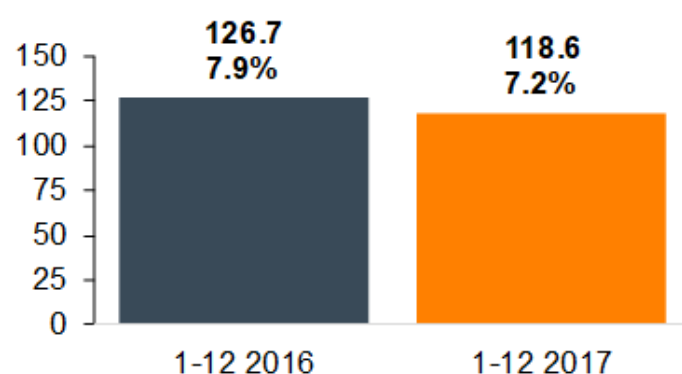
**Adjusted operating result**  
EUR million and %



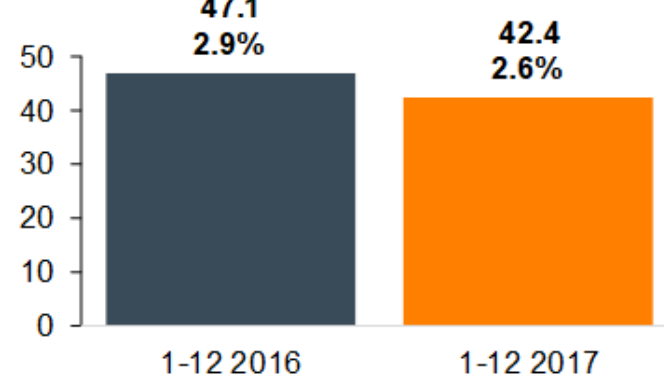
**Net Sales**  
EUR million and change, %



**Adjusted EBITDA**  
EUR million and %



**Adjusted operating result**  
EUR million and %



# Key figures

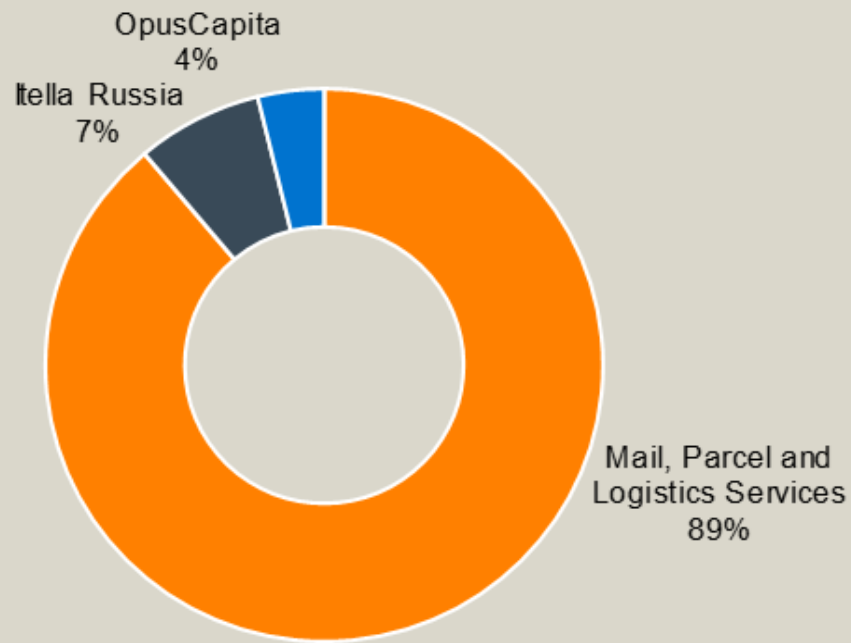
Year 2017

	1-12 2017	%	1-12 2016	%
<b>Net sales, EUR million</b>	<b>1,647.0</b>		<b>1,607.6</b>	
<b>Adjusted EBITDA, EUR million</b>	<b>118.6</b>	<b>7.2%</b>	<b>126.7</b>	<b>7.9%</b>
EBITDA, EUR million	83.7	5.1%	116.0	7.2%
<b>Adjusted operating result, EUR million</b>	<b>42.4</b>	<b>2.6%</b>	<b>47.1</b>	<b>2.9%</b>
Operating result, EUR million	-27.5	-1.7%	30.7	1.9%
Result before taxes, EUR million	-36.9	-2.2%	29.5	1.8%
<b>Result for the period, EUR million</b>	<b>-44.3</b>	<b>-2.7%</b>	<b>23.2</b>	<b>1.4%</b>
Cash flow from operating activities, EUR million	96.0		63.1	
Return on equity (12 months), %	-8.0		3.9	
Return on invested capital (12 months), %	-4.5		5.1	
Equity ratio, %	48.8		54.9	
Gearing, %	-8.8		-13.6	
Gross capital expenditure, EUR million	73.3		100.4	

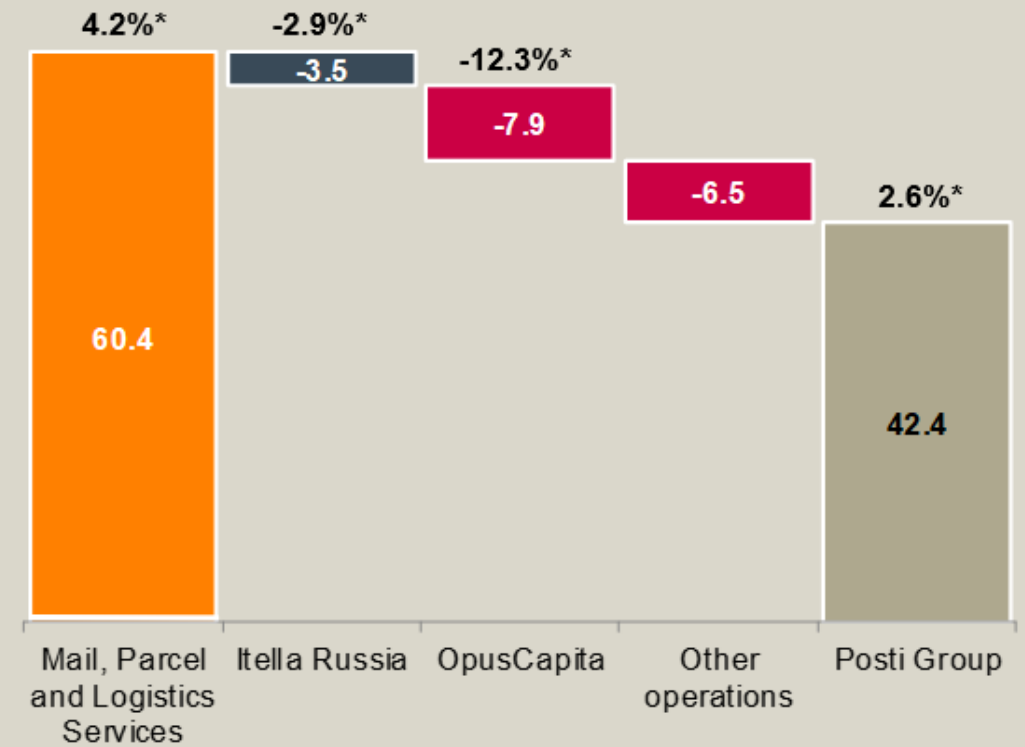
- The Group's net sales grew by 2.5%. In Finland the growth was 2.4% and in other countries 3.0%.
- International operations accounted for 14.5% of net sales, remaining on the same level as in 2016.
- Net sales of the Parcel and Logistics Services exceeded those of the Postal Services in the third quarter.
- The combined parcel volume of Finland and the Baltic countries increased by 9%, with 12% of this growth coming from B2C parcels.
- Special items weighed down the result, i.e. provisions related to warehouses in Russia and the impairment of OpusCapita's goodwill.
- Mail items covered by the universal service obligation amounted for 5.5% of all of Posti's mail items.
- Operations under the universal service obligation amounted to 8.3% of the Group's net sales.
- The number of working days in 2017 was lower than in the previous year by two days. The number of working days affects the Group's net sales and result.

# Segments

External net sales by segment



Adjusted operating result by segment  
1-12 2017, EUR million



\* percent of net sales



# Mail, Parcel and Logistics Services

October-December

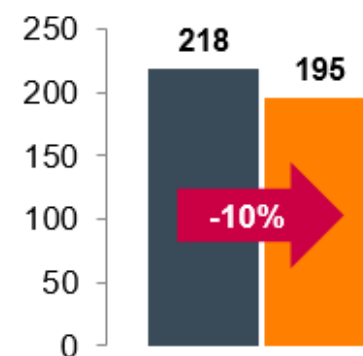
- The net sales of Mail and Marketing Services decreased. The decline in volumes was compensated for by changes in pricing. The net sales of parcel services grew, particularly due to growth in consumer parcels.
- A new record was made in the daily volume of parcels in December. In addition to the boost provided by the improved growth of the Finnish economy, growth in parcel volumes was particularly expedited by record consumer sales during the Christmas season and Black Friday campaigns.
- The number of parcels going through Posti Parcel Lockers grew by 36%. At the end of December, Posti had a total of 533 Posti Parcel Lockers. Posti responded to the demands of the Christmas season by introducing temporary pickup points for the first time. In the warehouse business fill rates improved.
- The increase of EBITDA was attributable to the growth and improved profitability of the parcel and logistics business.

EUR million	10-12 2017	% of Net sales	10-12 2016	% of Net sales
Net sales	403.2		401.4	
Net sales change, %	0.5%		5.2%	
<b>Adjusted EBITDA</b>	<b>38.1</b>	<b>9.5%</b>	<b>35.3</b>	<b>8.8%</b>
EBITDA	37.9	9.4%	34.9	8.7%
<b>Adjusted operating result</b>	<b>27.3</b>	<b>6.8%</b>	<b>22.6</b>	<b>5.6%</b>
Operating result	27.1	6.7%	20.1	5.0%

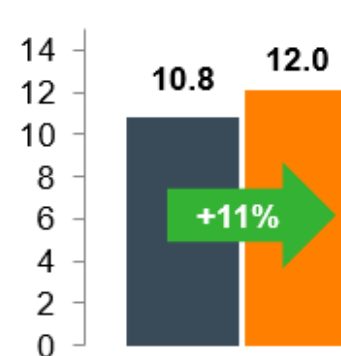
## Volumes, million pcs

■ 10-12 2016 ■ 10-12 2017

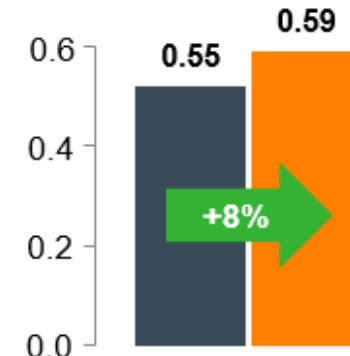
### Addressed letters



### Parcels



### Domestic freight\*



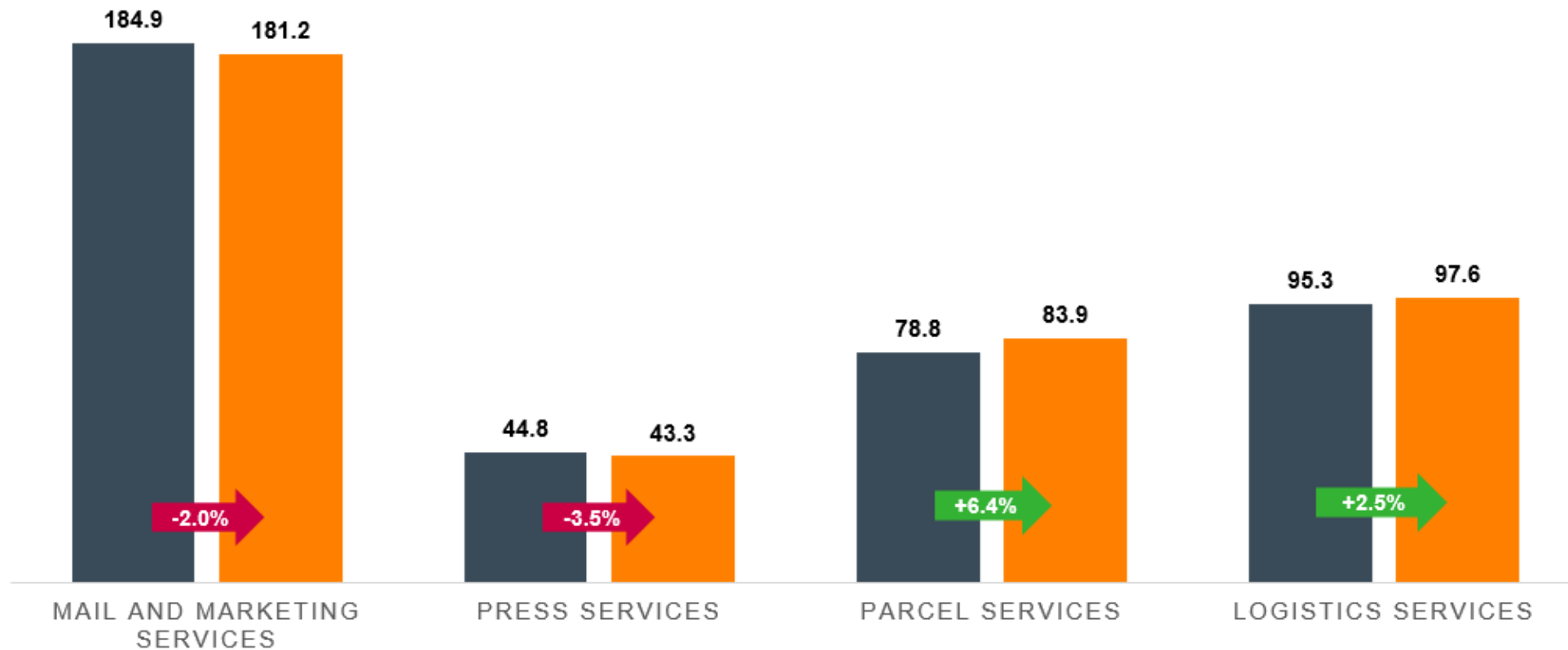
\* The reported figure for domestic freight excludes food logistics

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

October–December

EUR million

■ 10-12 2016 ■ 10-12 2017



# Mail, Parcel and Logistics Services

Year 2017

- **Net Sales of Parcel and Logistics Services exceeded those of the Postal Services.**
- The net sales of Mail, Parcel and Logistics Services increased to EUR 1,448.7 million. The net sales of Mail and Marketing Services decreased. The net sales of parcel services grew, particularly due to growth in consumer parcels.
- The weaker result of traditional postal operations was compensated for by the improved net sales and profitability of parcel and logistics services.
- The total amount of parcels delivered by Posti in Finland and the Baltic countries was 40 (37) million parcels. In the Baltic countries, parcel volumes increased by 25%. The number of parcels going through Posti Parcel Lockers grew by 47%. The net sales of domestic freight increased and warehouse fill rates improved.

EUR million	1-12 2017	% of Net sales	1-12 2016	% of Net sales
Net sales	1,448.7		1,416.0	
Net sales change, %	2.3%		-2.2%	
<b>Adjusted EBITDA</b>	<b>106.3</b>	<b>7.3%</b>	<b>109.0</b>	<b>7.7%</b>
EBITDA	102.2	7.1%	93.4	6.6%
<b>Adjusted operating result</b>	<b>60.4</b>	<b>4.2%</b>	<b>61.9</b>	<b>4.4%</b>
Operating result	49.3	3.4%	42.5	3.0%

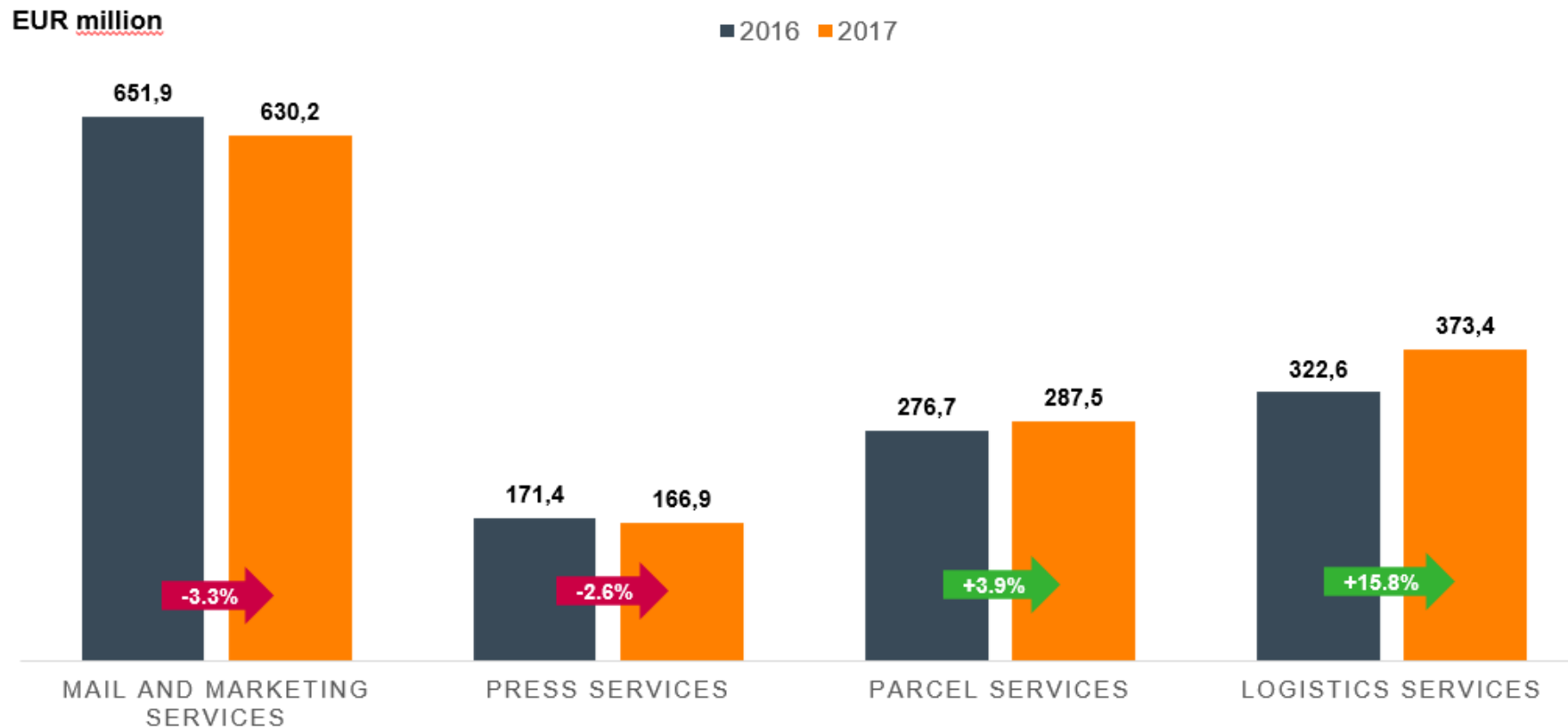
## Volumes, million pcs



\* The reported figure for domestic freight excludes food logistics

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

Year 2017



# Itella Russia

## October-December

- Euro-denominated net sales increased due to improved economic climate as well as higher volumes among the existing customers in the warehousing business and in air and sea freight.
- Profitability continued to be weighed down by currency-denominated leases. To support the focusing of operations, it was decided that leased warehouses would be closed at two locations. As a result of this decision, a provision of EUR 18.2 million was recognized.
- The average fill rate for warehouses was 89.7% (76.0%) in Moscow and 74.4% (83.9%) in other regions. The changes in the fill rates of warehouses were mainly due to the closure of warehouses.

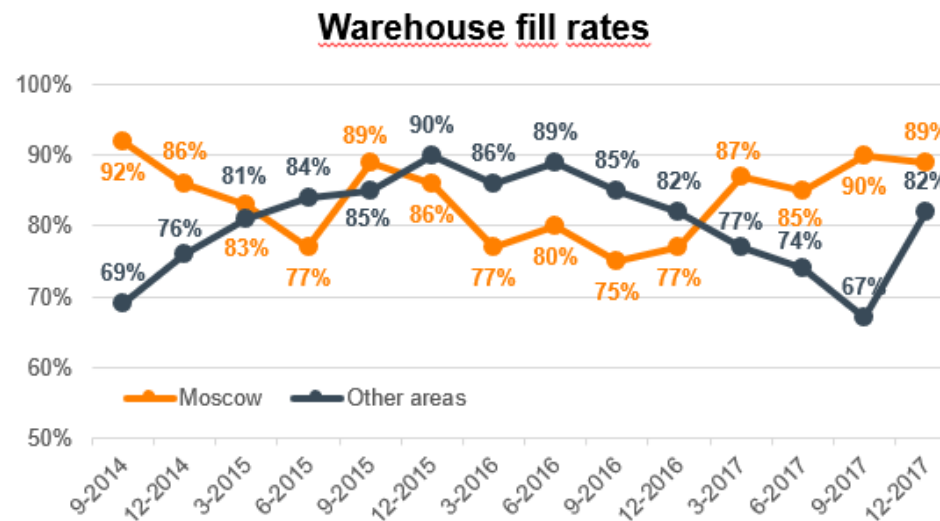
EUR million	10-12 2017	% of Net sales	10-12 2016	% of Net sales
Net sales	33.0		31.5	
Net sales change, %	4.7%		2.6%	
<b>Adjusted EBITDA</b>	<b>1.6</b>	<b>5.0%</b>	<b>2.3</b>	<b>7.4%</b>
EBITDA	-16.2	-49.0%	1.6	4.9%
<b>Adjusted operating result</b>	<b>-0.1</b>	<b>-0.3%</b>	<b>0.6</b>	<b>1.8%</b>
Operating result	-17.9	-54.3%	-0.2	-0.7%

# Itella Russia

## Year 2017

- Euro-denominated net sales were favorably affected by changes in the ruble exchange rate as well as the growth of the transport business, which was compensated for by the decline in the capacity of the warehousing business. The Russian ruble depreciated by 7.9% compared to the previous year.
- The adjusted EBITDA improved due to the optimization of warehouse capacity. EBITDA declined due to a provision recognized for loss-making agreements (EUR 18.2 million).
- Warehouse capacity was optimized by closing down one of Moscow's large warehouses and three warehouses on other regions.
- 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 84.2% (77.4%) in Moscow and 74.4% (85.9%) in other regions. The changes in fill rates are mainly due to closing down warehouses.

EUR million	1-12 2017	% of Net sales	1-12 2016	% of Net sales
Net sales	119.1		104.6	
Net sales change, %	13.8%		-12.0%	
<b>Adjusted EBITDA</b>	<b>3.7</b>	<b>3.1%</b>	<b>2.6</b>	<b>2.5%</b>
EBITDA	-14.4	-12.0%	3.9	3.7%
<b>Adjusted operating result</b>	<b>-3.5</b>	<b>-2.9%</b>	<b>-4.0</b>	<b>-3.8%</b>
Operating result	-21.5	-18.1%	-2.7	-2.6%



# OpusCapita

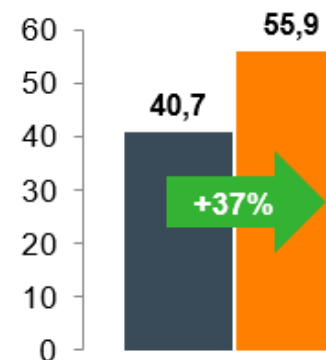
October-December

- The comparable volume of OpusCapita's electronic transactions grew by 37% year-on-year.
- OpusCapita's new organizational structure became effective in the fourth quarter.
- Project revenue recognition in the Professional Services function being lower than in the comparison period was a factor in the decline in net sales. Net sales were divided equally between Finland (50.8%) and other countries (49.2%).
- The decline in adjusted EBITDA was attributable to significant changes, particularly in the product development and product organization, as well as substantial investments in sales and marketing.

EUR million	10-12 2017	% of Net sales	10-12 2016	% of Net sales
Net sales	17.4		17.6	
Net sales change, %	-1.4%		21.4%	
<b>Adjusted EBITDA</b>	<b>-1.0</b>	<b>-6.0%</b>	<b>0.6</b>	<b>3.4%</b>
EBITDA	-2.1	-11.8%	0.6	3.4%
<b>Adjusted operating result</b>	<b>-2.3</b>	<b>-13.1%</b>	<b>-0.6</b>	<b>-3.2%</b>
Operating result	-3.3	-18.9%	-0.9	-5.0%

## Electronic transactions, million pcs

■ 10-12 2016 ■ 10-12 2017



# OpusCapita

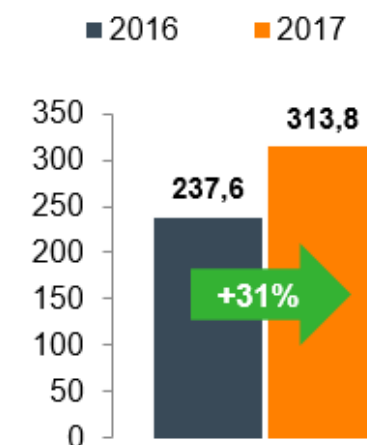
Year 2017

- The comparable volume of OpusCapita's electronic transactions grew by 31% compared to the previous year.
- OpusCapita's net sales increased to EUR 64.7 million. A little over half of the net sales came from Finland.
- The decline in adjusted EBITDA was attributable to significant changes, particularly in the product development and product organization, as well as substantial investments in sales and marketing.
- Special items had a negative effect on the result amounting to EUR 27.9 million, of which EUR 26.9 million impairment of goodwill was recorded in connection with OpusCapita's restructuring and refocusing of its operations.

- Impairment of goodwill amounting to

EUR million	1-12 2017	% of Net sales	1-12 2016	% of Net sales
Net sales	64.7		62.0	
Net sales change, %	4.4%		10.4%	
<b>Adjusted EBITDA</b>	<b>-2.6</b>	<b>-4.0%</b>	<b>3.1</b>	<b>5.1%</b>
EBITDA	-3.6	-5.6%	2.1	3.4%
<b>Adjusted operating result</b>	<b>-7.9</b>	<b>-12.3%</b>	<b>-1.2</b>	<b>-1.9%</b>
Operating result	-35.9	-55.4%	-2.5	-4.0%

## Electronic transactions, million pcs

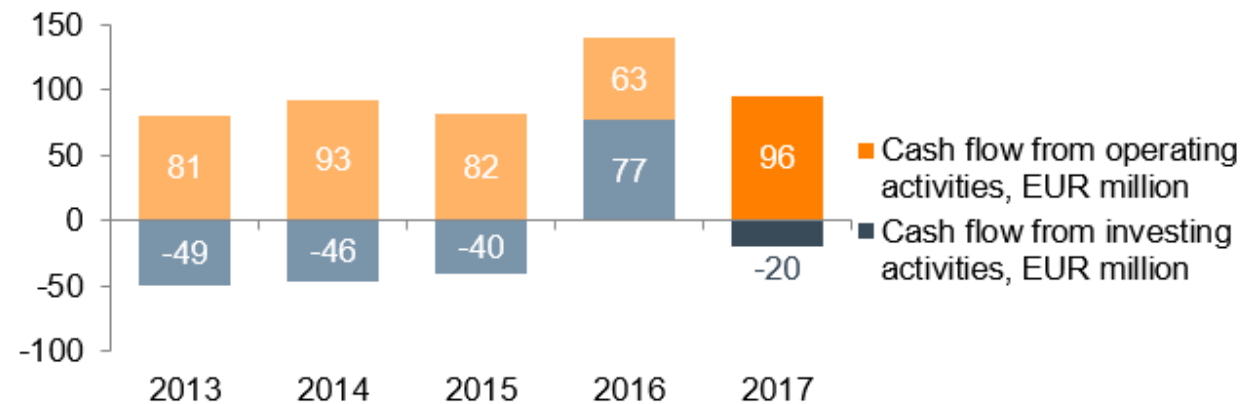




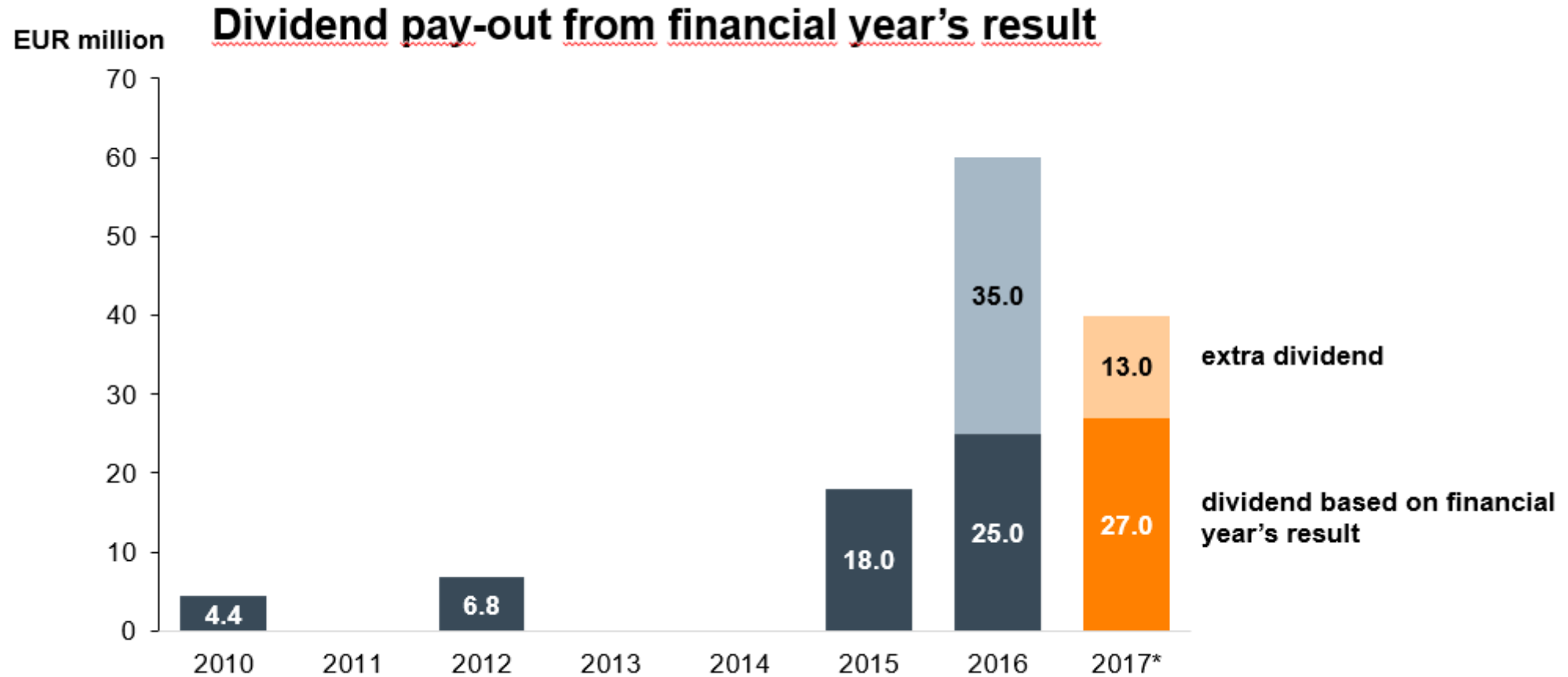
# Cash flow

	2017	2016
Result for the period	-44.3	23.2
Cash flow from operating activities before financial items and taxes	104.4	88.7
Cash flow from operating activities	96.0	63.1
Cash flow from investing activities	-20.4	76.7
Cash flow from financing activities	-70.9	-188.6
Change in cash and cash equivalents	4.7	-48.9
Cash and cash equivalents at the end of the review period	86.0	82.0

- The consolidated cash flow from operating activities increased being EUR 96.0 million before capital expenditure.
- Investments according to the statement of cash flow amounted to EUR 77.0 million.
- Investments were made in relatively small acquisitions during the year. During the financial year, Posti began the construction of 26,000 m<sup>2</sup> freight terminal in Vantaa. The Group also invested in information systems, the transport fleet and production projects.
- At the end of the year, liquid funds totaled EUR 123.7 million, and undrawn committed credit facilities amounted to EUR 210.0 million.
- The Group signed two new long-term loan agreements for EUR 60 million each.
- The EUR 100 million bond issued in 2011 was paid off in its entirety on December 8th.



# Dividend development 2010-2017



\* Proposal from BoD of Posti Group Corporation

# Outlook



# Outlook

## Net sales

- The euro-denominated net sales in 2018, excluding possible acquisitions and divestments, are expected to remain on par with 2017.
- 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, excluding possible acquisitions and divestments, is expected to remain on par with 2017 or decrease slightly.

## Capital expenditure

- Capital expenditure, excluding possible acquisitions, is expected to remain on par with 2017.

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.

Thank you!

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